2019

Management Board's report on the activity of the PZU Group and PZU SA for the accounting year ended 31 December 2019

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

DON'T PRINT IF YOU DON'T NEED TO

Paweł Surówka
CEO of PZU

Dear Shareholders,

On behalf of the management boards of the PZU Group companies, I have the pleasure of conveying to you our activity report for 2019, which was an exceptionally successful year for the PZU Group. The Group's net profit attributable to the holders of the parent company totaling PLN 3,295 million was a record-breaking level in PZU's history on the stock exchange.

At the same time, 2019 was the third year in a row in which the PZU Group's profit grew. Net profit per share climbed 2.7% year on year and by 14.0 percent versus 2017. As a result, the dividend has also risen. The dividend per share in 2019 was PLN 2.80, or double the amount paid two years earlier.

Unwavering execution of the #newPZU strategy
The successes we have achieved are the outcome of pursuing our ambitious strategy entitled "The New PZU – More Than Insurance." By basing our business on an extensive distribution network consisting of roughly 2,000 proprietary branches and offices run by tied agents and on a corporate network, activity in the banking sector and the skillful utilization of the opportunities afforded by new technologies, we strive to be present in every dimension and at every stage of life of our clients and satisfy the bulk of their needs.

The mojePZU platform, as the most extensive electronic client service system on the insurance, finance and health market has become a symbol depicting the PZU Group's new approach and bringing together all of its competitive advantages. It provides clients with convenience and the ability to use PZU's services from any venue at any time of the day. What's more, it has become a crucial tool in how our employees and agents streamline client service, proving that direct sales is not inconsistent with an efficient distribution network but rather is something that supports and broadens its reach.

PZU Zdrowie has become a key area serving to bolster one of the pillars of our strategy, namely client interactions. In 2019 it posted impressive 47% growth on the private health services market. The number of PZU Zdrowie's own centers has nearly doubled, while it now has 2,200 partner centers. We have marketed a host of new products, we have extended the benefits provided to date and we have streamlined service. We were the first medical operator to launch virtual clinic, thereby enabling patients to obtain a consultation from a physician, receive a referral for testing or a prescription for medications without leaving the comfort of their own homes. We also opened the first telemedicine office in which patients can do diagnostics on their own by using a specialist apparatus and consult their results with a physician through a video link.

In 2019 we successfully continued work on optimizing and automating processes employing artificial intelligence to identify and handle claims. The outcome is improvement in claims handling standards and shortening of the time for technical analysis while simultaneously augmenting cost effectiveness. According to the targets in the strategy, the comprehensive approach to clients is creating new quality that is translating into the centralized and smarter utilization of data.

Changing organizational culture, employees' greater engagement
The successfully implemented changes simultaneously involve a transformation in the PZU Group's organizational culture so as to strengthen employee engagement and to align them to the company and its strategy.

PZU's employee engagement, which has been evaluated in an independent study, has grown by 11 percentage points since 2018, thereby reaching a record-breaking level of 51% despite the downward trends on the market. At the same time, PZU is one of the top ten employers in the reputable "Employer of the Year" study that has been conducted by AIESEC Polska for nearly 30 years. These results make me particularly proud because they prove that the PZU Group is gaining an ever greater ability to attract and retain the best employees while creating working conditions for them in which they are able to develop professionally and be successful.

To an ever greater degree the PZU Group is also opening up to international cooperation, thereby becoming an advocate of the Polish economy and the overall region. During the World Economic Forum in Davos we set up the Business Council of Growing Europe jointly with the largest companies from Central and Eastern Europe to promulgate investments in the region. The strategic partnerships being established with global financial institutions like Goldman Sachs open up opportunities for us to offer our products to an ever wider community of clients, while forming a window to the world for our clients to date.

Maintaining the stability of the Group's foundations
The outcome of these projects and initiatives is that the PZU Group's position is getting stronger on the insurance market in Poland. The record-breaking value of gross written premium in 2019 was a success as it exceeded PLN 24 billion, while maintaining a very high return on equity of 21.2%. This was the result of the high profitability achieved in the most important sales areas. The combined ratio in non-life insurance was 88.4%, while the operating margin in group insurance was 21.3%.

The results generated in 2019 and the successfully implemented solutions allow us to gaze into the future with a large amount of optimism. They serve as proof that the PZU Group is a dynamic organization that fastidiously observes the market environment, analyzes market cycles and is capable of drawing conclusions based on the changes taking place, or even get in front of them for the benefit of its shareholders.

I can assure you that the Management Board under my leadership will continue to pursue with determination ambitious plans to develop the PZU Group by building new client access channels and extending the offer and perfecting data analysis processes. We are endeavoring to become our clients' partner of top choice, among individual and corporate clients, as we stand at their side, recognizing the risks and protecting them against these risks while allowing clients to meet their needs, ambitions and plans.

This is how we see our responsibility; this is how we understand our role in interactions with clients, employees and communities where we function and – quite naturally – in interactions with our shareholders.

I would like to thank you for the trust you place in us.

Respectfully yours,

Paweł Surówka,

President of the PZU Management Board

Chairman of the Supervisory Board Statement

Maciej Łopiński
Chairman of the PZU Supervisory Board

Dear Stakeholders,

The PZU Group's strength is rooted in the strength of the Polish economy. 2019 was an exceptionally successful year for the largest financial institution in Central and Eastern Europe and was taken advantage of effectively to build the PZU Group's future position.

This end is served by the innovative and forward-looking solutions that are gradually being implemented and that are based on modern technologies, including artificial intelligence to be able to meet the challenges of the future. The ever broader offer that is more and more aligned to client needs is also doing its part. The ever higher quality of services offered not just through the expanding network of traditional branches but also in electronic channels is also doing its part. The social engagement demonstrated by the PZU Group, especially in prevention is building its added value.

The highest net profit since 2010 totaling PLN 3,295 million, the record-breaking gross written premium of PLN 24.2 billion and the high level of solvency at 220% testify to the PZU Group's excellent condition. This was affirmed in the middle of 2019 when PZU's rating outlook was raised from stable to positive (rating of A-). When they made that decision, the analysts at S&P Global Ratings highlighted improving risk management practices resulting in greater capital resilience and high capital management discipline. They pointed out PZU's very good position on the insurance, banking and asset management market, poising it to utilize its advantage to generate robust financial results and improve its position in the overall sector.

The PZU Group's strength is rooted in the synergy of insurance and banking. New products and growing results are the outcome of the rapid development in bancassurance and assurbanking. The premium collected in collaboration with the banks belonging to the PZU Group was PLN 0.89 billion at the end of 2019, or 160% above the year before, thereby nearly reaching the level not projected to be achieved until 2020. Cost reduction has outpaced the strategic objective planned for 2020 in the amount of PLN 100 million.

The web-based Cash Loan Platform launched in 2019, the fruit of PZU's cooperation with Alior Bank, is one example of an innovative solution. It gives employees convenient access to quick, inexpensive and safe loans for which they can apply through their employers. In turn, the cash platform allows employers to offer additional benefits to their employees, thereby augmenting their attractiveness on the labor market. This unique business concept also has a social dimension by protecting borrowers who suddenly need money in difficult life circumstances against taking down liabilities on usury terms.

Social engagement as expressed by PZU's social strategy announced in 2019 under the slogan of #10yearslonger is an important part of the PZU Group's efforts. It is rooted in prevention, or preventing losses and misfortunes, instead of just providing assistance when something bad happens. This involves a wide spectrum of prevention in safety and health. Preventive health tests, educational campaigns and social campaigns to enhance safety in road traffic and initiatives such as giving away reflective lights to pedestrians to protect them against accidents on the road and purchasing rescue equipment for fire fighters serve to achieve this purpose.

At the same time, engaging in projects such as creating a stock market index comprising states belonging to the Three Seas' Initiative under the name of CEEplus is an investment in the future and proof of the PZU Group's growing international significance. PZU's contribution to this index involves the launch of a passive fund known as inPZU CEEplus based on this index to promote the region of the Three Seas' Initiative and attract investors to this region.

2019, which was a successful year for the PZU Group offers promising prospects for the future. It creates opportunities, which will be harnessed in full, of which I am profoundly convinced.

Sincerely,

Maciej Łopiński

PZU Supervisory Board Chairman

PZU Group's profile

22 million

clients in five countries

#1

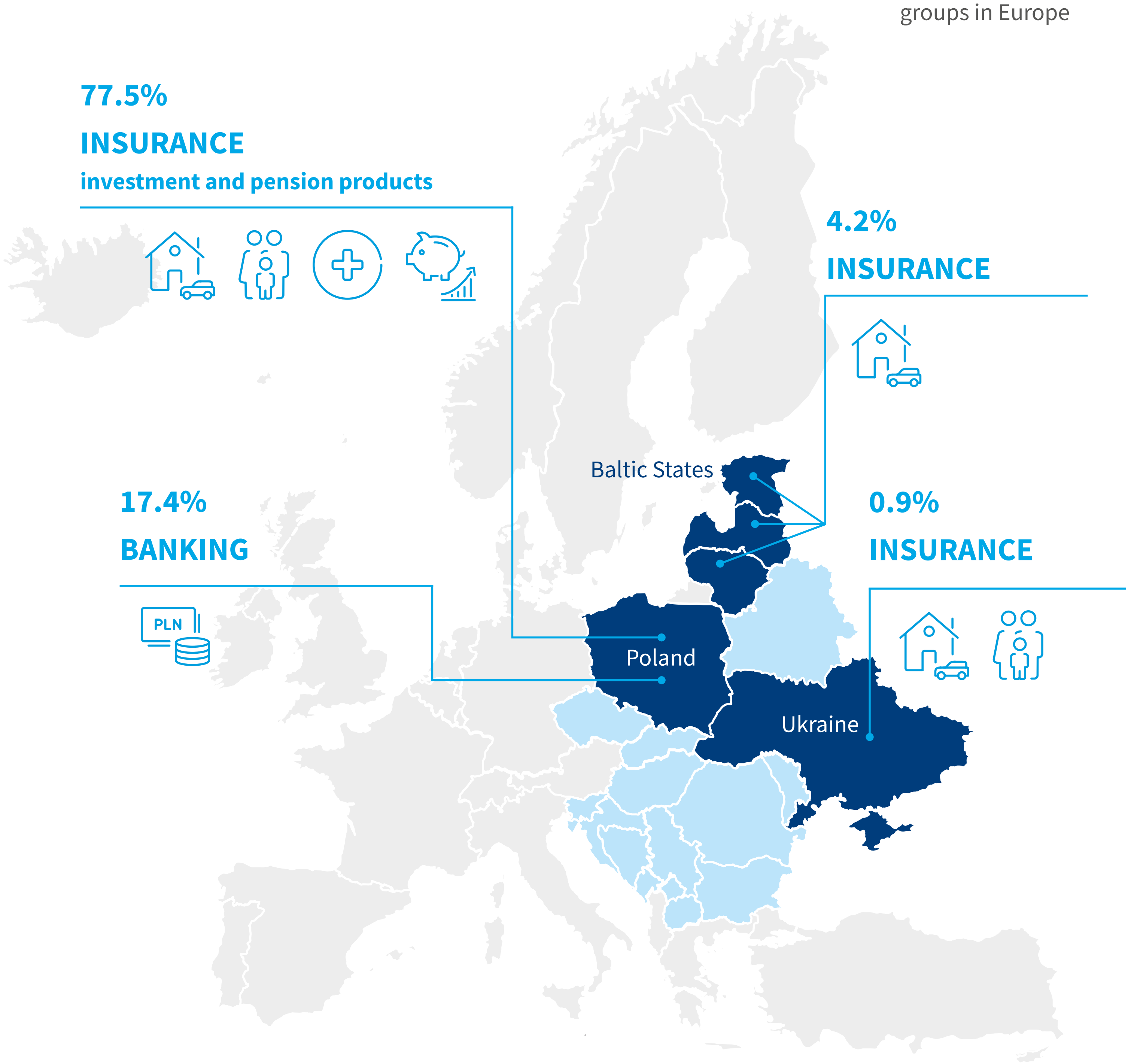
largest insurance and banking group in CEE

100%

most recognizable brand in Poland[1]

STRONG BALANCE SHEET

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



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

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

Recap of 2019 results

Gross written premium

PLN 24.2 bn

+ 3.1%

PLN 24.2 bn 2019
PLN 23.5 bn 2018
PLN 22.8 bn 2017

Net insurance claims and benefits

PLN 15.7 bn

+ 7.8%

PLN 15.7 bn 2019
PLN 14.6 bn 2018
PLN 14.9 bn 2017

Net profit (parent company)

PLN 3.3 bn

+ 2.6%

PLN 3.3 bn 2019
PLN 3.2 bn 2018
PLN 2.9 bn 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

21.2%
2019
(0,9) p.p. vs. 2018

>22%

2020 target

Solvency II

220%
Q3 2019
(2.0) p.p. vs. 2018

>200%

2020 target

Dividend

Dividend Payout Ratio **75%**
DPS PLN 2.80
2018
+12% vs. 2017

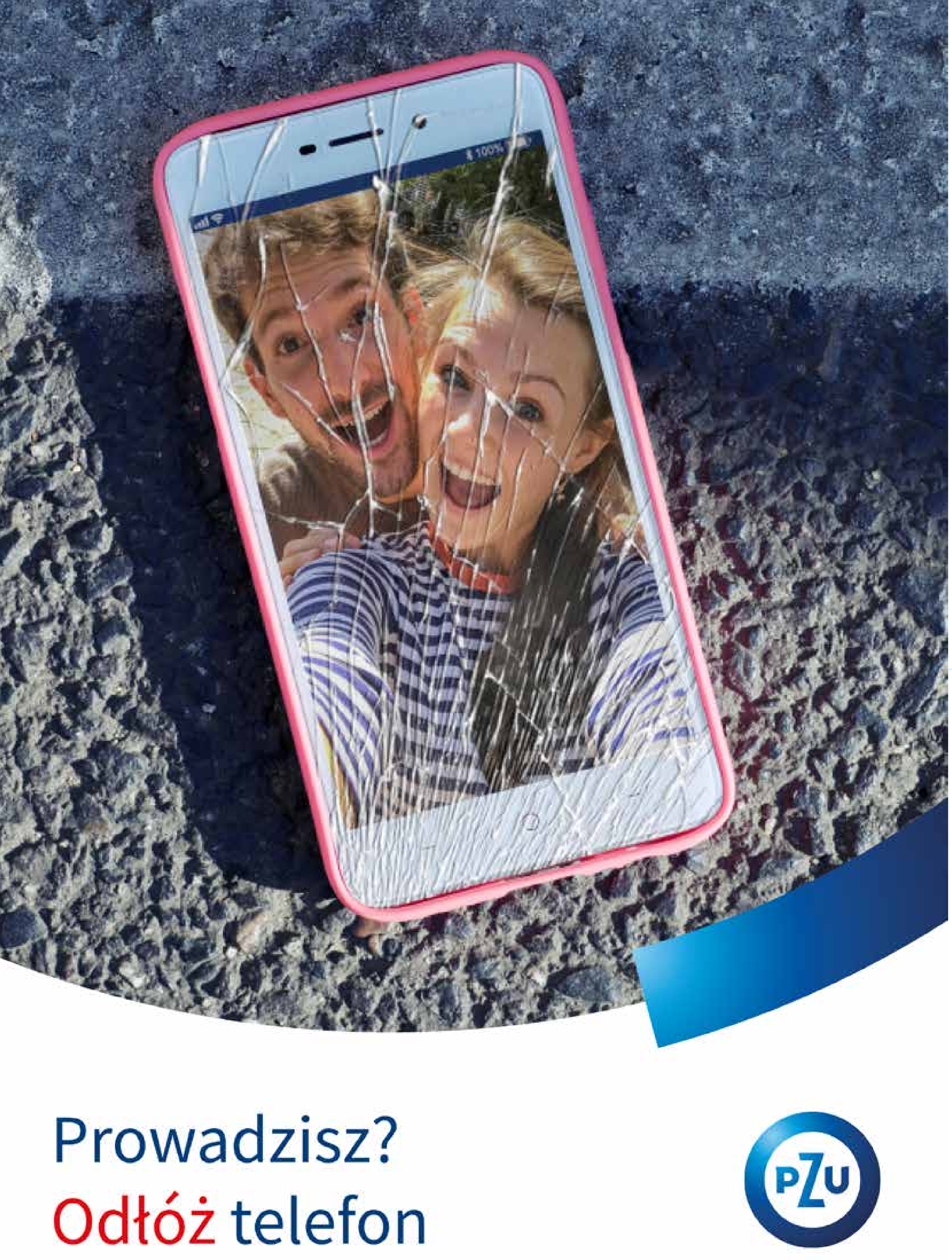
Dividend Payout Ratio 50% - 80%

2020 target

Green PZU

Implementation of "Green PZU" Standard

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. Since 2019, PZU has been part of the WIG ESG (sustainability) index.

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

The PZU Group has PLN 343 billion of consolidated assets and it enjoys the trust of 22 million clients in five countries by offering products and rendering services to retail clients, small and medium enterprises and business entities. The Polish market is the PZU Group's core market measured by its magnitude and client numbers. Nevertheless, its subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

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

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

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

Its robust brand underpins strategy execution. According to brand awareness surveys, PZU is the most recognizable brand in Poland (spontaneous recognition of the PZU brand stands at 89% while assisted recognition is 100%).

Among all the Polish insurers PZU offers its clients the largest sales and service network. It has 410 branches with convenient access across the country, 10 thousand tied agents and agencies, 3.2 thousand multiagencies, nearly 1.1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 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 (805 branches) and Alior Bank's distribution network (197 traditional branches, 7 private banking branches, 8 corporate centers and 608 partner centers). Both banks have professional call centers and mobile and internet banking platforms.

In the Baltic States in which the PZU Group is in the insurance business, its distribution network consists of approximately 700 agents, 21 multiagencies and 408 brokers. PZU also cooperates with 4 banks and 14 strategic partners. In Ukraine insurance products are distributed through approximately 400 agents and in cooperation with 15 multiagencies, 37 brokers, 7 banks and 4 strategic partners.

We manage our business responsibly

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

Responsible business management in the PZU Group

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

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

Values by which we are guided in our actions

You can rely on us

Stability

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

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

Honesty

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

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

Innovation

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

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

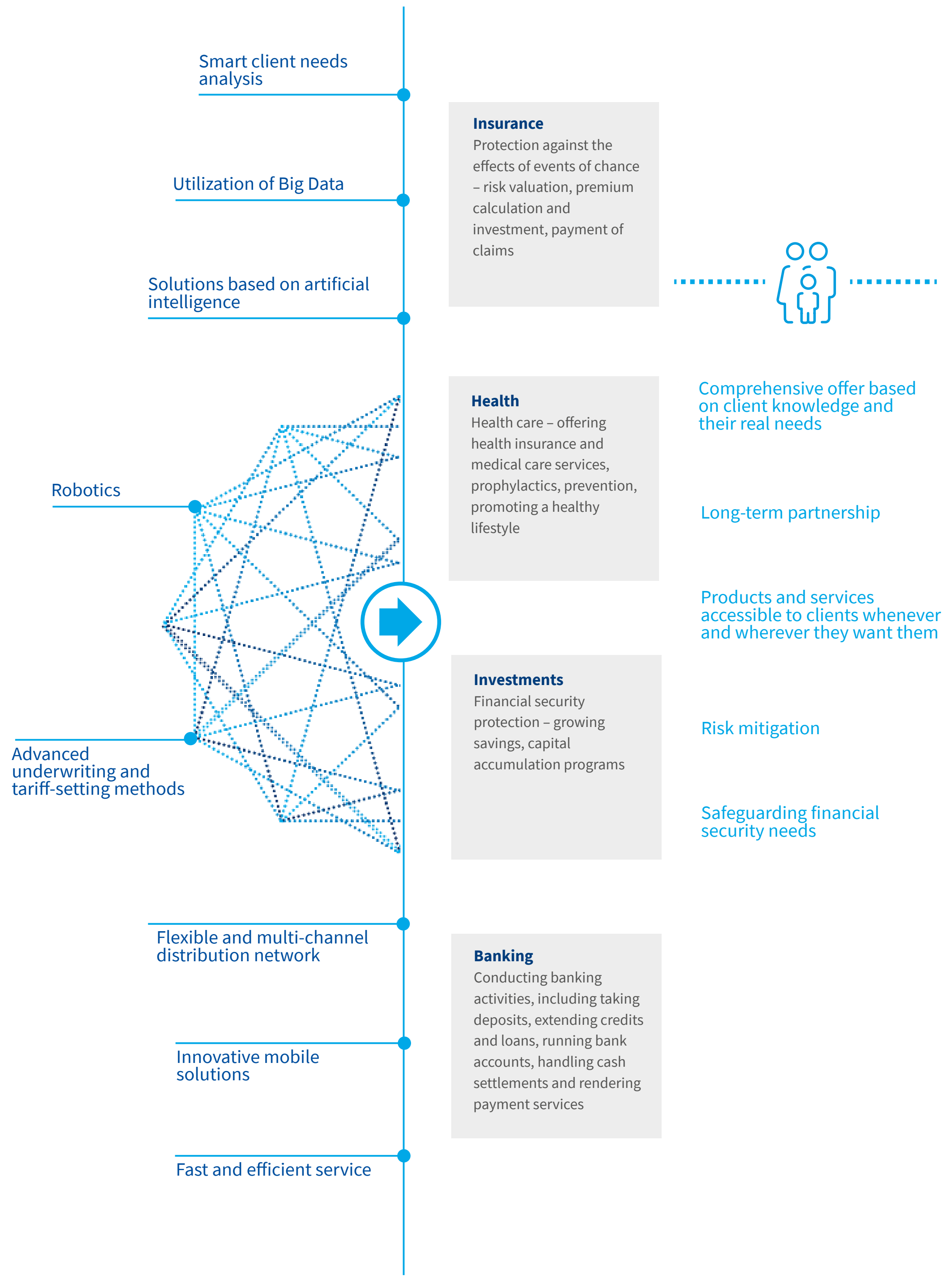
Responsibility

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

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

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

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

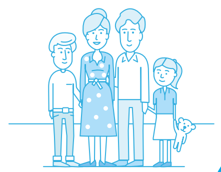


Major business areas

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

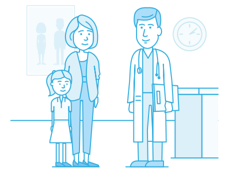
The PZU Group is also the leader in the Baltic States, and it does business in Ukraine.

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



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

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



CLIENT

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

An extensive range of investment products is offered under the PZU Investments brand, namely open and closed-end mutual funds and pension products: an open-end pension fund, individual retirement accounts, individual retirement security accounts with a voluntary pension fund, employee pension 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 universal deposit and loan bank that was established in 2008 as a start-up. In its operations it combines the principles of traditional banking with innovative solutions and consequently it sets new trends in financial services and consistently strengthens its market position.

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

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

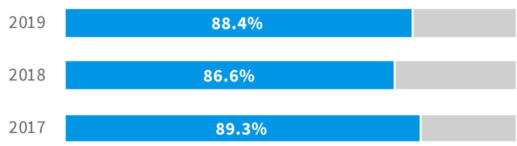
PZU Group Overview

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

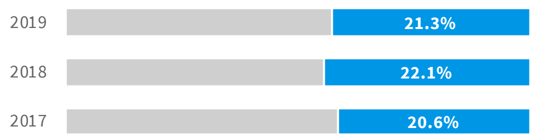
Profitability (combined ratio - COR)



Life insurance in Poland

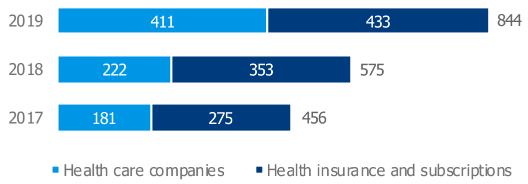
Gross written premium (PLN billion)

Profitability (operating margin)

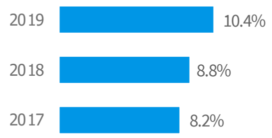


HEALTH

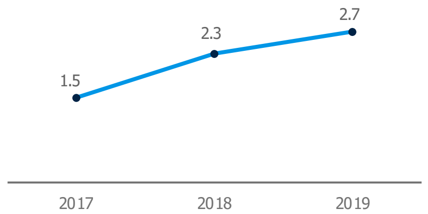
PZU Zdrowie's revenues (PLN million)



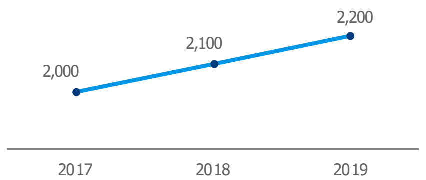
EBITDA margin



Number of agreements (milion)

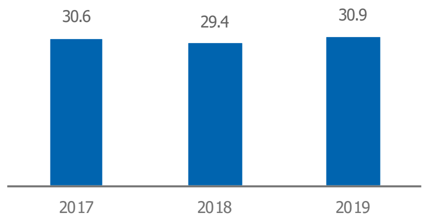


Partnership branches



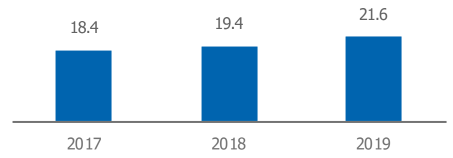
INVESTMENTS

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



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

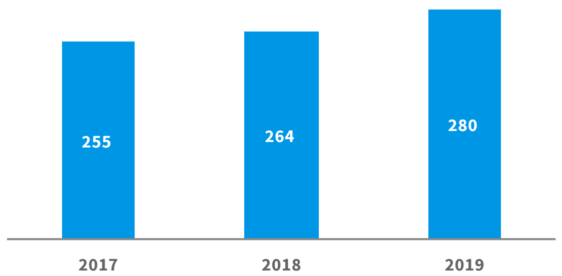
Assets of Pekao TFI (PLN billion)



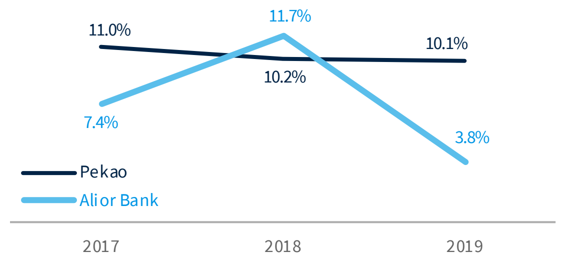
Net result on asset management of Pekao TFI (PLN million)

BANKING

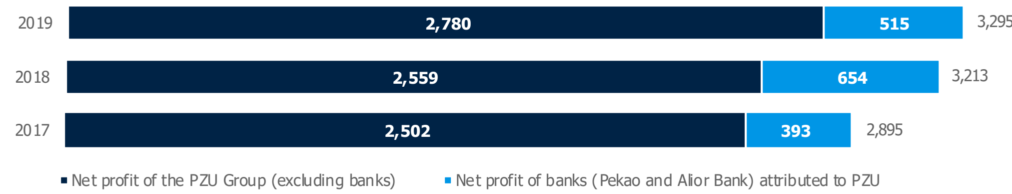
Banking assets in the PZU Group (PLN billion)



ROE (return on equity)

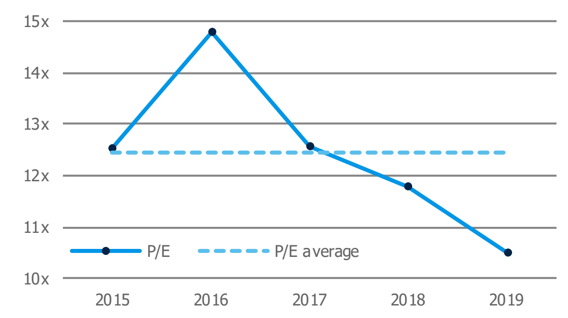


Contribution of banking activity to the net profit of the parent (PLN million)

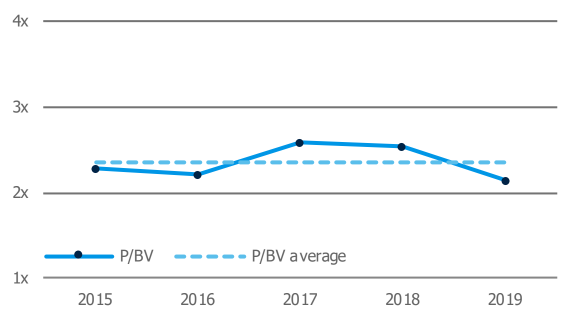


MARKET MULTIPLES

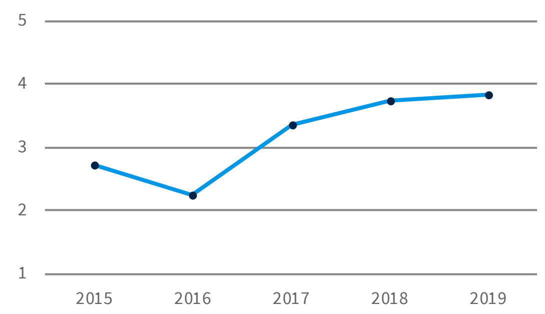
P/E (price to earnings per share)



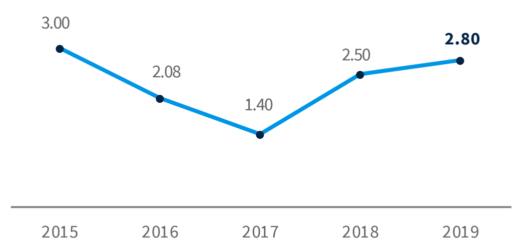
P/BV (price to book value)



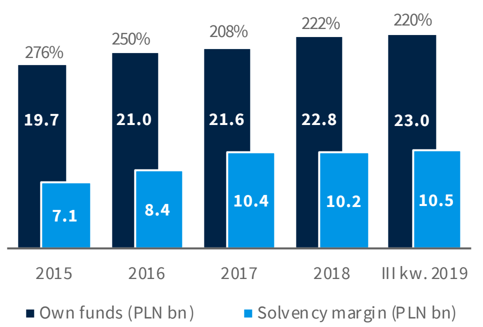
EPS (earnings per share) PLN



DPS (dividend per share) PLN

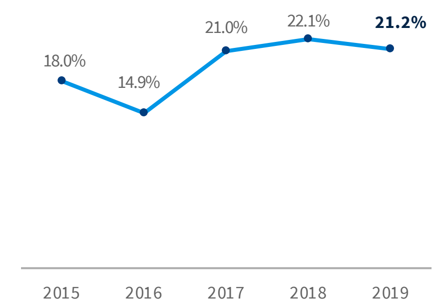


Solvency II*



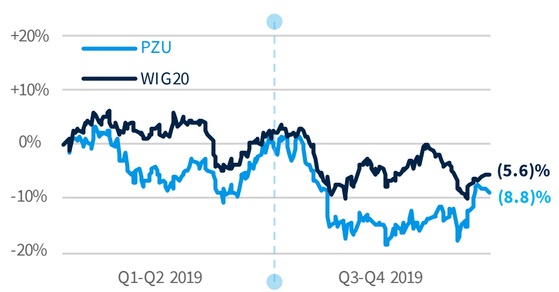
* Unaudited data

ROE (return on equity)*

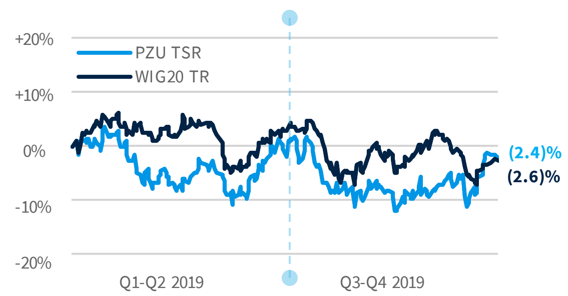


* ROE attributed for the parent company

PZU, WIG20 (2019)



PZU TSR, WIG20 TR (2019)



PZU Group's consolidated highlights for 2015-2019 (PLN million)

	2015	2016	2017	2018	2019
PZU GROUP NET OF ALIOR BANK AND PEKAO					
Gross written premiums	18,359	20,219	22,847	23,470	24,191
Net result on investing activity including interest expenses	1,622	1,217	1,855	904	1,995
Net insurance claims and benefits paid	(11,857)	(12,732)	(14,941)	(14,563)	(15,695)
Acquisition expenses	(2,376)	(2,613)	(2,901)	(3,130)	(3,363)
Administrative expenses	(1,658)	(1,644)	(1,647)	(1,637)	(1,739)
Operating profit	2,940	2,287	3,198	3,298	3,606
Net profit attributable to equity holders of the parent company	2,343	1,754	2,502	2,559	2,780
BANKS: ALIOR AND PEKAO					
Net profit attributable to equity holders of the parent company	-	181	393	654	515
NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	2,343	1,935	2,895	3,213	3,295
Total assets	105,397	125,304	317,458	328,554	343,340
Equity attributable to the owners of the parent company	12,924	12,990	14,599	14,925	16,169

Restated data as at 31 December 2015-2018
Data from the consolidated statement of financial position for 2016, restated as at 1 January 2017

The financial results generated by the PZU Group in recent years place it among the most profitable financial institutions in the country. At the same time, they translate into high asset utilization ratios. In 2019 the return on equity was 21.2%, 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 Q3 2019, the solvency ratio - (calculated according to the standard Solvency II formula) was 220%, a level above the average solvency ratio reported by insurance groups in Europe.

A-

/POSITIVE/

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

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.

PZU's attractiveness as an investment is highlighted by the promise of sharing profits with shareholders to the extent such profits are not needed to underwrite its rapid growth. The dividend per share paid from 2018 earnings (on 5 September 2019) was equal to PLN 2.80, representing 12.0% y/y growth.

At the end of December 2019, PZU's market capitalization amounted to PLN 34.6 billion.

Selected awards and distinctions

The PZU Group received numerous awards and distinctions for the activity in 2019. We present some selected ones below.

AWARDS:

Business:

PZU: Trustworthy Brand

PZU: Super Ethical Company

PZU: First place in IIF's data quality ranking for 2019

PZU: Patron of Culture - title conferred by the Ministry of Culture and National Heritage

LINK4: The Best Digital Insurer

LINK4: Client's Golden Laurel of 2019 in the Motor Insurance Category

PZU Zdrowie: 100% Polish Product

TFI PZU: "The Most Credible in the Polish Economy" in the "Revolutionary" category for inPZU

Pekao: Euromoney – Best Corporate Bank in Poland

Pekao: Euromoney – Best Trade Finance Service Provider

Pekao: Best Investment Bank in Poland and CEE

Alior: Forbes – Company-Friendly Bank (1st place)

Alior: Gazeta Bankowa - Best Bank of 2019 (2nd place)

Alior: Newsweek's Friendly Bank of 2019

Innovations:

PZU: Efma & Accenture Insurance Awards 2019 workforce transformation, core insurance transformation

PZU: Digital Excellence Awards for moje.pzu

Innovations:

PZU: InsurTech Award 2019 for PZU GO

Alior: Top Institutional Innovator of the Year

Alior: EFMA Award - Most Innovative Personal Account

Alior: The Heart - Corporation Innovation Awards 2019

HR:

PZU: Employer Branding Excellence Awards 2019 – 3 awards

LINK4: Great Place to Work

Pekao: Top Employer 2019

PZU Zdrowie: Health Employer

CSR:

PZU: Philanthropist of the Year in 2019 in the Sports category

PZU: Mobile Trends Awards in the Social/CSR Category

LINK4: Effie Awards for LINK4 Mom "Don't Be Afraid to Be Afraid"

PZU Zdrowie: Icebreakers - for Employers Supporting the Hiring of Disabled People

Marketing:

PZU and LINK4: Kantar's Panther for the Most Effective Brand Creation

PZU: E-commerce Poland in the Most Digital Insurer Category

IR:

PZU: The Best Annual Report 2018 – Best of the Best

PZU: Issuer's Golden Website – for the Best IR Service

PZU Group development

1803

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

1927

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

1950 1960 1970

1991

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

PZU SA

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

PZU Życie SA

1998

Establishment of PTE PZU – pension insurance management company

PTE PZU SA

1999

Formation of TFI PZU – mutual fund management company

TFI PZU SA

2002

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

2005

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

2010

PZU's Initial Public Offering (IPO)

PZU

2012

Rebranding

2014

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

CODAN LIETUVOS DRAUDIMAS BALTA

and a direct insurer in Poland - LINK4

LINK4

Launch of the PZU Zdrowie brand

PZU ZDROWIE

2015

Agreement to acquire Alior Bank

ALIOR BANK

Formation of TUW PZUW – a mutual insurance company

PZUW

2017

Finalization of the acquisition of Bank Pekao

Bank Pekao

2018

July
Portal of new possibilities
www.pzu.pl

September
PZU's single world
moje.PZU

October
Revolution in investments
inPZU

2019

August
Mobile aplication
moje.PZU

October
Innovative cash loans
CASH

The New PZU - More Than Insurance

INSURANCE HEALTH INVESTMENTS BANKS

Calendar 2019

21 JANUARY
PZU and Bank Pekao as the organizers of the Polish House in Davos during the 2019 World Economic Forum

28 MARCH
appointment of the PZU Management Board for a new term of office

24 MAY
PZU's Ordinary Shareholder Meeting

05 SEPTEMBER
dividend payment from PZU's 2018 profit (PLN 2.80 per share)

29 SEPTEMBER
PZU as the titular sponsor of the 41st PZU Warsaw Marathon

28 NOVEMBER
PZU as the partner of the 11th Annual CFA Institute Research Challenge

13 MARCH
#newPZU in Your Hands – recap of the first year of strategy execution

21 MAY
PZU as a strategic partner of impact'19

14 JUNE
S&P raises PZU's rating outlook to positive

16 SEPTEMBER
social campaign "Are you driving? Then put the phone down"

23 OCTOBER
appointment of Aleksandra Agatowska to the PZU Management Board

Czy wiesz co robi
teraz Twoje dziecko?

2.

External environment

Poland's robust economic standing, growth in real household income coupled with the very strong labor market and growth in gross fixed asset capital formation form conducive conditions for PZU's business development.

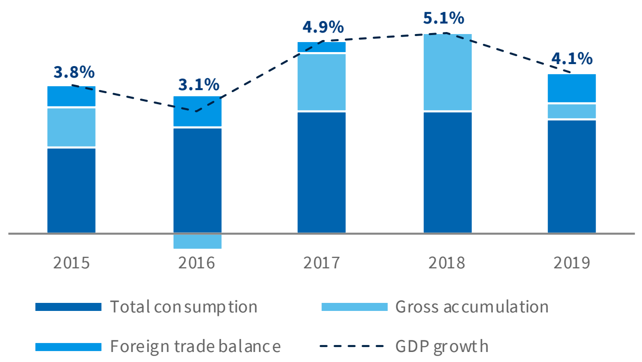
In this section:

2.1 Main trends in the Polish economy

Gross Domestic Product

Based on the preliminary estimates of the Central Statistical Office, in 2019 GDP increased 4.1% in real terms. Household consumption, up 3.9% from 2018, remained the main driver of economic growth. The maintained robust consumption growth was supported by an increase in employment, a decline in the rate of unemployment and higher real incomes. Also gross fixed capital formation was a major contributor to strong economic growth. Its growth rate stood at 6,9%. Consequently, the investment rate in the economy increased to 18.6% in 2019, compared to 18.2% in the previous year. Despite deterioration of the business climate in the Polish economy, the GDP growth rate was also supported by net exports, which contributed 0.8 p.p. to GDP growth in 2019. However the contribution of the change in inventory levels was negative (-0.9p.p.).

Decomposition of GDP growth in 2016-2019



Source: Central Statistical Office, preliminary estimate of GDP in Q4, 2019 as at 28 February 2020

Labor market and consumption

In 2019, the circumstances on the labor market continued to improve from an employee point of view. Salaries increased at a fast pace, employment grew and the unemployment rate decreased, albeit slower than a year earlier.

The most readily available information about the labor market comes from the business sector. In 2019, average headcount grew by almost 165 thousand people, as compared to an increase by 213 thousand people in 2018. In December 2019, the average monthly headcount in enterprises was 2.6% higher than the year before. The growth in employment, coupled with the declining working-age population, resulted in a lower unemployment rate. The registered unemployment rate in December 2019 was 5.2%, compared to 5.8% in December 2018. At the end of 2019, the seasonally adjusted rate of economic unemployment (according to Eurostat) stood at 3.3%, which was below the European Union average (6.2% in December 2019) and the euro area (7.4% in December 2019).

The growth rate of an average monthly salary in the business sector showed a slight downward trend in 2019. The nominal average monthly salary in this sector increased in 2019 by 6.5% compared to a 7.1% increase in 2018. However the salary growth rate in the entire economy did not slow down. Thanks to a high increase in salaries in the state budget sphere in 2019, the average monthly wages in the Polish economy increased by 7,2% compared to 7.1% in 2018. The increase in disposable income, supported by introduction of additional social benefits and reduction of PIT, accelerated in 2019 compared to the year before, which is confirmed by the data for the first three quarters. The robust growth in disposable income, coupled with high consumer confidence indicators, contributed to the achievement of a relatively high rate of growth in household consumption in 2019 (3.9%).

Inflation, monetary policy and interest rates

In 2019, the consumer price index (CPI) increased by 2.3% in annual average terms, compared to 1.6% in 2018. In December 2019, consumption prices were 3.4% higher than the year before and net core inflation (CPI without the prices of food and energy) stood at 3.1% y/y. The increase in information was generated primarily with the increasing prices of services which in December 2019 were 6.1% higher than the year before. With low core inflation in the euro area, the room for increases in commodity prices remained curbed – in December 2019 commodity prices were 2.4% higher than at the end of 2018.

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

Public finance

In the justification for the draft 2020 budget, the Finance Ministry estimates that the state budget deficit in 2019 was PLN 14.4 billion, which is by half lower than the PLN 28.5 billion planned. This means that the state budget deficit stood at 0,6% of GDP only. The State Treasury debt at the end of December 2019 was PLN 973,3 billion, up by PLN 19 billion (+2%) from the beginning of 2019. According to the European Commission's forecasts of November 2019, the deficit of the general government sector in Poland in 2019 will amount to 1.0% of GDP. In 2019 Poland had no problems whatsoever in obtaining market financing – the Finance Ministry reported that over 40% of its borrowing needs planned for 2020 had been pre-financed at year-end.

2.2 External environment in the Baltic States and Ukraine

Lithuania

ccording to preliminary estimates, Lithuania's GDP growth in Q4 2019 stood at 3.8% on an annual basis. The Lithuanian economy was powered by investments and favorable labor market. Increased investments a few years back have brought about a significant increase in production capacity which, in turn, has contributed to growth of industry and exports.

In December 2019 the unemployment rate in Lithuania stood at 8.7%, down by 0.2 p.p. compared to December 2018. To a slight extent, a higher immigration rate eased tensions on the labor market. The majority of immigrants have been hired by transportation companies, whereas a number of other industries continue to struggle with a shortage of personnel.

In 2019, inflation subsided to the annual rate of 2.7%. This increase largely reflected the higher prices of transport, recreation and culture as well as municipal services which more than offset the lower prices of clothes and shoes. In addition, food and soft drink prices dropped slightly in December.

Latvia

In the third quarter of 2019, Latvia's GDP grew at a rate of 1.9% (annual data, seasonally adjusted). Domestic demand became increasingly the main motor of GDP growth, but its rate significantly slowed down compared to the year before. The deterioration of the business climate was attributable to higher uncertainty in the external market environment. Investments and private consumption dropped, which confirms the increasing caution both among investors and general public.

In Q3 2019, the unemployment rate slightly dropped to 6.0%. The second quarter in a row the number of employees also dropped in annual terms, which may reflect an economic slowdown.

In December 2019, the annual inflation rate was 2.3%, driven largely by higher prices of food, soft drinks and goods and services related to home maintenance (commodity prices increased 2.1% and service prices grew by 2.6%).

Estonia

Based on data published by the Bank of Estonia[1] the country's GDP increased 4.2% in Q3 2019 (on a year-on-year basis), whereas the quarter-on-quarter increase was 1.0%. GDP in Q3 was based mainly on seasonal factors, i.e. one-off increase of excise tax proceeds and record-breaking crops. Faster growth in the agriculture sector had positive impact on exports as the production volumes in the processing industry (the main export sector) remained on the same level as the year before.

Unemployment remained low in Q3 2019. The unemployment rate reached 3.9%. The average wages remained high, recording an increase by 8.2% in Q3 2019.

The consumer price index (CPI) moved up 2.3% in 2019[2] compared to the year before. Inflation in 2019 slowed down, driven mainly by energy prices, which increased quickly at the beginning of the year to start to decline from October. Inflation in the foodstuffs basket grew at a slower pace, mainly due to a reduced excise rate for alcohol.

Ukraine

After years of political and economic tensions, in 2019, the Ukrainian economy was showing signs of stabilization. In Q3, Ukraine's annual GDP increased 4.1% compared to the corresponding period of the previous year. In December 2019, the annual inflation rate was 4.1%, the lowest in the last 5 years. The inflation pressure was eased down by the strengthening of the hryvnia, reduction of energy prices and increasing of the offering by certain foodstuffs.

After 11 months of 2019, a negative balance of foreign trade in goods and services was recorded (USD -10.9 million) caused

[1] Estonian Economy and Monetary Policy, 4/2019, Bank of Estonia
[2] Data published by the Estonian Statistical Office

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).

2.3 Situation on the financial markets

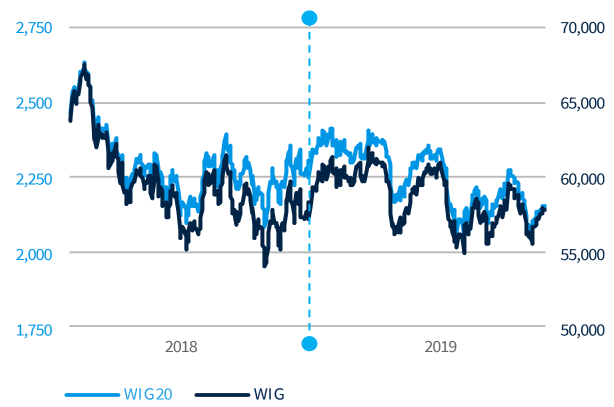
2019 was a favorable year for investors on global financial markets. Most asset classes brought a positive rate of return. Despite temporary fluctuations in Q2 and Q3, the prices of equities on developed markets were increasing. The yields of US and German treasury bonds showed a significant correlation throughout the year. The yields of 10-year US Treasuries and 10-year Bunds were dropping uninterruptedly from the beginning of the year to the beginning of September. Subsequently, they increased, but not deep enough to break the level at which they started the year. The yield of German Bunds was at the historical low this year.

For most part of the year, trends on the financial markets were swayed by news of heightened tensions in global trade relations, the risk of a disorderly Brexit and indications of decelerating economic growth in the world's major economies. In 2019, the US trade policy became more austere, especially towards China, which resulted in bilateral tariff hikes. This had an adverse effect on the dynamics of global trade and resulted in a worsening of the business climate in economies dependent largely on exports, including Germany, which in 2019 just missed technical recession. The rate of GDP growth in the US, China and the euro area began to subside. The concerns about upcoming recession were also fueled by the yield curve inversion in the US, which in the past was quite a precise indicator of an approaching recession. From March 10-year US treasury bonds offered lower yield than short-term 3-month bonds and this status quo lasted till October. Only the end of the year reduced the uncertainty in the context of key risks. The US and China started to work on the first phase of a trade agreement, which entered into force in January 2020. In addition, the danger of a no-deal Brexit disappeared.

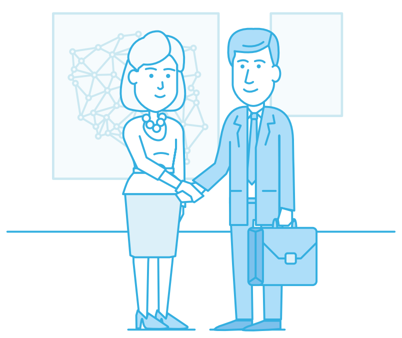
Key central banks were not passive in the fact of the risks for global economic growth. The US central bank (Fed), which still by the end of 2018 predicted two interest rate hikes, closed 2019 with three rate cuts. The European Central Bank (ECB) reduced the main deposit rate and resumed the asset purchase program, finished only in 2018. Additionally, to help European banks in the face of negative interest rates, the ECB introduced a mechanism for exclusion of some bank reserves from the negative interest.

The Polish equity market closed 2019 practically without any changes, being in terms of the rate of return one of the weakest indices in the world. In 2019, the WIG index yielded a rate of return of +0.3%, but the WIG20 index lost 5.6%. Against the backdrop of increases in global indices and the very good economic situation in Poland in the first half of the year, all of the country's major stock market indices grew until the end of March. The beginning of April roughly marked a synchronized descent in all stock market indices. By the end of the year, certain differences appeared in the paths followed by large and small cap indices. While in the last months of the year, the WIG20, the blue chip index, was declining, the medium and small company indices of mWIG40 and sWIG80 were improving in this period. Compared to other major sectors, in 2019 the telecommunication industry was outstandingly strong, while all other sectors recorded negative rates of return.

WIG and WIG20 indices



Medium-term and long-term treasury bond yields in 2019 dropped. The performance of Polish 10-year treasury bonds was largely correlated with changes in the yields on 10-year bonds on the core markets. At the same time, during the year the spread between Polish and German 10-year treasury bonds tightened by 26 basis points, which resulted partly from the robust fundamentals of the Polish economy against the backdrop of European economies. Throughout 2019, the yields on 10-year treasury bonds slumped by 78 bps from 2.85% to



Poland's 2019 GDP growth accelerated to

4.1% y/y

underpinned by the high and stable pace of growth in household consumption

Drop in the rate of registered unemployment in Poland in December 2019 to

5.2%

from 5.8% in December 2018

7.2%

growth in average monthly wages in the corporate sector in Poland in 2019 versus 7.1% in 2018

Annual average consumer price inflation (CPI) of

2.3%

in 2019 versus 1.6% in 2018

Interest rates held steady by the Monetary Policy Council in 2019, reference interest rate held constant at

1.5%

since 2015

Insurance penetration rate of

2.8%

in Poland below the European average (7.5% in 2018)

The statistical Pole's insurance spending was

EUR 436

in 2018, or above 4 times less than the European average (EUR 1,958)

Bank loans stated as a percentage of GDP in the Polish banking system at

61%

in 2018 versus the European average of 126%

Baltic States' annualized GDP during the first three quarters of 2019:

1.9% in Latvia

4.2% in Estonia

3.6% in Lithuania

Deposits are the most popular form of accumulating financial assets in Poland –

85%

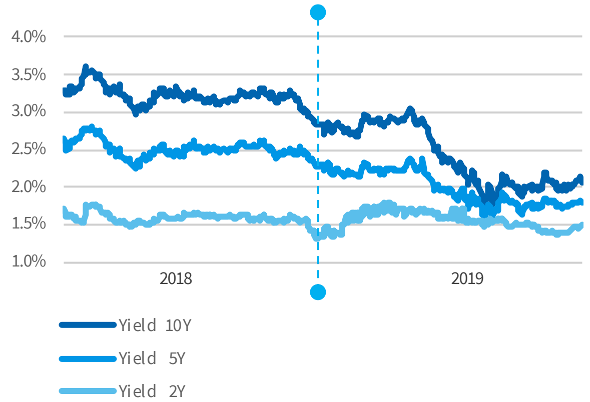
of all households use deposits

Ukraine's annualized GDP growth in Q3 2019 at

4.1%

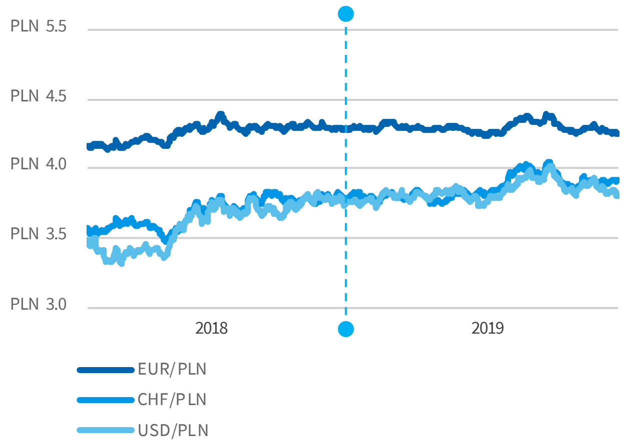
2.07%. The yields on 5-year treasury bonds declined by 48 bps and stood at 1.81% at the end of the year, while the yields on 2-year bonds increased by 16 bps to 1.50% during the year. The yield of Polish debt treasury securities with a one-year maturity increased by 7 bps, reaching 0.98% at the end of the year.

Treasury bond yields in 2019



In 2019, from the beginning of the year until the end of September, a clear trend transpired on the main currency markets with the US dollar strengthening markedly against other major global currencies. In the light of decreasing concerns about a disorderly Brexit, the British pound appreciated by the end of the year. Eventually, the USD/EUR exchange rate stood at 1.12 at the end of 2019, which means a 1.8% decline compared to the end of the previous year. In the same period, the Polish zloty weakened against the US dollar and strengthened against the euro. Between the beginning and end of 2019, the US dollar appreciated against the Polish zloty by 1.0% to PLN 3.80, while the euro was worth PLN 4.26 at the end of 2019, down 1.0%. The Polish zloty clearly weakened against the Swiss franc by 2.7% (the PLN/CHF exchange rate increased to PLN 3.92).

PLN exchange rate



2.4 Polish and Baltic States insurance sector compared to Europe

The European insurance market generates approximately 31,6% of the world's gross written premium[3]. According to the data published in September 2019[4] active insurers in Europe, in countries associated with Insurance Europe acquired in 2018 EUR 1,311 billion of GWP. 2018 was a difficult year for the insurance market due to the intensive price war, major uncertainty on the financial markets and the risk of an economic recession. The problems faced the European Union have exacerbated – migration policy, law-abidingness and financing of structures have become the trouble spots sources of friction between member states. The strengthening of conservative factions and uncertainty of actions had negative impact on medium – and long-term investments in the region. This also translated into consequences for the European insurance market.

In 2018, the statistical European spent EUR 1,958 on insurance, whereas the average Pole spent EUR 436, or more than 4 times less. Insurance spending in the Baltic states was even lower. In 2018, the average Lithuanian spent EUR 278 on insurance, the average Estonian spent EUR 270 and the average Latvian spent EUR 140. In 2018, the average Ukrainian spent only EUR 38 on insurance.

[3] Swiss Re, sigma 3/2019: World insurance: the great pivot east continues
[4] As at the date of the report, the most up-to-date data for Europe's insurance market are available for 2018

In Poland, the market insurance model has been developing since 1990. Currently, Poland has the largest insurance market in Central and Eastern Europe. However, even though the size of this market (as measured by gross written premium) more than doubled between 2009 and 2018, it still remains way behind Western Europe. In 2018, total gross written premium in the Polish market was EUR 13.9 billion (compared to EUR 6.8 billion in 2009)2. Europe's largest insurance market is the United Kingdom (with EUR 341.6 billion in gross written premium in 2018). Markets above the EUR 100 billion gross written premium threshold include France (EUR 219.4 billion), Germany (EUR 202.4 billion) and Italy (EUR 135.1 billion). In terms of size, the Polish insurance market also trails certain West European countries with a significantly smaller population than Poland, including Austria (EUR 17.3 billion), Belgium (EUR 27 billion), Denmark (EUR 31.8 billion), Finland (EUR 23.4 billion), the Netherlands (EUR 72.3 billion), Switzerland (EUR 51 billion) and Sweden (EUR 31.3 billion)[5].

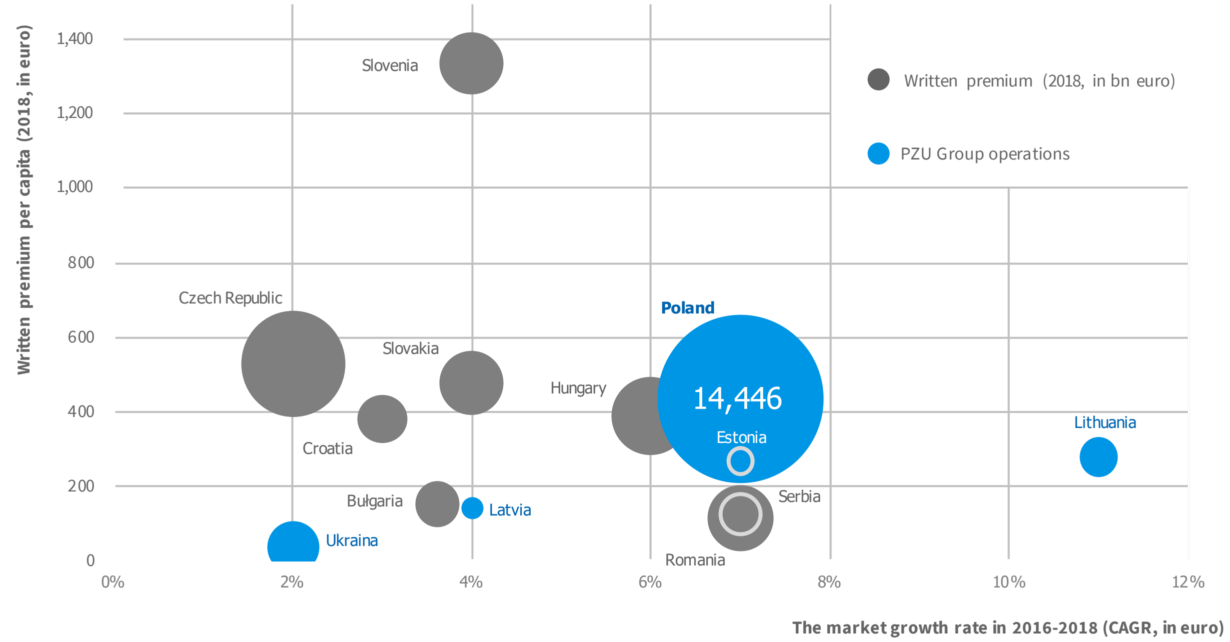
The structure of the Polish market is dominated by non-life insurance (approx. 65% of the market), with the majority of gross written premium generated by motor insurance. In 2018, gross written premium collected on motor third party liability insurance and motor own damage insurance accounted for 39% of the entire market's gross written premium[6]. The share of life insurance in Poland's total gross written premium (35%) was, in turn, a third lower than the European average. A similar structure of insurance markets is also typical of the Baltic states. In those countries, life insurance, on average, accounts for less than 30% of total gross written premium. This situation is completely different from that of West European countries where life insurance takes the bigger chunk of the market. In 2018, nearly 58% of insurance premiums in Europe was generated in life insurance, 31% in non-life insurance and 10.6% in health insurance[7]. Countries with the most developed life insurance market are countries that also have the largest insurance markets. These include Italy (in 2018, life insurance accounted for 75.3% of gross written premium), the United Kingdom (69.5%), France (63.6%) and the Scandinavian states: Finland (81.3%), Sweden (78.5%) and Denmark (70.6%).

Poland's insurance penetration rate, which is the ratio of total gross written premium to gross domestic product (GDP), is below the European average. In 2018, this rate stood at 2.8%, whereas the Europe average was 7.5%[8]. Even lower

[5] Swiss Re, sigma No 3/2019: World insurance: the great pivot east contiunues

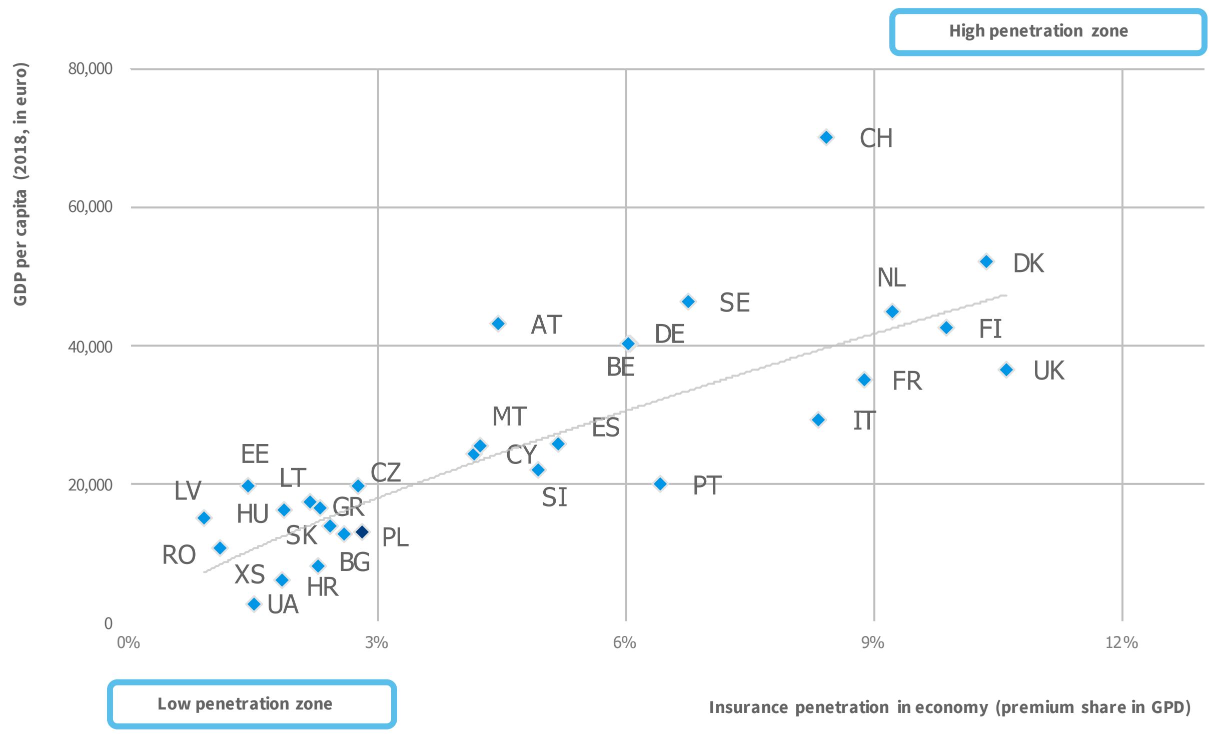
[6] KNF, Annual bulletin. Insurance market 2018, updated on 26 September 2019
[7] Insurance Europe, European Insurance – Key facts 2019
[8] Insurance Europe, https://insuranceeurope.eu/insurancedata

Gross written premium per capita (2018, EUR) in relation to the insurance market growth rate



Source: Eurostat, Insurance Europe, Swiss Re Institute (sigma 3/2019)

Penetration of insurance in relation to GDP per capita in Europe (2018, EUR)



Source: Eurostat, Insurance Europe, Swiss Re Institute (Sigma 3/2019)

penetration rates were achieved in the insurance markets of Lithuania (1.9%), Latvia (2.6%), Estonia (2.2%) and Ukraine (1.5%)[9]. The highest penetration rates were recorded by the United Kingdom (10.6%), Denmark (10.4%), Finland (9.9%) and the Netherlands (9.2%)[10].

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

[9] Deloitte, CEE Insurance M&A Outlook, update – October 2019

[10] Insurance Europe, https://insuranceeurope.eu/insurancedata

2.5 Polish banking sector compared to Europe

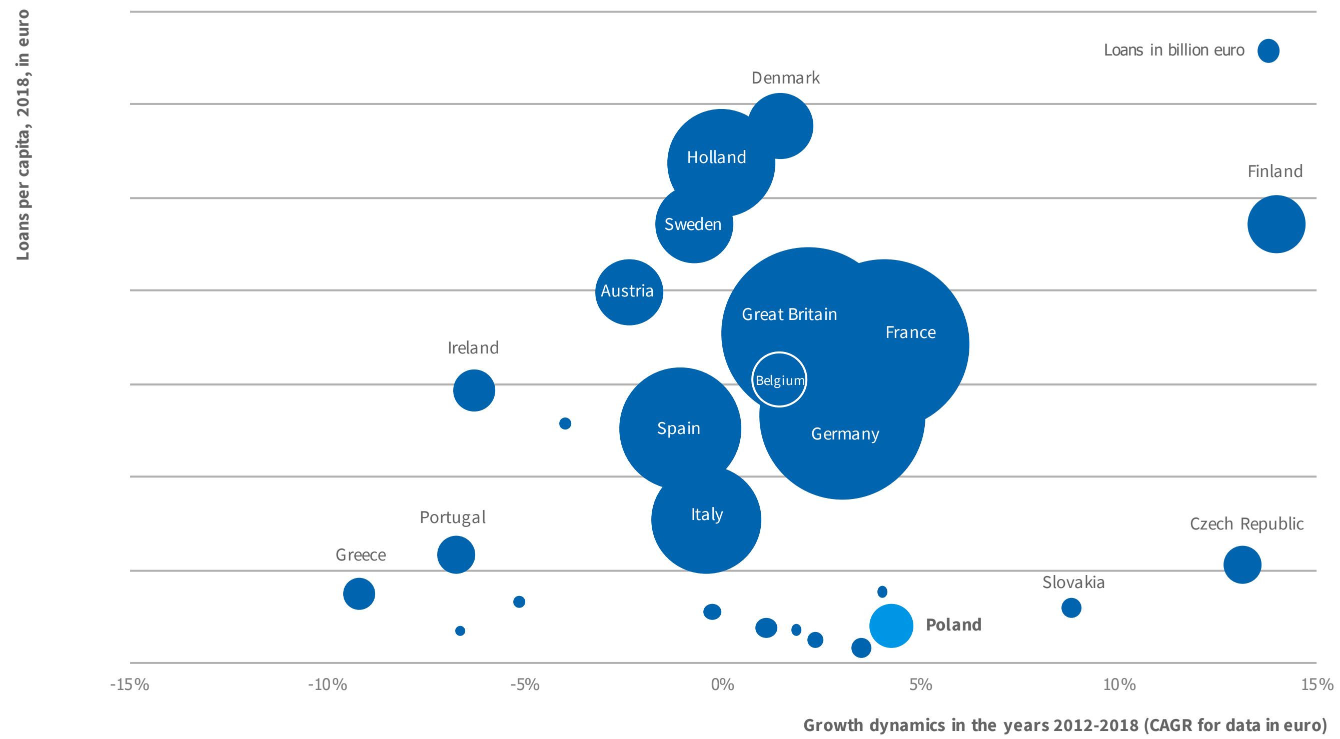
Banking assets in Poland have recorded a significant increase since the transformation. Since the end of 2008, they have grown annually by approx. 6% on average. Currently, the Polish banking sector ranks around the European median in terms of assets. According to data of the European Central Bank (ECB), in 2018 the Polish banking sector's assets totaled[11] EUR 444 billion. Europe's largest banking sector is in the United Kingdom (EUR 10 trillion in 2018) and the smallest one is in Estonia (EUR 26.6 billion). In 2018 the assets of European banks amounted to EUR 41 trillion (EUR 26 trillion in the euro area)[12].

The Polish banking sector operates in accordance with the classic model of financial intermediation in which banks mainly provide loans to the non-financial sector using their customers' deposits in the process. This is reflected in the high

[11] As at the date of the report, the most up-to-date data for Europe's banking market are available for 2018

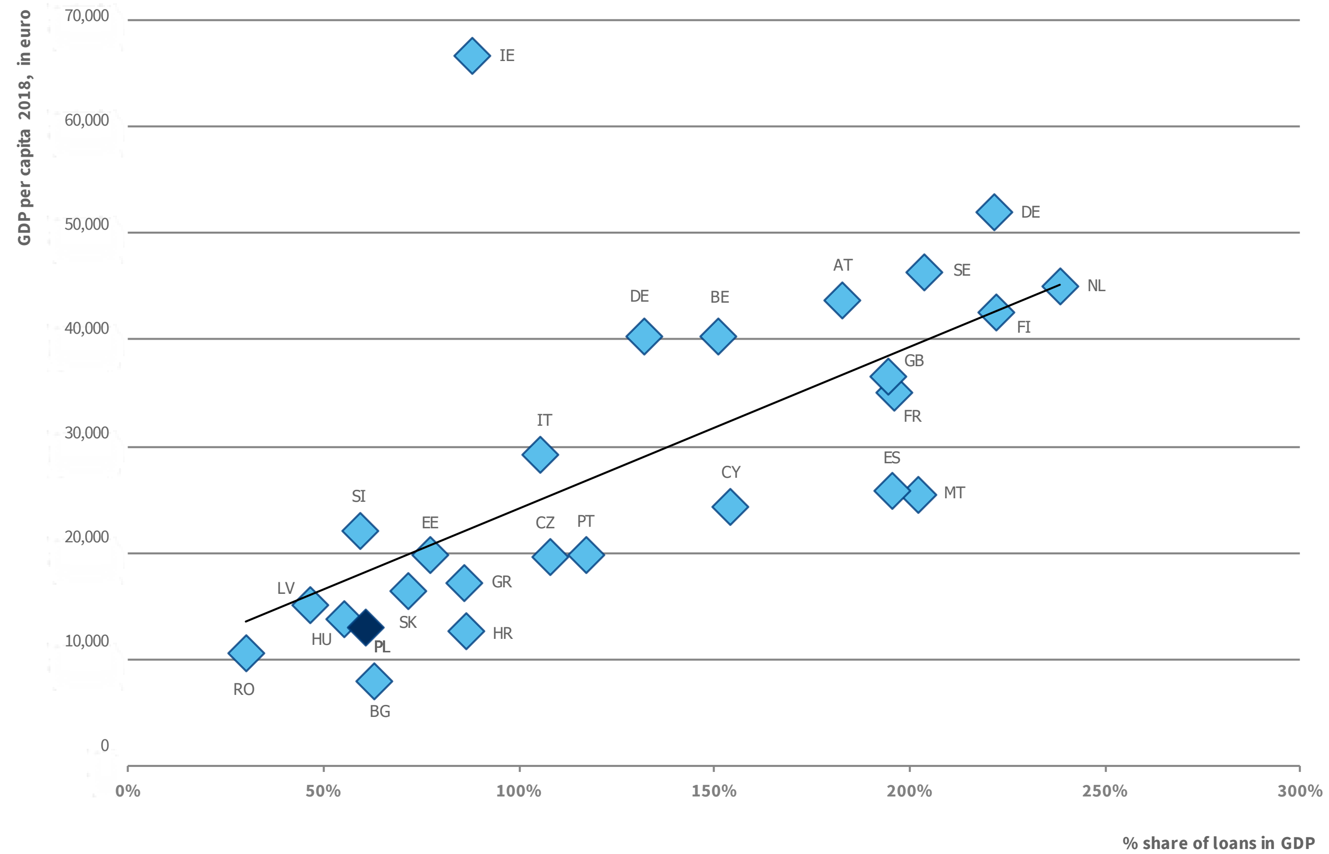
[12] European Central Bank, https://sdw.ecb.europa.eu/

Loans per capita (2018, EUR) in relation to the banking market growth rate (2012-2018)



Source: Own calculations based on ECB and NBP data

Share of loans in GDP (2018, %) in relation to GDP per capita (2018, EUR)



Source: Own calculations based on ECB and NBP data share of loans in the banking sector's assets, which accounted for 68% of total assets and was higher than the average for the banking sectors of the European Union (62%)[13]. The share of other types of assets in the banks' balance sheets, in particular assets held for trading, was much lower in Poland, just like in other Central and Eastern European countries, than in developed economies.

At the end of 2018, loans in the Polish banking sector totaled EUR 302 billion, which placed Poland in the middle of the pack.

Compared to other European Union states, Poland's banking sector is relatively small in relation to the country's GDP. Bank loans in the Polish banking system account for 61% of GDP while the European average is 126%. Netherlands, Finland and Denmark have the highest ratios of loans to GDP.

The Polish banking market features a low, though rising percentage of business loans in the total amount of loans extended to the non-financial sector (34.5%). In turn, Poland is the fourth country in the European Union in terms of household loans stated as a percentage of all the loans in the banking sector[14].

The recent research conducted by the National Bank of Poland indicates that households in Poland are significantly less indebted than in the euro area: the average household has total liabilities of 5.5% of gross assets while in the euro area the average debt is 26% of assets in total[15].

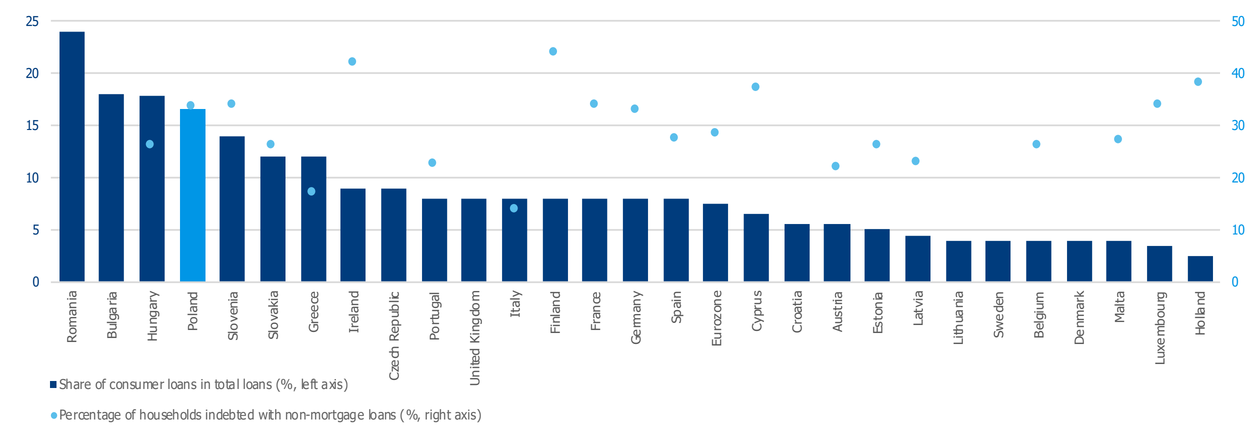
Mortgage loans account for the highest percentage of household loans (roughly 60%); in the European Union that percentage is higher (roughly 70%). Housing loans in Poland account for 38.5% of the GDP, which is similar to the European Union average. The growth rate of consumer loans is higher than the GDP growth rate and Poland is a country with one of the highest share of debt of this type in relation to the GDP in the European Union. The quality of high-amount loans is currently slightly lower than of other consumer loans [16].

Banks are financed with client deposits in Poland to a greater extent than in other countries in the European Union. Financial assets (deposits, mutual funds, equities, bonds, life insurance and voluntary pension plans) stated as a percentage of households' assets are markedly smaller in Poland than in the most economically developed countries in Europe. In 2016, they stood at 8.5% in Poland, while they were 17.8% of gross assets in the euro area. This disproportion is also very visible in absolute figures: EUR 3.5 thousand in Poland versus EUR 10.6 thousand in the euro area. On the other hand, financial assets, even though they are small, are a popular form in which Polish nationals accumulate financial means. 91% of all households hold them, with deposits being the most popular form of accumulating financial assets (85% of all households have deposits). Households much more rarely invest their savings in mutual funds (3.8% of households), though on average the amounts involved are higher (EUR 19.6 thousand). NBP's research shows that the increase in financial assets was the main driver of the growth in net assets[17].

[13] European Central Bank, https://sdw.ecb.europa.eu/
[14] Polish Financial Supervision Authority, Standing of the banking sector January-March 2019

[15] BZGD research is conducted in the international research network called Household Finance and Consumption Network (HFCN). Central banks and statistical offices representing euro area countries, Poland and Hungary participate in this undertaking initiated in 2006 and coordinated by the European Central Bank (ECB). https://www.nbp.pl/home.aspx?f=/aktualnosci/wiadomosci_2018/ZGDwP_20180109.html
[16] National Bank of Poland, Report on the stability of the financial system, December 2019

Consumer loans in Poland compared to EU countries



Source: NBP, Stability report, December 2018

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

The most important regulatory changes which entered into force or were announced in 2019 pertained to pension savings, liability for annuities in the case of obligatory third party liability insurance for motor vehicle owners and farm operators, amendments in the Act on Offerings and issues associated with climate, environmental protection and sustainable development.

On 1 January 2019 the Act on Employee Capital Schemes of 4 October 2018 entered into force. It establishes a private long-term saving scheme in which employee savings are built jointly by employees, their employers and the state. Such savings are to be invested by financial institutions selected by employers in communication with employees. The ECSs were launched on 1 July 2019, initially in the largest employers employing over 250 people. From 1 January 2020 the ECS obligation covered also employers employing over 50 employees. Ultimately, as of 1 January 2021, the schemes will be introduced in all employers (with the exceptions specified in the ECS Act).

In addition to Employee Capital Schemes, the next element shaping the growth of private long-term savings is the planned conversion of open-end pension funds, scheduled to take place still in 2020. The changes provide for converting OFEs into specialist mutual funds operating individual pension accounts to which OFE assets will be transferred. Universal pension fund management companies are to be transformed into mutual fund companies. Each person insured in OFE will be able to choose whether the monies accumulated in OFE are transferred to a mutual fund (default option) or recorded on a personal account kept in ZUS. Monies transferred to a mutual fund will be private monies of the saving person (currently the assets accumulated in OFEs are public funds).

[17] National Bank of Poland, Affluence of households in Poland, 2017

From the perspective of operation of the PZU Group and execution of PZU's parent obligations the amendment of Article 105 sec. 1 of the Banking Law Act of 29 August 1997 was desirable. In accordance with this regulation the bank is obligated to provide the insurance undertaking with information constituting banking secret to the extent required for the insurance company to comply with the regulations pertaining to group supervision applicable to such undertaking, as specified in the Insurance and Reinsurance Activity Act and the regulations pertaining to supplementary oversight exercised pursuant to the Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertaking, reinsurance undertakings and investment firms comprising a financial conglomerate.

Another regulation of importance for insurance companies was the amendment of the Insurance and Reinsurance Activity Act of 11 September 2015 which came into effect on 4 May 2019. 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. Consent of the data subject is not required for the processing of data in the above extent.

On 28 September 2019, the Act of 19 July 2019 on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations Prevailing before 1 January 2006 (Journal of Laws 2019, Item 1631) came into force. After the indemnity is exhausted, up to the amount of liability of the insurance company for the damage, in the case of obligatory third party liability insurance for motor vehicle owners and farmers on account of operating a farm, the injured party will be entitled to a claim for payment of an annuity against the Insurance Guarantee Fund. The claim is limited to the amount of the indemnity determined as at the date of submission of the claim in a situation where the insurance undertaking was not required to pay an annuity on the basis of a court ruling setting a different amount of indemnity than that specified in the TPL insurance contract. This may take place in the event the indemnity is increased by the court pursuant to Article 357[1] of the Civil Code, which creates the possibility of modification of an existing obligation relationship. The claim for the payment of an annuity will apply to periods following the date of the Act's entry into force.

Additional obligations for, among others, insurance companies, follow from the Act of 16 October 2019 on amending the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and some other acts which entered into effect on 30 November 2019. The Act aims to establish legal regulations encouraging shareholders of public companies to long-term engagement and enhancing transparency of the legal relationships between companies and investors. It introduced, among others, an obligation for life insurance undertakings investing assets in the equities of companies admitted to trading on the regulated market to prepare and publish an engagement policy to describe how the engagement of the shareholders of such companies is taken into account by such entities in their investment strategies. Insurance undertakings will be obligated to draw up and publish an annual report on the implementation of this policy. In addition, the amendments pertain to, among others (i) the requirement to put to a vote at the Shareholder Meeting (by 30 June 2020) the compensation policy, comprising a description of all components, criteria, conditions used to determine fixed and variable compensation for management board and supervisory board members, and (ii) preparation, by the supervisory board, of an annual compensation report to be audited by the auditor and subject to an opinion of the Shareholder Meeting (the first report should cover the years 2019-2020). In addition, the provisions of the act, which will enter into force on 3 September 2020, will enable companies to know the personal data of all its shareholders as part of identification of the shareholder structure.

Environmental protection and sustainable development will play an increasing role in insurance activity. This trend is manifested by Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, which is expected to enter into effect as of 2021. The Regulation establishes harmonized regulations for financial market participants (including insurance companies that offer investment products) with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. Financial market entities will be obligated to, among other things, publish on their websites information about their strategies on the integration of sustainability risks in their investment decision-making process. In addition, the EU conducts advanced work on a regulation establishing the so-called taxonomy of investments in terms of their impact on sustainable development, which will apply among others to the aforementioned disclosures (it will amend Regulation 2019/2088). On 17 December 2019, a close-to-final version of the draft of this regulation (comprise proposal of the Presidency) was published. Preliminary proposals for consideration of issues related to sustainable financing in prudential regulations, i.e. in Solvency II regulations, have already been prepared for the insurance sector.

2019 was also a period in which numerous changes entered into effect in the tax area, with the following being among them:

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 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 came into effect on 1 September, 2019. This clause replaced 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, became 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 thousand or equivalent.

31 December 2019 marked the end of the "transition period" for entry into force of the regulations on the "white list", which have been prevailing since 1 September 2019, allowing for verification of the VAT status of business partners in a list maintained by the Head of the National Tax Administration Authority. From January 2020 if a payment for a transaction between commercial undertakings documented by an invoice issued by an active VAT payer exceeds PLN 15 thousand, the taxpayer is obligated to pay the amount due to the business partner's account specified in the "white list". If they fail to do so, they may be subject to sanctions. The sanctions may be painful – in the event of a transfer to an account not listed on the "white list" the purchaser will not be able to classify the part of the expenditure exceeding PLN 15 thousand as tax-deductible expense. In addition, the purchaser will be liable jointly and severally with the supplier/service provider for the VAT that has not been paid, pro rata to the amount applicable to the relevant delivery/service. In practice the new regulations obligate taxpayers to verify the business partner each time when ordering a payment in order to make sure that the payment is made to an account known to the Ministry of Finance. What is important, in verification of the transaction settlement, the "white list" data on the transfer order date are taken into account.

The changes to the regulations not only impose new obligations on taxpayers but also provide for certain simplifications. These include removal, as of 2020, of the obligation submit separately VAT tax returns in the current form and the existing JPK_VAT report.

From 2020, the solution that has already been tested in social security contributions will be applied to taxes. PZU Group Companies will pay their PIT, CIT, VAT and non-tax state budget dues to an individual tax account. Consequently, it will no longer be required to make several transfers to different accounts used for specific taxes.

Selected Supreme Court rulings affecting insurance activity issued in 2019

From the Supreme Court rulings handed down in 2019 with regard to insurance, one should mention the most important ones pertaining to: general damages for the injured party's relatives, liability of the insurance undertaking for expenses incurred for lease of a replacement vehicle and prepared expert valuation, and imposition of penalties by the President of the Office of Competition and Consumer Protection for applying abusive contractual clauses.

In the resolution of 22 October 2019, in case I NSNZP 2/19, the Supreme Court concluded that a relative of an injured person who has suffered a serious and permanent injury is not entitled to general damages in cash pursuant to Article 448 of the Civil Code. This resolution is a turning point compared to earlier Supreme Court resolutions adopted in similar cases. The future will show whether the stance presented in it will be accepted in the line of rulings.

On 15 February 2019, in the case with file ref. no. III CZP 84/18, the Supreme Court noted that insurer's liability in third party liability insurance of a motor vehicle owner comprises also necessary and economically justified expenditures, incurred by the injured party for rental of a replacement car in the period of a prolonged repair, unless they result from circumstances attributable to the injured party or a third party. The resolution pertains to factors driving the necessity to use a replacement vehicle, disruption of the causal effect and liability of different entities for the necessity of using a replacement vehicle.

On 29 May 2019, in the case with file ref. no. III CZP 68/18, the Supreme Court declared that the person acquiring, by way of transfer, a claim for damages in a motor insurance loss, is entitled to reimbursement from the third party liability insurer of justified costs of an expert valuation commissioned from a third party only when its preparation was in the circumstances of the case necessary to effectively pursue the damages.

On 10 September 2019, in the case with file ref, no. I NSK 54/18, the Supreme Court concluded that the President of the Office of Competition and Consumer Protection may impose a penalty on the commercial undertaking for application of abusive contractual clauses listed in the abusive clause register, but only in the cases in which the clause was previously entered in the register as a result of proceedings with regard to the same commercial undertaking.

2.7 Factors that may affect the conditions of operations and the PZU Group's activities in 2020

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 2020, 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

In the Polish economy there are presently no clear signs of disruption to the balance where during the upcoming quarters they could bring about a strong cyclical slowdown. However Poland enter the declining period of the use of EU funds from the 2014-2020 financial framework, on top of which local governments plan to curtail expenditures on investments. This will likely slow down the pace of economic growth. At the same time, in the euro area, especially in Germany, a relatively low GDP growth rate continues. In 2020 the situation in the labor market and increased social benefits and tax cuts should support increasing consumption in households. However, with the inflation picking up y/y and increasing consumer concerns regarding the economic slowdown, the consumption increase rate from 2019 may be difficult to maintain in 2020. The internal factors that may curtail GDP growth in Poland include problems with hiring properly qualified staff, decline in propensity to invest (suggested by business climate research) or a higher than expected increase in inflation eroding households' real incomes.

The consumption growth rate in 2020 will likely remain robust, although probably lower than last year. Public investments funded from the central budget should continue to grow, though the shortage of qualified employees and higher costs may lead to delays in the execution of some projects. Businesses, in turn, in the face of uncertainties related to demand for their goods and services, may curtail their investments, which is suggested by the NBP business climate research carried out in January. GDP growth in and around the Polish economy clearly slowed down in 2019. Especially the growth rate of industrial production in the euro area and Germany fell off. The slowdown in global trade has become visible. The main danger for global growth and market sentiment is spreading epidemic of COVID-19. Pandemic may disrupt not only global supply chains, but also worsen consumer and entrepreneurs sentiments, limit travelling, and lead to temporary shutdown of public institutions. Global insecurity is also related to future negotiations on UE-UK economic relations after Brexit.

It therefore appears that – although certain symptoms of improving business climate in global industry can been seen – the possibility of a serious slowdown in GDP growth in the euro area and the overall global economy, and hence the occurrence of unfavorable phenomena on the financial markets, is the most important macroeconomic risk in 2020. We expect that the pace of GDP growth in Poland in 2020 will be approximately 3.0%. Moreover, if the impact of the coronavirus epidemic on global economic growth turned out to be significant, we should take into account the slower GDP growth in Poland – especially in the first half of 2020. However, it may turn into higher GDP growth worldwide in 2021.

Polish economy highlights	2017	2018	2019	2020*
Real GDP growth in % (y/y)	4.9	5.1	4.1	3.0
Individual consumption growth in % (y/y)	4.5	4.3	3.9	3.3
Growth of gross fixed capital formation in % (y/y)	4.0	8.9	6.9	2.7
Consumer price index in % (y/y, annual average)	2.0	1.6	2.3	3.6
Nominal salary growth in the national economy in % (y/y)	5.7	7.1	7.2	7.3
Unemployment rate in % (end of period)	6.6	5.8	5.2	5.3
NBP's prime rate in % (end of period)	1.50	1.50	1.50	1.50

* Projection of 2 March 2020
Source: PZU's Department of MacroeconomicAnalyses

The above macroeconomic factors and the geopolitical situation in the world (tensions in the Middle East, presidential elections in the US, scale of spreading of the Wuhan coronavirus) may affect the behavior of global central banks and, as a consequence, the overall conditions in the global and national financial market. The climate and direction of the changes in the financial markets is, in turn, important for the attractiveness of the products offered by the PZU Group, in particular unit-linked funds. It also affects the level of assets and management fees charged by the Group companies for asset management.

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 general damages under TPL insurance, or completion of the legislative work on the act on provision of services regarding pursuance of claims for damages. The adopted solutions may translate into the amount of the claims paid by the PZU Group.

Also the market practice regarding liability for annuities in third party liability insurance for motor vehicle owners will be important. Increase in the annuities supported by the Insurance Guarantee Fund may have significant impact on the profitability of insurance companies and this, in turn, may translate into motor insurance prices.

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

Potential intervention of the supervisory authority in the unit-linked segment, that may lead to a reduction of sales or changes in product structure, may also have an impact on the Group's operations.

In 2019, the ruling of European Union Court of Justice (CJEU) dated of 3 October, 2019 regarding foreign currency loans, was important for banks operating in Poland. Further legal decisions or judgments referring to foreign currency loans may have strong negative impact on results of the banking sector in Poland, in particular for banks with the large portfolio of loans denominated or indexed to CHF. According to various estimates, the total costs for the sector can reach tens of billions of zlotys, but they are difficult to estimate and will be spread out over time. Because the exposure to foreign currency loans of PZU Group banks that is relatively low compared to other banks in Poland, the direct impact on Group's results should be negligible. However, any statutory or systemic regulations, among others related to potential capital weakness of some banks in the sector, that would translate into higher financial burdens of the entire sector could also affect the banks of the PZU Group. Much will depend on the actual number of lawsuits (number of borrowers that will decide to take court proceedings), judgements of local courts in individual cases (in reference to the opinion of the CJEU), actions of the national supervisory authorities or activities of the banks themselves.

All material changes in the laws, introduced and expected, are described in SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND.

Factors specific to the sectors in which the PZU Group operates

In addition to the above factors 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 deteriorating technical results on the non-life insurance market in Poland, increase in costs of claims processing and the necessity to comply with the price adequacy principle, probability of the return to more stable pricing policy, in particular in motor TPL insurance seems to be higher in 2020 than in the previous year. It is expected that price competition will continue at the similar level in 2020 in non-motor insurance, in life insurance products and in health insurance.

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[18]. The sharing economy trends and increasing environmental awareness result in dynamic development of the shared mobility industry. City dwellers increasingly frequently choose solutions which allow them to quickly and efficiently move around and change the means of transport depending on the situation on the road. Shared mobility is not only about cars but also other types of personal transport devices (e.g. scooters, segways, skymasters, electric monocycles), rented using mobile technologies. The new risks create a potential for development of insurance for individual users and businesses. 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 2020 broken down into individual operating segments is presented in SECTION 3 OPERATION OF THE PZU GROUP.

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

[18] 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 activity

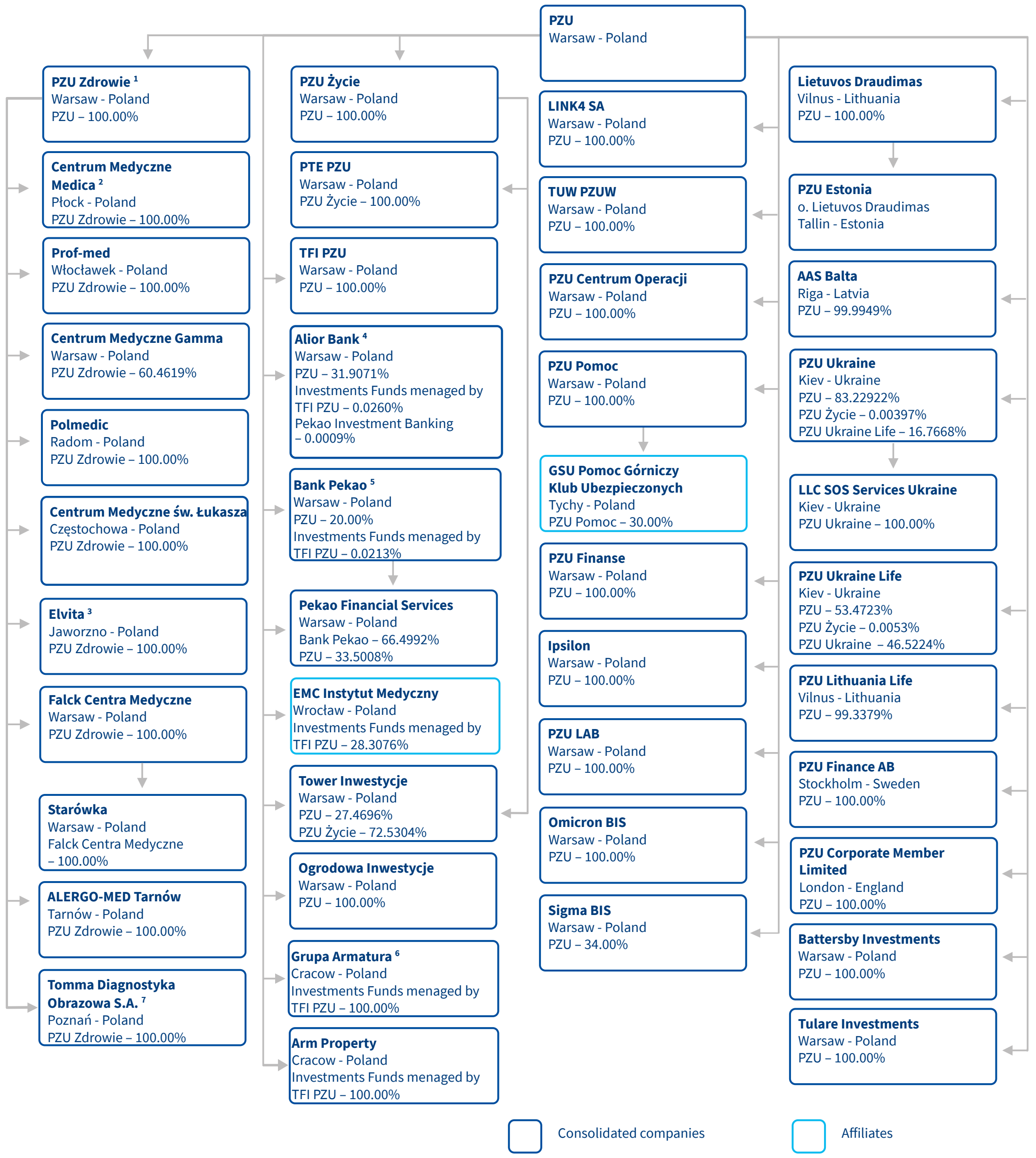
We are strengthening our position as the financial services leader. The PZU Group’s brand spans insurance, banking products, mutual funds and pension funds and medical services.

In this section:

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 31 December 2019)



[1] the following branches operate within PZU Zdrowie: CM Nasze Zdrowie, CM Medicus, CM Cordis, CM Warszawa, CM Kraków, CM Poznań, CM Wrocław, CM Revimed, CM Artimed
[2] the Centrum Medyczne Medica Group is composed 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., Przedsiębiorstwo Usług Medycznych PROELMED Sp. z o.o. in Łaziskach Górnych
[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., Serwis Ubezpieczeniowy Sp. z.o.o., PayPo Sp. z o.o., CORSHAM Sp. z o.o., RBL_VC Sp. z o.o.
[5] the Bank Pekao Group is composed of the following companies: Bank Pekao SA, Pekao Bank Hipoteczny SA, , Pekao Leasing Sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring Sp. z o.o., Centrum Kart SA, Pekao Financial Services Sp. z o.o., Pekao Direct Sp. z o.o. (until 16.01.2020 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
[7] the Tomma Group is composed of the following subordinate companies: Bonus Diagnosta Sp. z o.o. and Asklepios Diagnostyka Sp. z o.o.
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 2019 up to the date of publication of these financial statements:

- on 31 January 2019, the final share purchase agreement was signed between PZU Zdrowie and the shareholders of Alergo-Med Tarnów Sp. z o.o., under which PZU Zdrowie purchased shares in Alergo-Med Tarnów Sp. z o.o. affter this transaction, PZU Zdrowie is the sole shareholder of Alergo-Med Tarnów Sp. z o.o.;
- on 3 June 2019, PZU Zdrowie purchased shares in FCM Zdrowie and Starówka Sp. z o.o.;
- on 29 October 2019, PZU Zdrowie entered into a preliminary share purchase agreement with THC SICAV-RAIF SA, and on 9 December 2019 into final share purchase agreement for an equity stake in Tomma. At the same time, PZU Zdrowie, and thus also PZU, became an indirect owner of the following subsidiaries of Tomma: Asklepios Diagnostyka Sp. z o.o. and Bonus-Diagnosta Sp. z o.o., in which Tomma holds a 100% stake and 100% of votes at the shareholder meeting;
- on 16 December 2019, Specjalistyczny Zakład Opieki Zdrowotnej Multimed Sp. z o.o. merged with Elvita Jaworzno III Sp. z o.o.;
- on 2 January 2020, SPP Prof.-med Sp. z o.o. merged with Centrum Medyczne Medica Sp. z o.o.

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

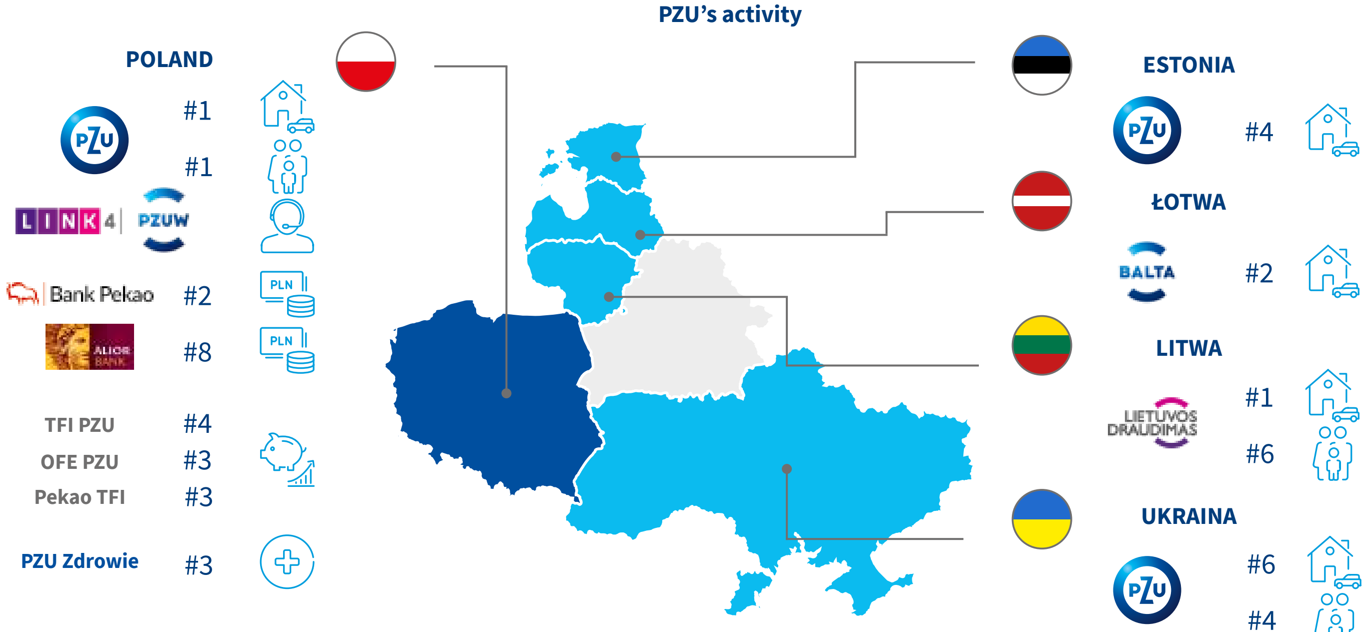
Market situation

Measured by gross written premium in the first three quarters of 2019, the non-life insurance market in Poland grew by a total of PLN 1,192 million (+4.0%) compared to the corresponding period of the previous year.

Gross written premium in motor insurance was up 1.9% y/y (i.e by PLN 350 million) while the gross written premium generated in non-motor insurance was up by 7.2% y/y (or by PLN 842 million).

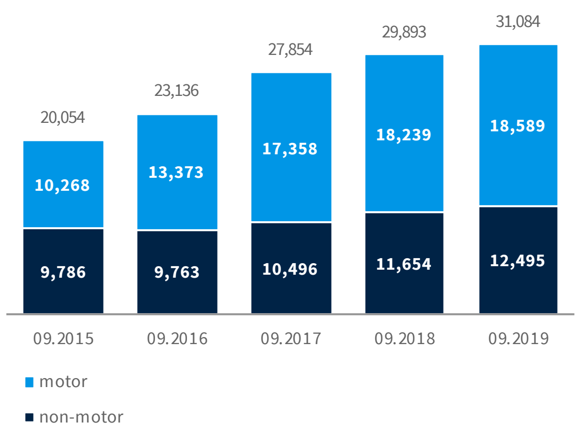
Within motor insurance, the gross written premium in motor TPL, which is the most sizable part of the non-life insurance market in Poland (PLN 12.2bn, or 39.1% of total non-life market in first three quarters of 2019) increased by 0.4% y/y (by

PZU's activity



Non-life insurance
Life insurance
Market position by assets under management
Insurance sold in direct sales channels via internet / telephone
Market position by asset
Market position by revenues

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] 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016, Rynek ubezpieczeń 3/2015

PLN 44 million). Within that figure, a decline was visible in motor TPL in direct activity (down PLN 149 million, -1.3% y/y), which was offset by higher premiums from indirect activity (a growth of PLN 193 million, +27.1% y/y). The gradually declining dynamics of premium growth in motor TPL resulted from the active pricing policy pursued by competitors after a period of above-average profitability of the portfolio. On the other hand, growth of sales in motor own damage insurance grew was 5.0% y/y (or PLN 307 million) and contributed the most to the market increase in the period.

In non-motor insurance, general TPL insurance (up PLN 167 million, +10.0%) and assistance (up PLN 105 million, +12.2%) made the most positive contribution to the overall insurance market's growth. A decline in premium was observable only in legal protection insurance (down PLN 20 million, -24.8%).

In the first three quarters of 2019, the overall non-life insurance market generated a net result of PLN 3,930 million, up PLN 231 million y/y. Excluding the dividend from PZU Życie, net profit of the non-life insurance market increased by PLN 156 million (6.4%).

In the first three quarters of 2019, the technical result of the non-life insurance market fell by PLN 255 million to PLN 2,116 million. The fall in the technical result in insurance against fire and other damage to property of PLN 324 million (as an effect of an increase in claims and benefits paid more than offsetting the growth in earned premium) and motor own damage insurance of PLN 260 million, offset by a PLN 302 million increase in motor TPL, had the largest impact on this change.

The movement in the technical result in the motor insurance group resulted from a combined effect of a higher earned premium (up by PLN 790 million, +5.2%) and an increase in the loss ratio of the motor own damage portfolio.

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

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.

In the first three quarters of 2019, the PZU Group had a 33.7% share in the non-life insurance market, compared to 35.9% in the corresponding period of 2018 (33.2% and 34.8% on direct activity, respectively), thereby recording a slight dip while retaining the portfolio's profitability well above market average.

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

Gross written premium vs. technical result	1 January - 30 September 2018			1 January – 30 September 2019		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Gross written premium	10,735	29,893	19,157	10,482	31,084	20,602
Technical result	1,306	2,371	1,065	1,016	2,116	1,100

* it contains LINK4 and TUW PZUW
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, PZU's data

33.2%

PZU Group's non-life insurance market share (direct activity) as at the end of Q3 2019, including

2.7%

of LINK4's share

36.1%

PZU Group's motor insurance market share (direct activity) as at the end of Q3 2019

45.9%

PZU Życie's share of periodic gross written premium in the first three quarters of 2019

PLN 21.2 billion

TFI PZU's net assets under management, representing a

7.9%

market share at the end of 2019

14.0%

OFE PZU Złota Jesień's share of total assets in the open-end pension funds operating in Poland at the end of 2019

30.2%

Lietuvos Draudimas' share of the non-life insurance market in Lithuania at the end of 2019

28.7%

AAS Balta's share of the non-life insurance market in Latvia in the first three quarters of 2019

15.8%

Lietuvos Draudimas branch's share of the non-life insurance market in Estonia at the end of 2019

3.5%

PZU Ukraine's share of the non-life insurance market in Ukraine in the first three quarters of 2019,

11.3%

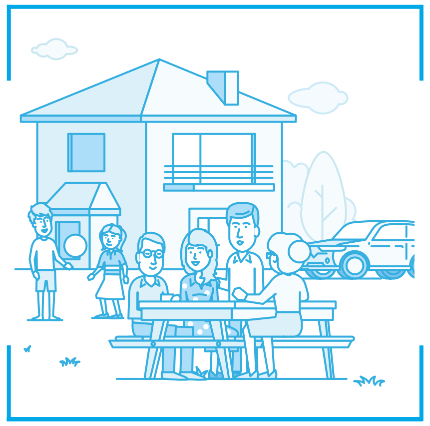
PZU Ukraine Life's share of the life insurance market in Ukraine in the first three quarters of 2019

2 and 8

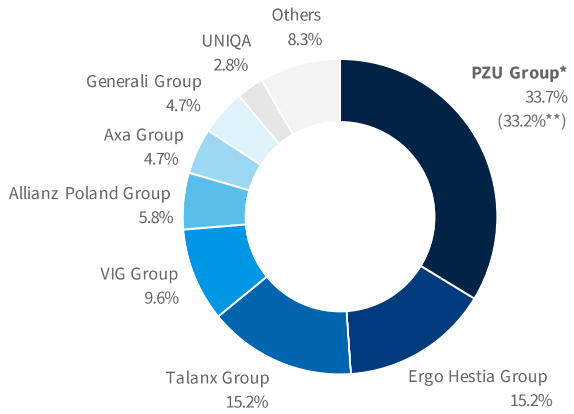
market position held by Bank Pekao and Alior Bank, respectively, measured by assets at the end of Q3 2019

3

PZU Group's 3rd market position measured by revenue in health at the end of 2019



Non-life insurance undertakings – percentage of gross written premium in the first three quarters of 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; Talanx – Warta, Europa; VIG – Compensa, Benefia, Inter-Risk, Wiener; Generali - Generali, Concordia
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2019

In the first three quarters of 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 48.0% (the PZU Group's technical result was PLN 1,016 million while the overall market's technical result was PLN 2,116 million).

The total value of the investments made by non-life insurance companies at the end of Q3 2019 (excluding the investments in subsidiaries) was PLN 59,959 million, up 1.2% compared to the end of 2018.

The non-life insurance companies in total estimated their net technical provisions at PLN 55,582 million, up 4.8% versus 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 year end 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 offer in 2019 to clients' evolving interests and needs by rolling out new products and innovative solutions.
In mass insurance, PZU did the following:

- developed a new offering of third party liability insurance for natural persons in private life, expanding the scope of this insurance by including damage caused by children under the age of 13 with a limit of up to PLN 10,000 without pursuing a claim of faults in parental supervision and damage related to short-term use of premises and their fit-out;
- expanded the scope of PZU Dom by including damage caused by children under the age of 13 (limit of PLN 10,000) and damage caused during short-term (up to 90 days) use of premises in the course of business or tourist trips. Moreover, the offering was supplemented in December 2019 with a clause enabling upselling the PZU Dom product with mandatory insurance of agricultural buildings, thereby providing a much broader coverage than that required by the mandatory insurance;
- made the health insurance bundle PZU Plan na Zdrowie – W trosce o Ciebie more attractive by including, among others, telemedicine examinations and the possibility of obtaining a prescription without the need to see a doctor in person;
- introduced a new offering of mandatory third party 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 amendments to legal regulations as of 1 June 2019);
- in April 2019 it launched sales of a new option of the PZU AUTO Assistance 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.

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;
- rolled out and promoted prevention programs in motor insurance – Audax and Bezpieczna Flota (Safe Fleet) and in property insurance – RyzykoPRO;
- expanded the offering of cyber risk insurance by including coverage for medium-sized enterprises with the sum insured of up to PLN 20 million;
- developed a new offering in the field of property insurance in international transport, aiming to increase the degree of competitiveness and standardization of the proposal, in particular for clients in the business of both domestic and international transport;
- 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. Owing to the use of robotization, it was possible, among others, to shorten the time necessary to handle client requests, including the process of issuing damage certificates for corporate clients. A comprehensive approach to implementing robotization was recognized by Efma, which granted PZU the main award in the Efma & Accenture Insurance Awards 2019 contest.

In financial insurance, PZU was unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the shipbuilding industry, the construction industry and the science and innovation sector. At the same time, in the area of portfolio insurance (GAP financial loss), PZU expanded its cooperation by including new partners, including lease companies.

In 2019, PZU cooperated with 9 banks and 11 strategic partners. PZU's business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more innovative products. PZU cooperates actively with the PZU Group's member banks, continuing the roll-out of a comprehensive offering using the banks' distribution networks. This cooperation with Pekao and Alior Bank allows PZU to gradually expand the offering and scale of sales of insurance products linked to bank products, including insurance coverage for cash loans and mortgage loans.

In strategic partnerships, cooperation was based mostly on companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services were offered, e.g. the assistance of an electrician or a plumber. PZU's insurance offering is also present on the e-commerce market through cooperation with Allegro and PLL LOT.

LINK4's operations

LINK4 entered the Polish insurance market as the first company offering products by phone; it still continues to be one of the leaders on the direct insurance market. It is extending its cooperation with multi-agencies, banks and strategic partners. The company offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance and third party liability insurance. The company focuses predominantly on the development of innovative solutions providing added value to its clients and 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. At the end of 2019, the company had in place 36 business processes executed fully or largely by robots.

In 2019, the company focused on expanding further its current product offering by adapting it to the changing expectations of its clients and business partners. The most important activities associated with modifying its product offering were as follows:

- 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 centres 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 car 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 a multiagency 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 or 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;
- roll-out of a TPL insurance product for Eco-cyclists, providing third party liability coverage for damage caused to a third party in connection with the use of personal transport vehicles such as bicycles and electric scooters;
- extension of property insurance coverage.

TUW PZUW’s activity

2019 was another historic record-breaking year for TUW PZUW in terms of both sales and profitability.

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

The company continues to experience a rapid increase in the number of its members, currently standing at over 380. In 2019, the largest rate of increase in the number of members was recorded among church institutions. Within the framework of TUW PZUW, 48 mutual benefit societies were established, bringing together members that fulfill specific criteria (industrial, corporate, in terms of risk types).

In 2019, the company continued to improve its product offering by modifying existing products and expanding its offering, for instance with a health insurance bundle. While attuning its operating model to the scale of business, the company keeps expanding its team of professionals to ensure the provision of comprehensive insurance services to its members and the capacity to tailor its insurance offering to the specific needs of clients.

The dynamic growth and performance in 2017 resulted in TUW Polski Zakład Ubezpieczeń Wzajemnych 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) and published in 2019, TUW Polski Zakład Ubezpieczeń Wzajemnych 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.

Factors, including threats and risks, that will affect the operations of the non-life insurance sector in 2020

Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the situation of the non-life insurance sector in 2020:

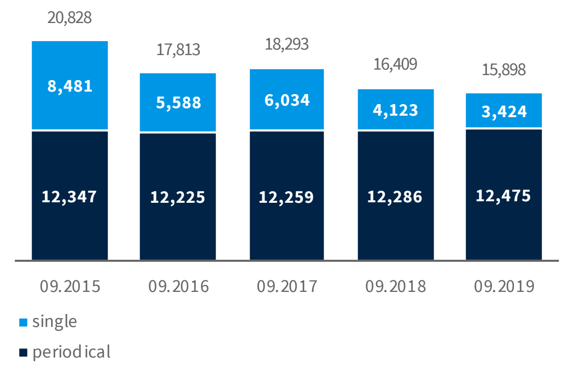
- possible slowdown in economic growth in Poland. The more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth;
- possible slowdown in the growth rate of gross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

3.3 Life insurance (PZU Życie)

Market situation

Poland’s life insurance market measured by gross written premium was estimated at PLN 15,898 million in the first three quarters of 2019, meaning that over the most recent 5 years it contracted on average by 5.6% per annum. At the same time, gross written premium in Q3 2019 (ytd) was 3.1% 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 products with a periodic premium increased slightly.

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



Source: KNF’s Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2019, Rynek ubezpieczeń [Insurance market] 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016, Rynek ubezpieczeń 3/2015

The changes in the level and the growth rate of the life insurance market premium in recent years have been stimulated mostly by single premiums in investment products. It is worth noting that the premium contraction for the overall market year on year after the first three quarters of 2019 pertained to single premiums (down PLN 699 million, or 17.0% y/y, compared to a decline of 31.7% y/y recorded in the previous year). The single premium compound average growth rate since 2014 was -17.4%. The changes in circumstances on the capital market and in the legal environment are considered to be the underlying causes for the gross written premium on single premium business to fall in a trend over several years. Initially, the record low interest rates contributed to the decline in the yields offered by term deposits packaged as insurance products, thereby leading to heightened interest in other investment products. Additionally, a tax was introduced as of 1 January 2015 on short-term endowment insurance offering a fixed rate of return or a return based on indices; this also contributed to reducing client interest in such products and ultimately to their retraction, especially the first ones, from the offer of insurance 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 first 3 quarters of 2018 were characterized by a rapid dip in the level of written single premium to the lowest figures in many years, followed by its stabilization at PLN 1.1-1.2 billion in each of the subsequent quarters.

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

Gross written premium	1 January - 30 September 2018			1 January – 30 September 2019		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Periodic premium	5,650	12,286	6,636	5,723	12,475	6,752
Single premium	547	4,123	3,576	628	3,424	2,796
TOTAL	**6,197**	**16,409**	**10,212**	**6,351**	**15,898**	**9,548**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, PZU Życie's data

The outcome of this market evolution was the expanding significance of periodic premium that constitutes PZU Życie's competitive edge on the market. In the first three quarters of 2019, periodic premium was 1.5% higher compared to the same period in 2018, with a cumulative average growth rate of 0.3% for the last 5 years. Despite the decline in periodic premium in unit-linked life insurance (by PLN 210 million y/y), the premium from protection products (in classes I and V) continues to trend upward (PLN +395 million y/y), mostly in individual insurance.

At the same time, market concentration measured by the periodic gross written premium remained high. The sequence of the largest market players did not change either, but their combined share, especially of the top four, expanded.

The total technical result generated by the life insurance companies in the first three quarters of 2019 was up PLN 135 million (5.6% y/y) to PLN 2,542 million. An increase of PLN 167 million (34.8%) transpired chiefly in the life insurance group (class I). This was caused by an increase in investment income in the portion allocated to this product group as well as growth in revenues, which more than offset the claims inflation and increase of costs associated with insurance activity.

In this same period, life insurance companies generated a net result of PLN 2,061 million, representing a PLN 97 million (4.9%) increase y/y. This improved result was the effect of the technical result described above partly offset by a worse performance recorded on insurers' free funds.

The total value of the investments made by life insurance undertakings at the end of Q3 2019 was PLN 39,918 million, signifying 0.7% growth compared to the end of 2018. In turn, the high level of surrenders accompanied by the decline in the level of client contributions to funds led to a lower net asset value of life insurance in which the policyholder bears the investment risk (down 3.3% to PLN 49,231 million).

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

gross written premium vs. technical result	1 January - 30 September 2018			1 January – 30 September 2019		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	6,197	16,409	10,212	6,351	15,898	9,548
Technical result	1,267	2,407	1,139	1,334	2,542	1,208
Profitability	20.4%	14.7%	11.4%	21.0%	16.0%	13.0%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, PZU Życie's data

PZU Życie's activity

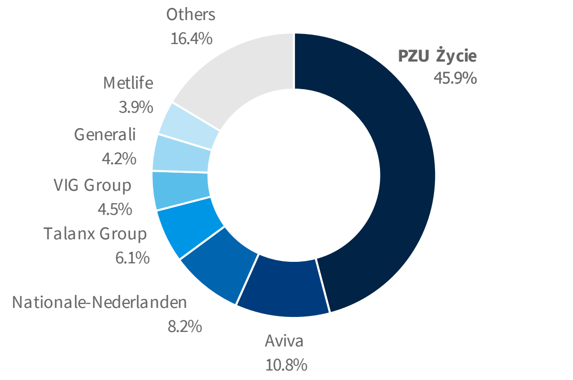
Within the PZU Group, PZU Życie operates on the Polish life insurance market. PZU Życie offers an extensive range of life insurance products, which for management purposes are reported and analyzed broken down into the following three segments: group and individually continued insurance, individual insurance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

During the first 3 quarters of 2019, PZU Życie wrote 39.9% of the gross written premium of all life insurance companies, signifying further growth on top of last year's market share (+2.2 p.p.). The reason for the increase in PZU Życie's share is the higher level of written single premium than a year earlier (both from protection insurance products and investment insurance products) with a decrease in the share of other market participants (in the unit-linked life insurance group).

At the same time, PZU Życie continued to be the clear leader in the periodic premium segment. In Q1-Q3 2019, it generated 45.9% of periodic premiums written by insurance companies, signifying a small decrease (by 0.1 p.p.) in the market share in this segment. The y/y increase in gross written premium at PZU Życie in this segment was 1.3%, while the other market players taken together posted a 1.7% growth rate (with a particularly high rate of growth recorded by TUnŻ WARTA SA). One of the major factors was the rapid growth in the health and individual protection insurance portfolio. PZU Życie now has more than 2.1 million this type of policies in its portfolio. PZU's share in just the life insurance segment (class I) for periodic premiums at the end of Q3 2019 was 62.4% when measured by value (gross written premium) and 67.3% when measured by volume (the number of agreements in force). In turn, PZU Życie's market share in terms of the method of entering into an agreement just in the life insurance segment (class I) was 66.5% for agreements executed in group form and 39.6% for individual agreements (measured by gross written premium).

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was 1.6 times higher than the overall margin generated by other companies offering life insurance (21.0% versus 13.0%).

Life insurance undertakings - percentage of periodic gross written premium in the first three quarters of 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] 3/2019

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 2019:

- implementation of functionalities supporting automatic process of signing an insurance agreement in PZU Ochrona I Zdrowie (PZU Cover 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;
- pilot sales of the PZU Z Myślą o Życiu i Zdrowiu (PZU Thinking about Life and Health product (since May 2019 with the launch of sales throughout Poland scheduled for March 2020) targeted at 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. 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 to include private medical care and the cover may be extended to include underage children. 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. 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 (using paper forms) and remote (using the mojePZU portal). Thanks to mojePZU, the seller may sign a remote agreement without the need to hold a meeting with the client. 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. The client may also pay the insurance premium directly in mojePZU;
- commencement of pilot sales of two new ranges of the Opieka Medyczna S (Health Care S) 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 clients fear the most,
  - expanding the range of benefits with those that are most frequently included in non-standard proposals,
  - increasing market advantage by adding new medical services,
  - keeping prices at attractive levels;
- as part of the PZU Ochrona i Zdrowie (PZU Cover and Health) product, since July 2019 the option has been implemented of selling products consisting of only the protection part (PZU Life Coverage) or only the health part (PZU Life Coverage). This insurance is intended for small and medium enterprises employing at least 3 staff. Spouses, life partners or adult children of the primary insured (employee/company owner) may also benefit from this proposal.

  PZU Życie pod Ochroną (PZU Life Coverage) provides support for the insured's family in the event of the insured's death as well as a cash benefit and medical services, including in the event of an accident or a critical illness. Each employee may also individually extend the cover to include financial support in the event of a child's health problems, co-funding of prescription drugs and additional financial support in the event of an accident in everyday life.

  PZU Zdrowie pod Ochroną (PZU Health Coverage) offers, among other benefits, access to doctors and tests in 620 cities and towns across Poland. Each employee may also individually extend the cover to include co-funding of prescription drugs and medical care for family members. The introduction of the option to sell only protection or only health products permits the agent to better tailor the offering to the needs of the policyholder;
- in January 2020, pilot sales of the PZU Ochrona dla Rolników (PZU Cover for Farmers) product began, targeted at individuals who own or co-own a farm. Insurance cover may also include their spouses or life partners and adult children. The product was created on the basis of P Plus group insurance agreements. The advantages of this offering include high benefits under accident riders and a new benefit addressed only to this group of clients: death of the insured as a result of an accident at agricultural work. This is a new solution on the market, developed to meet the expectations of clients from this market segment. Each client may choose a proposal from the four available options;
- in January 2020, new riders were added to the P Plus group insurance offer. The following three new riders were designed to provide insurance cover for children:
  - accidental dismemberment of a child,
  - hospitalization of a child caused by an accident or illness,
  - occurrence of a critical illness of a child (26 different diseases);

  each of these types of insurance may be extended to cover medical services that include consultations with specialist physicians and rehabilitation;
- in January 2020, a new rider was added to the PZU Ochrona i Zdrowie (PZU Cover and Health) – PZU Życie pod Ochroną "Ochrona dla Dziecka" (PZU Life Coverage product: "Child Cover"), which consists of the following three additional risks: critical illness of a child, hospitalization of a child and dismemberment of a child. The cover applies to children under the age of 18. The rider has two options that differ in the amount of the sum insured. The amount of the premium depends of the number of the insured's children.

Under the individually continued insurance, PZU Życie made the following changes:

- launch of sales of the PZU Na Wypadek (PZU Accident Insurance) rider. It is the first rider in this product line that provides both cash benefits and medical services such as outpatient rehabilitation and doctor consultations. The cover includes permanent accidental bodily injuries and accidental bone fractures. This insurance is complementary to the rider providing medical services in the event of accidental orthopedic injury;
- raising the admission age limit in four insurance riders. This change expands the target group for these insurance products to include the oldest clients covered by individually continued insurance. It applies to the following riders:
  - accidental death of the insured NW Plus,
  - accidental hospitalization of the insured,
  - With a Pharmacy Card,
  - Assistant During an Illness;
- after the completion of the pilot offering, sales of the target Insurance Program, Kontynuacja dla Ciebie (Continuation for You), began. This offering is targeted at persons leaving type P Plus group insurance, type P employee insurance or type P group life insurance who are eligible to continue the group insurance individually. This proposal may be taken advantage of by individuals under the age of 50 as at the date of signing the declaration of enrollment. Clients may choose the insurance cover that suits them best from the continuation options available for the eligible persons. A total of 6 options with different sums insured, depending on the type of continuation, are available.

In individual protection insurance products, PZU Życie implemented the following new life insurance products offered in PZU Branches and the Agency Network:

- PZU Wsparcie Najbliższych (Support for Relatives) life insurance. 5 riders were rolled out 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;
- PZU Ochrona Każdego Dnia (PZU Protection Every Day) periodic life insurance; PZU Na Dobry Początek (PZU For a Good Start) endowment insurance. Annuity riders were also rolled out together with the basic agreement.

PZU Życie cooperated actively with 4 banks, including the PZU Group's member banks, continuing the roll-out of a comprehensive offering using the banks' distribution networks. The cooperation with Pekao and Alior Bank allows PZU Życie to gradually expand the offering and volume of sales of insurance products linked to bank products. In Q1 2019, life insurance for borrowers of Pekao cash loans was launched.

Within the framework of individual investment insurance, PZU Życie carried out new subscriptions for structured insurance Świat Zysków (World of Profits; 11 subscriptions throughout 2019). Various investment strategies that adapt to volatile market conditions were offered in the individual subscription tranches. The following changes were made by PZU Życie to its product offering in the bancassurance channel:

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

- launch of promotional fees payable by clients in unit-linked products sold by Bank Millennium, Bank Pekao and Alior Bank.

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

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

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

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

- the prospect of a higher inflation rate and economic growth driving an increase in sovereign 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;
- continued development of the new pension security system (Employee Capital Schemes) and its impact on the products existing in the 3rd pillar of the pension system;
- possible intervention of the regulatory authority in the unit-linked fund segment.

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

As at the end of December 2019, there were 30 domestic commercial banks, 538 cooperative banks and 32 branches of credit institutions operating in Poland.

The standing of the banking sector in 2019 continued to be stable, underpinned by the persisting vibrance of the economy and the functioning of banks in a low interest rate environment. In 2019, the banking sector generated a net profit of PLN 14.6 billion, i.e. PLN 1.5 billion (11.8%) more than in 2018.

The sector’s net result was shaped predominantly by the improved operating result (PLN 2.1 billion, i.e. up 11.8% in comparison with 2018), caused by significantly higher net interest income with a concurrent improvement in the result on fees and commissions.

Gross receivables from the non-financial sector (without debt instruments) increased 4.8% to PLN 1,062 billion y/y as at the end of December 2019. Growth in this area was driven mainly by receivables from households (+5.5% y/y) and receivables from enterprises (+3.3% y/y).

Banks’ operating expenses (other than depreciation and provisions) climbed 4.1% in the period under analysis. This change was caused by growing employee expenses (up 4.7%) and higher general and administrative expenses (up 3.6%).

As at the end of December 2019, assets of the banking sector reached PLN 2.0 trillion and increased by PLN 106.8 billion, or 5.6% compared to the end of 2018.

The consumer loan portfolio (gross) increased by PLN 8.1 billion compared to the end of 2018, while the portfolio of housing loans for households rose at the same time by PLN 27.4 billion. With respect to receivables from non-financial undertakings, the (gross) value of operating and investment loan portfolios rose by PLN 3.5 billion and PLN 10.3 billion, respectively. During the year, the gross value of property loans granted to non-financial undertakings decreased by PLN 0.3 billion.

As at the end of December 2019, the value of deposits from the non-financial sector increased by PLN 111.2 billion.

The banking sector’s own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR Regulation[1], totaled PLN 211.0 billion at the end of December 2019, up 3.6% from the end of December 2018.

As at the end of December 2019, the total capital multiple of the commercial and cooperative banking sectors was 19.7% compared to 19.0% at the end of December 2018, while the Tier I capital ratio at the end of this period was 17.1%.

Operations of the Pekao Group

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

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

In 2020, the strategy “Strength of the Polish Bison” developed for 2018-2020 will end. Accordingly, the bank will begin work on the development of a new strategy that will cover the time horizon of the next several years.

At the end of Q3 2019, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

New products and services

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

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

Due to its scale and growth potential, Retail Banking is considered a priority area for the bank’s development. The strategic activities carried out in 2019 were chiefly aimed at: a significant and sustainable increase in the number of clients acquired, growth in the portfolio of consumer loans and mortgage loans, improvement in profitability through intelligent price management, strengthening of relations with client through active cross-selling based on an extensive proposal of investment and insurance products, development of the business client segment (microenterprises). These objectives were pursued by a variety of activities, including by tapping into the client acquisition potential in digital channels using the latest biometrics solutions, automation of the lending process for cash loans and development of cooperation with the PZU Group in the field of insurance and investment products. At the same time, the implemented solutions ensure the highest quality of loans granted. For clients taking out a cash loan, the bank extended the product offering to include new PZU insurance bundles available to clients purchasing loans both through remote channels and in branches.

In 2019, Bank Pekao consistently promoted acquisition strengthening activities, acquiring clients with the help of its new and simplified offering of current accounts (Mega Beneficial Account) and payment cards (including the particularly promoted Revolutionary Card) as well as based on effective marketing techniques and streamlined sales processes in all distribution channels. These activities translated into record-breaking sales results in terms of the establishment of new accounts, which throughout the year reached the level assumed in the strategy of 455,000. In 2019, Bank Pekao rolled out the option of opening an account online using a computer or smartphone. Identity is verified by using biometric measurements of a face and a personal ID. In the second half of 2019, the share of sales initiated in remote channels was approx. 20%.

Pekao keeps strengthening its leading position among banks focused on acquiring young clients. The largest increase in the number of clients occurred in the group of young people aged 13-17. In 2019, the number of newly acquired clients aged 13-17 was 58% higher compared to 2018, and the increase in the number of acquired clients under the age of 26 was 12% y/y.

Bank Pekao holds a leading position in terms of accounts for foreigners. The most sizeable group are citizens of Ukraine for whom the bank has prepared a broad range of products and services, including a helpline in Ukrainian, a full set of necessary documentation in Ukrainian the PeoPay mobile application, the Konto Przekorzystne (Mega Beneficial Account), a multi-currency card with an option of free international ATM withdrawals, including in Ukraine.

In 2019, Bank Pekao continued to develop its cooperation with PZU in the area of bancassurance, expanding its offer in the branches with two insurance products securing the repayment of loans. In cooperation with PZU, Pekao was involved in various activities aimed at supporting the sales network in improving knowledge about the products and sales skills. Almost 3,000 employees took part in the product training and over 750 new employees took the license examination. In Q4 2019, the volume of loans with CPI insurance increased 37% compared to Q1 2019. In Q4 2019, the value of the insurance premiums associated with sales of cash loans in remote channels increased 14% compared to Q1 2019. In the segment of property insurance covering buildings and residential premises, written premium in Q4 2019 was 40% higher than in Q1 2019.

Bank Pekao's electronic channels conducted active sales campaigns of PZU's tourist insurance offered through the mojePZU portal.

The microenterprise segment is one of the most significant and promising segments for the bank. Within the framework of business development activities carried out in this area, a number of initiatives were pursued in 2019 to improve the attractiveness of the proposal (including a new offering of card payment terminals, a selfie account and the proposal "PLN 600 for a good start with Pekao") and to boost sales efficiency through optimization of service processes. Bank Pekao was the first bank in Poland to roll out a simple and convenient account opening process for microenterprises that requires no visit to a branch. Self-employed individuals may open a business account through remote online channels. The account holder's identity is verified online by permitting the user to take his or her own 'selfie' and a photograph of his or her ID card. The service is available on a 24/7 basis. Business clients have the possibility of contacting the bank via a chat, video and voice connection with the bank's hotline via the internet.

The Bank is steadfastly pursuing its growth strategy in the Small and Medium Enterprise segment. In 2019, activities aimed at intensifying sales and strengthening relationships with existing clients were continued. Such activities included, in particular: development of a service model based on mobile relationship managers, remote channels and product specialists, strengthening of employee competences by acquiring high-quality specialists, various initiatives focused on intensifying acquisition efforts.

Other focus areas included activities aimed at improving client satisfaction through continued streamlining and optimization of key processes, products and services. Owing to these activities, the number of acquired clients increased significantly (up 18% compared to 2018). For instance, clients from the SME sector may choose from a broad range of products involving FX Spot transactions and transactions designed to hedge their exchange rate risk, which until recently were available only to clients in the corporate segment.

As part of the Cashless Poland Program, Bank Pekao offers POS terminals to clients on attractive terms. The total number of payment terminals provided to clients in 2019 was 71% higher compared to 2018.

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

Moreover, Pekao has signed an agreement with the European Investment Bank to provide funding for the execution of projects aimed at improving energy efficiency, including modernization of thermal insulations, replacement of machinery and use of renewable energy sources, owing to which business operators in Kujawsko-Pomorskie Voivodship can obtain a low-interest loan. The Energy Saving Loan is only available from Bank Pekao. The bank is able to offer the low interest rate thanks to funding from the EU's Regional Operational Program.

As part of its offering for corporate clients, Bank Pekao, as a leading corporate bank in Poland, took a number of initiatives in 2019 focused on strengthening relations with its clients, improving its product offering and increasing profitability by enlarging the share of income obtained from sources other than loans. Dedicated activities supported by product and sector specialists were focused on boosting the volume of strategic cross-selling products such as leases and factoring as well as transactional banking products. These initiatives contributed to the increase in the share of income obtained from sources other than loans in the segment's total income by 36 basis points compared to 2018.

Pekao TFI

The Pekao Mutual Fund Company (Pekao TFI) is another member of the Pekao Group. Pekao TFI (formerly Pioneer Pekao TFI) is the longest operating mutual fund management company in Poland providing clients modern financial products, offering opportunities to invest in the largest global capital markets. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pekao TFI also offers a portfolio management service and Employee Capital Schemes (ECSs). At the end of December 2019, the company had assets under management totaling PLN 21.6 billion, signifying an upswing of PLN 2.2 billion, i.e. 11.2% y/y. SECTION 3.5 MUTUAL FUNDS

Operations of the Alior Bank Group

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

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

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

At the end of Q3 2019, Alior Bank was the 8th largest bank in Poland (in terms of the value of its assets).

New products and services

One of its key strategic initiatives in 2019 was the opening of the new cash loan distribution channel – the Cash platform. It was created in cooperation with PZU and is based on the technology used on the Bancovo.pl website. It will be made available to employees of selected large enterprises. The platform involves the use of a full online process carried out by the client himself or herself, with the provided income information subsequently verified and confirmed directly by the client's employer. An important element of this process involves repayments in the form of installments deducted from the employee's paycheck directly by the employer. Employees of the PZU Group were the first to be offered access the platform. In the future, more companies are expected to be added to the platform. In September 2019, Bancovo enlarged its loan brokerage offering with an installment funding product by establishing cooperation with EURO RTV AGD, Poland's largest retailer in the home appliances market. With this solution, Bancovo provides a loan engine that aggregates proposals of selected financial institutions and then, carrying out a paperless process, provides funding for the purchase of merchandise offered by the store.

Moreover, in Q4 2019, taking advantage of the opportunities introduced by the Payment Services Directive 2 (PSD2), Alior Bank introduced the possibility for clients of other banks to apply for Alior Bank loan products without the need to provide a certificate of earnings. This option is offered based on the Account Information Service (AIS). The solution is available from selected points of sales and from the contact center. By the end of Q1 2020, the availability of the tool is scheduled to be gradually expanded to cover the whole sales network and various processes, including the online processes.

In the area of bancassurance, Alior Bank introduced voluntary protection insurance in 2019 as a supplement of its banking product offering for business clients. To this end, cooperation was established with PZU focused on offering real property insurance (against fire and other elements) for clients using a non-revolving loan secured by real property. The insurance is offered in the so-called individual model in which Alior Bank appears as an insurance intermediary.

In 2019, Alior Bank continued to focus on process automation in the area of Trade Finance where it introduced a number of new products and services, including:

- automatic opening process of iKonto Biznes and "4x4 Account" in the new Electronic Banking system;
- possibility of registering a Trusted Profile in the electronic banking system and signing public administration applications with the Trusted Profile;
- in the electronic banking channel, the provision of a module for managing cash, domestic, foreign and economic bundles available under the 4x4 Account;
- introduction of an offering for micro, small and medium-sized enterprises based on the automated lending process Feniks KB and one decision made within no more than 20 minutes for the following five forms of funding: current account overdraft, business loan, credit card, factoring and leasing;
- expansion of the offering with virtual multi-currency cards and the Smart Data reporting service, enabling the option of linking up to 23 currency accounts and thus eliminating the need for incurring currency conversion costs. The bank also made available to its business clients Garmin Pay and Fitbit Pay transactions, thereby offering a broad range of the most popular types of payments using smartphones and smartwatches.

Alior TFI

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

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

The situation of the banking sector in 2020 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, affecting the domestic economy;
- development of banking services offered by non-regulated entities;
- interest rate policy of the Monetary Policy Council;
- continuing high level of contributions to the Bank Guarantee Fund.

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

3.5 Mutual funds and Employee Capital Schemes (TFI PZU)

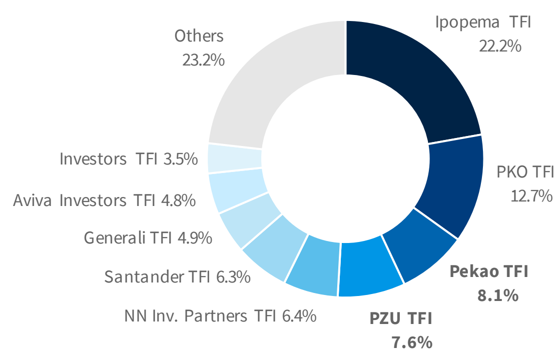
Situation on the mutual fund market

As at the end of December 2019, the overall domestic mutual fund market's assets were nearly PLN 268 billion compared to PLN 257 billion at the end of the year before, representing an increase by 4%.[2]

In 2019, according to estimates by Analizy Online, the balance of payments to and withdrawals from retail funds offered by TFIs in the domestic market was positive at PLN 1.6 billion. The financial market reacted to economic developments in accordance with expectations. After the weak 2018, there was a rebound. All groups of mutual funds posted y/y increases, the stock and commodity segments deserving special attention.

[2] IZFiA, assets as at 31 December 2019

Mutual fund companies – share in assets as at 31 December 2019 (in %)



Źródło: Izba Zarządzających Funduszami i Aktywami

Employee Capital Schemes

The ECSs were launched on 1 July 2019, initially in the biggest employers employing over 250 people. From 1 January 2020 the ECS obligation covered also employers employing over 50 employees. Ultimately, as of 1 January 2021, the schemes will be introduced in all employers (with the exceptions specified in the ECS Act). ECSs will be managed by mutual fund companies (TFIs) which have been granted consents and licenses to operate in Poland. The Employee Capital Schemes are the universal savings scheme for employees implemented in cooperation with employers and the state. ECSs form a capital system that is not part of the pension system. Savings held on the employee's account are privately owned, much like bank deposits and can be withdrawn at any time and are inheritable. A person saving his or her money in an ECS will be able to freely dispose of the funds accumulated on his or her account after reaching the age of 60, regardless of whether he or she is employed or retired at the time.

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

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

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

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

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

Number of employees	Date of determining the number of employees	Start date of application of the regulations
At least 250	31 December 2018	1 July 2019
At least 50	30 June 2019	1 January 2020
At least 20	31 December 2019	1 July 2020
Other entities	Not applicable	1 January 2021
Public finance sector entities	Regardless of the number of employed persons	1 January 2021

and efficiency of deposits made and complying with the investment risk limitation principles.

As at 31 December 2019, the net asset value of the defined date funds (ECSs) stood at PLN 84.7 million. (KNF).

TFI PZU's operations

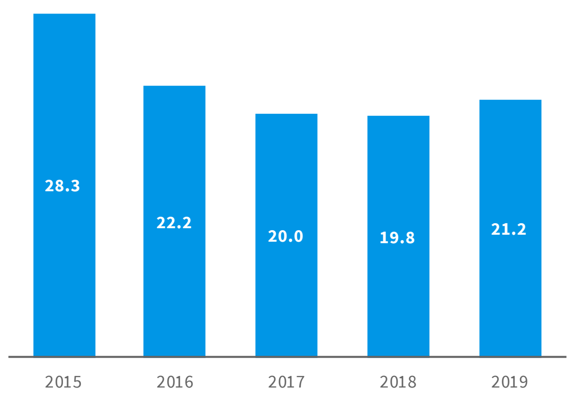
Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual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

As at the end of 2019, TFI PZU had 36 funds and sub-funds in its portfolio and 8 ECS sub-funds. The year 2019 saw continued growth of the inPZU SFIO passive funds available on the inpzu.pl platform. TFI PZU also provides asset management services.

As at 31 December 2019, TFI PZU managed a portfolio of net assets worth PLN 21.2 billion, which translates into a 7.9% market share. Accordingly, it is among the largest mutual fund companies in Poland – as at 31 December 2019 it was ranked fourth in Poland according to reports published by the Chamber of Fund and Asset Management (IZFiA). TFI PZU is also a market leader in the employee pension plan segment among institutions operating in this market with net assets of PLN 6.1 billion. In turn, the assets accumulated in ECS funds as at 31 December 2019 amounted to PLN 9 million, representing a 10.5% market share.

At yearend 2019, the net asset value of funds managed by TFI PZU was PLN 21.2 billion, up 7% from the end of 2018. As regards the most popular solutions, very notable was the increase in assets managed by PZU Obligacje Krótkoterminowe (former PZU Oszczędnościowy) by PLN 635 million, PZU Papierów Dłużnych POLONEZ by PLN 687 million, PZU Dłużny Rynków Wschodzących by PLN 163 million, PZU FIZ Sektora Nieruchomości 2 by PLN 142 million, PZU Dłużny Aktywny by PLN 134 million, PZU Stabilnego Wzrostu MAZUREK by PLN 126 million.

TFI PZU's net assets (in PLN billion)



Source: IZFiA

The following funds recorded the largest decreases in net assets at yearend 2019: PZU FIZ Dynamiczny, PZU SFIO Universum, PZU FIZ Forte.

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 PD Polonez for retail clients;
- launch of inPZU SFIO, a new product line of passive funds;
- difficult situation on the equity market causing outflows from this class of funds;
- unfavorable sentiment towards closed-end funds on the domestic market.

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

The condition and performance of the market for mutual funds and Employee Capital Schemes will depend mainly on the following:
- macroeconomic situation: the rate of economic growth and changes in the rate of inflation domestically and throughout Europe;
- 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;
- slowdown in the world's largest economies and trade war (appreciation of the US dollar);
- global geopolitical situation (US-Middle East conflict, development of negotiations on future EU-UK economic relations after Brexit, presidential elections in the United States and Poland);
- uncertainties related to privacy and technology regulations, new taxes and the enactment of antitrust regulations;
- slowdown in the economies based on the global automotive industry;
- degree of popularity of Employee Capital Schemes which will translate into the amount of funds accumulated in ECS funds;
- also in addition, short-term uncertainty related to the development and impact of the Wuhan coronavirus epidemic on global economic growth and the sentiments on financial markets.

3.6 International operations

Lithuanian market

According to the Bank of Lithuania's data, gross written premium collected by non-life insurance companies in 2019 totaled EUR 675 million, representing a y/y increase by 7.1%.

The market growth rate was largely generated by health insurance and property insurance whose sales rose by 25.3% and 8.2%, respectively. The rate of written premium growth in motor insurance (61.5% of the market) slowed down due to the competitive environment. Eventually, in 2019, written premium in third party liability and motor own damage insurance increased 3.8% and 4.8%, respectively.

At the end of 2019, there were 12 companies operating in the non-life insurance sector (including 8 branches of insurance companies established in other EU member states).

Lietuvos Draudimas continues to be the largest insurance company in Lithuania in terms of total gross written premium in non-life insurance. The company's market share at the end of 2019 was 30.2%. Considering the recent acquisition transactions, the shares of top four players in the non-life insurance market totaled 83.2%.

Gross premium written by Lithuanian life insurance companies was EUR 270 million in 2019, up 8.9% y/y. The increase in gross written premium was driven by the continuous and stable increase in regular premium (10.6%), which outweighed the 12.7% decrease in single premium market. The rate of growth of the single premium market is hindered by restrictions on tax credits. At the beginning of 2017, the tax credit was reduced to EUR 2,000. Then, in January 2019, the tax credit was cut again – to EUR 1,500 per year.

In H1 2019, due to the pension reform, the volume of life insurance agreements doubled. The participants had to decide whether they would remain in the pension funds or return to the state-run system (SODRA) and start to accumulate capital voluntarily under a life insurance agreement.

In the life insurance structure, unit-linked insurance represented the largest share at 62.9% of the portfolio value. Traditional life insurance accounted for 15.7% of written premium.

At the end of 2019, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is highly concentrated. The share held by the four largest life insurance undertakings in total gross written premium was 77.4%.

Latvian market

The Latvian non-life insurance market recorded a gross written premium of EUR 303 million in the frist three quarters of 2019. This was nearly EUR 23 million (i.e. 8.1%) 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 25.5% of the market while motor own damage accounted for 23.1%. Also health insurance (18.9% market share) and property insurance (18.5% market share) had an important position in the product mix.

In 2019, there were 11 insurance companies operating in the Latvian non-life insurance market and 71.8% of the market was in the hands of the biggest 4 insurers.

Estonian market

In 2019, non-life insurance companies operating in Estonia recorded a decrease in gross written premium by 12.9%, compared to a 35.9% increase in 2018[3]. In total, gross written premium was EUR 398 million, of which EUR 114 million, i.e. 28.6%, was collected by foreign insurance undertakings operating in Estonia.

The structure of non-life insurance in 2019 was dominated by motor insurance, which accounted for 57.4%, including MOD insurance accounting for 31.6%. 27.4% of the gross written premium in the market was collected on property insurance.

At the end of 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 69.0% market share.

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

Activity of PZU companies in the Baltic states

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

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania with a share of 30.2% in 2019, with gross written premium of EUR 204 million (5.6% growth y/y).

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybës Draudimas – "PZU Lithuania Life". Collected written premium was EUR 17 million, representing an increase by 11.1% compared to the previous year. The share held by PZU Lithuania Life in the life insurance market in 2019 was 6.4% (compared to 6.2% in 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 Q3 2019, the total share of the non-life insurance market reached 28.7% and gross written premium was EUR 114 million (compared with EUR 105 million in 2018).

Since May 2015 the entity conducting operations in Estonia is a branch of Lietuvos Draudimas and was established as a result of merger of two entities – branch of the Lithuanian PZU company registered in 2012 and the Estonian branch acquired in 2014, which conducted operations under the Codan brand. The company's share in the Estonian non-life insurance market in 2019 was 15.8%. Accumulated gross written premium was EUR 63 million[4].

Ukrainian market

The Ukrainian insurance market after Q3 2019 posted 16.3% growth in gross written premium reaching UAH 41 billion. The premium written for non-life insurance was UAH 37 billion, signifying 16.0% growth compared to the corresponding period of 2018. Motor insurance (25.7% of the market) recorded a 31.0% increase in gross written premium.

[4] 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.

After Q3 2019, life insurance companies collected gross written premium of UAH 3 billion, signifying 20.2% growth compared to the corresponding period of 2018.

The Ukrainian insurance market is highly fragmented – as at the end of September 2019, there were 234 insurance companies operating in the country, 23 of which offered life insurance. Despite the number of insurers that continues to be enormous, the top 100 non-life insurance undertakings generated 98% of gross written premium, while the top 20 life insurance undertakings generated nearly 100% of written premium.

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

In 2019, gross written premium collected by PZU Ukraine was UAH 1,709 million, up 12.7% from the previous year. In turn, gross written premium collected by PZU Ukraine Life in 2019 was UAH 524 million, up 26.8% compared to 2018.

In the first three quarters of 2019, PZU Ukraine collected 3.5% (up 0.1 percentage points compared to the first three quarters of 2018) of total gross written premium of the whole Ukrainian non-life insurance sector, whereas in the life insurance market PZU Ukraine Life gained an 11.3% market share (up 0.3 percentage points compared to the previous year), which gave these companies the 6th and 4th place on the non-life and life insurance markets, respectively[5].

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

- slowdown of economic growth in the Baltic states;
- resumption of price pressure in motor insurance caused by improved portfolio profitability in recent years (in the Baltic states);
- case law concerning the amounts of general damages paid in cash for the suffering sustained (legislative amendments in Lithuania) under the TPL insurance held by the owners of motor vehicles to the closest family members of persons who have died;
- 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 new regulations or financial burdens on insurance undertakings.

[5] Insurance TOP, Ukrainian insurance quarterly, #4(68)2019

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[6]: forecasted 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[7]: 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 medical infrastructure (medical centers and patient service solutions) in Poland to ensure the best accessibility of services and the achievement of revenue targets.

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

[7] 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:

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

In 2019, the PZU Group's offering in the Health Area changed as follows:

- launch of pilot sales of PZU Z Myślą o Życiu i Zdrowiu (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 two new ranges of the Opieka Medyczna S (Health Care 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 clients fear the 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;
- as part of the PZU Ochrona i Zdrowie (PZU Cover and Health) product, since July 2019 the option has been implemented of selling standalone proposals consisting of only the protection part (PZU Życie under Cover) or the health part (PZU Zdrowie under Cover). This insurance is dedicated to small and medium-size enterprises employing at least 3 staff. Spouses, life partners or adult children of the primary insured (employee) may also benefit from this proposal.
  PZU Życie pod Ochroną (PZU Life Coverage) provides support for the insured's family in the event of the insured's death as well as a cash benefit and medical services, including in the event of an accident or a critical illness. Each employee may also individually extend the cover to include financial support in the event of a child's health problems, co-funding of prescription drugs and additional financial support in the event of an accident in everyday life.
  PZU Zdrowie pod Ochroną (PZU Health Coverage) offers, among other benefits, access to doctors and tests in 620 cities and towns across Poland. Each employee may individually extend the cover to include co-funding of prescription drugs and medical care for family members. The newly introduced possibility of selling standalone products enables the agent to tailor the offering to the needs of the specific insured;
- in November 2019, the option was added to the PZU Ochrona i Zdrowie (PZU Cover and Health) product that makes it possible to offer the owner, in addition to the higher medical care variant, the option of creating the whole variant adjusted to his or her specific needs – the condition for saving such an offer is a premium of at least PLN 150. The insurance cover of the higher variant developed for the owner may also include his or her relatives.
  Moreover, as part of product improvements, the following elements were added to the offering:
  - "Certificate" document handed out to the policyholder by the agent immediately after the policyholder has signed the application for the execution of the insurance agreement. The document contains the bank account details and the date of payment of the first premium as well as instructions on how to benefit from the insurance cover from its first day of validity;
- welcome pack – a set of materials that the agent may send by e-mail to the policyholder after he or she has signed the application.
  The set includes documents facilitating the policyholder's becoming familiarized with the insurance in detail and providing the policyholder with additional information, specifically templates for completing the declaration by the insured, a detailed list of medical services available under the selected cover, an explanation, written in plain language, of the statements collected on the declarations, a leaflet informing the policyholder how to set up a MojePZU account, a guide on insurance services for companies (accounting, tax and legal issues, insurance-related services, reporting of insurable events, filing of complaints).

In an effort to develop the Health Area in 2019:

- PZU Zdrowie completed numerous acquisitions of medical entities and included them in its own network. This means that, at the end of 2019, its own network consisted of 130 centers:
  - acquisition of FCM Zdrowie, one of the largest outpatient networks,
  - takeover of the Alergo-med medical center in Tarnów,
  - acquisition of Tomma Diagnostyka Obrazowa, the largest network in Poland in terms of the number of diagnostic laboratories;
- two new facilities were opened under the PZU Zdrowie brand – in Wrocław and Radom;
- PZU Zdrowie expanded its service provider network by including more cooperating centers, which means that at the end of 2019 PZU's partner network already had approx. 2,200 centers;
- dental services were launched as a new business line in PZU Zdrowie's own centers (Warsaw, Kraków, Poznań, Wrocław);
- 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 client experience and improvement of the service quality, while also testing innovative solutions;
- an EDM system was rolled out in PZU Zdrowie's own centers;
- 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 2019, PZU Zdrowie was connected to approx. 200 medical centers located across Poland and comprising the PZU Zdrowie network as well as to external partners;
- in September 2019, PZU Zdrowie became the first medical operator to launch the Virtual Clinic service enabling patients to undergo a full medical process without leaving home. The service enables the purchase of a telemedicine appointment with the selected specialist physician, the collection of recommendations and e-prescriptions and the placement of orders for medications to be collected later from a conveniently located pharmacy;
- PZU Zdrowie also put at the disposal of its clients the first telemedicine doctor's office in which the patient has the option to undergo diagnostics using telemedicine equipment, followed by a video consultation with a physician;
- PZU Zdrowie participated in the PZU Group's Safe Summer Vacation prevention campaign and carried out several dozen Health Zone prevention programs for employees in various companies across Poland.

PZU Zdrowie received a number of industry awards and distinctions:

- Employer/Provider of Health – a certificate awarded by the Ministry of Health to companies and institutions that demonstrate care for the health of their employees and effectively execute health promotion programs internally;
- Hippocrates of Health – several physicians from PZU Zdrowie facilities were awarded in the Hippocrates of Health contest organized by medical communities in each voivodeship (first place in the Cardiologist of the Year category, second place in the Gynecologist of the Year category);
- Leader of e-Health – PZU Zdrowie's Artimed Medical Center in Kielce was granted a distinction in Dziennik Gazeta Prawna's contest for promotion of the e-prescription system. PZU Zdrowie's center in Kielce is a leader in terms of the number of e-prescriptions issued;
- 100% Polish Product – a contest organized by the weekly Do Rzeczy to honor companies that support the development of the Polish economy.

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

- 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 the 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 PZU's financial performance in the Health area;
- potential modification of the National Health Fund's contracting rules may cause significant changes in the financial results generated by medical centers.

3.8 Pension funds (PTE PZU)

Market situation

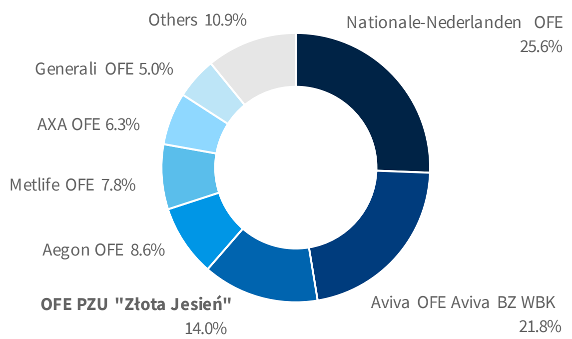
At yearend 2019, the net asset value of open-end pension funds was nearly PLN 155 billion, down 1.6% compared to the end of the previous year.

Operations of PTE PZU

The PZU Złota Jesień Open-End Pension Fund managed by PTE PZU (PTE PZU) is one of the largest players on the pension fund market in Poland. At the end of 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 2,375 thousand members, i.e. 15.2% of all participants in open-end pension funds;
- net assets stood at nearly PLN 22 billion, thereby representing 14.0% of the total asset value of the open-end pension funds operating in Poland.

Open-end Pension Funds - percentage of net asset value as at 31 December 2019 (in %)



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

At yearend 2019, PZU's Voluntary Pension Fund ran 29.9 thousand individual pension security accounts (IKZEs) in which assets worth nearly PLN 255 million were accumulated. Consequently, it retained its position as one of the leaders in the segment of voluntary pension funds.

Factors, including threats and risks, which will affect the pension funds' operations in 2020

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

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;
- active participation in work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement;
- transfer of funds from OFEs to individual retirement accounts. The act is to enter onto force on 1 June 2020.

On 13 February 2020 the Lower House of the Republic of Poland adopted the act on amendment of certain acts in connection with the transfer of funds from open pension funds to individual accounts retirement. The act is to enter into force on 1 June 2020 passing the legislative process. Assumes model rebuilding OFE operations in such a way that:

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

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

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

3.9 Other operating areas

PZU Pomoc

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

- managing the PZU repair network – at the end of 2019, the company cooperated with 910 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 2019, approx. 2 million club members were able to take advantage of insurance discounts and products of cooperating companies (rebate programs offered by partners).

PZU CO

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

PZU LAB

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

The company cooperates with numerous academic centers and experienced experts (local and foreign). The company constantly seeks new and effective technological solutions allowing to mitigate the risks which particularly impact the insurance activity.

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

Tower Inwestycje

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

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

PZU Finanse

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

Ogrodowa-Inwestycje

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

Battersby Investments SA

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

PZU Corporate Member Lmited

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

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

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

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

Grupa Armatura

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

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.

Spiesz się
powoli

4.

PZU 2020 - more than insurance

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

In this section:

4.1 The tenet underpinning the #newPZU Strategy

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

On 9 January 2018 the PZU Management Board and Supervisory Board adopted the strategy update up to 2020. The PZU Group's new operating model has broken with 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.

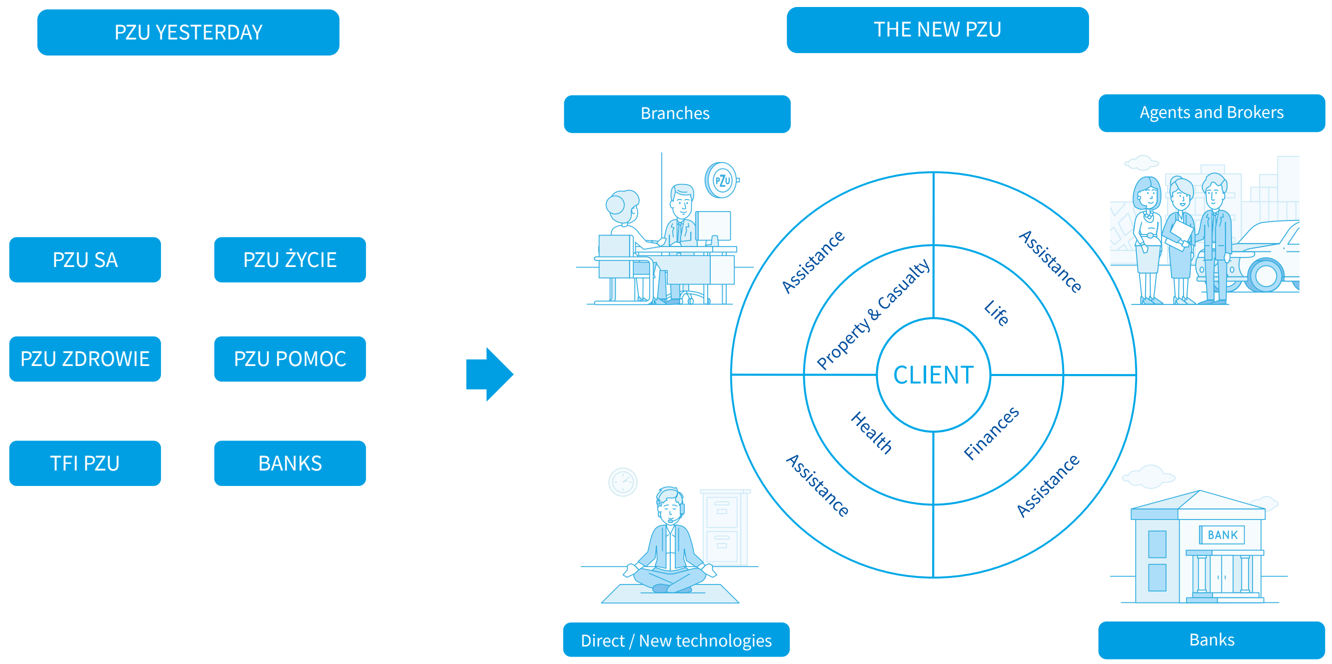
This strategy has specified how various areas within the PZU Group will be integrated to focus on clients in a way that will maximize client convenience and satisfaction. Special emphasis has been placed on analyzing the information the PZU Group has to grasp and use it better.

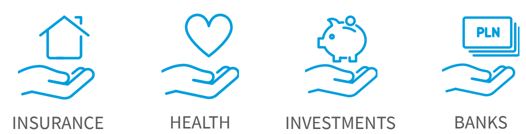
In order to create the appropriate business environment to attain these targets, clients interactions were redefined from scratch. This entailed an alteration to the philosophy of how the overall Group operates. Various business units have been placed in a single integrated system dedicated to providing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

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

Pomagamy klientom dbać o ich przyszłość

#newPZU





Strategy of innovation

UTILIZATION OF BIG DATA

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

DIGITIZATION

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

NEW CLIENT INTERACTIONS

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

Source: PZU's data

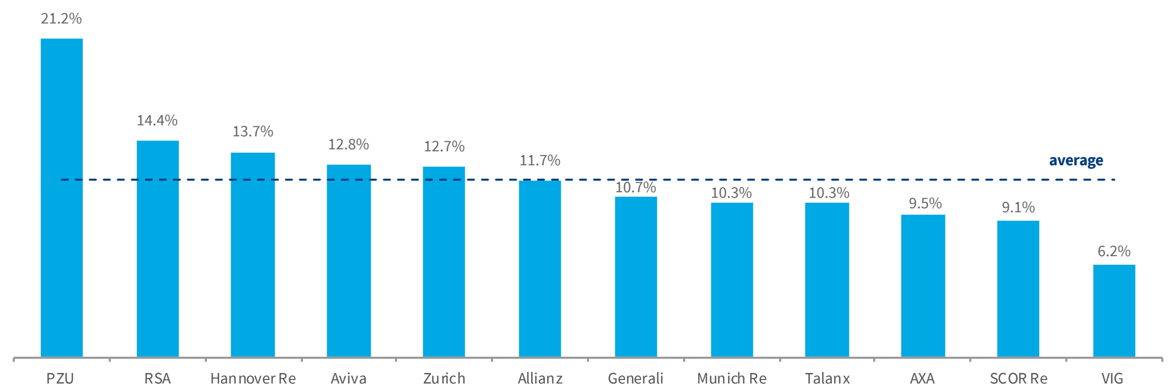
Contribution of the various lines of business to ROE growth

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

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

The ambition of the #newPZU strategy is to generate a return on equity (ROE) in excess of 22%, i.e. substantially higher than the average for insurance companies in Europe.

PZU's ROE versus European insurers (2019)



Source: Bloomberg, PZU's data

4.2 Strategy operationalization

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

#newPZU 2020 strategic initiatives

		Strategic initiatives	Ambitions in 2020
Better utilization of data	1	Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view)	55% of the clients in PZU SA and 33% of the clients in PZU Życie SA will give marketing consent
	2	Better matched price to risk and pricing optimisation (Taryfikacja 3.0)	92% combined ratio
	3	Implementation of solutions employing artificial intelligence	6 innovative solutions which at least 100 thousand clients of the PZU Group will use
Cross selling growth	4	Development of cooperation with banks	1 m clients acquired for the banks in the PZU Group 1 bn PLN of incremental premium obtained from the bank channel Cut costs by 100 m PLN
	5	Simplifying the product offering, and simple language	10 core products in broad distribution
	6	Conversion of the sales network into multi-product sales network	50% of salespersons sell multiple products in proprietary networks
	7	Development of sales in PZU Health	1 bn in revenues of PZU Health 12% EBITDA margin
	8	Development of sales and consolidation in PZU Investments	65 bn PLN of third party assets under management 200 m PLN of net profit on third party asset management 15% share of assets on the Employee Capital Schemes market[1]
Digitalization of processes	9	Implementation of a new „moje.pzu.pl" portal	5 m accounts established by clients
	10	Development of the direct offering	10 products available in the direct channel 50% market share held by PZU SA and LINK4 of non-life insurance sold in the direct channel
Additional interactions with clients	11	Implementation of a loyalty program at the PZU Group level	3 m participants
	12	Integrated service model for SMEs	70% growth of new sales in group insurance to SME clients in PZU Życie 20% growth in the gross written premium generated by non-life insurance dedicated to the SME segment

PZU's ROE substantially above the average generated by European insurers

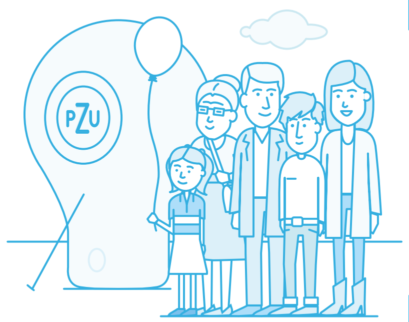
Utilization of artificial intelligence and robotics to augment the quality of motor claims handling

Comprehensive client picture - CRM platform supporting rapid and easy access to information concerning products and services

Price optimization in real time – utilization of machine learning algorithms when setting tariffs for motor insurance products

PZU Investments sales development – inPZU expansion and integration with mojePZU

New functionalities in the moje.pzu.pl portal, mobile app launch



Development of a system to facilitate comprehensive fraud identification

PZU Zdrowie sales development – Virtual Clinic launch to support remote consultations and place orders to fill prescriptions in a selected pharmacy

Continuation of work on the project to rescue drivers' lives – PZU GO

Universalization of the sales network – distributing PZU Życie products through PZU's Tied Agent network

Active collaboration with banks – CASH platform launch to offer employee financial benefits

#1 Single CRM

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

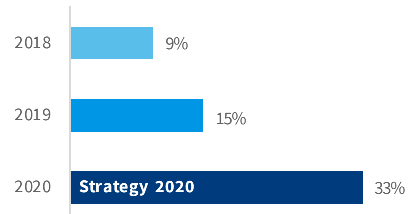
Purpose:

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

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

Percentage of marketing consents in PZU

Percentage of marketing consents in PZU Życie



Execution:

- a CRM platform was deployed in 2019 to help PZU agents and employees gain easy and rapid access to information pertaining to products and services. The full client view will make it possible to craft a new dimension of relations and refine cross selling in the PZU Group. Salespersons obtain up-to-date information concerning clients' active products, anniversaries, expiry dates and history of events. As a result, this will allow us to build strong client relations and augment loyalty and the level of satisfaction. Moreover, the available information can be used to match to a greater extent the product offer and preferences to clients' actual needs in terms of the frequency, timing and method of contact with PZU. The outcome is that salespersons gain a better familiarity with clients' current standing in the PZU Group. Measurable benefits ensuing from higher quality leads are expected in upcoming years, translating into better conversion and sales performance;
- the comprehensive fraud identification system was developed. This system is based on advanced analytics and client behavioral models providing support in processes to enter into contracts and handle claims. The implemented analytical mechanisms support the identification of fraud in sales and claims handling processes - flagging, for instance, undue disbursements. Algorithms used to identify irregularities are improving from year to year, converting into greater effectiveness;
- an important stage in the modernization of the data warehouse infrastructure has been finalized to enhance performance and ensure stability in data processing and reporting. This will streamline the management information process in the PZU Group and expand its analytical capacity.

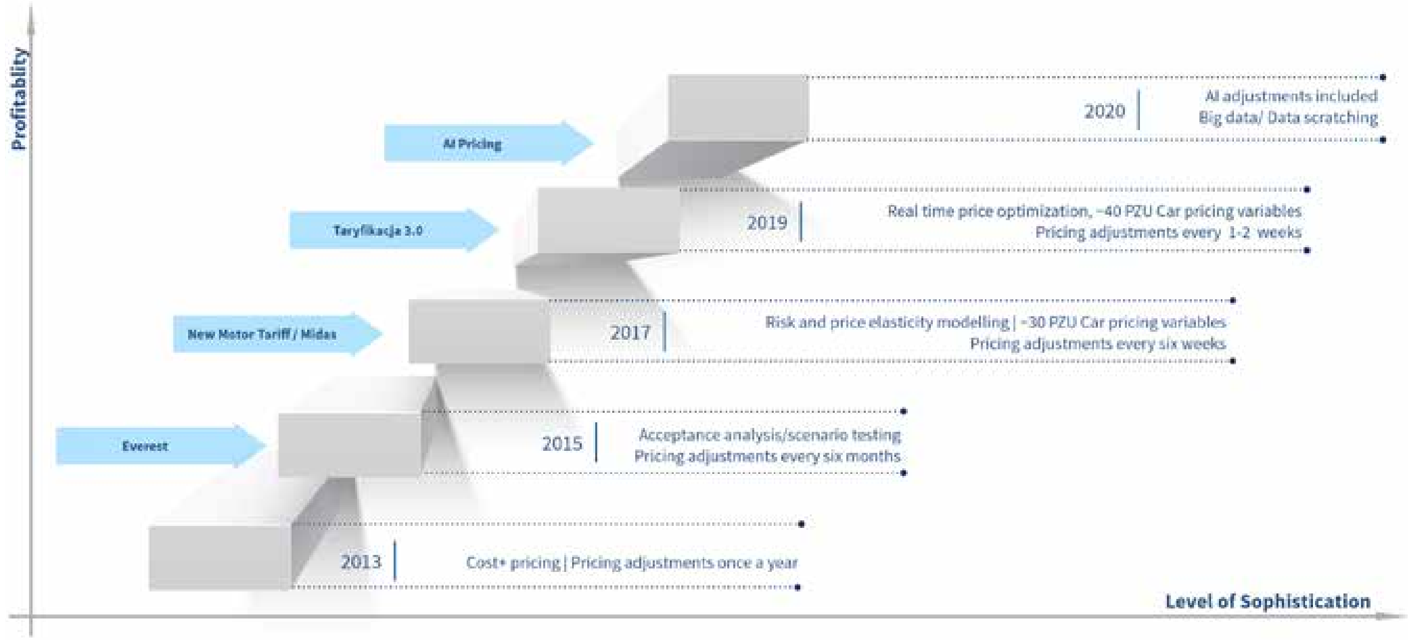
#2 More effective tariff setting

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

Purpose:

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

Better price-risk adjustment and price sensitivity (Tariff setting 3.0)



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

COR

Execution:

- work on a project to optimize prices in real time was continued in 2019. This system is based on machine learning using data gleaned from the Everest product system. Solutions employing advanced analytics and learning algorithms for motor products were rolled out. Similar mechanisms are slated to be deployed in other insurance products (non-life and agricultural products) in subsequent phases. These solutions support dynamic pricing to satisfy risk and client requirements and enhance the competitiveness of the offer while simultaneously increasing profitability.

#3 Artificial intelligence

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

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

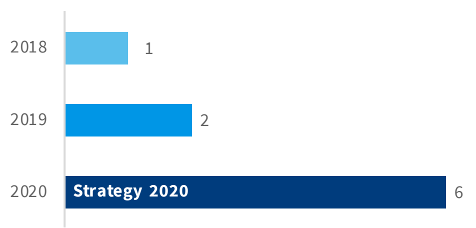
Purpose:

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

PZU 2020 - more than insurance

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

Number of innovative solutions



Execution:

- work was continued on PZU GO, PZU's key project to save customers' lives. This is an innovative telematic solution to call for help automatically following a collision on the road. This solution is already available for mass sales;
- AI in the claims handling process is a solution implemented in 2019 to harness artificial intelligence in handling motor claims. Automating the analysis of claims handling documentation (photos) supports employees in their day-to-day work, thereby shortening servicing time;
- tests were also run on large data sets and analytical hypotheses were tested to improve several prediction models underpinning sales in PZU. They form the basis for advanced selection of clients and customizing a personal product offering.

#4 Cooperation with banks

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

Purpose:

- sell insurance to the clients of Bank Pekao and Alior Bank;
- bring new insurance clients from PZU to these banks;
- save costs in the real estate administration and procurement system.

Bancassurance

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

Assurbanking

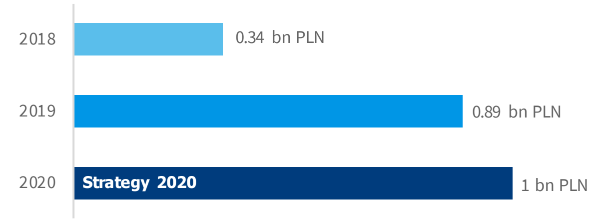
- Offering bank products in the course of insurance-related contacts (sales and service), including "lead generation" through PZU's sales network
- Sales efforts directed to PZU's clients in connection with the occurrence of specific life events such as childbirth, the purchase of a car, a motor claim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

Bank Pekao

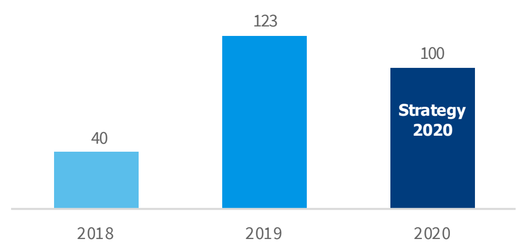
Action	Insurance sales	Client acquisition by the banks	Savings
Description	Sales of PZU's life and non-life insurance under the bancassurance model to the clients of the Group's banks	Acquisition of the Group's insurance clients by the banks	Achievement of synergies in procurement, IT and real estate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

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

Amount of premium generated in collaboration with banks



Cost cutting as a result of collaborating with banks



Execution:

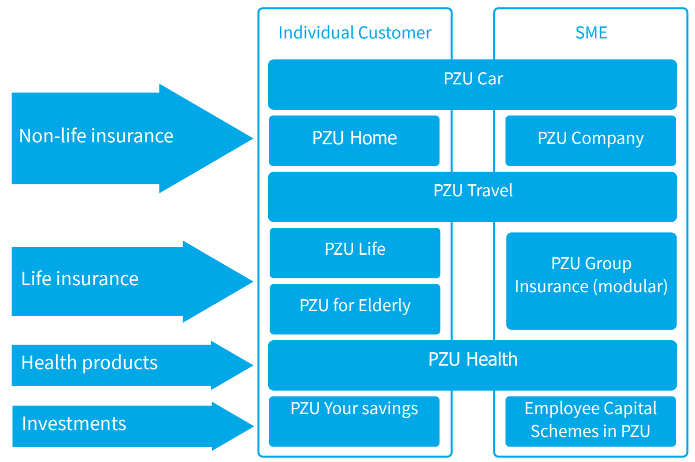
- cooperation with banks was continued in 2019 ensuring the presence of PZU products and banking products in the PZU Group's key sales networks;
- a new assurbanking business line was set up and the CASH platform was implemented to handle financial employee benefits. This platform was made available under a pilot to the PZU Group's employees in 2019, while it is scheduled to be made available to more employers in 2020. CASH gives employers the ability to roll out a new employee benefit: quick loans available to all with a low interest rate and a simple method of repayment. This deployed business concept may become an unrivalled solution on the Polish loan market.

#5 Simplifying the product offering

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

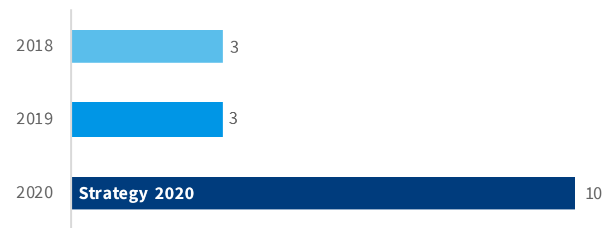
Purpose:

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



Metric: number of products in general sales .

Number of products in universal sales



Execution:

- work was continued in 2019 to make a number of product enhancements for clients. New products and functionalities were rolled out to support more rapid customization of the offer to meet client needs, for instance, POZ Ochrona and POZ Zdrowie, as well as a number of smaller enhancements, such as creating a health questionnaire on the enrollment form to underwrite insurance risk more precisely. A number of service-related improvements were also implemented, new and simpler documents to confirm the conclusion of a contract were drafted and product parametrization was adjusted. In the near future there are plans to streamline the process of managing negotiations between agents / sellers and the client.

#6 Converting the sales network into a general sales network

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

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

Metric: percentage of generalist salespersons in our proprietary networks.

Execution:

Percentage of generalist salespersons in our proprietary networks

- the execution of the goals related to universalizing the sales network was continued, i.e. distributing PZU Życie products through the PZU Tied Agents network. These solutions have made it possible to extend the distribution of life products and drive up sales effectiveness.

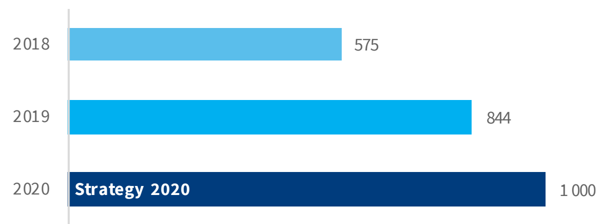
#7 Development of sales in PZU Zdrowie

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

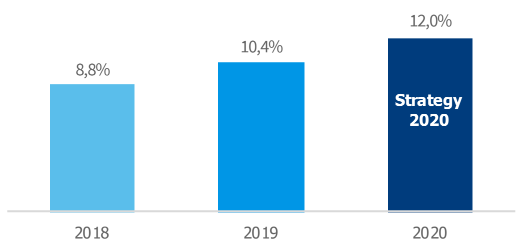
Purpose:
- develop new health insurance products and expand the "traditional" offering to include unique riders;
- activate the sales network and tap into the full potential rooted in the PZU Group's client base;
- offer a modern patient service process giving consideration to the best practices on the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

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

PZU Zdrowie's revenue



PZU Zdrowie's EBITDA margin



Execution:
- the development of mojePZU [myPZU] was continued in 2019. It is a self-service website of the PZU Group offering healthcare functionalities, enabling holders of health products to book appointments and check whether their package includes a given service;
- PZU Zdrowie has launched a portal to handle occupational medicine, monitoring expiration dates of employees' medical examinations and making it possible to send someone for a test with a single click;
- Virtual Clinic was implemented. It supports remote medical consultations and ordering prescription filling in a selected pharmacy. Electronic medical documentation in own centers was also deployed;
- to build size PZU Zdrowie cultivated cooperation with partner centers and acquired new centers; it also built its own centers as greenfield operations. At the end of 2019 PZU Zdrowie's network had 2,200 partner centers in 620 cities in Poland and 130 proprietary branches.

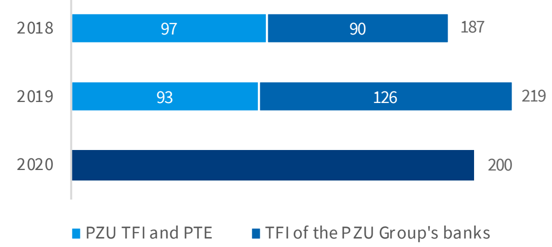
#8 Development of sales and consolidation in PZU Investments

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

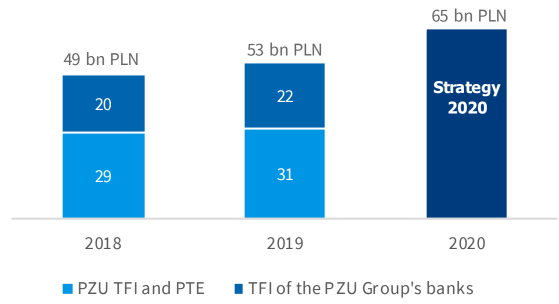
Purpose:
- achieve cost synergies (one "factory" of investment products);
- ratchet up sales by deploying new investment products based on indices or on what is known as "life cycle";
- utilize the changes ensuing from the reform of the pension system - Employee Capital Schemes;
- growth the net result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

Metric: third party assets under management (PLN billion), net result on asset management (PLN million).

Net result on third party asset management



Third party assets under management



Execution:
- inPZU transaction service to sell mutual funds started to operate in October 2018. This service allowed the Group to build Poland's first offer of low-cost index funds and grow TFI PZU's revenue. Development work on the platform took place in 2019; it was integrated with the mojePZU platform and this led to onboarding new clients and growing assets under management;
- the sales of a new product were launched – ECS (Employee Capital Schemes). In keeping with this program's underlying assumptions, the offer was sent to the corporate segment with 250+ employees. In 2020 sales will focus on the corporate segment with 50+ employees;
- thanks to the cooperation with Goldman Sachs Asset Management initiated in 2019, in January 2020 it was possible to launch two new passive funds: inPZU Goldman Sachs ActiveBeta American Equity Large Cap Index and inPZU Goldman Sachs ActiveBeta Emerging Markets Equity Index. In addition, the Equity CEEplus inPZU subfund was launched. It was created in cooperation with the Warsaw Stock Exchange and is based on the WSE CEEplus index;
- work was in progress under the initiative to build and implement a comprehensive business process administering the overall investment process. The launch of the new system is slated to transpire at the turn of Q2 and Q3 2020;
- work was continued to implement a single integrated finance and accounting system to administer valuations and record investments in PZU, PZU Życie and TFI PZU. This solution will make it possible to augment effectiveness and optimize operations in the back-office (for instance to meet the requirements of the Solvency II Directive.) System implementation is slated for 2020.

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

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

Purpose:

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

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

Execution:

- more functionalities were added to the moje.pzu.pl portal for clients in 2019; this portal brings together the PZU Group's services in one place and allows clients to manage their insurance cover and their health cover, among other things (e.g. book doctor's appointments, order dedicated medical services) purchase policies and invest through the inPZU investment platform. Launching the mojePZU portal was one of the largest IT projects in PZU. Promotional activities to expand awareness on using this platform for product administration are planned in 2020. This platform is also available to mobile clients. The mojePZU portal was victorious in the prestigious international contest organized by Efma & Accenture Insurance Awards 2019 in the Core Insurance Transformation category.

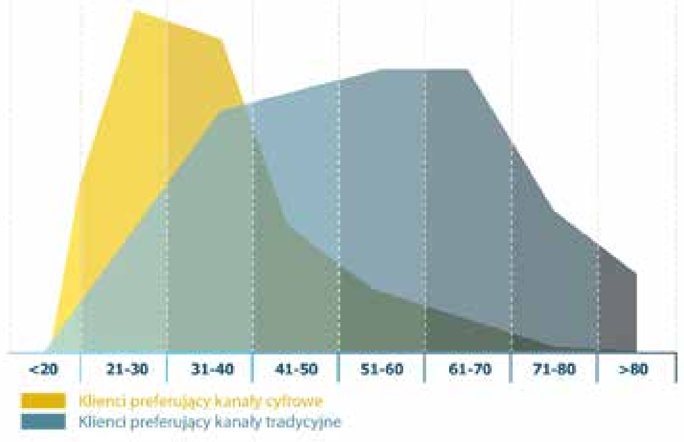
#10 Development of direct offering

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

Purpose:

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

Reaching clients who prefer digital channel



Metric: number of products available in the direct channel (internet and telephone); market share held by PZU and LINK4 of non-life insurance sold in the direct channel (50%).

Number of products in the direct channel

Execution:

- the direct offer was expanded to include more products in 2019. The sales of the Education product were launched (in the contact center channel) and the underlying assumptions for making more products available for online sales were updated.

#11 Loyalty program

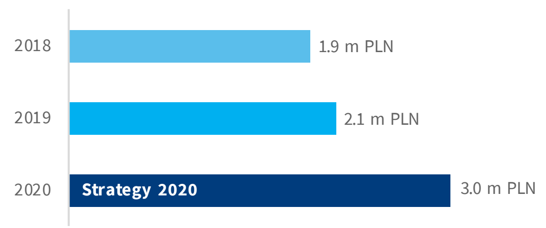
Initiative: launch a loyalty program for the overall Group spanning all its products. The points collected by using these services as well as other activities (among others having a claim-free history and referring the program to a friend) may be converted into products and services from our partners.

Purpose:

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

Metric: number of participants in the loyalty program.

Number of participants in the loyalty program



Execution:

- enhancing the PZU Club concept – new space for client contacts. The idea is to foster more frequent client interaction by extending the offer of regular benefits in the following categories: sport, health and safety. Prizes for various types of activities (such as customer referrals, etc.) are one idea on how to win customer trust. Marketing consents secured from club members support a customized approach to communication and ramp up the quantum of transactions (increasing the number of products per client and cross-sell).

#12 Integrated service model for SMEs

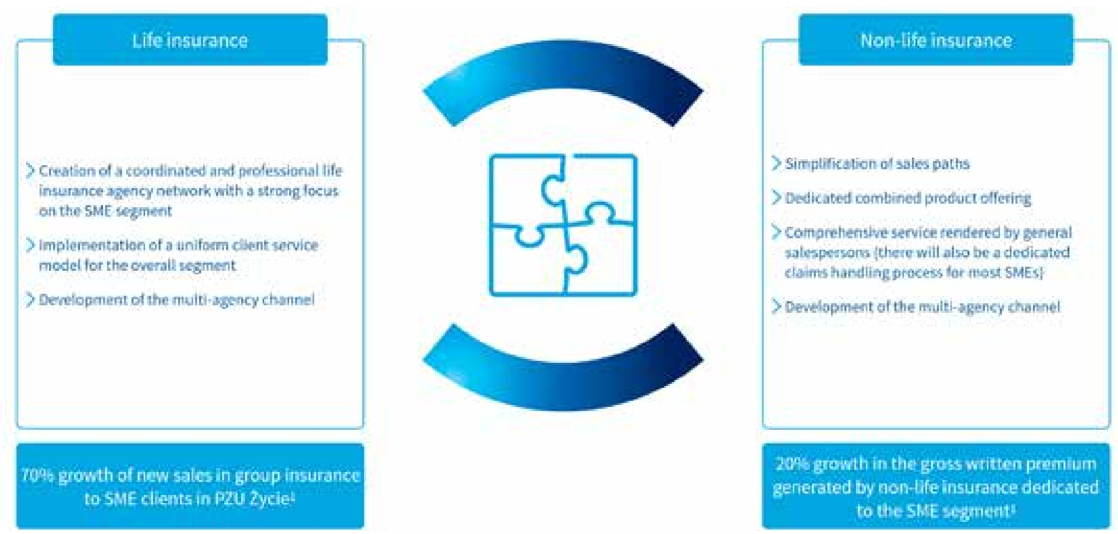
Initiative: integrate sales models in the Small and Medium Enterprise (SME) segment.

Purpose:

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

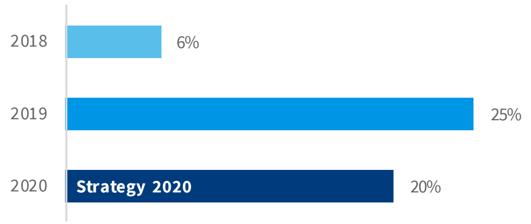
Metric: pace of new sales of group insurance to SME clients in PZU Życie (70% up to 2020 - versus 2016), pace of growth of gross written premium on property insurance dedicated to the SME segment (20% up to 2020 – versus 2016).

Integrated service model for SMEs



[1] Value generated in 2020 compared with 2016

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



Execution:

- an important stage in the transformation of the agency network structure in PZU Życie was wrapped up in 2019. As a result, the network's reach was extended by hiring 500 new salespersons, new acquisition rules and a new structure in the Head Office were introduced, and the field structure was adjusted. New compensation rules for agents and advisors were also introduced for work done in the SME group portfolio. These changes will deliver measurable benefits to the PZU Group. Actions are currently being taken to define the directions for further network development.

4.3 Execution of the PZU Group's strategy in 2019

Execution of the PZU Group's CSR strategy

2019 was the first year of executing the PZU Group's CSR strategy that defined the ambitions PZU and PZU Życie have for corporate social responsibility. Within the bounds of these assumptions the areas of corporate social responsibility, operating directions and management approach to the initiatives being undertaken were defined.

<table>
<tr><th colspan="2">Purpose</th><th>Execution</th><th>Level in 2020</th></tr>
<tr><td rowspan="2">Clients</td><td>NPS for retail clients in insurance versus the competition</td><td>> competition</td><td>> competition</td></tr>
<tr><td>Indicator concerning the timeliness of examining complaints</td><td>97.4% up to 28 days</td><td>95% up to 28 days</td></tr>
<tr><td colspan="4">Clients were once again inclined to recommend PZU to a greater extent in 2019 in comparison to the competition. Its NPS (Net Promoter Score) was 10 p.p. higher than the competition's. This score is to a large extent the outcome of a broad array of client satisfaction and loyalty studies, enabling us identify the organization's strengths and areas in need of modification and improvement.</td></tr>
<tr><td rowspan="2">Employees</td><td>Employee commitment index</td><td>51%</td><td>55%</td></tr>
<tr><td>% of women in managerial positions</td><td>55.3%</td><td>min. 50%</td></tr>
<tr><td colspan="4">The commitment index rose 11 p.p. in 2019 y/y to 51%. The participation ratio was 84% (73% in 2018).</td></tr>
<tr><td>Environment</td><td>Implementation of the Group's "Green PZU" standard</td><td>The implementation work was in line with the plan for 2019.</td><td>Fully implemented (100%)</td></tr>
<tr><td colspan="4">The PZU Group's "Green PZU" Standard, along with the action plan document for the administration and real property area is aimed at ensuring informed management of the natural environment and mitigation of negative impact on the environment.</td></tr>
<tr><td>Social activities</td><td>Financial commitment to social activity</td><td>PLN 84 million</td><td>> PLN 50 million per annum</td></tr>
<tr><td>Suppliers</td><td>Percentage of suppliers adhering to the "Code of CSR Best Practices for PZU's Suppliers"</td><td>The implementation work was in line with the plan for 2019.</td><td>90% of PZU's suppliers* covered under the tender process accept and obey the "Code of CSR Best Practices for PZU's Suppliers"</td></tr>
<tr><td colspan="4">In 2019 the work was underway to implement a new procurement platform that, according to the assumptions underpinning the CSR strategy, incorporates the necessity of affirming the obligation to abide by the "Code of CSR Best Practices.</td></tr>
</table>

* suppliers of goods or services invited to participate in tenders organized by the Procurement Office in PZU and PZU Życie

4.4 Completed activities in 2019

GROUP OBJECTIVES

ROE[1]

2018	2019	2020
22.1%	21.2%	>22%

NON-LIFE INSURANCE

BUSINESS SIZE

PZU Group's market share[2,3,4]

2018	2019	2020
34.8%	33.2%	38.0%

BUSINESS PROFITABILITY

Combined ratio[3]

2018	2019	2020
86.6%	88.4%	92.0%

Administrative expense ratio[5]

2018	2019	2020
6.6%	6.8%	6.5%

LIFE INSURANCE

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

2018	2019	2020
10.8	10.7	11.0

Operating margin in group and individually continued insurance

2018	2019	2020
22.1%	21.3%	>20%

Surplus yield on its own portfolio above the RFR

2018	2019	2020
1.5 p.p.	2.5 p.p.	2.0 p.p.

INVESTMENTS

Assets under management for third party clients (bn PLN)

2018	2019	2020
29/49[11]	31/53[11]	65

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

2018	2019	2020
97/187[11]	93/219[11]	200

HEALTH

Revenues (m PLN)[8]

2018	2019	2020
575	844	1,000

EBITDA margin[9]

2018	2019	2020
8.8%	10.4%	12.0%

BANKING

Assets (bn PLN)

2018	2019	2020
264	280	>300

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

2018	2019	2020
654	515	>900

GROUP OBJECTIVES

Solvency II solvency ratio[4, 6,]

2018	2019	2020
222%	220%	>200%

Number of products per client

2018	2019	2020
1.6	1.6	2.0

[1] ROE attributable to the parent company
[2] Direct business
[3] PZU jointly with TUW PZUW and LINK4
[4] Data at the end of Q3 2019
[5] Administrative expenses in PZU and PZU Życie
[6] Own funds after subtracting anticipated dividends and asset taxes
[7] PZU Investments' consolidated net result
[8] Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie
[9] Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
[10] Including customers acquired through cooperation with banks.
[11] Including assets managed by TFI banks of the PZU Group.

5.

Business Model

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

In this section:

5.1 PZU Group's new operating model

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

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

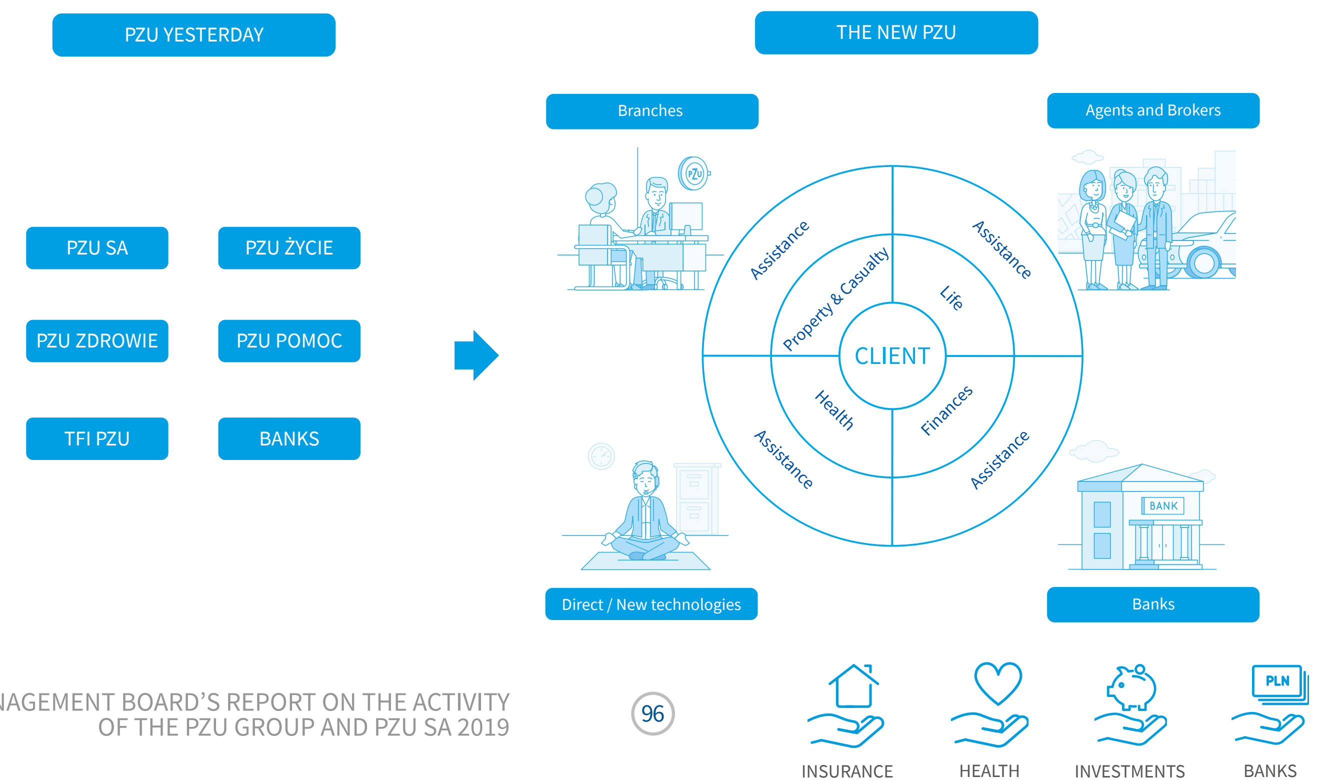
The PZU Group Strategy published on 9 January 2018: "The New PZU – More Than Insurance" SECTION 4 STRATEGY is client-centered. The mission that we have defined – we help clients care for their future – means that our client relationships and our client knowledge are becoming our overriding value, while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

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

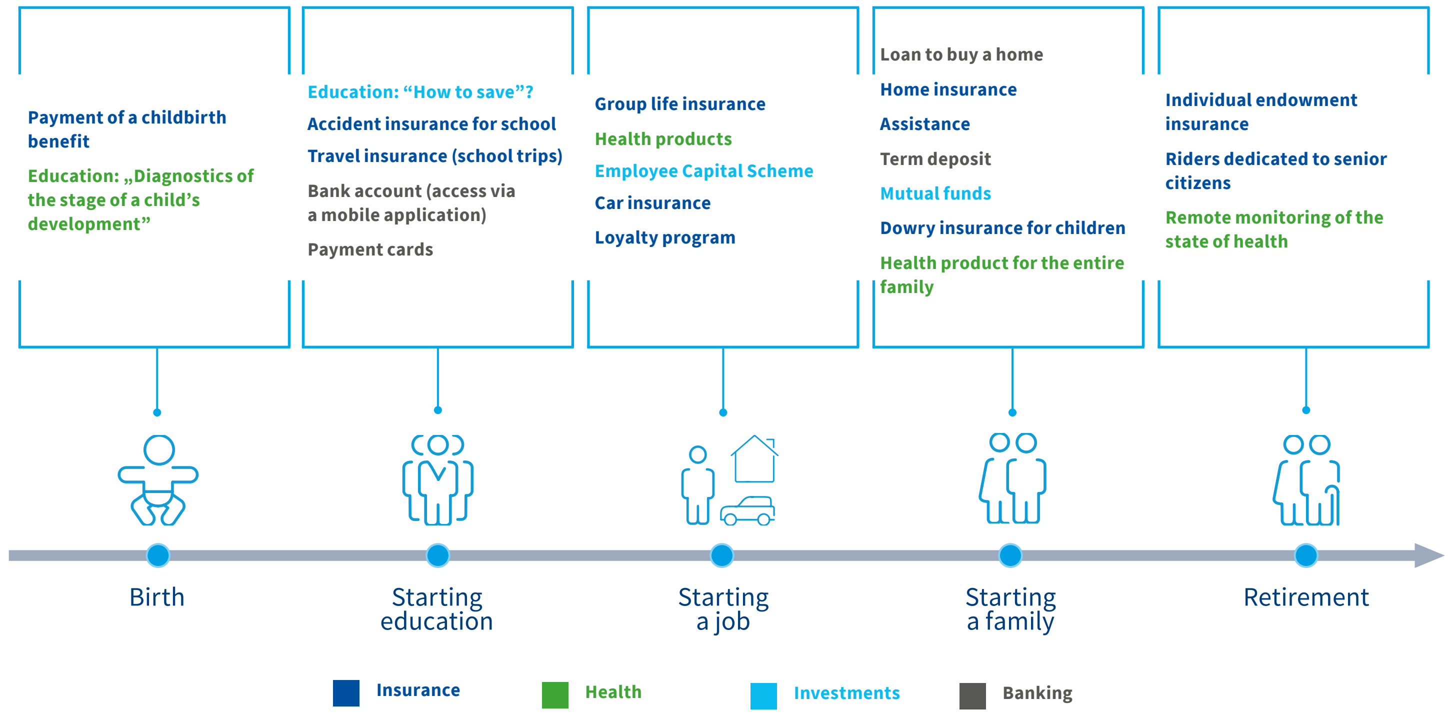
This approach has defined the operating philosophy under the PZU Group's new business model.

The new model brings together all of the PZU Group's activities and integrates them in a client-focused manner: life insurance, non-life insurance, health insurance, investments, pensions, health care, banking and assistance services. This approach drives the gradual transformation of insurers from focusing primarily on valuation and transfer of risk toward being an advisory and service company (operating on the basis of technological know-how). Achieving a high degree of quality and number of client interactions calls for creating a 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.

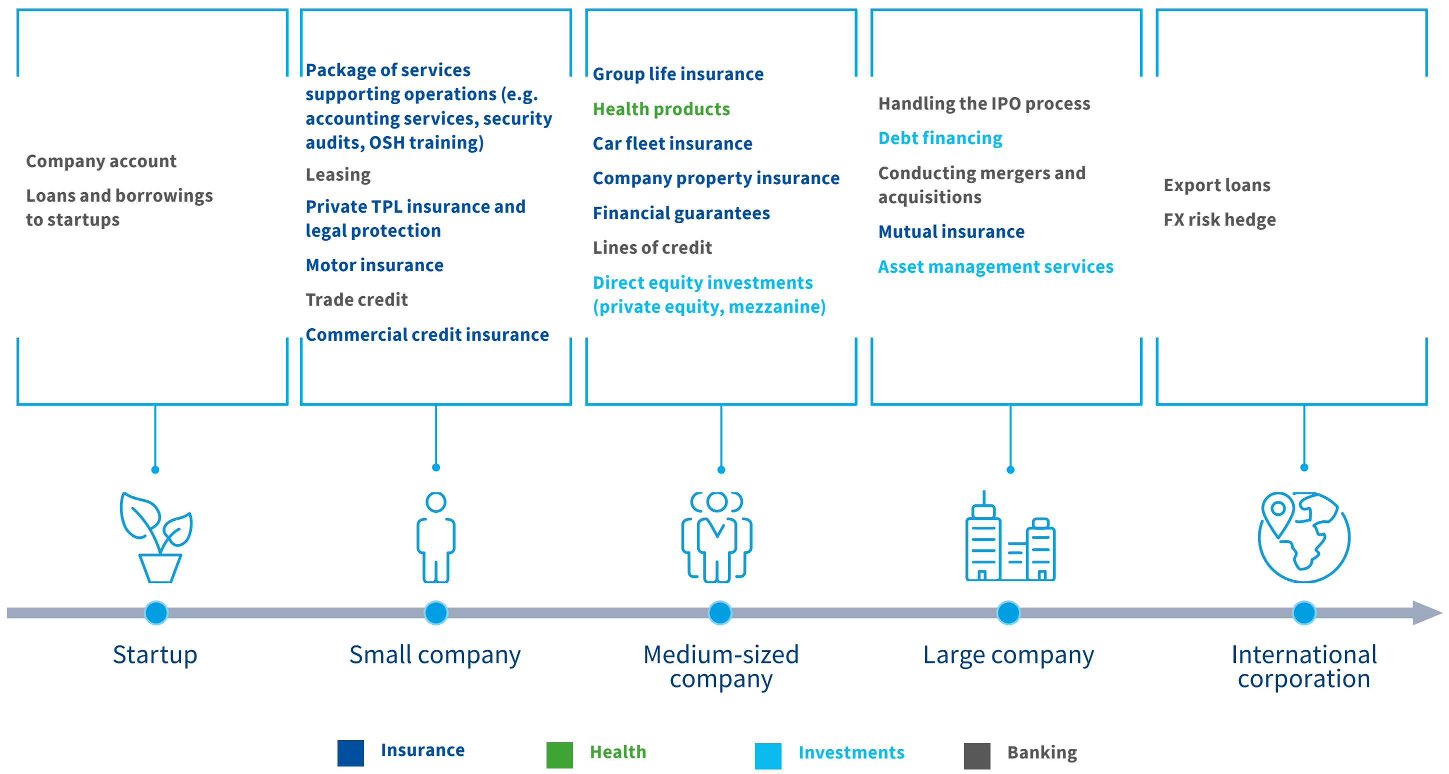
We are changing PZU – we are becoming a lifetime partner



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



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



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

A better utilization of the company's Big Data sets, digitalization of processes, usage of artificial intelligence and new technologies associated with the development of fintechs and insurtechs allows for new risk underwriting methods, streamlining of processes, including those that affect clients directly. The beneficiaries of change include areas such as sales, claims handling and medical diagnostics.

All services in one place

Filing an insurance claim, booking a physician's visit, getting a referral to a medical test or e-prescription, purchase of a home or travel insurance policy or investing their savings – PZU clients can do it all in one place. It is mojePZU.

Launching the moje.pzu.pl portal is not just the outcome of developing digitalization and mobility in PZU but also a way of radically modifying client interactions. This is a one-of-a-kind dashboard enabling clients to check their insurance coverage at any time, manage their medical coverage and appointments and handle their investments.

Modern self-service offers a single location to access PZU Group's products and services and helps in the handling of numerous matters without the need to visit a branch or call a hotline. It is accessible from any location and at any time on personal computers and through the mojePZU mobile app launched in 2019.

mojePZU is the most comprehensible platform available on the insurance, financial and health markets. It is continuously upgraded with new functions. In 2019, the possibility of using the PZU Pomocni Club was added. It is a loyalty program, through which clients are able to obtain attractive discounts and rebates. The club gives them bonuses, for example for leading a healthy lifestyle and everyone who registers in the Club receives a welcome gift.

5.2 Insurance

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

Clients and products

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

Non-life insurance is offered in Poland under three brands: PZU, the traditional and most well-known brand, LINK4 associated with direct sales channels and TUW PZUW, the

100%

aided brand awareness for PZU

16 million

PZU clients in Poland,

5.5 million

Bank Pekao clients,

4 million

Alior Bank clients

410

PZU outlets with 189 outlets in small communities

10 thousand

tied agents in the PZU Group - the largest agent network among Polish insurers

>2,200

partner centers cooperating with the PZU Group at the end of 2019,

130

PZU Zdrowie's own medical centers

805

number of Bank Pekao branches at the end of 2019,

1,648

number of own ATMs

820

own outlets and partner outlets in Alior Bank at the end of 2019

PLN 2 million

for safe drivers in LINK4's "Cash Back" telematic program in 2018-2019

12 thousand

number of employees in Bank Pekao and Alior who held a license from the Polish FSA to sell insurance at the end of 2019

400

innovative ideas submitted up to the end of 2019 in 6 competitions using the Idea Generator

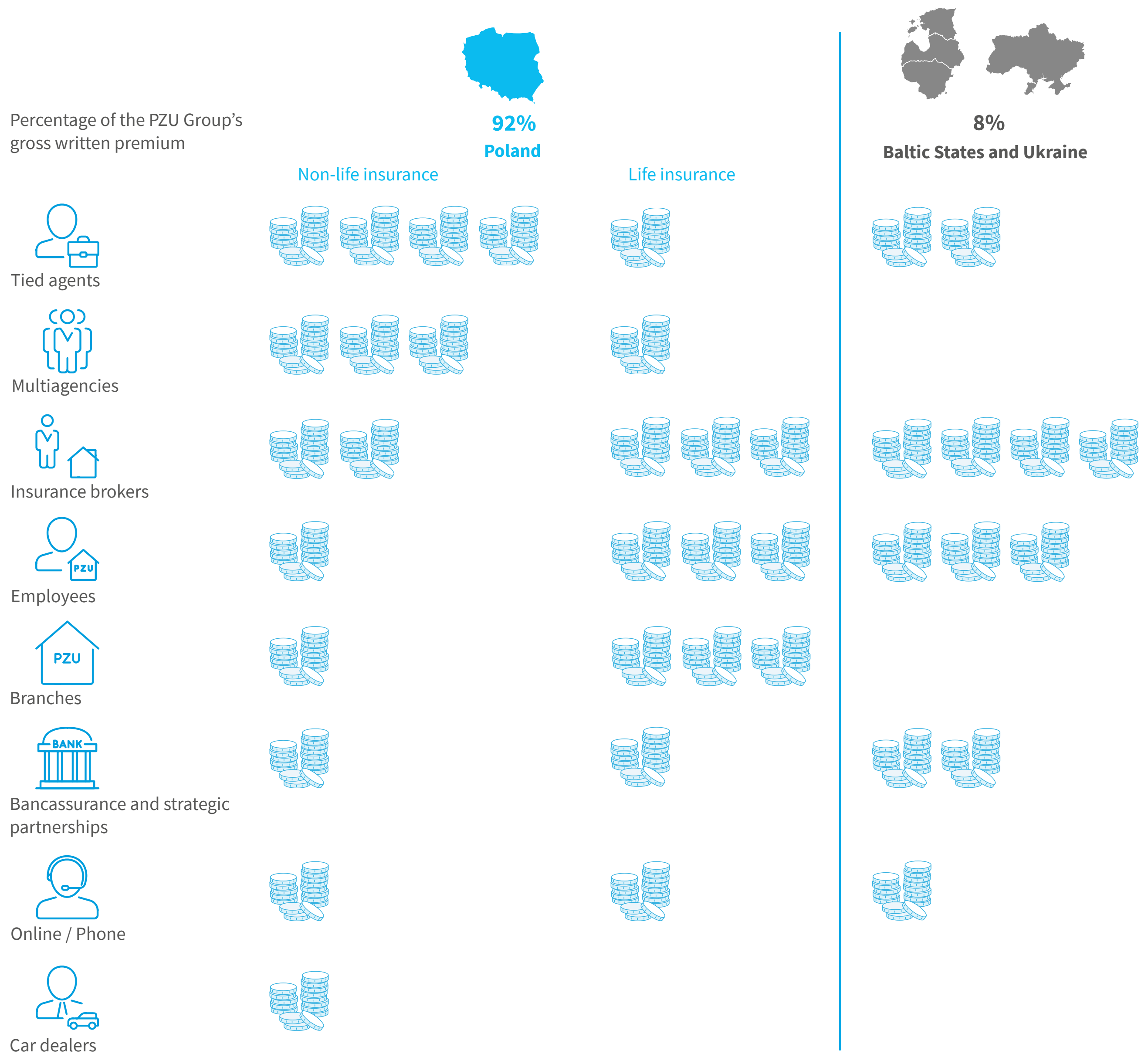
85%

of the PZU Group's clients are satisfied with the claims and benefits handling process brand under which the mutual insurance company does business. SECTION 3.2 NON-LIFE INSURANCE Life insurance is sold in Poland under the PZU brand. SECTION 3.3 LIFE INSURANCE. International insurance activity is conducted under the brand of Lietuvos Draudimas in Lithuania, under the Balta brand in Latvia and under the PZU brand in Ukraine and Estonia. SECTION 3.6 INTERNATIONAL OPERATIONS.

Distribution network

PZU's sales network is organized in a manner that ensures sales effectiveness along with high quality services. Among all the Polish insurers PZU offers its clients the largest sales and service network. It has 410 branches with convenient access across the country with 189 in small communities and tied agents, multiagencies, insurance brokers and electronic distribution channels.

Distribution network



Key: on a scale from 1 to 4 where 4 denotes the highest sales

For you and your family

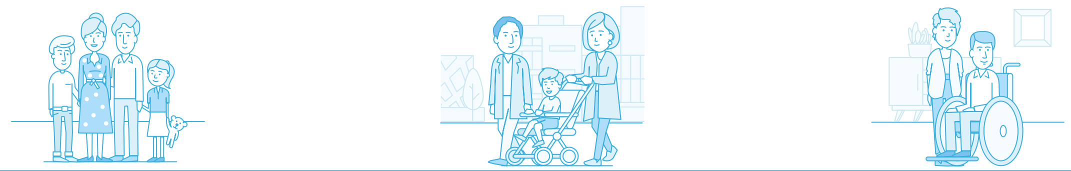
Life

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

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

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

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



Non-life, travel, TPL

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

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

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

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

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

Investments and savings

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

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

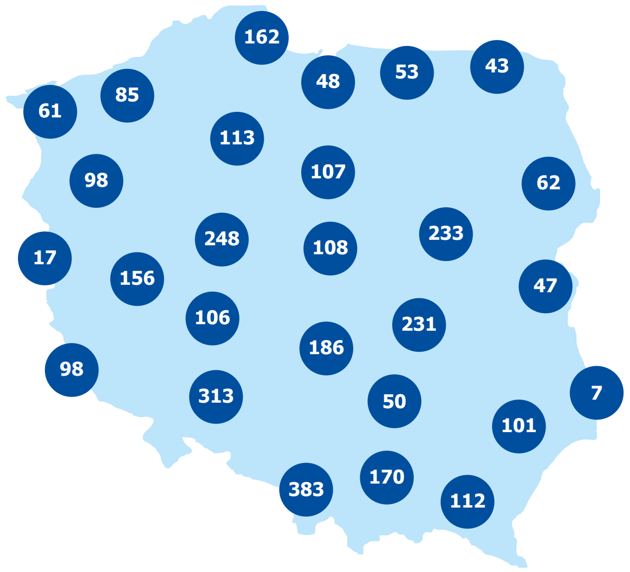
Investment insurance
- Structured life insurance with a capital guarantee – PZU Świat Zysków [World of Profits]
- Unit-linked life insurance – PZU Cel na Przyszłość [Goal for the Future]
- Individual unit-linked life insurance – Multi Kapitał [Multi Capital]

Pension
- Individual Retirement Account
- Individual Retirement Security Account
- Open-end pension fund
- Employee pension scheme
- Employee Capital Scheme

In 2019, the PZU Group's distribution network included the following:

- tied agents – in Poland the PZU Group's own agency network consisted of 10 thousand tied agents and agencies. Sales are conducted through the agency channel predominantly in the mass client segment, particularly of motor and non-life insurance as well as individual insurance (life insurance). In the Baltic states (the PZU Group is active on the non-life insurance market in Lithuania, Latvia and Estonia through Lietuvos Draudimas, AAS Balta and Lietuvos Draudimas' PZU Estonia branch, respectively, while on the life insurance market it is active through PZU Lietuva GD), the Group's agency network consisted of approx. 700 agents, while in Ukraine (where PZU is active on the non-life insurance market and on the life insurance market through PZU Ukraine and PZU Ukraine Life, respectively) it had roughly 400 agents;
- multiagencies – on the Polish insurance market, the PZU Group cooperates with more than 3.2 thousand multiagencies. They perform sales operations targeted mainly at the mass market (insurance of all types is sold through this channel, especially motor insurance and non-life insurance) as well as individual life insurance. In turn, in the Baltic States Group companies cooperate with 21 multiagencies and in Ukraine with 15 multiagencies;
- insurance brokers – in Poland, the Group, in particular PZU's Corporate Client Division, cooperated with almost 1.1 thousand insurance brokers. In the Baltic states where the brokerage channel is a major insurance distribution channel, the Group companies cooperated with over 408 brokers, whereas Ukrainian companies cooperated with more than 37 brokers;
- bancassurance and strategic partnership programs – in the area of protective insurance, in 2018 the PZU Group cooperated in Poland with 13 banks and 21 strategic partners. The PZU Group's business partners are leaders in their industries with client bases offering enormous potential. In strategic partnership, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services was offered. In the Baltic states, PZU cooperated with 4 banks and 14 strategic partners. In Ukraine, the respective numbers were 7 banks and 4 strategic partners.

Find a branch and an agent



The PZU sales network is subject to continuous expansion and change. It is one of the investments, through which we are able to implement the strategic assumption of "being closer to clients". In 2019, PZU Życie built a team of 500 new effective relationship managers, also known as Network Plus. A change in the way of training, providing incentives and remunerating agents in this network took place not only without harming the traditional agency network, but it also allowed for growth in both sales channels.

The network of PZU's tied agent offices is also changing. The goal of the projects launched in succession is to transform agency offices into professional outlets. In July 2018, the Agent 3.0 program was launched, which helps PZU to be even more effective in reaching clients throughout Poland and gives its agents a chance to maximize their sales potential and raise service standards. The support provided by PZU (orientation, logistics, substantive help or modern equipment) is suited to the needs of agents in large and small towns. At the end of 2019, the number of the PZU's tied agent offices was greater than 1,500.

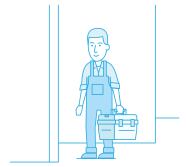
SECTION 5.4 BANKING AND STRATEGIC PARTNERSHIPS
Cooperation with the banks within the PZU Group (Alior Bank and Bank Pekao) forms an additional platform for PZU to build lasting client relations. At the end of 2019, more than

For companies and employees

Employee life and health

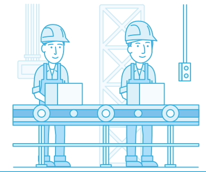
Gain a competitive edge on the labor market. Offer insurance cover to your employees. Give them and yourself some support in difficult situations (e.g. in sickness, after an accident or in the event of a relative's death). Also tend to health prevention.

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



Companies with 3 to 30 employees
- PZU Ochrona i Zdrowie [PZU Cover and Health]
- PZU Ochrona Plus [PZU Cover Plus]
- PZU u Lekarza [PZU at the Doctor's]

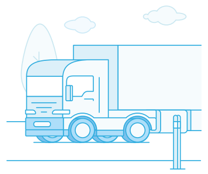
Companies above 30 employees
- PZU P Plus
- PZU W Razie Wypadku [In Case of Accident]
- PZU u Lekarza [PZU at the Doctor's]
- PZU Pełnia Życia [PZU Full Life]



Property and TPL insurance for companies

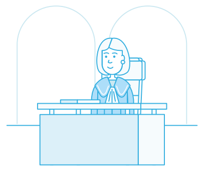
We support large corporates, small and medium enterprises and farms. We insure their property and care for their employees. We also lend a helping hand in tough circumstances related to practicing a profession.

Vehicles and transport
- PZU Auto TPL
- PZU Auto MOD
- Cargo in transit insurance



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

Third party liability
- General TPL insurance
- Professional TPL
- TPL for the company's management

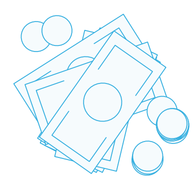


Agrobiznes
- PZU Gospodarstwo Rolne [PZU Farm]
- PZU Uprawy [PZU Crops]
- PZU Zwierzęta [PZU Animals]

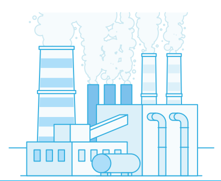
Corporate finance and investments

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

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



Financial insurance and guarantees
- Contractual guarantees
- Environment guarantee
- Deposit guarantee



Pension plans
- Employee Pension Plan (EPP)
- Employee Capital Scheme (ECS)
- Group Pension Plan

12 thousand employees / banking advisors (7.3 thousand in Bank Pekao and 4.8 thousand in Alior Bank) were certified to sell PZU's insurance products and received the KNF license.

Claims and benefits handling
For clients, claims handling is the 'moment of truth' when the quality of the product purchased from an insurer is tested. Satisfying client expectations during the claim handling/case handling process is the key to building PZU's client relationships. Further measures were taken in 2019 to streamline and shorten this process. As a result of those measures, more than 86% of the simple benefits are handled on the day they are reported.

How to report a claim?

	Poland	Baltic States	Ukraine
Internet form	✓ https://zgloszenie.pzu.pl/	✓	
mojePZU platform / application	✓ moje.pzu.pl		
video chat	✓ https://porozmawiaj.video.pzu.pl/video/pzu/		
phone	✓ 801 102 102 or 22 566 55 55	✓	✓
text message	✓ with the content CLAIM to the number 4102 – we will call you back and accept your notification		
in person in a branch	✓	✓	✓
to an agent	✓		
to a person handling group insurance in the company (for group life insurance)	✓		
in a workshop belonging to the company's repair network (motor claims)	✓	✓	✓
in a mobile office (during natural disasters)	✓		
by e-mail	✓ e-mail na kontakt@pzu.pl	✓	✓

In 2019 PZU extended the online service to report claims and benefits to include automatic calculation of the claim amount in casualty claims. The new release of the service also facilitates claim notifications for foreign partners. The service upheld its emphasis on simple communication language and was awarded the "Simple Polish Language Certificate" by the Institute of Simple Polish at the University of Wrocław.

In Poland, claims and benefits handling is carried out in competence centers operating across the country. It is founded predominantly on electronic information and is not tied to the insured's place of residence or the insurable event. The competence centers handle specific types of damage, which is conducive to stricter specialization and boosts client satisfaction. These units specialize, among others, in handling claims arising from property, motor or personal damage, claims reported by corporate clients, benefits, damage involving in the theft of personal vehicles or claims handled as part of the direct claims handling (DCH) service. A separate unit deals with technical issues related to claims arising from motor or property damage. A similar claims handling model is in place at PZU Estonia where there are 3 competence centers. Centralized among them is only the handling of certain types of damage, such as personal injuries, large property damages and marine damages. In other Group companies operating in the Baltic states and Ukraine, the claims and benefits handling process is entirely centralized.

In 2019, PZU created a separate unit to handle foreign claims and assistance services – the Foreign Claims Handling and Assistance Center, which specializes in handling international motor insurance claims, correspondent claims and claims representative's claims and also handles all the claims notified under travel insurance.

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

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

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

The claims self-service, which has been in operation since 2017, is currently triggered at the time of reporting a claim. In 2019, a client-friendly graphic scheme was implemented for the notification of ADD insurance claims and benefits. The client personally marks the character of injuries sustained on an intuitive human figure, which allows the mechanisms embedded in the system to calculate the benefit amount. The client may accept or reject the proposed amount. This is the only solution of this type on the market for handling ADD claims and benefits. In motor and property damage and in centers repairing devices damaged by a power surge, the client may also, prior to making a decision, assess on his or her own in a few steps the amount of indemnification payable. This information is then forwarded online to the Relationship Manager who executes the payment. This service allows clients to participate in the payout decision in a simple and convenient manner and accelerates the process itself by reducing the waiting time for the disbursement of the benefit. Satisfaction surveys carried out among PZU clients reveal the fact that insureds are of a very favorable opinion about this service. PZU companies in the Baltic States are rolling out similar improvements. In 2019, automatic death benefits payments were implemented. The payments are prepared by automated processes, which speeds up the handling process of those cases considerably.

On top of accelerating the process of determining the amount of the loss PZU has introduced a number of automated processes in order to speed up the payment of the indemnity by introducing robotics elements at the stage of summarizing the claims notification, sending out correspondence, making the claims decision and downloading police memos. Robotics are used in specific types of claims.

Additionally, in 2019, in order to optimize the claims handling process, an innovative technology using artificial intelligence algorithms was introduced in Repair Network workshops. The artificial intelligence algorithms implemented by PZU are able to analyze photos documenting a loss, but also name a specific part of a vehicle, assess the extent of the damage and classify a part for repair or replacement. Artificial intelligence needs 30 seconds to carry out such an analysis. Moreover, the solution makes it possible to select 90% of the documentation that fulfills the requirements needed to preserve high quality of claims handling in PZU. Artificial intelligence will forward the remaining claims requiring additional expertise directly to PZU employees.

Artificial intelligence also finds application in the analysis of documents and correspondence that PZU received from its customers. In 2019, a pilot program was carried out, which focused on the application of artificial intelligence mechanisms in the e-mail correspondence handling processes. The pilot confirmed that, by examining keywords, it is possible to automatically recognize and classify correspondence based on its purpose. The mechanisms assess not only the content of the e-mail but also its attachments in various formats. This technology, when combined with robotics (Robotic Process Automation) offers unlimited opportunities in further automation of responses to client questions. Also in 2019, the pilot of application of artificial intelligence to the understanding of medical documentation was completed. The application of machine learning and development of a model based on documents templates had surprising results. Out of a diverse set of new documents, the system is able to automatically find the correct one and is very effective in harvesting the requested data. It is irrelevant where in the document the data are located. The system is also able to standardize data, for example by changing various data formats into a single format desired by the user. The structured data are more suitable for further processing.

LINK4 also invests heavily in data analysis. As a result of such analysis, the company is able to understand the client better and prepare a suitable offer. The other transformation focus is the claims side, where new technologies can strongly drive our competitive edge. The robots that LINK4 has been using since 2017 make the claims handling process much less engaging for the client and also fast.

In 2019, the family of claims robots was increased by 15 more, which had a significant impact on the efficiency of work and the possibility to introduce additional activities that are satisfactory for the client. Among others, they support: automatic registration of motor and casualty claims, update of the reserve amount and entry of costs of inspections carried out by third party suppliers, verification of a vehicle's loss ratio, collection of loss documentation, handling of memos from the Insurance Guarantee Fund, handling of medical opinions or review of vehicles with MOD insurance.

However what will determine competitive edge in the coming years is claims segmentation analytics, on which LINK4 launched research in 2019. It will enable integration of analytics engines, which determine the claims registration and handling path. The change allows a relationship manager, at the claims registration stage, to select an appropriate path for handling the claim taking into account the business rules as well as the client's behavior model and its preferences. During a discussion, the relationship manager enters data in the system and then obtains the proposed claims handling path, which is communicated to the client during the same visit. Claims segmentation analytics also enables early detection of total losses, which can speed up the claims handling process significantly in such cases. In the claims handling process, loss adjusters have a significant impact on the customer experience. Their work in LINK4 is also supported by technology. A specially-designed application allows them to calculate the claims amount more precisely based on the stored customer data. The solution enables the analysis of information obtained in contacts with the client, which allows it to propose the cooperation scenarios that match client preferences the best.

In addition to the robots supporting LINK4 employees in their daily work, the company also provides tools that the clients themselves may use to reduce the claims handling time to the necessary minimum. This is supported by the new mobile app and accelerated claims handling paths. In 2019, LINK4 introduced a new claims registration form in TPL motor insurance, which enables quick and efficient collection of data and then setting of a claims handling path based on business rules and actual client preferences. Clients increasingly select the accelerated claims handling path, under which the insured may receive the benefit within 24 hours. They can use an application in the phone's mobile browser and attach photographs of the loss in a simple form. In 2019 more than 30% motor claims and 65% apartment claims were handled using the simple procedure. The fastest claim was paid out to the client's account four hours after the loss was reported.

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

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

In 2019, PZU optimized the Road Assistance selection process in Poland. At present, the Road Assistance selection process is done automatically by robots, which search for the nearest road assistance crew based on information entered by the consultant. Road assistance selection can occur as the consultant is still talking to the client, which reduces the time a tower reaches the insured significantly. Moreover, at the end of 2019, PZU signed agreements with two per-minute car rental companies. A client entitled to a replacement vehicle may use a PLN 300 or PLN 500 voucher to use a vehicle from these operators. As a result, the client is able to use the replacement vehicle only when it is really needed.

2019 was another year of cooperation with repair shops in the area of post-accident vehicle repairs in countries covered by the PZU Group's insurance business. PZU has created Poland's largest network of cooperating repair shops enabling the Company to control the quality and speed of service already at the claim handling stage. Every client who orders a repair in the PZU Pomoc repair network receives a Quality Certificate guaranteeing that the repair has been performed in accordance with the highest standards. PZU is refining its proposal to assist clients in managing damage remains by selling them on the Online Assistance platform. Clients are presented with a proposal to sell their damage remains for the highest purchase offer obtained from reliable entities that cooperate regularly with the platform administrator (a similar solution is also available to clients of the Estonian Lietuvos Draudimas branch).

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

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

Since 2014, the Assistance Organization Team (PZU Client Relationship Managers) has been operating in PZU, a solution that is unique on the insurance market. These are mobile members of staff who visit injured persons directly in their homes to determine the actual standard of living of the victim and in consultation with the victim assess his/her needs arising from the accident for which PZU is liable under TPL insurance. For severely injured accident victims, PZU Client Relationship Managers arrange a broad array of medical and social rehabilitation and psychological support. Injured parties have the option of obtaining treatment and rehabilitation in modern medical centers cooperating with PZU. Persons who have become disabled as a result of an accident are given advice on how to adapt the closest environment to their needs, how to select properly devices that compensate for dysfunctions and disability. Injured children are covered by a program of comprehensive, long-term psychological support featuring, as one of its elements, therapeutic/leisure camps run by counselors experienced in treating post-accident trauma. In 2019, this PZU program was extended to also cover the children who experience trauma after a parent dies as a result of oncological disease. This way PZU addresses the social effects of this increasingly common civilization disease.

PZU continues the property pre-claims handling procedure introduced in 2017. It entails initiation of contact with a client who has been injured in a chance event, i.e. after a gas explosion. Within the scope of measures taken in this process, in 2019 PZU contacted 143 clients who received a proposal of utilizing assistance services in line with the type of event that had occurred. In some of the cases claims are registered in order to launch an efficient claims handling process. Each contact generated a positive client response.

In 2019, the Remote Client Service Center launched the PZU GO service. Its main aim is to help on life threatening situations and monitoring driver and passenger safety when driving, as well as developing correct and safe driver behaviors. The PZU GO mobile app is connected to a small beacon device, installed on the car windshield. The device collects data and sends them to the PZU GO app via Bluetooth. When it detects a situation which may suggest an accident it sends information on the client's location to PZU's Remote Client Service Center. A Center employee contacts the client to check if they need help. If telephone contact cannot be established, emergency services are called to the scene (ambulance, fire brigade, police). The PZU hotline may be also contacted by pressing a single button (SOS) on the app's main screen. PZU GO is not only emergency help – it is also professional assistance in arranging for towing, replacement car rental, claim registration or help in quick disbursement of the claim. After the event PZU remains in constant contact with the client so that at each stage of recovery and repair of material damages, the clients know that they can rely on PZU. In the process, emergency services have been called to 12 events and road assistance to 10 events.

In 2019, PZU started to professionally use a drone technology entailing visual material processing. The first flying missions were executed in large-scale damages using the DJI Matrice 200 drone equipped with a photo/video camera. The 3D model of the waste storage halls damaged by an extensive fire generated on the basis of photos from the drone in the PiX4DMapper photogrammetric program is a good example of its application. It made it possible to measure the actual distances, areas and volume of selected model elements. In addition, the machines located in the halls could be analyzed in 3D for identification and measurement purposes.

In practical handling of crop claims resulting from ground frost PZU applies the remote sensing method. Remote sensing makes it possible to obtain information concerning facilities or areas from a distance (remotely), most frequently by using sensors installed on aircraft or satellites facilitating the measurement of reflected and emitted radiation. In the autumn of 2019 PZU carried out the tests of the use of satellite remote sensing in risk underwriting in conclusion of winter crops insurance. Satellite remote sensing also worked in elimination of frauds involving reporting damages in fields where the crops have already been collected. The remote sensor method features objectivity and makes it possible to source the data required to calculate the indemnity quickly for a large geographical area. PZU can see a broad application of remote sensing in claims handling hence the method is subject to constant improvements.

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

In January 2019, the Insurance Fraud Prevention Team was moved to the Security Department. This change was aimed at establishing single point of supervision over all cases associated with prevention of crime, including insurance crime.

PZU also tries to construct the processes and improve client service based on the employees' experience. By the end of 2018 the Inspiration Council was established. The Council members include invited employees with outstanding knowledge, competences, creativity and engagement. There are over 400 participants. The Inspiration Council is a place where employees put forward solutions facilitating their daily work and improving client service processes. Ideas are analyzed, developed in detail and, to the extent possible, implemented. Employees appreciate both the development opportunities and their impact on the changes.

The Subrogation Agreement Service System for property claims (SOPR_M) – in November 2018 most insurance companies operating in Poland signed new agreements pertaining to handling of subrogation claims:

- Agreement on mutual recognition of subrogation claims in property insurance (up to PLN 1 million) and
- Agreement on simplified procedure for mutual recognition of low-value subrogation claims in property insurance (claims from PLN 2 to 10 thousand).

In the above agreements the parties agreed that exchange of information on subrogations will take place through the SOPR_M application operating in the web technology. All operations in the system will be performed using a web browser.

Subrogation claims may be registered in the system in two ways:

- manual data input, individually on a form, using the user interface;
- through import of files saved in the xml format, individually or several claims in one file.

Similarly, subrogation claims may be received by users with the appropriate entitlements in the SOPR_M system, assigned to the insurance company receiving the given subrogation claim.

The application also comprises a number of useful functionalities, such as a browser, reporting module or control module supporting daily cooperation between insurance companies.

Practical launch of the use of the SOPR_M application took place and the first experience with the application was gathered in 2019.

Innovations in insurance

Laboratorium Innowacji

Innovations, digitalization and development of new technologies are processes that have been in progress for years in all the sectors of the economy. By rolling out many new solutions companies are gaining an ability to transform their strategy, business model and client, partner and employee experience. PZU grasps how new technologies are changing the insurance industry. In recent years, the PZU Group has been very active in implementing innovative solutions. Activities in this area are supported by the Innovation Laboratory – a unit created with a view to verifying the latest technological trends and testing new solutions across the organization. Modern solutions are being created both internally and in cooperation with the best start-up companies in the respective fields. Annually, 1,500-2,000 solutions are analyzed and 12-15 pilot projects are run. The projects executed with the support of the Innovation Laboratory have been awarded both in domestic and international competitions (in 2019, among others, Gazeta Ubezpieczeniowa's award for the Band of Life, Gazeta Bankowa's award for AI in claims handling and PZU GO, award from Fintech and Insurance Awards for PZU GO, award from Corporate Innovation Awards for the Innovation Laboratory for its overall activity).

Innovative solutions are also collected internally using the Idea Generator, a portal to administer competitions and share inspirations among employees. Since November 2017, more than 400 ideas have been submitted under 6 competitions.

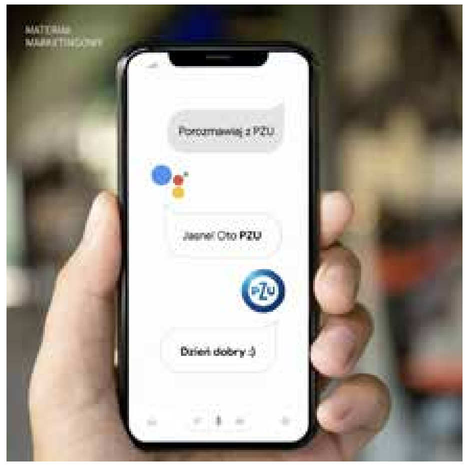
In November 2019, the second year passed since the time when the PZU Management Board adopted the Innovation Strategy developed by the Innovation Laboratory. Its purpose is to help pursue the PZU Group's mission and strategy and maintain the high level of competitiveness in the new technological environment. The Strategy points to three specific areas in which PZU should be especially active while seeking innovation: the use of Big Data, digitalization and new interactions with clients. The designated areas ascribed the direction to be taken by the pilot projects organized in cooperation with the Innovation Laboratory, the relevant business departments and IT. In 2019 they made it possible to vet the ideas and prepare the implementations, i.e.:

- PZU Cash - CASH is a new, innovative financial employee benefit platform, prepared by PZU in cooperation with Alior Bank and Bancovo. After less than eight months from the launch of the project, the platform is available to over 10 thousand PZU Group employees. In the next months the plan is to make the platform available to further organizations who want to offer to their employees the exceptional benefit in the form of easily available, low-interest loans. Each employer who joins CASH will have the possibility of offering the new type of benefit to their employees. Every employee who is bound to his/her employer through an employment contract will have the option of applying for a unique loan. The main advantages of CASH include:
  - attractively priced offer delivered by a reliable partner – Alior Bank,
  - the loan can be used for any purpose – from renovation of an apartment, through holiday, school materials to purchase of a car or satisfying any current need,
  - the process is fully online – from completion of the application to the signing of the agreement via an SMS, which is convenient for the user,

  - installments are repaid directly from the salary, thanks to which you do not have to remember about them.

  The CASH platform may become a new line of business for PZU and a unique win-win solution for employers and borrowers;
- Band of Life –an electronic wrist device, which monitors the basic vital parameters of patients and alerts medical personnel and the people around of any emergencies. The device monitors oxygen saturation of blood, pulse and temperature. If necessary it sends information on the location of the patient who needs help. It is also equipped with a fall detector which activates an alert if the patient falls down. Then the Band of Life diagnoses the risk of deterioration of life parameters it asks the user to contact the medical personnel to carry out a new check-up. This is a pioneering project which PZU introduces in cooperation with the Ministry of Health. Thanks to this technology also the medical personnel obtains support, to provide help to the ill faster and more effectively. For the first time in Poland such an advanced, modern technologies can be used using non-public funds, in medical emergency services and health care;

- PZU Assistant - a few months after the premiere of the Polish version of the Google Assistant service, PZU implemented its own virtual advisor on the Assistant. Using the solution the users of Google Assistant may talk to PZU about insurance for the journey they plan. To start a conversation, you just need to say "OK Google, Talk to PZU". Consequently, PZU is Poland's first insurer to use the intelligent voice assistant to communicate with clients. Thanks to the actions implemented by PZU, in cooperation with one of Polish startups, the users of Google Assistant will be able to talk to PZU's virtual consultant about travel insurance. The solution will enable them to instantly learn the preliminary offer and the price of the PZU Voyager insurance estimated on the basis of individually selected parameters. If the client is interested in the presented options, they will be contacted by a consultant from the PZU hotline to discuss the details. The Google Assistant is available both in Android and in iOS. This is one of the most popular voice interfaces in Poland. Using the implemented actions users may take advantage of the services of the virtual advisor in different areas, such as finance, eating out or education;



- #challengePZU - as part of the MIT EF CEE program, supported by the Innovation Laboratory PZU, in cooperation with ChallengeRocket, launched a recruitment campaign under the name #challengePZU (www.pzu.challengerocket.com). PZU used globally innovative formula of an open challenge to recruit programmers (Java and SQL specialists). The methodology is based on the so-called Skill Challenges, which are thematically related to the scope of knowledge required on the given position. Candidates, before being invited to the next recruitment stage, have to demonstrate their real skills. Artificial intelligence analyzes the answers and the candidates' code and assesses their skills, highlighting deficiencies, if any. Such actions are an element of the innovative strategy implemented in HR departments, based on constant recruitment of the best candidates and building a "Talent pool" dedicated to the organization. Within 2 months the challenge attracted 521 users to the brand, 73% of whom expressed interest in participation in the organization's recruitment processes. Over two months the official site of the challenge was visited 12,605 times, and the information about the campaign had arround 145 thousand hits. Efforts of this type are not only a very effective element of the employer branding strategy but also an effective way of reaching both active job seekers and the so-called passive candidates who do not respond to traditional job offers.

In 2019, PZU continued collaboration with two startup accelerators: MIT Enterprise Forum CEE and RBL_Start (Alior Bank's accelerator). The former one looked for solutions related to 3 key areas specified in PZU's Innovation Strategy (big data, digitization, new client interactions) while the latter one focused on data analysis, relations with clients, security and new distribution channels. The solutions put forward under these programs enjoyed interest from selected business areas – in both programs 9 pilot implementations were launched in the two programs.

LINK4

LINK4 is the PZU Group company that has long been known for its innovative approach to motor insurance. On the Polish market the Company is running a number of innovative projects to distinguish the brand and position it among the top modern and digital insurers.

In 2019, the Robotic Process Automation area recorded fast growth. This solution imitates human work and is capable in simple tasks of fully assisting employees in their daily tasks. That means employees can do more interesting and more development-focused tasks offering greater business value to the company. At the end of 2019 the company had in place 36 business processes executed fully or largely by robots.

In 2019 the company organized the second edition of the conference dedicated to the topic of innovation, addressed to the company's employees. The company's culture of innovation is an extremely important aspect that forges the generation of new and interesting projects and ideas. Events like the LINK4Future conference stimulate creativity among employees and allow for noticing interesting solutions from other industries and markets. Like in last year's conference, mainly external speakers were invited.

LINK4 has been putting emphasis on the competences of its employees for some time now. In 2019 the Analyst Academy was established to improve the analytical skills of the persons employed on three advancement levels. In the first semester there were approx. 50 participants. The Analyst Academy significantly supports the entire process of transformation of LINK4 into a Data Driven Company. The transformation into a Data Driven Company involves development of the technology and organization around data collection and processing, machine learning and artificial intelligence. To this effect the Data and Advanced Analytics Center was established in LINK4. Its key tasks include: data processing and preparation, development of predictive models and data reporting and visualization. The project's overriding objective is to generate value through comprehensive and advanced data analysis in the entire organization.

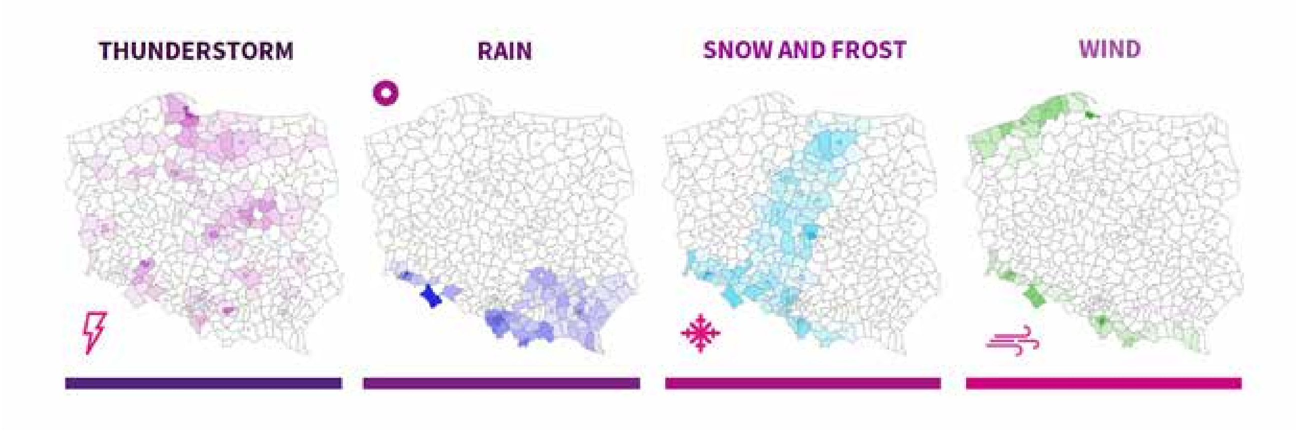
2019 was also a year of testing different technologies in the company. In areas such as claims, client service, sale or back office, technologies in, among others, the following areas were tested: picture analysis, text analysis, speech/voice analysis and automatic search of processes for robotization. The achieved results show the technology's great potential, which will be reflected in the company's implementation schedule for 2020.

The company employs telematic solutions to enhance safety on Polish roads. For every motor policy purchased, it offers a free NaviExpert navigation service to its clients whereby it analyzes a driver's driving style. Another year of the functioning of the telematic program called "Cash Back" made it possible to improve analytical algorithms and the mechanics used to reward drivers. Link4 rewards people whose driving style it considers to be smooth and safe – the reward is in the form of Polish zloty accumulated on a client's account. At the end of the policy term drivers can receive a payout of this amount or apply it to lower the premium for a new policy. 45.5 thousand drivers, who drove 108.5 million kilometers with the app regularly turned on, took part in the telematic promotion in 2019. At the end of December 2019 the second million of zlotys in bonuses generated in the LINK4 Cash Back program was exceeded – the winner obtained a refund of PLN 1,200.

Weather alerts, i.e. text messages with information about extreme weather conditions (such as gales, tornadoes, torrential rains, storms, snow storms), which LINK4 sends to clients who have real property insurance or motor insurance, are very popular among clients. In the event of expected sudden and severe weather phenomena clients receive a text message containing a warning and a website link where they can read about how to protect themselves against the adverse consequences of various weather events. In 2019 LINK4's clients received over 425 thousand such alerts.

To track on a continual basis trends, changes and new developments in innovation LINK4 constantly cooperates with trend watchers and the startup community. In 2019 a decision was made to continue the cooperation with the startup accelerator organized by MIT Enterprise Forum CEE.

Areas to which alerts were most frequently directed in 2019 broken down by weather phenomena



In addition, in 2019 tests of two solutions important to clients and agency partners were launched. The first tool was a mobile app aiming to facilitate the agents' work. It will make it possible, for example, to scan car documents and put offers for clients directly into the system which the agents use, and quickly send the clients' documents to LINK4 by taking a picture of them and attaching them to the policy/offer directly in the app. The application will also make it possible to quickly carry out a car inspection, thanks to a module who will lead the agent step by step, prompt which pictures to take and then attach them to the policy. The second solution at the testing phase is a new calculator on the website which limits completion of fields to the minimum, e.g. through introduction of the possibility of quick scanning of a QR code or inputting the PESEL number, thanks to which the insurer will quickly verify the client in the Insurance Indemnity Fund database.

PZU LAB

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

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

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

The ESTools system, developed by PZU LAB together with its technological partner F@BE (FABE Safety Factory) under an acceleration program, serves to increase and maintain safety in industrial plants using modern technical measures and organization management methods. The system supports ongoing control of insurance audit orders.

In 2019, as part of PZU's prevention fund, PZU LAB launched the RyzykoPro program thanks to which approx. 50 Polish businesses will be equipped with the ESTools system free of charge. Businesses, in addition to the technological solutions enhancing the safety of their operations, will receive the support of PZU LAB's risk engineers in the daily conduct of their operations.

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

PZU LAB has highly qualified engineering staff in the area of thermovisual measurements, holding the international ITC Level 1 (Infrared Training Center) certificate. Thermovisual measurements are performed by practitioner engineers with established theoretical background in infrared measurement techniques. PZU LAB engineers also have industry-specific expertise regarding operation and measurement of power facilities and mechanical systems. Based on the audit, the client receives a thermovisual report constituting a tool for managing risk in the enterprise. PZU LAB conducts training regarding thermovisual measurements for clients and business partners, increasing the competences of the safety services in the daily safety management in the enterprise.

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

One of PZU LAB's initiatives is a study program entitled "Risk management in the enterprise in the insurance aspect" launched in September 2018 together with the Business School of the Warsaw University of Technology. During studies, risk managers in a business, agents, brokers and students have an opportunity to absorb a huge amount of practical knowledge on risk management, the role of insurance and deployment of state-of-the-art technologies. Lectures and case studies are presented by outstanding professionals combining theory with practice, who on a daily basis work on the point of contact of the world science, business, institutions and engineering offices. During the classes, also PZU LAB experts share their expertise on risk assessment and optimization in industry. In 2019, PZU LAB made a decision on continuation of the studies in the extended two-semester formula with a new academic partner - Kozminski University in Warsaw.

PZU LAB also cooperates with NASK SA on improvement of security of the Polish industry's IT infrastructure. Clients receive not only support in enterprise risk management and adaptation of the security levels to the requirements of insurance and financial institutions in Poland and abroad, but also comprehensive technological support in designing and implementing state-of-the-art technological solutions in the area of IT/OT system cybersecurity. PZU LAB and NASK SA have developed a proprietary program of 7 steps allowing for implementation of the requirements following from the Act on the National Cybersecurity System.

PZU LAB continues the initiative of sharing knowledge and promoting "best practices" with industrial clients in cooperation with the institutions responsible for security and with academic partners, organizing regular security forums for the maritime, power and timber industries. In 2019 the total number of participants in the events organized by PZU LAB exceeded 500.

PZU LAB takes part in the acceleration program – Poland Prize, financed by PARP, aimed at putting together young international technological companies with the demand of big corporations for new technology innovations in solutions for business. As a result of the work on the project and acceleration of one of the startups, in November 2019, a company under the name 3dvRisk was established, which on PZU LAB's order, created Poland's first prevention portal. 3DVRisk Sp. z o.o. prepares realistic 3D animations presenting loss events from the initial cause to the final effect. The aim of the animation is to show the causes of loss events in order to avoid similar events in the future. The animation is a training element for the company's employees. After watching it the employee takes a test on the knowledge of safety rules associated with the presented event. The animations are aimed at attracting attention to the errors that can be made in the production process.

PZU LAB has started work on the certification of Polish industry. The certification model follows from the needs of enterprises conducting activity in Poland and wanting to compete on international markets. The objective of the certification is to increase the trust of domestic and international partners in the enterprises certified by PZU LAB, in particular in the safety of their processes and thus reliability of the products and services supply chain. The enterprise safety certification model is a unique solution in the European market.

PZU LAB, together with the Pomeranian Special Economic Zone, has undertaken an initiative involving the launch of a pilot service of the Innovation Transfer Center. The purpose of the Innovation Transfer Center's pilot is to better utilize the intellectual and technical potential, development and transfer of technologically advanced solutions to the economy, development of Poland's innovations ecosystem, and development of Polish economy based on technologically advanced and eco-efficient solutions. In addition, a tool will be developed for support, development and scaling of the developed solutions, thus generating profit through increasing the market value of the implemented solutions.

Investment and pension products

The PZU Group's insurance offer in Poland is complemented by an extensive range of investment products - open and closed-end mutual fund products and pension products - open-end pension fund, individual retirement security accounts with a voluntary pension fund, employee pension plans (PPE), individual retirement accounts (IKE), individual retirement security accounts (IKZE), and Employee Capital Schemes (PPK).

The Group offers investment solutions customized to the needs of all types of investors. In October 2018 the inPZU Internet platform was launched. It enables clients to invest on their own in passive funds, a new innovation on the Polish market. Currently the platform is available also on tablets and smartphones. It supports comparison of funds, definition of investment objectives and their personalization. It makes it possible to instantly search funds and ready model portfolios as well as to pay for orders online. This is an attractive tool both for advanced and beginner investors who are just starting their adventure with investments. Thanks to the cooperation with Goldman Sachs Asset Management initiated in 2019, in January 2020 it was possible to launch two new passive feeder funds: inPZU Goldman Sachs ActiveBeta Americal Large Cap Equity and inPZU Goldman Sachs ActiveBeta Emerging Markets Equity. Funds of this type are aimed at achieving a better risk profile and return on investment in the entire investment cycle compared to traditional ETF funds based on the index level and weighted by the market capitalization of the companies. In addition TFI PZU has launched a subfund inPZU Akcje CEEplus, created in cooperation with the Warsaw Stock Exchange and based on the WSE CEEplus index, comprising over 100 of the biggest and the most liquid companies from Croatia, Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary.

5.3 Health

The Health Area has become an integral part of PZU Group's business model in 2014. Currently, the operations associated with development of medical services are one of the most important growth areas of the PZU Group. At the end of 2019, the Group had 2.7 million in-force health contracts. This is a 18% increase in relation to 2018. In 2020 the health business is expected to generate PLN 1 billion in revenues.

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

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

Clients and products

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

- Corporate client segment (life and health insurance) – the sales of group life and health insurance constitute the basis for the business operations of the PZU Group's Health Area. The offering is addressed to corporate clients and the SME and micro business segments. Employers may purchase insurance in the sponsored or co-financed model, or negotiate a group offer for their employees;
- Mass insurance segment (health, non-life insurance) – mass clients buying non-life policies are offered additional health insurance of assistance nature, ensuring access to specific medical services if an event under the basic policy occurs;
- Retail client segment (life and non-life health insurance) – retail clients are provided with health care under health

insurance in the form of individual continuation or rider to life insurance;

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

Distribution network

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

Medical infrastructure

PZU Zdrowie cooperates with more than 2,200 partner centers in 620 towns and cities in Poland.

At the same time, it has been consistently developing its own network of 130 medical centers, among others in Warsaw, Gdańsk, Poznań, Katowice, Częstochowa, Radom, Płock and Opole, which in aggregate employ more than 2,200 physicians. Initially, it was created by acquiring local healthcare service providers with extensive experience and a good reputation in the medical community. Currently, PZU Zdrowie is expanding the scope of its operations through acquisitions and, in parallel, through building greenfield medical centers, which makes it easier for the company to usher in uniform standards in terms of equipment and patient service in such facilities.

In 2019, 1 new PZU Zdrowie medical center was opened – in Wrocław. This is another center situated in an excellent location, built on a greenfield basis with interior design consistent with the latest visual identity standards of the PZU Zdrowie brand. Additionally, a new center was opened in Radom, also in compliance with the new standards. The newly opened medical centers have a multi-specialization profile, to enable both patients benefiting from the medical care offered by PZU Zdrowie and patients who use the services rendered in these centers on an ad hoc basis to be provided with the necessary medical assistance. An important issue is the location of these centers – they have been established in modern buildings easily accessible by public transport.

Additionally, PZU Zdrowie merged with Revimed and Artimed in 2019. In December 2019, Elvita merged with Multimed and in January 2020 Profmed merged with CM Medica.

In 2019, three acquisitions were finalized – Alergo-Med (acquired by PZU Zdrowie), FCM Zdrowie and Starówka (acquired by PZU Zdrowie) and Tomma Diagnostyka (acquired by PZU Zdrowie), leading providers of private medical care.

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

Rozwój skali działalności PZU Zdrowie

Your health and employee health

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

Health protection

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

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

Daily medical care

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

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

Employee health

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

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

Distribution network

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

Contact channels

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

- self-service website mojePZU with access to the calendar of appointments of each center;
- 24/7 hotline;
- appointment scheduling form on pzu.pl;
- PZU mobile application (available from App Store and Google Play);

Innovations

In 2019, PZU Zdrowie either started or continued the execution of the following IT projects aimed at improving its customer service:

- mojePZU – a self-service website of the PZU Group offering healthcare functionalities, enabling the holder of health products to:
  - make or cancel an appointment over the Internet,
  - see which centers cooperate with PZU,
  - check the list of past and upcoming appointments,
  - verify if a specific medical service is covered by the user's insurance,
  - obtain advice on how to prepare for an examination;

Contact channels

self-service portal mojePZU

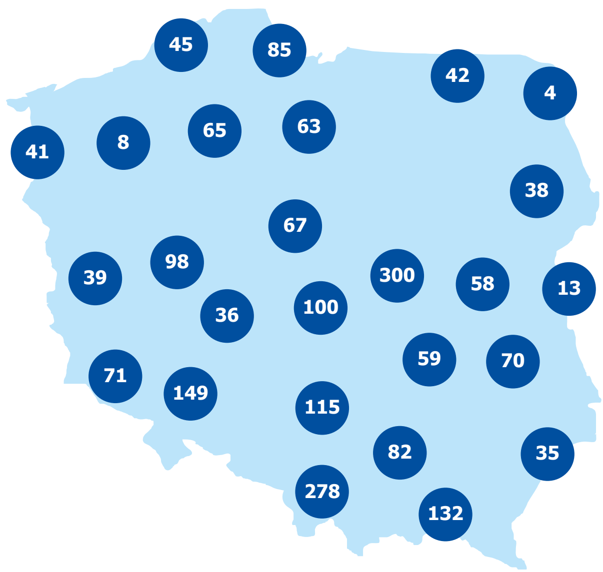
24/7 infoline 801 405 905

form on pzu.pl

mobile application

chat with consultant

Find a medical center



Facilities for patients

> We guarantee short waiting times for medical appointments – our availability deadlines are stated in the general terms and conditions of insurance (2 business days for a primary care physician, 5 business days for a specialist physician).

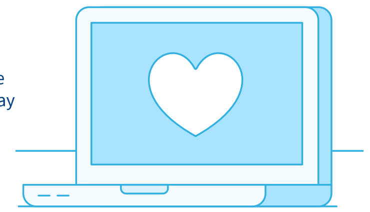
> Our patients can benefit from services throughout Poland – our partner network covers 620 towns and cities and we keep developing our own network of 130 centers.

> We provide remote medical care – our patients can use a phone, chat or video chat to consult specialist physicians of over a dozen medical fields. During remote consultation, patients may discuss their ailments, test results and receive prescriptions for medicines taken permanently as well as obtain referrals for examinations.

> Patient's path – the purpose of the platform is to conduct a patient check-up, which is very similar to when a physician conducts an examination, followed by presenting the most probable solution and defining the next steps. This may be phone consultation, video consultation or a chat with a doctor or a visit in a clinic to with a specific specialist. However in many cases such a discussion with a patient may end with an advice or a prescription sent without any need to leave home.

> We do not require referrals to visit specialist physicians and we also honor referrals from physicians from outside our network.

> We also allow our patients to get treatment from doctors from outside our network: through the reimbursement option clients may use medical services included in the coverage outside of our network.



- Olimp – PZU Zdrowie's website assisting employers in handling various matters related to occupational medicine services, for example by:
  - monitoring expiration dates of employees' medical examinations,
  - enabling the creation of a referral for an examination with "one click",
  - enabling the PZU Hotline to contact the employee with sufficient advance notice to remind him/her about an upcoming examination,
  - providing the PZU Hotline with the referral form to facilitate the conversation with the employee and schedule his/her examinations,
  - creating a list of things to do related to ongoing handling of occupational medicine services and sending reminders by e-mail,
  - enabling the handling of several companies from the same group;
- Communications broker – a project integrating the calendars of partner network centers and own network centers, facilitating the process of scheduling appointments and the provision of medical services;
- Virtual Clinic – allows for remote medical consultations and purchase of prescribed medicines in a selected pharmacy;
- EDM – a project implementing medical documentation in own centers.

5.4 Banking and strategic partnerships

A major element of the PZU Group's business model is the banking business. The tightening of cooperation with the banks within the PZU Group (with Alior Bank and Bank Pekao acquired by the Group in 2015 and 2017, respectively) has opened up tremendous growth opportunities, especially in terms of integrating and focusing services on clients at every stage of their personal and professional development. Cooperation with the banking segment forms an additional plane for PZU to build lasting client relations. Its ambitious targets entail the sales of insurance to the clients of Bank Pekao and Alior Bank as well as PZU bringing insurance clients as new clients to these banks.

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

PZU's activity in cooperation with the Group Banks takes place primarily in the area of bancassurance, assurbanking and cost synergies.

Effects of cooperation in 2019:

- in the bancassurance area in Bank Pekao's branches, the sale of express loan (PEX) borrower insurance was launched. In addition, the bank's offer was expanded to include property insurance for housing loan borrowers thanks to which the clients have the possibility of securing their finances in the event of unexpected events during loan repayment. PZU continues and actively develops the sale of real property insurance and loan repayment insurance (PEX) in remote channels;
- in cooperation with Alior Bank PZU continues and actively develops the sale of life insurance for cash loan borrowers and property insurance for mortgage loan borrowers. Direct sale of "Pomoc w podróży" travel insurance was launched in Alior Bank's Exchange Office;
- Alior Bank introduced voluntary protection insurance as a supplement of the banking product offer for the business client, offering, in cooperation with PZU, real property insurance (against fire and other elements) for clients using non-revolving loan secured by real property. The insurance is offered in the so-called individual model in which Alior Bank appears as an insurance intermediary;
- in the assurbanking area, in cooperation with Bank Pekao, end-to-end sale in the remote channel was launched, thanks to which PZU became the biggest external partner of the bank in the sale of checking and saving accounts (ROR);
- PZU's own branches launched a pilot campaign entitled "Auto plus account" (TPL 10% + ROR PLN 200), supporting the sale of TPL insurance and promoting the sale of the Bank Pekao's Konto Przekorzystne account;
- as part of the cooperation with Alior Bank, PZU has developed an innovative loan platform under the name CASH. In September 2019, the platform was made available to PZU's employees. The platform is a good example of synergy and utilization of the strengths of the companies within the PZU Group. The implemented business concept

has an opportunity to become a unique solution in the Polish loan market, showing at the same time that the PZU Group is committed to finding the best ways of satisfying client needs, including those in the area of finances. The CASH platform may become a new line of business for PZU and a unique win-win solution for employers and borrowers;

- Alior Bank has prepared an attractive offer of banking products for the employees of the work establishments with which PZU TFI has signed Employee Capital Scheme (ECS) agreements and which have decided to opt for saving up under the ECS. Through this channel Alior Bank has an opportunity to reach a broad range of individual clients, who may become new clients of the bank or may expand the bank's products they currently have, and the companies themselves with an offering of products and services for the business client. For PZU the cooperation with Alior Bank increases its competitive edge in the ECS market;
- as part of the cooperation with banks, insurance programs were launched for the banks' employees and special offers on bank products for the employees of PZU Group companies;
- as part of the cost synergies in the area of IT, administration, real estate and security, the annualized cost synergies reached PLN 123 million.

As a leader of the Polish financial market, with immense potential to create innovative solutions for business and one of the biggest financial groups in Central and Eastern Europe, the PZU Group actively promotes Polish economy abroad.

During the 2020 World Economic Forum in Davos PZU together with Bank Pekao organized, for the second time, the Polish House (Dom Polski) – a place devoted to promotion of Poland, its economy and the entire Tri-Sea Region. The leading

theme of this year's Polish House was #GrowingEurope, illustrating the growth and investment potential of the region. Debates and panels organized in the Polish House with the participation of the most important personalities from the world of politics and economy were dominated by the topic of development and promotion of this part of Europe. The Polish House was also a space for presenting the entrepreneurship and innovativeness of Polish businesses. Thanks to meetings with Polish champions, global decision-makers had an opportunity to learn the opportunities offered by the businesses from Poland and the region. In addition to promoting business, the creators of the Polish House were driven by one more important objective – promotion of the Polish culture and spreading the knowledge about Poland. This was very visible inside the Polish House – designed especially in the style of Polish folk art. The leading motif and inspiration for the authors was the highlander culture.

In the Polish House in Davos, on the initiative of the President of PZU, a memorandum establishing the Business Council of

Insurance for individual customers of Bank Pekao

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

Insurance for individual customers of Alior Bank

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

Growing Europe was signed. The signatories of the Business Council, in addition to PZU and Bank Pekao, included 12 companies known in the international arena and developing their activity on at least regional level. The purpose of the initiative is to promote Central and Eastern Europe as an attractive direction for investors from across the globe and supporting cooperation between the business leaders from the region. The declaration assumes organization of joint events, participation in panels and meetings at the most important conferences and business events, as well as cooperation with experts and advisors. The close cooperation is to promote Central and Eastern Europe as a hub for development of the latest technologies, infrastructure and renewable sources of energy.

The World Economic Forum in Davos is one of the most known and prestigious meetings of key political leaders, global business leaders, renowned intellectuals and experts and journalists. Every year is participants focus on looking for solutions to the biggest economic and social problems of the contemporary world. In total, every year, the Forum is attended by approx. 3 thousand representatives from 110 countries.

Bank Pekao - clients and products

Bank Pekao

Bank Pekao is one of the largest financial institutions in Central and Eastern Europe and one of three biggest universal banks in Poland. With the second largest branch network, it serves over 5.5 million retail clients. As Poland's leading corporate bank it provides services to one out of two corporations in Poland. The status of a universal bank relies on the leading market position in private banking, asset management and brokerage activity. The Bank offers all financial services available in Poland to individual and institutional clients. The group comprises over a dozen companies which are national leaders in the area of brokerage services, leasing, factoring, financial investment and transaction advisory services. SECTION 3. OPERATION OF THE PZU GROUP

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

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

- Retail and Private Banking – providing services to individual clients, including affluent private banking clients and microbusinesses. Private banking clients are offered investment advice through private banking centers and remote channels, and all retail clients and microbusinesses are served using the extensive network of own branches and partner centers supported by market-leading remote channels, including digital channels;

- Banking for Small and Medium-sized Enterprises (SME) – providing financial services to clients from the SME sector who are serviced by advisors, supported by product specialists. The service is provided in specialized Business Customer Centers and universal retail branches. Clients are offered products and services tailored to their individual needs, based on proven corporate banking solutions and adapted to the needs of the SME segment;
- Corporate and Investment Banking – offering financial services to medium-sized and large corporations (segmentation based on revenues), public sector entities, financial institutions and the commercial property finance industry. Corporate and Investment Banking clients are serviced by advisors, supported by product specialists.

The Bank has measurable advantages which allow it to effectively compete in the market and strengthen its market position in strategic areas of operations. The Bank offers competitive products and services, high-level customer service and developed network of branches and ATMs, providing convenient access throughout Poland, as well as a professional call center and a competitive Internet and mobile banking platform for individual and corporate clients, and small and micro businesses.

The Bank focuses on organic growth and implementation of the adopted strategy and monitors the consolidation trends in the Polish and European market which may have impact on its competitive position and possibility of supporting the execution of the Bank's strategy through inorganic growth. At the same time it consistently develops cooperation with the PZU Group and realizes the resulting synergies.

Distribution network

Bank Pekao's customers can use an extensive distribution network with convenient location of the branches and ATMs throughout Poland, as well as a professional call center and a competitive Internet banking and mobile banking platform for individual and corporate clients, and for small and micro businesses.

As at the end of 31 December 2019, the bank had 805 own branches and 1,648 own ATMs. With a competitive offer of products and services in the Polish market and a high standard of customer service, the Bank administered 6.2 million PLN current accounts, 394.3 thousand mortgage loan accounts and 717.2 thousand Express Loan accounts.

Innovations

Innovation is one of the strategic priorities of Bank Pekao. The bank has an Innovation Laboratory within its structures, which executes actions related to implementation of new solutions. The laboratory team focuses on designing innovations which will allow for improving the existing and developing new Bank Pekao products and services. The bank wants to effectively build its internal innovation structure, releasing the employees' entrepreneur creativity. It also focuses on cooperation and partnership both with young, innovative startups and experienced technological companies, offering financial technology solutions.

In 2019, Bank Pekao continued the digital transformation process, comprising over 200 technologically advanced initiatives focused on development of sales and improvement of the quality of service in the remote channels, automation and robotization of the processes and enriching the offering to include state-of-the-art digital services.

Bank Pekao's electronic banking is systematically modernized and developed. In 2019, the bank launched a new release of its electronic banking platform Pekao24 for retail clients. It also works on further development of the PeoPay mobile application and continues to improve its digital solutions dedicated to corporate clients.

Under the Digital Transformation Project, retail clients were provided with access to a new version of the electronic banking service – new Pekao24. The new service is based on the responsive technology (RWD – Responsive Web Design), which is characterized by intuitive navigation facilitating the use of the service regardless of the type of device used by the client. The service has a rich financial analysis module supporting clients in the daily management of finances, modern and intuitive interface, which supports optimization of the transaction processes performed by electronic banking users.

The Bank has also given clients the possibility to 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. Pekao is the first bank in Poland which offered the identity verification process based on face biometrics. Additionally, business clients have the possibility of contacting the bank via a chat, video and voice connection with the bank's hotline via the internet.

Pekao consistently develops its modern PeoPay mobile application, actively used by 1.4 million clients. In 2019, the voice operation of the application was launched. PeoPay users may quickly and conveniently check their account balance, contact the hotline, generate a BLIK code or order a transfer using the Google Assistant.

Leveraging the development of new technologies, the bank consistently implements a number of innovative changes to its product offering.

Pekao was one of the first banks in Poland to deploy Apple Pay and it is the only bank in Poland that enables clients to link Apple Pay to their personal account through PeoPay mobile banking without even having to have a card. In 2019 the bank also expanded the contactless payment offer to include Garmin and Fitbit devices, offering access to Garmin Pay and Fitbit Pay electronic wallets. The bank's solutions in the area of alternative card payment methods are aligned to the modern trends in the market.

In 2019, the new innovative function of contactless cashback was made available in over 4.5 thousand payment terminals. The service makes it possible to withdraw cash during shopping by placing the card or other mobile payment device near the terminal. The service is available to Visa and MasterCard cardholders. The bank has also implemented the contactless transaction function in the dynamic currency conversion service (DCC). The DCC service allows for effecting the transaction in the currency in which the payment card is issued. The currency conversion service is available to users of both payment cards and Apple Pay, Google Pay or HCE mobile payments.

The bank systematically expanded the scope of functions that can be effected via remote access channels. The most important projects executed in 2019 in the electronic banking system for retail clients included, among others:

- introducing the possibility of submitting applications for family benefits under the Rodzina 500+ and Dobry Start 300+ programs;
- implementation of the PekaoID service, secure and intuitive digital confirmation of identity in the bank's online service based on the mojeID service provided by the National Clearing House. Thanks to the PekaoID service the bank's clients, without having to leave home, can, for example, extend the contract with the mobile operator or electricity supplier or buy a life insurance policy;
- adaptation to the requirements of the PSD2 directive regarding the method of logging into the Pekao24 electronic banking and the PeoPay mobile application through additional client verification, the so-called strong authentication;
- provision of a new, free transfer authorization method using push notifications in PeoPay, which allows for fast and convenient method of accepting operations, without the need to copy the SMS received.

Alior Bank - clients and products

Alior Bank is a universal deposit and credit bank, providing services to natural persons, legal persons and other domestic and foreign entities. The bank's core business comprises maintaining bank accounts, granting cash loans, issuing bank securities and purchase and sale of foreign currencies. The bank also conducts brokerage activity, provides financial advisory and intermediation services, arranges corporate bond issues and provides other financial services. In its operations, Alior Bank combines the principles of traditional banking with innovative solutions and consequently it sets new trends in financial services and consistently strengthens its market position. SECTION 3. OPERATION OF THE PZU GROUP

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

Individual client (retail segment)
As at 31 December 2019, Alior Bank catered to 4.0 million retail clients. The higher client number in 2019 resulted from the bank's organic growth.

The bank has been implementing a project of behavioral segmentation of retail clients, which allows it to target products and services to the appropriate recipients. Behavioral segmentation is applied to the development of the product offering and also to the support given to the sales network. In 2019, the bank continued to apply the strategic segmentation of its clients. In its overall stationary sales network the bank has implemented strategic segmentation. Bankers and advisors were equipped with comprehensive knowledge on how to recognize the clients' needs and how to talk about them in order to sell products that best fit their needs. In the middle of the year, behavioral segmentation was implemented also in selected remote channel areas.

From September 2019 work was launched on the update of the behavioral segmentation. In 2020 the bank will present a new, broader approach, to even better respond to the clients profile and address their needs.

In addition to the behavioral segmentation, the bank divides its retail clients in the following operating segments:
- mass clients (persons whose assets in the bank do not exceed PLN 100 thousand and whose monthly proceeds to their personal account are under PLN 10 thousand);
- affluent clients (persons with monthly proceeds credited to their personal accounts exceeding PLN 10 thousand or holding assets worth more than PLN 100 thousand);
- Private Banking clients (persons with assets worth more than PLN 1 million or holding an Elite Account).

This segmentation is reflected in the structure of the sales network, as the sales units are specialized into, respectively: universal branches, premium branches and private banking branches.

Business client (business segment)
Alior Bank has a comprehensive and contemporary offer for business clients in all the segments: micro, small and medium and corporate. As at the end of 2019, the bank serviced more than 224.6 thousand business clients, and the total credit exposure reached PLN 21.3 billion.

In order to increase the share in the growing micro-business market, the Micro-business Products and Services Department was set up. Its main aim is to strengthen the bank's role in the financing of sole trader activity through ensuring adequate and specialized service as well as dedicated products. As at 31 December 2019, the bank serviced more than 190 thousand micro-business clients, and the total credit exposure reached PLN 6.8 billion.

In the service of clients from the top segments, a strategy has been developed for corporations comprising transformation of Regional Business Centers into Corporate Centers specializing in providing services to large entities.

In order to learn the opinions of entrepreneurs on the corporate solutions and to match the offering even better to the entrepreneurs' needs, Alior Bank has established the Business Client Council, which is an advisory body in development of new products and services and improving the processed for the business.

The offer for entrepreneurs and quality of the business client service have been frequently appreciated by independent experts.

Treasury activity
Alior Bank conducts its treasury activity among others in the following areas: spot currency exchange (FX) and FX risk hedging transactions, interest rate instruments ensuring stabilization of the financial costs to clients, transactions reducing commodity price fluctuations, liquidity management – through sale of products allowing them to invest surplus cash, liquidity risk hedging as part of established limits and regulatory measures, FX and interest rate risk management through interbank transactions, commodity price risk management through transactions on commodity markets, currency option portfolio risk management, within established limits, through concluding hedging transactions and option transactions in the interbank market, trading activity on the treasury bond portfolio through purchase and sale of State Treasury bonds, hedge accounting, i.e. hedging of interest rate risk following from banking activity through concluding interest stream swap transactions (IRS, OIS) in PLN and foreign currencies.

Distribution network
At the end of 2019, Alior Bank had 820 outlets (197 traditional branches, 7 private banking branches, 8 corporate centers and 608 partner centers). The bank's products were also offered in the chain of 10 mortgage centers, 9 cash centers and a network of roughly 5 thousand intermediaries.

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

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

Cooperation between the bank and its partner centers is based on an outsourcing agency agreement. Under these agency agreements, agents provide exclusive agency services to the bank in respect to the distribution of products. These services are provided in locations owned or leased by agents approved by the bank. The bank's products are offered in financial intermediary chains, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines and others, whose offering focuses mainly on cash loans, consolidation loans, mortgage loans and installment loans.

One of the key strategic initiatives in 2019 which the bank executed jointly with PZU was the opening of the new cash loan distribution channel – the Cash platform.

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

Higher culture. Novelty bank.
Alior Bank is one of the most dynamically developing banks in Poland. This is the first startup bank which, from the very beginning of its activity, has been focusing on innovations and setting trends in online banking in the home market.

It is a leader of modern banking, based on pioneering technological solutions. It uses blockchain, open banking, artificial intelligence and biometrics. It introduces its innovative ideas bravely and successfully. Alior Bank was the first bank in Poland to create a fully internet-based exchange office. It is also responsible for launching the first in Poland video verification in the opening of personal accounts.

New online and mobile banking
In April 2019, Alior Bank ended the process of moving clients from the so-called old online banking to the new system. Online and mobile banking were enriched by a number of functions – both sales, transaction and service ones.

Executing the process of moving the clients from branches to the digital world (the so-called project digitization), the systems were expanded to include a number of self-service functions. It is now possible to change personal data (including change of the ID document and data verification in the data of the Ministry of Internal Affairs and Administration), manage marketing consents, submit a FATCA/CRS declaration, and unblock access to Alior Online and Alior Mobile via the website. Additionally, to simplify the contact with the hotline consultants, the possibility of an authorized call from the level of the Alior Mobile application has been implemented. Large part of the system development focused on adaptation of the solutions to the requirements of the PSD2 Directive, aimed at enhancing the security of clients and transactions.

In the transaction area, a new possibility has been introduced – presenting information on whether the beneficiary of a BLIK telephone transfer has an active service and a number of optimization changes have been introduced in the BLIK transaction service.

In the Alior Mobile application, it is also now possible to add a card to the Apple Pay or Google Pay service (for apps installed on iOS and Android devices, respectively). Both in online and mobile banking the direct debit service was introduced in accordance with the changed transaction execution method. The increased transaction rates are also supported by the possibility of adding a card to the Mastercard Priceless Specials loyalty program.

A number of changes were implemented to adapt the system to the legal requirements – including the changes regarding the split payment, new method of handling tax transfers and change in the method of execution of FX and foreign transfers.

As regards the functionalities dedicated to business clients the following items were provided: package management option under the 4x4 Account, change in the method of filtering and exporting account histories, transfer basket service, and the possibility of moving from Alior Online to Business Pro without the necessity of additional logging.

The sales functions were expanded to include:
- sale of Brokerage House products (including, among others, the brokerage and deposit account and the possibility of concluding a fund agreement);
- facilitation in the handling of simplified cash loan applications;
- handling of dedicated special deposit offers;
- use of offer and information push notifications in the mobile application;
- the possibility of opening a business account by a retail client who has not had business relationship with the bank before.

In order to ensure the highest client satisfaction, both in Alior Online and Alior Mobile a number of improvements in the service of the blind and persons with impaired vision were introduced and the Alior Online dashboard was reconstructed.

In 2019, Alior Bank successfully migrated nearly 77 thousand business clients to BusinessPro online banking, offering them, at the same time, the possibility of moving between the business context and the individual context without relogging. Based on the comments and suggestions of clients from small, medium-sized and big business segment, the interface of the BusinessPro online banking system has been modified to address the users' needs in the most useful and intuitive manner.

RBL_Innovation by Alior Bank

In response to the changes in the external environment, the accelerated pace of occurrence of new technological solutions and increasing client expectations regarding introduction of innovations by the bank, in 2019 Alior Bank built an internal structure – RBL_Innovation by Alior Bank. Within one year it was recognized as one of 25 best innovation laboratories in the world by the Global Finance magazine, and the RBL_START acceleration program was nominated for the BAI Global Awards 2019.

The Innovation and FinTech department comprises also the Blockchain Competence Center. In the second quarter of 2019 this technology was applied in a tool used for authentication of the public documents delivered to the bank's clients such as: rules and regulations, fee and commission tables or interest rate tables. The bank's clients have obtained a transparent solution compliant with the regulator's requirements and Alior Bank has made significant progress in digitization of the document circulation. In executing the project Alior Bank was one of the first financial institutions globally and the first one in Poland to use the public blockchain technology.

In 2019 the Open Banking Team executed a number of projects as a result of entry into force of the PSD2 directive and the PSA as a result of which banks were obligated to make their testing environment available and publish production interfaces allowing for connection with services offering access to account information and payment initiation. Alior Bank opened the testing environment to general use through the developer portal in March 2019. In June it published the API with access to production data that can be used by authorized service providers. At the same time, thanks to the obtained license for provision of services as a TPP (third party service provider) as the second bank in Poland, it started to work on leveraging the opportunities offered by access to other banks' data. The end of 2019 brought a launch of the first service using API of the biggest Polish banks in the lending process.

The next project, being developed in 2019 by the RBL_Innovation by Alior Bank team, was the bank's investment vehicle which executed two transactions at the time. The first one was a continuation investment in the amount of PLN 1.3 million in PayPo, a Polish fintech offering deferred payments for online purchases. In addition, together with banks PKO BP and BNP Paribas and two venture capital funds, the vehicle invested PLN 17 million in Autenti. It is a company offering a platform for electronic signing of agreements and digital document circulation. It is the first transaction in the Central and Eastern Europe region effected by banks jointly and on equal rules.

In 2019, 15 agreements with fintechs were signed, 8 of the projects were the outcome of the RBL_START acceleration program. The second edition of this banking program for startups attracted over 200 companies from across the globe, from which 11 companies responding to the bank's business challenges associated with building the main relationship with the client, advanced data analysis and acquisition of new channels for offering banking products were qualified. The substantive partners of the RBL_START program in 2019 included: PZU, Linklaters, Mastercard, Microsoft and IBM.

Strategic partnerships

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

In 2019, PZU continued to develop and strengthen cooperation with strategic partners: PLL LOT and Allegro, while working on expanding and diversifying the product offering for clients. The deliverables will be presented in 2020.

In 2019 the strategic partnership portfolio was expanded by cooperation with Energa – Obrót SA. As part of the cooperation, PZU provides the clients of Energa – Obrót SA with technical assistance services – these are specialized professionals, including among others: electrician, plumber and brown goods/white goods servicing staff, who provide help in the case of a failure in the household. The assistance services are available in different options, so clients may choose the coverage that suits their needs.

Furthermore, within strategic partnerships, PZU offers a number of insurance products for business clients (persons conducting business activity, companies and institutions), including:
- protection of Apple equipment, such as iPhone, iPad, Apple Watch and Mac computers, guaranteeing the organization and coverage of costs of repairing the equipment or replacing it for new products. The insurance operates in Poland and during foreign travel which lasts altogether not longer than 60 days;
- assistance insurance for power consumers, customers of Enea (corporate clients), guaranteeing services of professionals, e.g. an electrician or an IT specialist;
- insurance for individual customers of Innogy, offering services of professionals, e.g. an electrician, locksmith for power consumers – participants of the Innogy Benefit Club;
- heath care services for clients of Calypso Fitness clubs, ensuring, among others, access to Calypso Fitness clubs and PZU Zdrowie private health insurance.

5.5 Management of the PZU Group's brands

PZU is the most recognizable brand in Poland. According to spontaneous brand awareness studies, awareness of the PZU brand reaches 89%, while prompted brand awareness is 100%.[1] Even though it is associated mainly with insurance, the PZU Group umbrella contains several brands. They differ in terms of the visual systems used, target groups and business models.

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

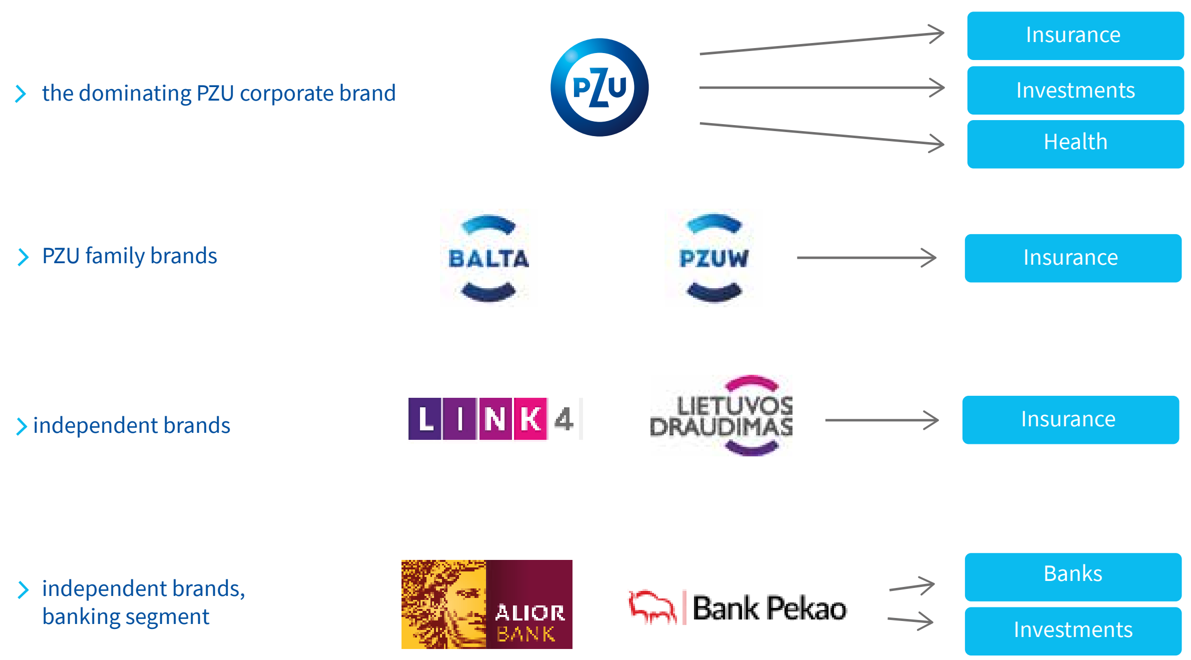
In the PZU Group's architecture, there is also a group of PZU family brands. This family is formed by companies whose names do not reference the parent company brand, such as AAS Balta and TUW PZUW. However, their logos look similar to the corporate brand. These companies also use similar visual identification systems.

The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and Link4. Both companies are distinguished by their high prompted brand awareness (96%) on the Lithuanian and Polish markets.

The independent brands which joined the PZU Group in recent years are Alior (2015) and Pekao (2017). Both are the leading banks with regard to brand awareness in the category of banks according to the study by Kantar Millward Brown. At the end of December 2018, the prompted awareness of the Pekao brand was 95%[2].

[1] Study conducted by the Gfk Polonia institute, 2019
[2] Bank's clients in Poland, Kantar Millward Brown, 2018 rok

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



6.

Financial results

Return on equity attributed to the parent company (ROE) at 21.2%. Increase in profit attributable to the parent company by 2.6% year on year, despite the banks incurring nearly double Bank Guarantee Fund costs. Gross written premium increase of 3.1% year on year.

In this section:

6.1 Major factors contributing to the consolidated financial result

In 2019, the PZU Group generated net profit attributable to equity holders of the parent company of PLN 3,295 million compared to PLN 3,213 million in 2018 (up 2.6%).

The result before tax was PLN 7,080 million compared with PLN 7,086 million in the previous year (down 0.1%). Net profit was PLN 5,185 million, i.e. PLN 183 million below the result in 2018. Operating profit in 2019 was PLN 7,084 million, down PLN 3 million compared to the result in 2018.

The net result fell by 1.5% compared to last year,[1] net of non-recurring events.

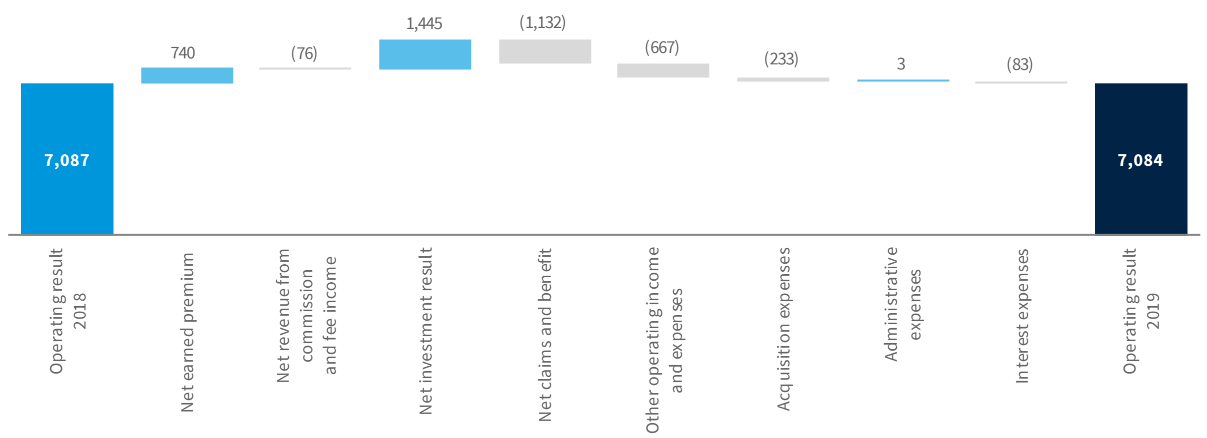
Operating profit was driven in particular by the following factors:

- record-breaking gross written premium of PLN 24,191 million, including rapid sales expansion in international companies, the rising level of premium generated on protection products offered in own channels and the bancassurance channel in life insurance in Poland, the development of investment products in the bancassurance channel and the portfolio of group health products. Higher premium in the non-motor business, including insurance against fire and other damage to property in non-life insurance in Poland;
- higher result on listed equities, among others due to better conditions on the Warsaw Stock Exchange;
- dip in profitability in the mass insurance segment – effect of the higher loss ratio in insurance against fire and other damage to property as a result of the above-average number of losses caused by atmospheric phenomena;
- higher insurance result in the corporate insurance segment, including improved profitability in the motor TPL insurance class;
- higher result on individual insurance due to the expanding portfolio of high-margin protection insurance, in both own channels and bancassurance channels;
- lower profitability in group and individually continued insurance with a growing health insurance portfolio as a result of an increase in the loss ratio of certain risks in the group protection portfolio and an increase in operating expenses;
- higher profitability in international companies due to the dynamic growth of sales and substantially higher investment income;
- squeezed results in the banking segment due to, among others, higher contributions to the Bank Guarantee Fund and the unfavorable impact of the CJEU judgment on consumer loans.

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

- 3.1% gross written premium growth up to PLN 24,191 million. This growth pertained chiefly to investment and protection insurance sold in cooperation with banks, sales growth in international companies and higher sales of insurance against fire and other damage to property in the corporate insurance segment, including the insurance acquired in Q4 2019 under inward reinsurance in the form of a high unit value insurance agreement. Net of reinsurers' share and the movement in the provision for unearned premiums, net earned premium was PLN 23,090 million, up 3.3% from 2018;
- increase in investment income after factoring in interest expenses. In 2019 and 2018 this figure was PLN 9,211 million and PLN 7,849 million, respectively. Investment income rose both on 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 Bank Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates. This effect was partly offset by the unfavorable impact of the CJEU judgment. Investment income excluding banking activity increased primarily thanks to a higher result earned on listed equity instruments. Improved market conditions on the Warsaw Stock Exchange Better contributed to this outcome as the WIG index edged up 0.3% in 2019 while it posted a 9.5% drop in the corresponding period of the previous year. Favorable market conditions on the WSE also translated into the investment results in the portfolio of assets used as coverage for investment products that do not exert any influence on the PZU Group's total net result as they are offset by higher provisions for claims and benefits paid;
- higher level of claims and benefits paid. They totaled PLN 15,695 million, which means a 7.8% increase compared with 2018. This growth was present in particular in life insurance due to the higher investment income in most unit-linked product portfolios versus last year's negative performance (this effect does not exert any influence on the PZU Group's total net result as higher provisions for claims and benefits paid offset the movement in the net result on investing activity in the portfolio of assets covering investment products). Additionally, the higher level of claims and benefits paid in insurance against fire and other damage to property was a result of the above-average number of losses caused by atmospheric phenomena;
- higher acquisition expenses (up PLN 233 million) in the mass and corporate client segments alike. This upward movement was due in particular to the shift in PZU's sales channel mix, sales development and the changing portfolio mix in the mass and corporate segments leading to non-motor products taking a higher percentage;
- lower administrative expenses of PLN 6,606 million versus PLN 6,609 million in the corresponding period of 2018. The banking segment's administrative expenses (net of the adjustments made to the fair value measurement of assets and liabilities) dropped by PLN 139 million in conjunction with both banks maintaining cost discipline and Alior Bank reversing a portion of its provision for deferred payroll costs. At the same time, the administrative expenses in the insurance activity segments in Poland were up PLN 96 million versus last year's figures. 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 2,832 million. This change was chiefly due to higher fees in the Bank Guarantee Fund, the adverse impact exerted by the CJEU judgment concerning consumer loans (the Court ruled that in the event of premature loan amortization a consumer is entitled to a reduction of all the costs forming part of the overall cost of the loan). and the higher level of the levy on financial institutions as the taxable asset base expanded (the tax rates did not change). The fees to the Bank Guarantee Fund shot up from PLN 372 million in 2018 to PLN 611 in 2019, a provision was established for disputed claims and prospective liabilities in connection with the adverse impact exerted by the CJEU judgment on consumer loans and mortgage loans in CHF totaling PLN 294 million, while the PZU Group's financial institutions tax charge (insurance and banking activity combined) was PLN 1,134 million in 2019 versus PLN 1,092 million in 2018.

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



*excluding interest costs

[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance, provision for the reimbursement of fees on the premature amortization of consumer loans before 11 September 2019 and in the comparable period a non-recurring effect of setting up additional provisions in non-life insurance to cover the claims regarding pain and suffering by the vegetative state.

Key data from the consolidated profit and loss account	2015 PLN million	2016 PLN million	2017 PLN million	2018 PLN million	2019 PLN million
Gross written premiums	18,359	20,219	22,847	23,470	24,191
Net earned premiums	17,385	18,625	21,354	22,350	23,090
Net revenues from commissions and fees	243	740	2,312	3,355	3,279
Net investment result*	1,739	3,315	7,921	9,895	11,340
Net insurance claims and benefits paid	(11,857)	(12,732)	(14,941)	(14,563)	(15,695)
Acquisition expenses	(2,376)	(2,613)	(2,901)	(3,130)	(3,363)
Administrative expenses	(1,658)	(2,923)	(5,357)	(6,609)	(6,606)
Interest expenses	(117)	(697)	(1,350)	(2,046)	(2,129)
Other operating income and expenses	(419)	(724)	(1,580)	(2,165)	(2,832)
Operating profit (loss)	2,940	2,991	5,458	7,087	7,084
Share in net profit (loss) of entities measured by the equity method	4	(3)	16	(1)	(4)
Profit (loss) before tax	2,944	2,988	5,474	7,086	7,080
Income tax	(601)	(614)	(1,289)	(1,718)	(1,895)
Net profit (loss)	2,343	2,374	4,185	5,368	5,185
Net profit (loss) attributable to equity holders of the parent company	2,343	1,935	2,895	3,213	3,295

restated data for 2015-2018
*excluding interest costs

6.2 PZU Group's income

Premiums

In 2019 the PZU Group collected record – high gross premiums of PLN 24,191 million or 3.1% (PLN 721 million) more than in 2018. The following factors made the greatest contribution to the shift in gross written premium (net of the intersegmental premium):

- premium growth of PLN 235 million in the individual insurance segment (+17.5% y/y), chiefly due to the steadily rising level of premium for protection products on endowments and term insurance offered in proprietary channels and the expansion seen in the insurance portfolio in investment products and protection products in the bancassurance channel. Following dynamic y/y growth the gross written premium is at its second highest level in PZU's history on the stock exchange;
- premium growth in the corporate client segment of PLN 205 million over 2018 (+6.7%) to the record-breaking level of PLN 3,264 million, mainly in insurance against fire and other damage to property after acquiring several contracts with high unit values in Q4 2019 through inward reinsurance;
- sales in international companies up PLN 199 million (10.8%) versus 2018 enabling the foreign segments to produce the highest sales in history at the level of PLN 2,048 million. These areas of growth were particularly visible in motor insurance and health insurance in the Baltic States;
- higher sales in the group and individually continued insurance segment – premium surged PLN 75 million (+1.1%) y/y to its highest level in PZU's history on the stock exchange at PLN 6,966 million, especially as a result of attracting more contracts in health insurance concluded as group insurance and the active up-selling of other insurance riders in individually continued products;

Assets

PLN 343,340 million

(+4.5% y/y)

Equity attributable to the equity holders of the parent

PLN 16,169 million

(+8.3% y/y)

Net profit

PLN 5,185 million

(-3.4% y/y)

Net profit attributable to the equity holders of the parent company

PLN 3,295 million

(+2.6% y/y)

Gross written premium

PLN 24,191 million

(+3.1% y/y)

Net earned premium

PLN 23,090 million

(+3.3% y/y)

Net insurance claims and benefits

PLN 15,695 million

(+7.8% y/y)

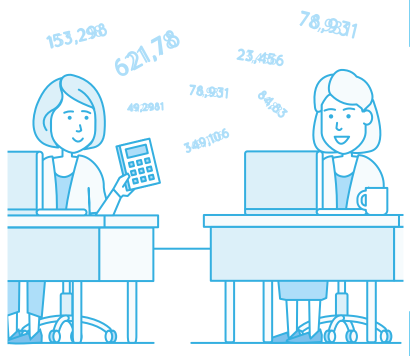
Surplus yield on the main portfolio above RFR

2.5 p.p.

ROE attributed to the parent company

21.2%

(-0.9p.p. y/y)



Combined ratio (COR)

88.5%

(+1.4 p.p y/y)

Operating margin in group and individually continued insurance

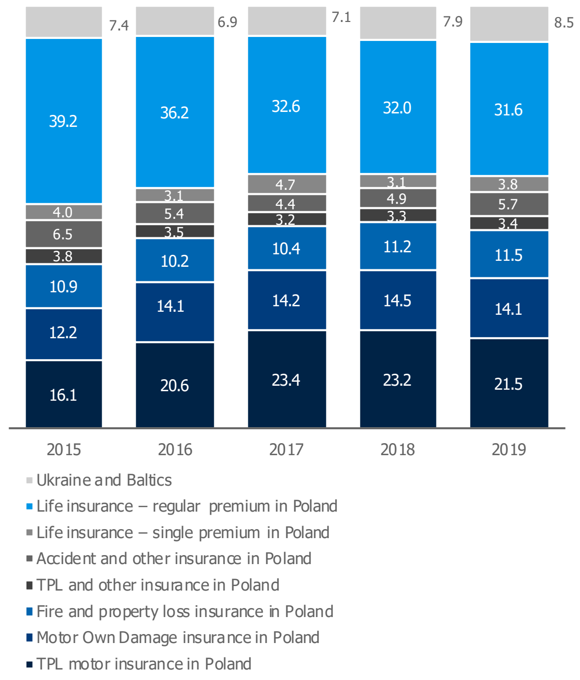
21.3 %

(-0.8 p.p. y/y)

Financial results

Insurance segments (PLN million), local GAAP	Gross written premium (external)				
	2015	2016	2017	2018	2019
TOTAL	**18,359**	**20,219**	**22,847**	**23,470**	**24,191**
Total non-life insurance – Poland (external gross written premium)	9,074	10,878	12,702	13,384	13,596
Mass insurance – Poland	7,309	8,742	10,029	10,325	10,332
Motor TPL	2,595	3,635	4,606	4,610	4,383
Motor MOD	1,727	2,147	2,406	2,524	2,572
Other products	2,987	2,960	3,017	3,191	3,377
Corporate insurance – Poland	1,765	2,136	2,673	3,059	3,264
Motor TPL	367	532	735	845	814
Motor MOD	510	712	848	878	827
Other products	888	892	1,090	1,336	1,623
Total life insurance – Poland	7,923	7,949	8,519	8,237	8,546
Group and individually continued insurance – Poland	6,689	6,775	6,855	6,891	6,966
Individual insurance – Poland	1,234	1,174	1,664	1,346	1,581
Total non-life insurance – Ukraine and Baltic States	1,288	1,305	1,527	1,729	1,897
Ukraine non-life insurance	138	173	181	202	256
Baltic States non-life insurance	1,150	1,132	1,346	1,527	1,641
Total life insurance – Ukraine and Baltic States	74	88	100	120	151
Ukraine life insurance	31	37	42	55	79
Baltic States life insurance	43	51	58	65	72

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



- sales in the mass client segment in Poland at a record-breaking level of PLN 10,332 million, up PLN 7 million versus 2018. Incremental premium growth in the non-life insurance class was partly offset by declining gross written premium in motor TPL (lower number of insurance policies coupled with an inconsequential decline in average premium).

Net revenues from commissions and fees

Net revenues from commissions and fees in 2019 stood at PLN 3,279 million, or were PLN 76 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 banking activity totaling PLN 2,603 million (including mainly: brokers' commissions, revenues and expenses related to handling bank accounts, payment and credit cards, fees charged for intermediation in insurance sales);
- income on OFE asset management. They stood at PLN 143 million;
- revenues and payments received from funds and mutual fund management companies of PLN 528 million, or PLN 34 million less than in the previous year.

Net investment result and interest expenses

In 2019 the net investment result[2] including interest expenses was PLN 9,211 million compared to PLN 7,849 million in 2018. Disregarding the impact of banking activity, in 2019 the net investment result including interest expenses was PLN 1,995 million, up PLN 1,091 million over last year.

The following factors affected the income:

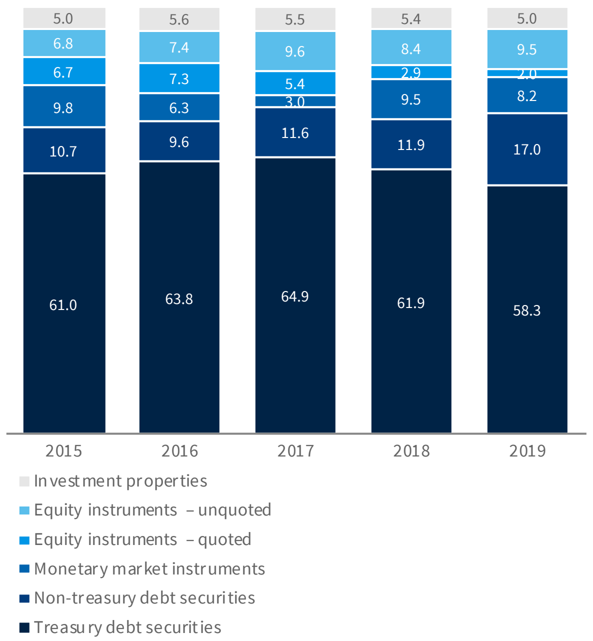
- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – with the WIG index up 0.3% in 2019 in contrast to a 9.5% decline in the previous year;
- high performance of real estate funds due to the settlement of property developers' earnings in Q4;
- curtailment of volatility in the earnings of the PZU Global Macro EUR portfolio in connection with the purchase of bonds aligned to the portfolio's investment horizon constituting above all coverage of the liabilities taken under the issue of own bonds in EUR falling due in the middle of 2019;
- better investment results in the portfolio of assets used as coverage for investment products that do not, however, exert any influence on the PZU Group's total net result as they are offset by higher net insurance claims and benefits paid.

In 2019 the value of the PZU Group's investment portfolio, net of banking activity[3], was PLN 49,689 million compared with PLN 50,270 million at yearend 2018.

The decrease in the value of the investment portfolio was associated with the repayment of EUR-denominated own bonds and the disbursement of a dividend by the Group. These factors were offset by the inflow of premiums 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.

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

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 2019, the balance of other operating income and expenses was negative and stood at PLN 2,832 million, compared to the balance in 2018, which was also negative at a level of PLN 2,165 million. The following contributed to this result:

- higher fees paid to the Bank Guarantee Fund rising from PLN 372 million in 2018 to PLN 611 million in 2019 due to the higher payment to the compulsory resolution fund;
- establishing a provision for disputed claims and prospective liabilities in connection with the CJEU judgment on consumer loans and mortgage loans in CHF totaling PLN 294 million and lower by PLN 75 million balance of provisions released and established for extended bank guarantees and sureties;
- levy on financial institutions – the PZU Group's financial institutions tax charge (for insurance and banking activity combined) was PLN 1,134 million in 2019 compared to PLN 1,092 million in 2018. This higher levy was for banking activity was a result of an increase in underlying assets (the bank levy rate did not change).

6.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) reached PLN 15,695 million and were 7.8% above the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- the higher investment income in most unit-linked product portfolios in life insurance versus last year's performance (this does not exert any influence on the PZU Group's net result; this position is the outcome of better investment performance in the portfolio of assets covering investment products);
- 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 pain and suffering claims.

6.4 PZU Group's acquisition and administrative expenses

In 2019 acquisition expenses rose PLN 233 million compared to the previous year. This upward movement was due in particular to the shift in PZU's sales channel mix, sales growth and product mix change, with higher weight of products with higher acquisition expenses.

The Group's administrative expenses in 2019 were PLN 6,606 million compared to PLN 6,609 million in 2018, i.e. they were down PLN 3million versus the previous year.

The banking segment's administrative expenses (net of the adjustments made to the fair value measurement of assets and liabilities) dropped by PLN 139 million in conjunction with both banks maintaining cost discipline and Alior Bank reversing a portion of its provision for deferred payroll costs. At the same time, the administrative expenses in the insurance activity segments in Poland were up PLN 96 million versus last year's figures. This change largely resulted from higher personnel costs in connection with the wage pressure on the market.

6.5 Atypical factors and events affecting the results

In 2019 in connection with the CJEU judgment, the PZU Group estimated the effects of the legal risk resulting from the premature amortization of consumer loans made before the date of the CJEU judgment and set up a provision charged to other operating expenses in the amount of PLN 272 million.

The 2018 result was strapped with the non-recurring effect of establishing additional provisions of PLN 148 million, chiefly in motor insurance to cover claims for pain and suffering linked to people being in a vegetative state.

The effect of converting long-term insurance policies into yearly renewable term insurance in type P group insurance was treated as a non-recurring event and was down PLN 3 million in 2019 compared to the comparable period of last year (PLN 14 million in 2019 compared to PLN 17 million in 2018).

6.6 PZU Group's asset and liability structure

On 31 December 2019 the PZU Group's total assets were PLN 343,340 million, up PLN 14,786 million in comparison with their balance at the end of 2018.

Assets

Loan receivables from clients were the chief component of the Group's assets as at 31 December 2019. They held a 56.8% share of total assets with their balance of PLN 194,868 million, which compared to the end of 2018 expanded by PLN 12,814 million.

The second largest asset category were investments (investment financial assets, investment properties and financial derivatives). They totaled PLN 116,504 million and were PLN 10,655 million higher than at the end of the previous year. They represented 33.9% of the Group's total assets compared with 32.2% at the end of 2018. The growth in the value of investments took place in Pekao. Excluding banking activity, the investment portfolio shrank due to the amortization of the own bond issue in EUR and the Group's dividend distribution. These effects were partially offset by the higher influx of funds due to premiums in connection with business development and the higher value of investments.

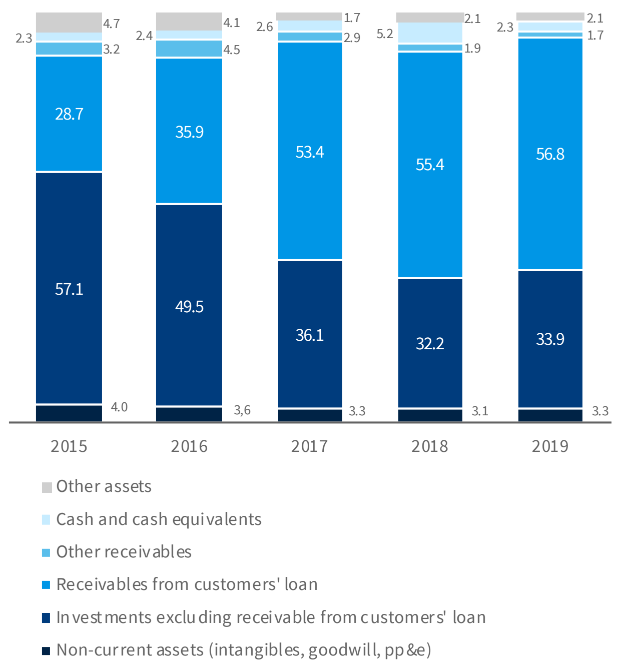
PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 5,737 million, which represented 1.7% of assets. For the sake of comparison, at the end of 2018 they were PLN 6,343 million (1.9% of the Group's assets) and their decrease was caused mainly by the outstanding transactions on financial instruments and margins.

Non-current assets consisting of intangible assets, goodwill and property, plant and equipment were recognized in the statement of financial position in the amount of PLN 11,375 million. They accounted for 3.3% of the assets. The growth in the account balance of PLN 1,140 million versus 2018 stemmed, among others, from the recognition of new right-of-use assets as a result of applying IFRS 16 - Leasing.

As at 31 December 2019, the PZU Group held PLN 7,788 million of cash and cash equivalents (2.3% 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 the assets held for sale totaling PLN 580 million fell in comparison with the previous year by PLN 567 million due to the sale of a portion of the investment property portfolio.

PZU Group's asset structure (in %)



Equity and liabilities

At yearend 2019 consolidated equity hit PLN 39,288 million, up from PLN 1,881 million at the end of 2018. The value of non-controlling interests rose by PLN 637 million to PLN 23,119 million versus last year, with this change being the outcome of the result attributed to non-controlling shareholders of PLN 1,890 million (generated by Alior Bank and Pekao), the uptick in the measurement of debt instruments and derivatives measured at fair value through other comprehensive income and Pekao's dividend attributed to non-controlling shareholders of PLN 1,385 million. Equity attributable to the parent company's shareholders rose by PLN 1,244 million compared to the year before – as an effect of the net result attributed to the parent company earned in 2019 in the amount of PLN 3,295 million, the growth in the measurement of debt instruments measured at fair value through other comprehensive income and PZU's distribution of profit for 2018, including the allocation of PLN 2,418 million as a dividend.

Financial liabilities were the most important component of equity and liabilities at the end of 2019 with a share of 71.8%. The value of this item was PLN 246,490 million and included in particular:

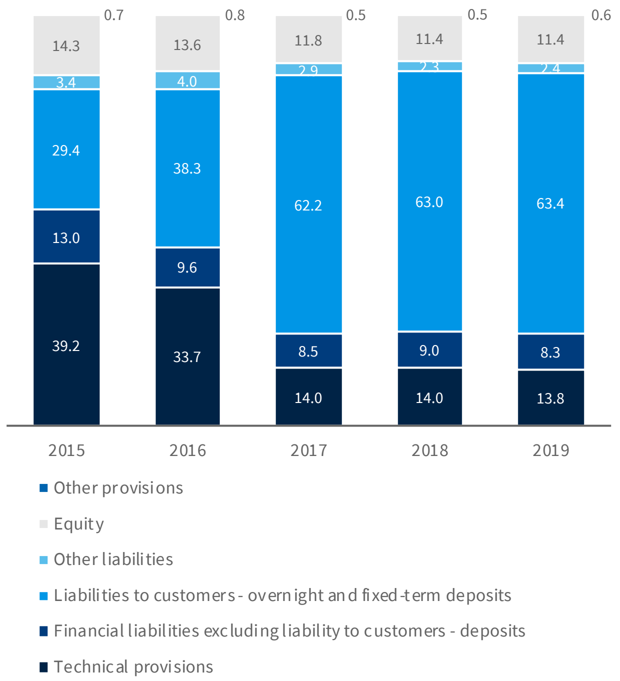
- liabilities to clients for deposits totaling PLN 218,588 million (current and term deposits held by Pekao and Alior Bank up PLN 10,922 million compared to December 2018);
- liabilities on the issue of own debt securities of PLN 9,273 million, including:
  - PLN 3,976 million in bonds, down compared to last year following the amortization in July 2019 of eurobonds worth EUR 850 million issued through the wholly-owned subsidiary doing business as PZU Finance AB, which was partially offset by Pekao's bond issue,
  - PLN 3,940 million in certificates of deposit issued by the banks Pekao and Alior,
  - PLN 1,357 million in covered bonds issued by Pekao;
- subordinated liabilities of PLN 6,700 million. The increase of PLN 639 million in the balance versus the end of 2018 was chiefly related to Pekao's subordinated bonds issue for a total of PLN 750 million in June and December 2019. SECTION 8.7 DEBT FINANCING OF PZU, PEKAO AND ALIOR BANK

As at the end of 2019, the value of technical provisions was PLN 47,329 million, which accounted for 13.8% of liabilities and equity (PLN +1,490 million compared to the end of 2018). The movement in this item resulted in particular from:

- higher unearned premium reserves in non-life insurance resulting mainly from insurance sales development;
- higher claims provisions in non-life insurance due to the notification of several high value claims;
- higher provisions for unit-linked life insurance products due to high positive investment income.

The balance of other liabilities as at 31 December 2019 was PLN 8,069 million compared to PLN 7,407 million at the end of 2018. This uptick pertained to accrued reinsurance expenses in particular.

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



Cash flow statement

Net cash flow at yearend 2019 totaled PLN (9,292) million, down PLN 18,066 million compared to last year. This drop related particularly to net cash flow on investing.

Material off-balance sheet line items

The value of contingent liabilities at the end of 2019 totaled PLN 59,437 million, up PLN 1,770 million compared to last year. The value of contingent liabilities extended to the clients of Alior Bank and Bank Pekao was PLN 57,951 million.

The PZU Group's balance of contingent liabilities consisted in particular of contingent liabilities worth PLN 11,122 million for revolving limits in settlement and savings accounts and credit cards, credits and loans in tranches of PLN 29,867 million and extended guarantees and sureties in the amount of PLN 9,782 million.

In addition, standby underwriting obligations for securities worth PLN 3,636 million contributed to the balance of contingent liabilities.

6.7 Contribution made by the market segments to the consolidated result

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

- corporate insurance (non-life insurance) – this segment covers a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU and TUW PZUW;
- mass insurance (non-life insurance) – this segment consists of property, accident, liability and motor insurance products. PZU and Link4 provide insurance to individuals and entities from the SME sector;
- life insurance: group and individually continued insurance – PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance agreement and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. This spans the following types of insurance: protection, investment (other than 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 –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 - broad range of banking products offered to corporate and retail clients by Pekao and Alior Bank;
- Pension insurance segment – includes revenues and costs of PZU OFE pension funds;
- Baltic States segment – includes non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- Ukraine segment – includes non-life insurance and life insurance products provided in the territory of Ukraine;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract. These are some of the products with a guaranteed rate of return and some products in unit-linked form;
- other – include consolidated companies that are not classified in any of the above segments.

Corporate insurance

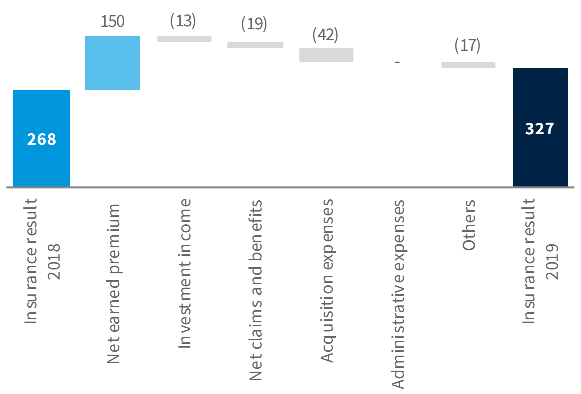
In 2019 the corporate insurance segment generated an operating result of PLN 327 million, or 22.0% higher than in the corresponding period of last year. The pace of growth in this segment's result was the highest among all the insurance segments in Poland.

The level of this segment's result in 2019 was affected mainly by the following factors:

- a 6.4% increase in net earned premium combined with a 7.1% increase in gross written premium versus 2018. The growth rate of the PZU Group's gross written premium was driven by:
  - premium growth in insurance against fire and other damage to property (+16.3% y/y) – including in Q4 2019 the acquiring of a contract with a high unit value through inward reinsurance,
  - development in the portfolio of insurance for various financial risks, in particular GAP financial loss insurance offered to individual and institutional clients with the support of PZU Group leasing companies,
  - sales growth in general TPL insurance (+8.3% y/y) due to the conclusion of several high unit value contracts and development in the portfolio of medical insurance and strategic partners in TUW PZUW,

  - lower premium in motor insurance (-4.7% y/y) offered to leasing companies as a consequence of the lower average premium and the lower number of insurance policies
- net claims and benefits moved up by 1.2% compared to the corresponding period of 2018 signifying an improvement in loss ratio of 3.4 p.p. to 65.0% in combination with the growth in net earned premiums (+6,4%). The decrease in the total loss ratio in the segment was the outcome of the following:
  - lower loss ratio in the motor TPL insurance class – in the corresponding period of 2018 as the result of remeasurement of the provision for pain and suffering claims,
  - lower loss ratio in the portfolio of general TPL insurance and insurance for damages caused by natural catastrophes despite the occurrence of several high unit value losses in the first half of the year,
  - higher average disbursement in motor own damage insurance;
- the level of income from investments allocated to the segment according to transfer prices fell 11.5% to PLN 100 million, which was dictated in particular by the EUR/PLN exchange rate lower by 1.0% compared to the strengthening of 3.1% in the corresponding period of the previous year;
- acquisition expenses (excluding reinsurance commissions) reached PLN 519 million, rising by 8.8% compared to 2018, mainly due to the higher direct acquisition expenses and changes in the mix of the portfolio and sales channels (higher percentage of non-motor insurance and the multi-agency channel);
- administrative expenses stayed flat, which coupled with earned premium being up 6.4% implies improvement in the administrative expense ratio by 0.3 p.p. Keeping administrative expenses at an unchanged level was possible (despite higher personnel costs stemming from the constant wage pressure on the market) thanks to maintaining cost discipline in the other cost categories.

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

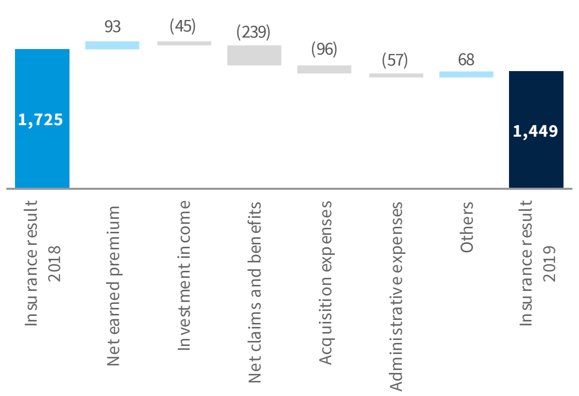


Mass insurance

In 2019 the mass insurance segment generated an operating result of PLN 1,449 million, or 16.0% lower than in the corresponding period of last year. The level of the segment's result in 2019 was affected by the following factors:

- 0.9% y/y increase in net earned premiums coupled with a comparable level of gross written premium. The PZU Group posted the following under sales:
  - lower gross written premium in motor TPL insurance as a consequence of the declining number of insurance policies coupled with the comparable average price level, ensuing from the active pricing policy among competitors,
  - higher premium in motor own damage insurance,
  - higher level of sales of insurance against fire and other damage to property, mostly in insurance for household and small and medium enterprises offset to a slight degree by the decline in the premium on agricultural insurance ensuing from the market's high level of competitiveness translating into a loss of a portion of the portfolio of insurance for farm buildings and the lower average premium in crop insurance,
  - higher premium in other TPL insurance (+5.8% y/y) and accident and other insurance (13.0% y/y), mostly assistance and accident insurance;
- net claims and benefits in 2019 up 3.9%, which coupled with net earned premium being up 0.9%, translated into deterioration in the loss ratio by 1.8 p.p. versus 2018. This change resulted mainly from the following:
  - upswing in the loss ratio in insurance against fire and other damage to property as a result of the above-average number of losses caused by atmospheric phenomena, including ground frost and precipitation in the form of rain and hail,
  - deterioration of the loss ratio in motor own damage insurance as the outcome of lower sales growth and rising inflation of losses;
- income from investments allocated to the segment using transfer prices to the mass insurance segment totaled PLN 481 million, signifying a year on year decline of 8.6%, mostly due to the softening of the PLN-EUR exchange rate totaling 1.0% compared to the strengthening of 3.1% in the corresponding period of the previous year;
- acquisition expenses (excluding reinsurance commissions) hit the level of PLN 1,986 million growing by PLN 96 million (+5.1% y/y) compared to the corresponding period of the previous year, which, taken together with the 0.9% growth in the net earned premium translated into a 0.7 p.p. growth of the acquisition expense ratio . The factor driving the change in the level of acquisition expenses was the higher level of direct acquisition expenses as an effect of the shift in the product mix and the sales channel mix (rising share of the multi-agency and dealer channel coupled with the simultaneous lower growth rate of sales of motor TPL insurance featuring lower commission rates);
- administrative expenses in this segment were PLN 651 million, signifying growth of PLN 57 million versus last year, i.e. 9.6%, chiefly as the outcome of higher personnel costs due to constant wage pressure on the market and intensification of project-related activities.

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



Group and individually continued insurance

Operating profit in the group and individually continued insurance segment in 2019 was PLN 1,497 million, slightly down from last year (down 3%, or PLN 46 million). Operating profit, net of the conversion effect on long-term contracts into renewable term contracts in type P group insurance deteriorated PLN 43 million y/y (2.8%). The expanding portfolio of profitable health contracts and the lower level of benefit payments linked to deaths and childbirth were the main positive drivers of performance. In turn, the unfavorable factors were rising operating expenses and the growth in the loss ratio on some of the risks in the group protection portfolio.

The following factors affected the level of, and the changes in, the segment's result in 2019:

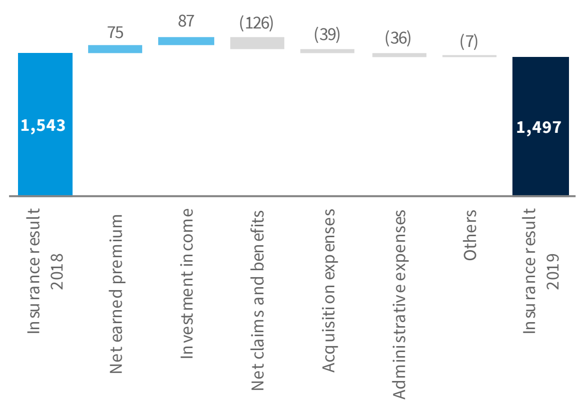
- gross written premium growth compared to the corresponding period of the previous year of PLN 75 million (1.1%), which was mainly the result of the following:
  - attracting more health insurance contracts in the form of group or individually continued insurance (new clients in outpatient health insurance and sales of different options of the medicine product). At the end of December 2019 PZU Życie had more than 2 million in-force contracts of this type in its portfolio. The continued insurance rider called "PZU orthopedic injury" enjoyed a particular amount of success. 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 other riders in individually continued insurance products, especially while offering the underlying contract in PZU branches and raising the sum insured during the lifetime of these contracts. Besides the rider stated above, in Q4 2018 PZU Życie rolled out a rider covering a myocardial infarction or stroke to provide financial support when these types of events occur, while in Q3 2019 insurance to safeguard the policyholder in the event of permanent bodily injury or broken bones in the form of a cash benefit and access to medical services,

    At the same time, revenue on group protection products was under pressure from more frequent lapses as insureds left groups (work establishments) while limiting the pressure placed on the growth rate of the average premium made it possible to control the loss ratio in group protection products;

- higher investment income (up PLN 87 million, or 15.0% y/y). The investment result consists of income allocated using transfer prices and income on investment products. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products. In 2019 the change in the segment's investment income stemmed mostly from improved income in unit-linked products, especially Employee Pension Plans (EPS, a third pillar retirement security product) following better conditions on the Polish debt and equity market. This component of income on investing activity does not affect the segment's result because it is offset by growth in technical provisions;
- higher insurance claims and benefits and the movement in other technical provisions by PLN 126 million, i.e. 2.6% y/y to PLN 5,057 million. This change was driven by the following factors in particular:
  - growth in technical provisions in EPS compared to last year's decline, which was caused by this year's higher investment performance coupled with a stable level of client contributions to, and higher disbursements from, unit-linked insurance accounts,
  - rising value of medical benefits in health products in proportion to the dynamic growth in this portfolio of contracts,
  - higher nominal level of benefit payments due to critical illnesses and hospitalization.

  The foregoing effects were partly offset by the following:
  - lower than last year increase in mathematical provisions in continued products as a result of the change in the percentage of "old" and "new" continuation among the persons joining and remaining in the insured portfolio – in "new" continuation the unit cost of setting up mathematical provisions for future benefit payments is lower; additionally, the level of lapses in the portfolio is lower than last year,
  - lower value of benefits related to deaths, especially co-insureds and to childbirth, which is correlated with the frequency of these events in the overall population in accordance with the data published by the Central Statistical Office (GUS),
  - this year's limited disbursements of benefits in the portfolio of bank protection products, which was linked to the shrinking portfolio with high unit benefits,
  - lower than a year ago pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance. As a result, provisions were released in 2019 for PLN 14 million, or PLN 3 million less than in the corresponding period of 2018;
- acquisition expenses up 39 million (11.2%) in the group and individually continued insurance segment. 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;
- incremental growth in administrative expenses of PLN 36 million (6.0%) y/y having regard for organizational changes in sales divisions and higher staff costs stemming from wage pressure on the market.

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



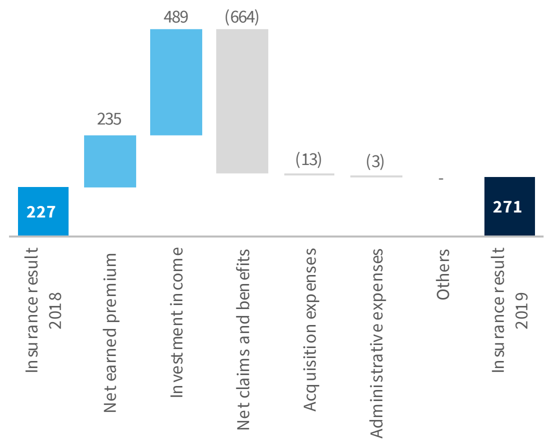
Individual insurance

In 2019 the PZU Group posted a record-breaking operating result in the individual insurance segment. It totaled PLN 271 million, up PLN 44 million compared to the previous year. The improvement in the operating result (19.4% y/y) only slightly lagged behind the growth rate in the result generated by the corporate non-life insurance segment, which demonstrated the fastest incremental growth in Poland. The main contributors were the rising portfolio of high-margin protection insurance products distributed through own channels and bancassurance, changes to the annuity product and the falling acquisition expenses for unit-linked products. In addition, the shift in the revenue structure towards having a higher percentage of protection products with a considerably higher margin level than investment products contributed to the segment's improved margin.

The following factors affected the level of, and the changes in, the segment's result in 2019:

- the growth in gross written premium of PLN 235 million (17.5%) to PLN 1,581 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 on contracts remaining in the portfolio have outpaced the level of lapses,
  - growth in the portfolio of insureds in protection products in the bancassurance channel, including in particular protection products in cooperation with Alior Bank rolled out in H2 2018 and Bank Pekao in early 2019,
  - growth in the premium acquired in investment insurance in the bancassurance channel on products offered in cooperation with Pekao and other banks;
- higher investment income (up PLN 489 million). The investment result consists of income allocated using transfer prices and income on investment products. Income climbed above all on account of improved performance in investment products, especially due to better conditions on the Polish equity market. This component of income on investing activity does not affect the segment's result because it is offset by growth in technical provisions. At the same time, the level of the segment's revenue due to TFI refunding the management fee charged to assets in unit-linked products fell by PLN 6 million y/y as assets shrank due to net outflows and negative investment performance last year. Income allocated using transfer prices varies slightly with its level being driven largely by the technical provisions in protection products;
- insurance claims and benefits together with the movement in other technical provisions up PLN 664 million compared to 2018. The change in the result generated on funds in investment products made a major contribution to this increase. This factor does not, however contribute to the segment's operating result as it is fully offset by higher income on investing activity. Additionally, this was an effect of higher client contributions to their accounts in the products offered in collaboration with Millennium and Pekao. Worth noting were also the positive developments in the annuity portfolio; more technical provisions were released in the period under review and the cost of benefit disbursements was lower - this is the old, maturing portfolio;
- acquisition expenses up 10.3% to PLN 139 million. Higher fees to intermediaries for selling protection products, chiefly in the bancassurance channel and additional costs of sales support in the own network were partially offset by lower commissions for the sales of unit-linked products in the bancassurance channel;
- inflation of administrative expenses, mainly due to higher personnel costs stemming from wage pressure on the market. Administrative expenses rose PLN 3 million (4.3%) versus 2018.

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) were 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: Bank Pekao and Alior Bank.

In 2019, the banking activity segment posted PLN 3,498 million in operating profit (net of the amortization of intangible assets acquired as part of acquiring banks), representing a decrease of PLN 538 million compared to 2018. The lower result was precipitated chiefly by additional charges, among others, the higher contribution to the Bank Guarantee Fund y/y mainly on the account of higher payments to the banks compulsory resolution fund and the adverse impact exerted by the CJEU judgment related to consumer loans.

In 2019 Pekao made a contribution of PLN 3,003 million to operating profit (net of amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking Activity" segment while Alior Bank contributed PLN 495 million.

The key element of the segment's revenue is investment income which climbed to PLN 9,014 million y/y in 2019 (1.7% growth y/y). Investment income consists of: interest income, dividend revenue, trading result and result on impairment losses and provisions.

In 2019 Bank Pekao and Alior Bank posted higher sales of credit products y/y on favorable business conditions and low interest rates. As a consequence of the higher volume of loans to clients both banks reported higher net interest income (interest income minus interest expenses). The client loan portfolio in both banks in 2019 moved up by a total of 6.9% versus the end of 2018.

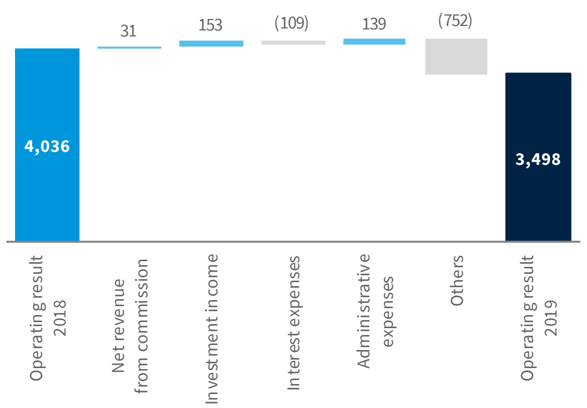
The profitability of the banks in the PZU Group in 2019 measured by the net interest margin was 2.9% in Pekao and 4.6% in Alior Bank. The difference between them stems in particular from the mix of the loan receivables portfolio. Bank Pekao reported improvement in its interest margin of 4 bps as a result of new sales higher margin while Alior Bank reported decrease in its interest margin by 12 bps. due to lower interest result in consequence of CJEU judgment related to consumer loans.

Net fee and commission income in the banking segment was PLN 3,146 million, up 1,0% y/y. This segment's administrative expenses totaled PLN 4,850 million with Pekao reporting costs of PLN 3,375 million and Alior Bank having costs of PLN 1,475 million. The 2.8% y/y decline in costs follows, among others, from maintaining cost discipline in both banks and releasing some of the provisions for deferred salary components in Alior Bank.

Moreover, other operating income and expenses contributed to the operating result; their main component consists of fees to the Bank Guarantee Fund (PLN 611 million) and the provisions for refunds of fees, resulting from the CJEU ruling on consumer loans in the amount of PLN 243 million in Alior Bank and of PLN 29 million in Bank Pekao.

As a result, the Cost/Income ratio was 41% for the two banks. Pekao's ratio was 42% and Alior Bank's ratio was 39%.

Operating profit in the banking segment (in PLN m)

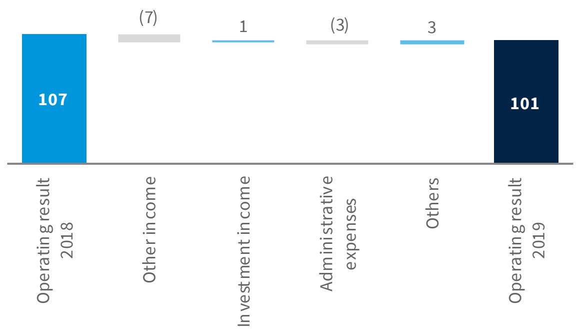


Pension insurance

In 2019 the operating profit of the pension insurance segment was PLN 101 million, down 5.6% from 2018. The major drivers of the operating result's level and movement are as follows:

- other revenue of PLN 142 million fell 4.7% compared to the previous year. This change resulted from the decline in revenue due to the reimbursement of funds from the Insurance Guarantee Fund;
- administrative expenses of PLN 43 million were up 7.5% from the previous year. This change resulted mainly from:
  - amortization of the right to manage Pekao funds (the management of OFE Pekao was acquired in 2018),
  - higher personnel costs due to onboarding the team of employees from Pekao PTE;
- other line items totaling PLN 4.0 million signifying a decline of 42.9% versus last year (impact exerted by lower acquisition expenses and handling expenses and the release of provisions for the reimbursement of fees charged to contributions overpaid by ZUS for previous years).

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



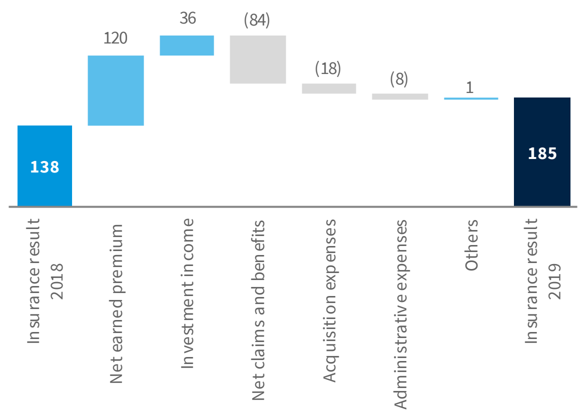
Baltic States

In 2019 the PZU Group's business in the Baltic states generated a record-breaking insurance result of PLN 185 million with a high pace of improvement (it was up PLN 47 million or 34.1% versus 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 totaled PLN 1,713 million versus PLN 1,592 million last year. Premium in non-life insurance climbed PLN 114 million y/y (7.5%). The pace of growth was generated in particular by non-life insurance as a result of entering into new contracts, chiefly in the corporate segment in Lithuania, Latvia and Estonia and by health insurance with higher sales in Latvia and Lithuania. Sales growth was also recorded in motor TPL and motor own damage insurance by maintaining higher insurance rates in the early part of the year. Premiums in life insurance increased by PLN 7 million (10.8%);
- growth in investment income. In 2019 the result was PLN 38 million and was up PLN 36 million versus the previous year, mainly due to price growth on the equity markets;
- higher net claims and benefits. They totaled PLN 989 million and were up PLN 84 million compared to the previous year. The loss ratio in non-life insurance edged down by 0.8 p.p. to 60.3% versus last year. In life insurance the value of benefits was PLN 68 million, up PLN 78.9% versus last year;
- higher acquisition expenses. The segment's expenditures for this purpose were PLN 335 million. The acquisition expense ratio stated as a percentage of net earned premium dwindled by 0.5 p.p. to 20.9%;
- increase in administrative expenses. They were PLN 133 million on growth of 6.4% versus the past year. Despite the increase in the costs incurred the administrative expense ratio dropped to 8.3%, or by 0.1 p.p. versus 2018. The decline in the administrative expense ratio was plausible thanks to maintaining cost discipline coupled with growing business volume.

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



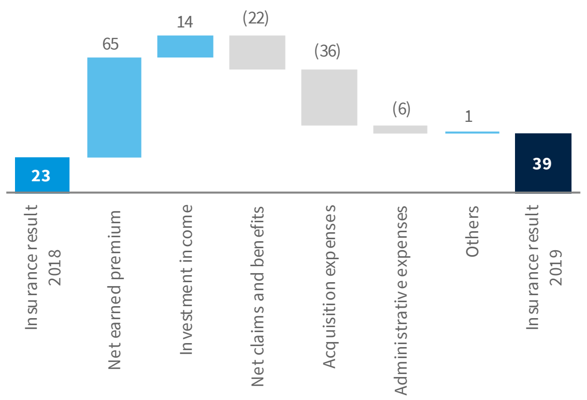
Ukraine

The Ukraine segment wrapped up 2019 with an underwriting result of PLN 39 million compared to PLN 23 million in 2018.

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

- increase in gross written premium. It was PLN 335 million and had increased by PLN 78 million (30.4%) versus the previous year. The premium in non-life insurance increased (26.7% y/y) mainly in accident and tourism insurance as a result of higher compulsory insurance sales for visas obtained by people traveling to Poland. Premium in life insurance shot up PLN 24 million (43.6%);
- higher investment result. This segment generated PLN 33 million for that reason, or some PLN 14 million more than in 2018;
- increase in net claims and benefits. They amounted to PLN 81 million, up 37.3% compared to last year. In life insurance value of the benefits paid moved up PLN 8 million (42.1%) compared to last year. The loss ratio measured against net earned premiums in non-life insurance was 38.0%, signifying a decline of 2.4 p.p. versus last year;
- increase in acquisition expenses. They were PLN 118 million vs. PLN 82 million in the previous year. Due to higher commission burdens the expenditures for this purpose trended up by PLN 14 million (41.2%) in life insurance. The segment's acquisition expense ratio went up 0.4 p.p. to 54.4% last year;
- higher administrative expenses. They were PLN 31 million, up PLN 6 million compared to the past year. The administrative expense ratio stated as a percentage of net earned premium dwindled by 2.2 p.p. to 14.3%.

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. These categories are eliminated at the consolidated level.

Gross written premium generated on investment contracts in 2019 fell PLN 5 million (-12.5%) compared to 2018 to PLN 35 million. These changes stemmed chiefly from the drop-off of contributions to IKZE accounts after this product was withdrawn from the offer.

Income on investing activity in the investment contracts segment improved by PLN 30 million over 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.

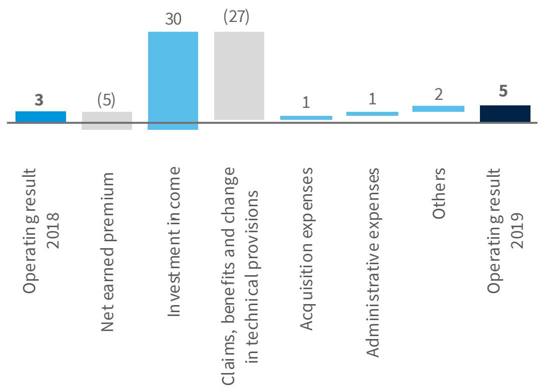
The cost of insurance claims and benefits coupled with the movement in other net technical provisions rose y/y by PLN 27 million to PLN 42 million, mainly due to the difference in investment income in the unit-linked products as described above.

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

Administrative expenses were PLN 4 million thereby falling year on year as a consequence of the shrinking portfolio of contracts in this segment.

The segment's operating result was PLN 5 million with changes resulting from the falling level of costs due to the dwindling 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 31 December 2019 was 21.2%, i.e. a level materially outpacing the figures achieved by the overall market and the main competitors (based on data for the first three quarters of 2019). ROE was down 0.9 p.p. compared to the level achieved in the previous year.

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. This ratio also remained low at 88.5% in 2019.

The operating efficiency ratios, broken down into individual segments, were presented in the ATTACHMENT.

	Operational efficiency ratios	2015	2016	2017	2018	2019
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	66.9%	63.7%	67.3%	63.8%	66.5%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100	68.2%	68.4%	70.0%	65.2%	68.0%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	23.3%	22.5%	21.1%	21.4%	22.3%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.1%%	14.3%	14.0%	14.5%	15.1%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	9.2%	8.3%	7.2%	6.9%	7.2%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	94.5%	94.9%	89.6%	87.1%	88.5%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	22.3%	25.3%	19.3%	21.3%	20.5%
8.	**Cost/Income ratio -** banking operations	-	44.4%	48.0%	42.3%	40.8%

Basic performance ratios of the PZU Group	2015	2016	2017	2018	2019
Return on equity (ROE) – attributable to the parent company (annualized net profit/ average equity) x 100%	18.0%	14.9%	21.0%	22.1%	21.2%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	16.6%	14.7%	15.3%	14.6%	13.5%
Return on assets (ROA) (annualized net profit/ average assets) x 100%	2.7%	2.1%	1.9%	1.7%	1.5%

6.8 Issuer's financial results – PZU (PAS)

In 2019 the issuer (PZU) generated a technical result of PLN 1,405 million versus PLN 1,539 million in the preceding year, signifying a decline of 8.7% year on year. The net profit was PLN 2,651 million compared to PLN 2,712 million in 2018 (down 2.2%). Without taking into account the dividends received from PZU Życie, PZU's net profit was PLN 1,319 million, down PLN 135 million compared to 2018.

In the individual net result items, PZU recorded:
- higher gross written premium of PLN 13,039 million, or 0.3% in comparison with the previous year, is the outcome of lower motor insurance sales (the impact of significant price competition) and premium growth in insurance for various financial losses and damages caused by natural catastrophes. Net of the reinsurers' share and the change in the provision for unearned premiums, net earned premium was PLN 12,303 million, up 1.8% from 2018;
- a higher level of claims and benefits in the amount of PLN 7,760 million, implying an increase of 3.2% compared to 2018. The major change was recorded in the class of insurance for damage to property caused by natural catastrophes and motor own damage partially offset by the lower loss ratio in motor TPL and other TPL;
- increase of net investment result by PLN 71 million was chiefly the effect of the dividends received from PZU Życie being higher than a year ago and the stabilization of investment income, mainly due to modifying the strategy for managing debt portfolios from a short-term to a long-term focus;
- higher acquisition expenses, taking into account reinsurance commission (up PLN 105 million), as the outcome of a shift in the product and sales channel mix: the multi-agency and dealer channel featuring higher commission rates have a higher share while at the same time there was a lower pace of growth in the sales of motor TPL insurance featuring lower commission rates;
- administrative expenses up to PLN 704 million versus PLN 655 million in 2018 chiefly as a consequence of higher personnel (due to wage pressure on the market) and IT costs on the market partially curtailed by maintaining cost discipline in other areas of business.

In 2019 PZU collected gross written premium of PLN 13,039 million, i.e. 0.3% more than in 2018. They comprised mainly:
- motor TPL insurance premiums, accounting for 39.2% of PZU's insurance portfolio (41.5% in the prior year). In 2019 they were down 5.1% from the previous year due to the lower number of insurance policies coupled with the decline in the average premium;
- motor own damage insurance premiums with a 24.7% share of PZU's total gross written premium (i.e. 0.3 p.p. lower than in the corresponding period of the previous year) – slight drop (-0.6% y/y) forming the outcome of the declining average premium and the lower number of concluded insurance policies in the corporate client segment and growth in the mass client segment;
- premiums on insurance against fire and property damage accounting for 20.7% of PZU's premium portfolio. In 2019 their percentage of the insurance portfolio edged up 0.9 p.p., while its value was up 5.0% versus the previous year – this was the effect of the higher premiums on household and business insurance and indirect activity;
- accident and other insurance premiums whose share totaled 9.5% (up 1.5 p.p. versus 2018). In this category of insurance PZU posted higher premium mainly in insurance for various financial risks (including GAP financial loss offered to individual and institutional clients with the support of PZU Group leasing companies), and in accident and sickness insurance driven by the development of cooperation with the PZU Group's banks (cash loan insurance) and health insurance sales growth.

In 2019 PZU's investment result was PLN 2,223 million compared to PLN 2,152 million in 2018. The higher income was the effect of the dividends received from PZU Życie, adjusting the strategy for managing debt portfolios from a short-term to a long-term focus and limiting volatility in the earnings of the PZU Global Macro EUR portfolio in connection with the purchase of bonds aligned to the portfolio's investment horizon constituting above all coverage of the liabilities taken under the issue of own bonds in EUR falling due in the middle of the current year.

In 2019 net claims and benefits and movement in PZU's provisions totaled PLN 7,760 million, signifying 3.2% growth compared to 2018.

The following factors contributed to the change in the net value of claims and benefits:
- higher claims and benefits in motor own damage insurance as a result of the rising average payout and the higher frequency of claims in the mass segment;

- the higher level of claims in the group of damage caused by natural catastrophes and other damage to property, including events with a high unit value and crop insurance claims – the higher than normal number of losses caused by atmospheric phenomena such as ground frost, rainfall and hail;
- the decline in claims and benefits in third party liability insurance largely as the consequence of the considerably smaller movement in the annuity provision - in the corresponding period of 2018 the provision was increased mainly in third party liability insurance for medical entities;
- lower loss ratio in the motor TPL portfolio as the outcome of the lower sales pace and rising claim-related inflation (in the corresponding period of 2018 the provision was increased for claims for pain and suffering).

Acquisition expenses in 2019 (excluding reinsurance commissions) totaled PLN 2,489 million and were up 5.0% versus 2018.This incremental growth stemmed from the increase in direct acquisition expenses (commissions) and indirect selling expenses forming the consequence of the shift in the product and distribution channels mix (the rising share held by the multi-agency and dealer channel coupled with the simultaneously lower sales growth in motor TPL insurance featuring lower commission rates).

In 2019 PZU's administrative expenses were PLN 704 million, i.e. up 7.4% versus the prior year. The increase in personnel costs due to the constant wage pressure on the market and in IT project-related costs partially curtailed by maintaining cost discipline in other areas of business was the major contributor to the year on year growth rate.

The balance of other technical income and expenses in 2019 was negative and stood at PLN 254 million. The deterioration in the balance versus 2018 was the outcome of of declining revenue on foreign exchange differences and the impairment to update the value of receivables.

In 2019 the net balance of other operating income and expenses was negative and totaled PLN 387 million compared with the similarly negative balance in 2018 of PLN 447 million. Starting in mid-2014 the balance of other operating expenses was charged with the interest expense and change of the valuation on account of foreign exchange differences on the loan taken from PZU Finance AB for the total amount of EUR 850 million (EUR 500 million in July 2014 and EUR 350 million in October 2015). The repayment date of the loans was set at 28 June 2019 and on this date they were repaid. In 2019 the foreign exchange gains on the loan received from PZU Finance AB (publ.) totaled PLN 38.0 million compared to the gains of PLN 1.1 million in 2018, while the interest expenses on the loans received were PLN 29.7 million in 2019 and PLN 62.7 million in 2018.

On 31 December 2019 PZU's total balance sheet value was equal to PLN 41,596 million and was down 4.5% versus the end of 2018.

The main component of PZU's assets were investments totaling PLN 36,660 million (down 2.4% compared to the end of 2018), which accounted for 88.1% of PZU's total assets compared to 86.2% as at the end of the previous year. With the exclusion of investments in subsidiaries, this level of investments was 6.2% lower compared to the end of 2018. The major reason for the drop in the value of investments was the amortization of the own bond issue denominated in EUR.

PZU's receivables were PLN 2,085 million and constituted 5.0% of assets versus PLN 2,343 million and 5.4%, respectively in 2018. The largest change was recorded in the value of other receivables from other entities (down PLN 127 million) and receivables on reinsurance, including from subordinated entities (down PLN 92.0 million versus the end of 2018). Non-current assets consisting of intangible assets, goodwill and property, plant and equipment were recognized in the balance sheet in the amount of PLN 442 million. They constituted 1.1% of assets.

As at 31 December 2019 PZU had PLN 126 million in cash (0.3% of assets) versus PLN 1,222 million a year earlier.

At the end of 2019, the main component of PZU's equity and liabilities consisted of technical provisions. They totaled PLN 21,465 million (net), representing 51.6% of equity and liabilities. Their share in the balance sheet increased by 3.4 p.p. compared to 2018, while in terms of value they rose by PLN 467 million, in particular due to higher provisions for unpaid claims and benefits, chiefly in motor TPL and motor own damage insurance and in insurance for other damage to property.

At the end of 2019 equity was equal to PLN 14,957 million and represented 36.0% of equity and liabilities, signifying 4 p.p. growth versus the end of 2018.

Contingent receivables totaled PLN 4,257 million, implying a decline of PLN 233 million versus last year. They comprised among others: guarantees and sureties received and other contingent receivables comprising mainly securities received in the form of a mortgage on the debtor's assets and other contingent receivables.

The balance of contingent liabilities fell by PLN 3,471 million versus last year. This stemmed mainly from the expiry of the guarantee (extended in connection with the issue of non-subordinated bonds through PZU Finance AB) and the expiry of bondholders' claims against PZU Finance AB, which transpired on 3 July 2019 on account of the subsidiary amortizing the entirety of the debt by virtue of these bonds.

In 2019 PZU generated a return on equity of 18.4%, or 1.3 p.p. lower than in 2018. In 2015-2019 the return on equity (ROE) was 17.7% on average.

COR (combined ratio) was one of the fundamental measures of productivity and operating efficiency of an insurance company; in PZU SA it has been maintained at a level confirming its high operating profitability in recent years.

Operational efficiency ratios are presented below.

	Operational efficiency ratios	2015	2016	2017	2018	2019
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	61.2%	58.8%	60.9%	60.5%	61.7%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	63.8%	66.7%	64.1%	62.2%	63.1%
3.	**Insurance activity expense ratio** (insurance activity expenses/net earned premium) x 100%	29.4%	27.9%	25.2%	24.8%	25.6%
4.	**Acquisition expense ratio*** (acquisition expenses/net earned premium) x 100%	19.9%	20.1%	19.0%	19.3%	19.9%
5.	**Administrative expense ratio** (administrative expenses/net earned premium) x 100%	9.5%	7.9%	6.2%	5.4%	5.7%
6.	**Combined ratio (COR)** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	93.2%	94.7%	89.3%	87.0%	88.7%

* after taking into account reinsurance commissions received

Basic profitability ratios of PZU	2015	2016	2017*	2018	2019
Return on equity (ROE) (annualized net profit/average equity) x 100%	18.2%	12.8%	19.2%	19.7%	18.4%
Return on assets (ROA) (annualized net profit/average assets) x 100%	6.3%	4.3%	6.2%	6.3%	6.2%

*restated data

7.

Risk management

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

In this section:

7.1 Objective of risk management

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

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

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

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

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

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

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

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

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

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

7.2 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;

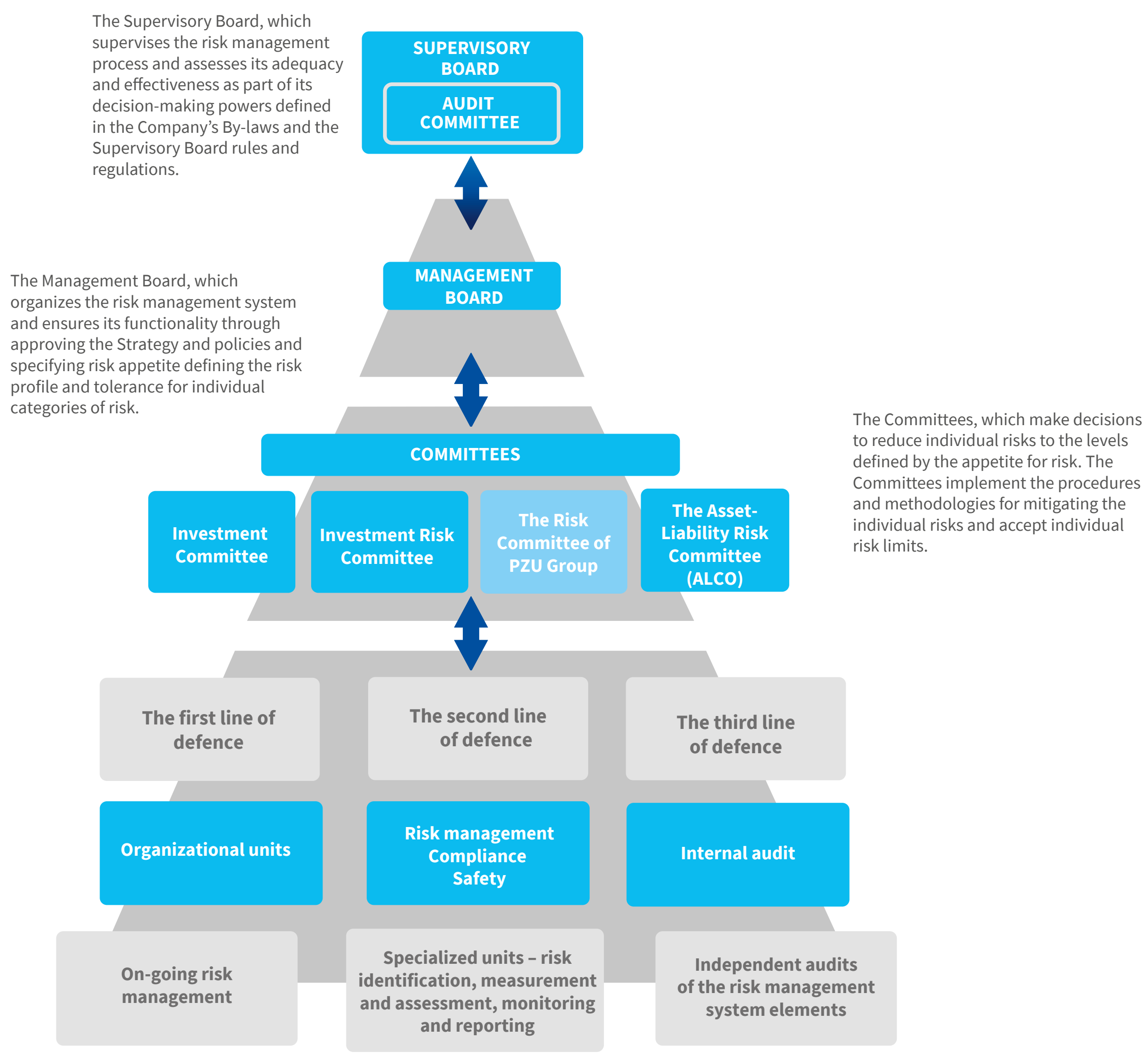
The role of the PZU Group Risk Committee is to provide support to subsidiaries' supervisory boards and management boards in implementing an effective risk management system that is coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise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

- 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, also within the framework of the prevailing limits;
- the second line of defense - risk management by specialized cells responsible for risk identification, measurement, monitoring and reporting and controlling the limits;
- the third line of defense – internal audit which conducts independent audits of the individual elements of the risk management system, as well as of control activities embedded in operations.

Chart of the organizational structure for the risk management system



7.3 Risk appetite

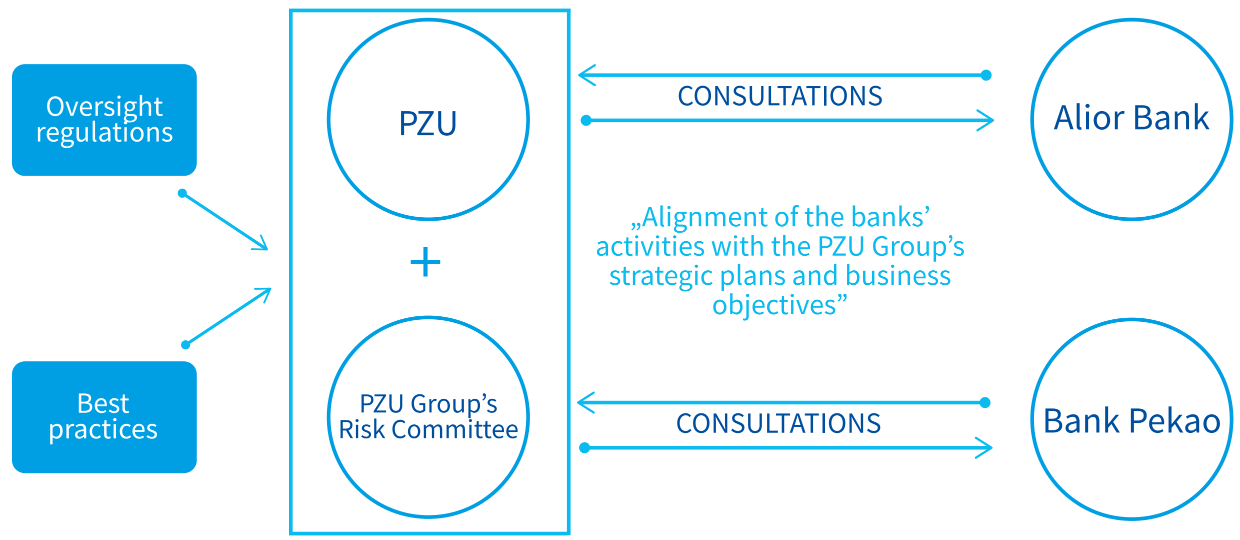
The risk appetite in the PZU Group - the magnitude of risk undertaken to attain its business objectives, where its measure is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year.

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

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

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

Process of determining the risk appetite



Risk management prevents the acceptance of risk at a level that could pose a threat to the PZU Group's financial stability

Risk management process stages: identification, measurement and assessment, monitoring and control, and management activities

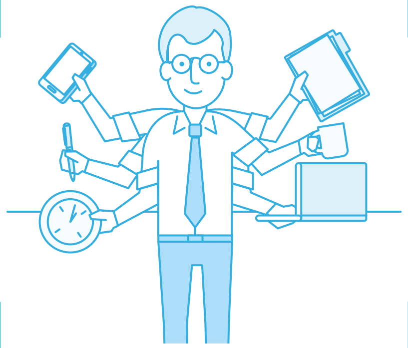
The risk management structure in the PZU Group comprises 4 decision-making levels: (i) Supervisory Board, (ii) Management Board, (iii) Committees, (iv) three lines of defense as part of operations

Key risks in the PZU Group: actuarial, market, credit, concentration, liquidity, operational, model and compliance

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process implemented in entities in the PZU Group

Supervision over risk management systems in the banking sector entities (Alior and Pekao) is exercised by the Supervisory Boards of these banks, to which PZU designates its representatives

The risk appetite determined at least once a year in Pekao and Alior (after consultations with the parent company) ensures alignment of the banks' activities with the PZU Group's strategic plans and business objectives



Reinsurance providing security against negative impact of catastrophic events on the results of the PZU Group's insurance activity

As at the end of Q3 2019, the Solvency II ratio 220% above the average ratio reported by insurance groups in Europe

The Group's capital management (including excess capital) is conducted at the level of the PZU Group as the parent company

PZU's reinsurance partners with high S&P ratings (AA, A)

7.4 Risk management process

Two levels are distinguished in the risk management process:

- I - GROUP LEVEL – monitoring the limits and risks specific to the Group
  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's dedicated personnel cooperates with the Management Boards of entities and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent mutual cooperation agreements.
- II - ENTITY LEVEL – monitoring of limits and risks specific to the entity
  Risk management at this level aims to ensure that the PZU Group entity attains its business objectives in a safe manner appropriate to fit the extent of the risk incurred by that entity. The limits and risk categories specific to the company are monitored at this level and also, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance) and the security management system.

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

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

Reporting

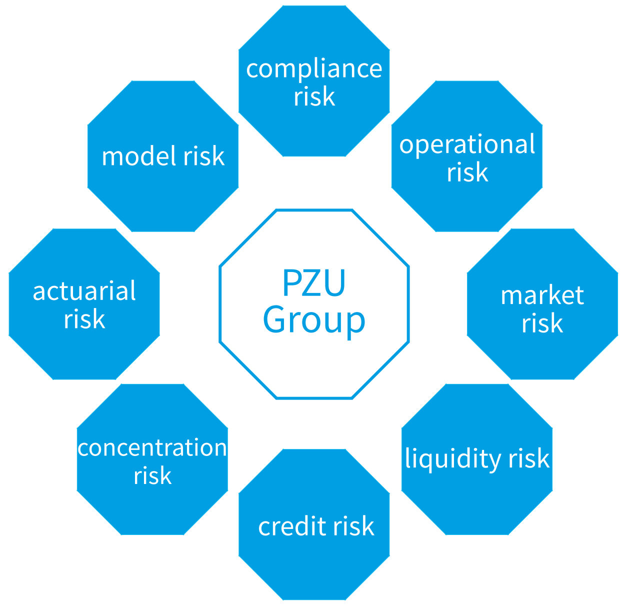
Allows efficient risk communication and supports risk management at various decision-making levels.

Management actions

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

7.5 PZU Group's risk profile

Major risks in the PZU Group



The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, 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 33% of the PZU Group's total risk (Q3 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.

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:

- 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;
- 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 the adequacy of technical provisions;
- tariff strategy, monitoring of current estimates and assessment of the premium adequacy;
- the process of assessment, valuation and acceptance of actuarial risk;
- application of tools designed to mitigate actuarial risk, including in particular reinsurance and prevention.

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

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

Market risk

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

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

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

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

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

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

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

Market risk is measured using the following risk measures:

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

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

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

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

The risk is measured:

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

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

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

Management actions in respect of market risk involve in particular:

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

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

Credit risk and concentration risk

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

- spread;
- counterparty default risk;
- credit risk in financial insurance.

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

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

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

Credit risk is measured using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- capital requirement calculated using the standard formula.

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

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

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

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

Within management of liquidity risk, banks in the PZU Group also perform analyses of the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:
- stability of equity and liabilities with indefinite maturities (e.g. current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g. mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

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

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

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

Operational risk

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

Operational risk is identified in particular by:
- accumulation and analysis of information on operational risk incidents and the reasons for their occurrence;
- 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 and limits enabling assessment of changes in the level of operational risk over time and assessment of factors that affect the level of this risk in the business.

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

Management actions involving reactions to any identified and assessed operational risks involve, in particular:
- risk mitigation by taking actions aimed at minimizing risks, for instance by strengthening the internal control system;
- risk transfer – in particular, by entering into insurance agreements;
- risk avoidance by refraining from undertaking or withdrawing from a particular type of business in cases

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

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

Model risk

Taking into account the growing importance of the scope of use of models and the fact that model risk was classified as material risk for the PZU Group; the formal process of identifying and evaluating this risk was continued in 2019. The process aims to ensure high quality of risk management practices applied to this risk. It is currently being developed in PZU and PZU Życie. Within the framework of this process, the models were monitored and independently validated in 2019.

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 for some years in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operations 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 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.

PZU Group entities are obligated to report compliance risk to the Compliance Department at PZU and PZU Życie on an on-going basis. 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 performance of compliance-related instructions given to entities;
- support of the PZU Group's entities' compliance business units when assessing compliance risk;
- reporting to the PZU Management Board and Supervisory Board.

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

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

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

Compliance risk is assessed and measured by calculating the consequences of the following types of risk materializing:
- financial risks, resulting among others from administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages;
- intangible risks pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

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

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

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:

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

In 2019 - in connection with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence the necessity for KNF to continue applying supplementary oversight to it under the Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate – compliance was involved in the work to align the Company to the requirements ensuing from this act, as well as to the requirements stemming chiefly from the following legal acts:

- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation);
- Directive of 15 May 2014 on Markets in Financial Instruments (MIFID II) (this regulation is material for some PZU Group entities, in particular for TFI);
- Act of 15 December 2017 on Distribution of Insurance;
- Act of 1 March 2018 on Combating Money Laundering and Financing of Terrorism;
- Act of 16 October 2019 on amending the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and some other acts.

Risk concentration

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

At present the PZU Group identifies the following types of risk concentration:

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

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

7.6 Risk sensitivity

Risk pertaining to financial assets

The table below summarizes the results of sensitivity analysis on the value of the investment portfolio to volatility in interest rates, FX rates and the prices of equities. This analysis does not take into account the impact exerted by changing interest rates on the insurance agreements presented in liabilities or the investment contracts and receivables due from bank clients.

Financial assets exposed to foreign exchange risk include the PZU Group's investment financial assets and financial derivatives denominated in foreign currencies.

Interest rate risk – the possibility of incurring a loss as a result of changes in the value of financial instruments or assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of market rates or in the volatility of risk-free market interest rates.

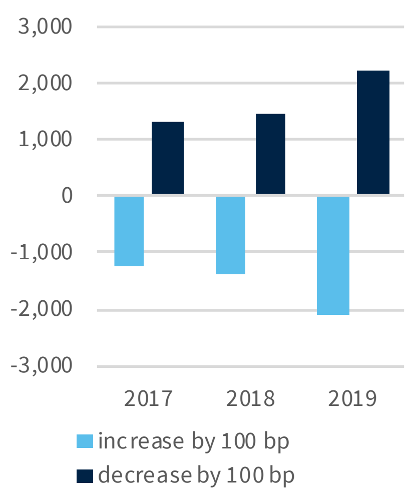
Foreign exchange risk – the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of currency exchange rates.

Equity price risk – the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of equities.

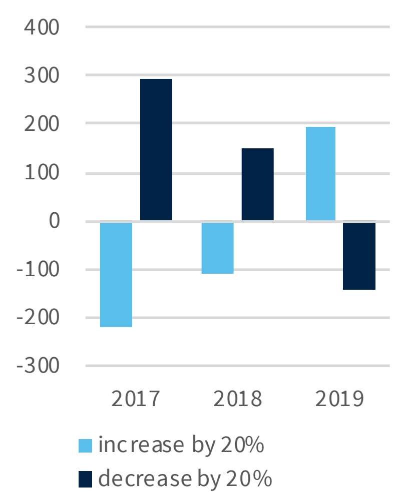
The differences in asset portfolio sensitivity between 2018 and 2019 ensue from the execution of the adopted investment strategy and the resulting alignment investment portfolio.

Sensitivity of the asset portfolio (in PLN m)	Change of the risk factor	31 December 2018	31 December 2019
		Change in portfolio value	Change in portfolio value
Interest rate risk	decrease by 100 bp	1,450	2,224
	increase by 100 bp	(1,369)	(2,101)
Foreign exchange risk	increase by 20%	(110)	195
	decrease by 20%	148	(142)
Equity instruments price risk	increase by 20%	190	112
	decrease by 20%	(190)	(112)

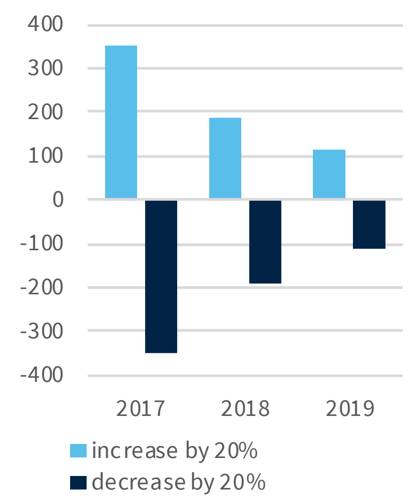
Interest rate risk



Currency risk



The risk of capital instruments prices



Sensitivity of provisions	Impact of changes in assumptions on the net financial result and equity	
	31 December 2018	31 December 2019
Changes in assumptions regarding provisions for the net capitalized value of annuities in non-life insurance (in PLN m)		
Technical rate - increase by 0.5 p.p.	426	416
Technical rate - decrease by 1.0 p.p.	(1,105)	(1,080)
Mortality at 110% of the currently assumed rate	127	128
Mortality at 90% of the currently assumed rate	(142)	(143)
Changes in the assumptions for annuities in life insurance (in PLN m)		
Technical rate - decrease by 1.0 p.p.	(25)	(22)
Mortality at 90% of the currently assumed rate	(11)	(10)
Change in assumptions regarding provisions in life insurance excluding annuity products (in PLN m)		
Technical rate - decrease by 1.0 p.p.	(2,062)	(1,976)
Mortality at 110% of the currently assumed rate	(869)	(850)
110% morbidity and accident rate	(143)	(138)

Risk pertaining to technical rates and mortality
The table above presents a sensitivity analysis of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities. This analysis does not incorporate the impact exerted by changes in the valuation of deposits used to calculate the provision.

The following table shows the evolution of the level contractual sensitivity of interest income (NII) to change in interest rates by 100 bps and value sensitivity economic capital (EVE) of the PZU Group banks for a change interest rates by 200 bps.

	Sensitivity in %	31.12.2018		31.12.2019	
		decrease	increase	decrease	increase
Bank Pekao Group	NII	(8.64)%	6.22%	(6.98)%	4.08%
	EVE	(0.95)%	0.87%	1.61%	(3.04)%
Alior Bank Group	NII	(5.97)%	2.45%	(6.86)%	3.14%
	EVE	(2.36)%	3.31%	(1.70)%	1.35%

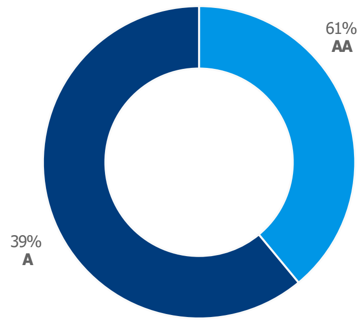
data for December 2018 according to the methodology applicable before the implementation of the EBA requirements regarding IRRBB, that took place in June 2019

7.7 Reinsurance operations

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

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

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



Main reinsurers in 2019:
Hannover Re
Munich Re
Gen Re
VIG Re
Scor

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

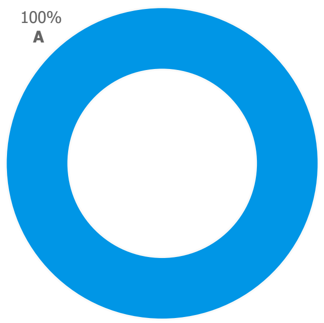
PZU's inward reinsurance business involves the PZU Group's other insurance companies. Continued exposure to protect Baltic companies, LINK4 and TUW PZUW means that PZU continues to generate a high gross written premium by virtue thereof.

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

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

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

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



Main reinsurers in 2019:
QBE
Mapfre
Nacional de Reaseguros
Toa Re

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.

7.8 Capital management

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

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

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

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

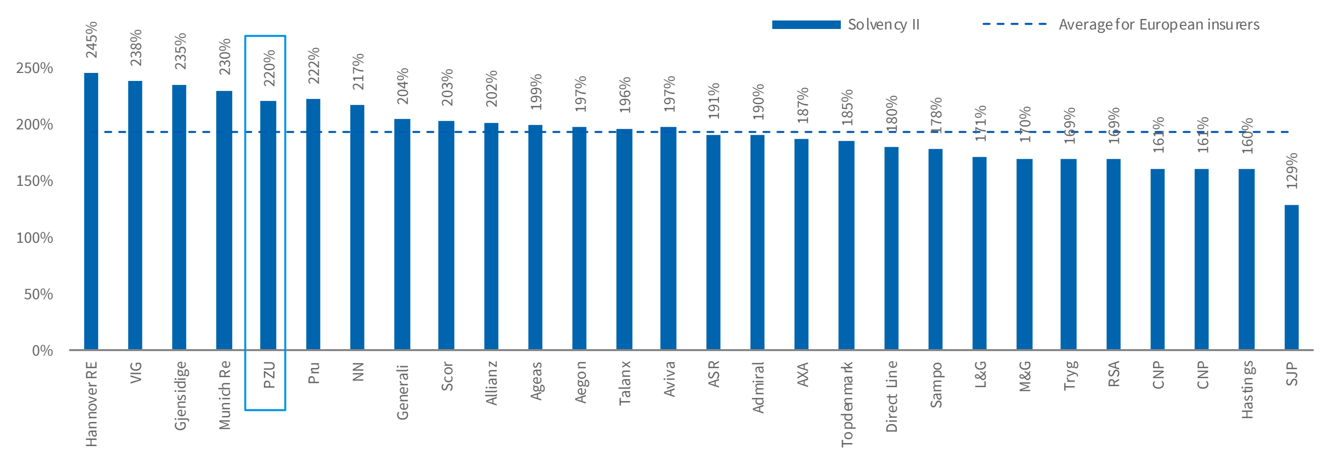
The capital management policy rests on the following principles:

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

As at the end of Q3 2019, the estimated solvency ratio (calculated according to the standard Solvency II formula) was 220% 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).

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



Source: Data taken from insurers' reports as of Q3 2019 in the case of PZU, Ageas, Allianz, Aviva, AXA, CNP, Generali, Gjensidige, Munich Re, NN, Phoenix, RSA, Sampo, Scor, Talanx, Topdanmark, Tryg and as of H1 2019 in the case of the other insurers

Solvency ratio	2018	Q3 2019
SCR		
PZU Group	222%	220%
PZU*	240%	240%
PZU Życie*	449%	435%
MCR		
PZU Group	352%	360%
PZU*	890%	885%
PZU Życie*	997%	967%
CRR		
Pekao Group – total capital adequacy ratio	17.4%	17.2%
Tier 1	15.8%	15.5%
Alior Bank Group – total capital adequacy ratio	15.9%	16.2%
Tier 1	12.8%	13.4%

*unaudited data

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8.
The PZU Group on the capital and debt markets

The shares of PZU, Pekao and Alior Bank accounted for 19.7% of the value of the shares traded on the Warsaw Stock Exchange in 2019 totaling PLN 37.8 billion. Their total market capitalization at yearend was PLN 64.7 billion.

In this section:

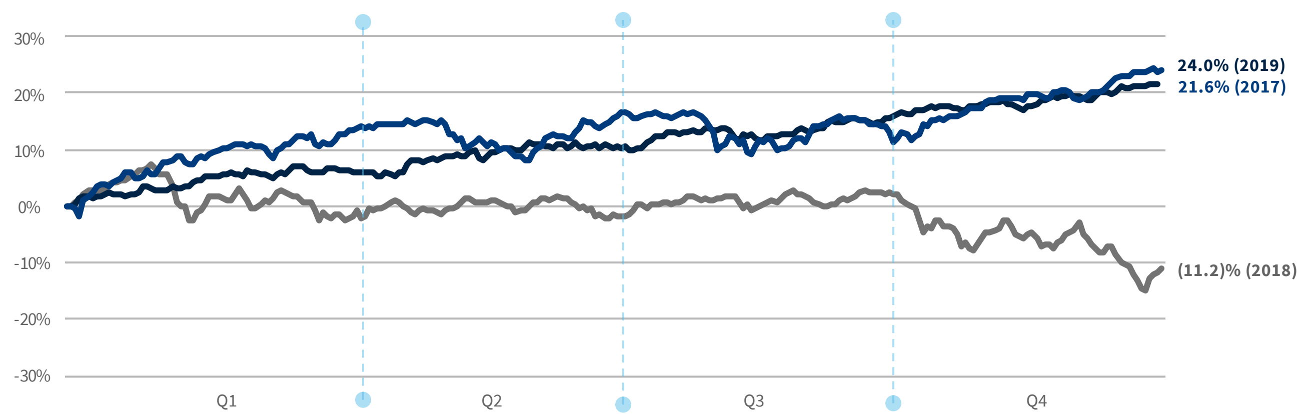
8.1 Equity and bond market

2019 was a prosperous year for global financial markets. The MSCI ACWI - All Country World Index - (consisting of stocks from 49 different countries, of which 23 are classified as developed markets and the remaining 26 are considered emerging markets) climbed 24.0% y/y, namely a level similar to the very robust year of 2017 during which strong growth was prevalent in almost all asset classes. This trend was reflected by the main stock markets in the US, London, Frankfurt and Paris as their main indices posted growth in excess of 25% y/y. Even events like the protracted trade war between the US and China and the economic crisis in Argentina were unable to affect positive sentiment and the appetite for risk.

The global economy's most important central banks made attempts to normalize monetary policy as early as 2018. The American central bank, the FED, hiked interest rates four times, while announcing another two rate hikes in 2019 and continuing to pursue a quantitative tightening operation, i.e. reduce its balance sheet by curtailing the reinvestment of maturing bonds.

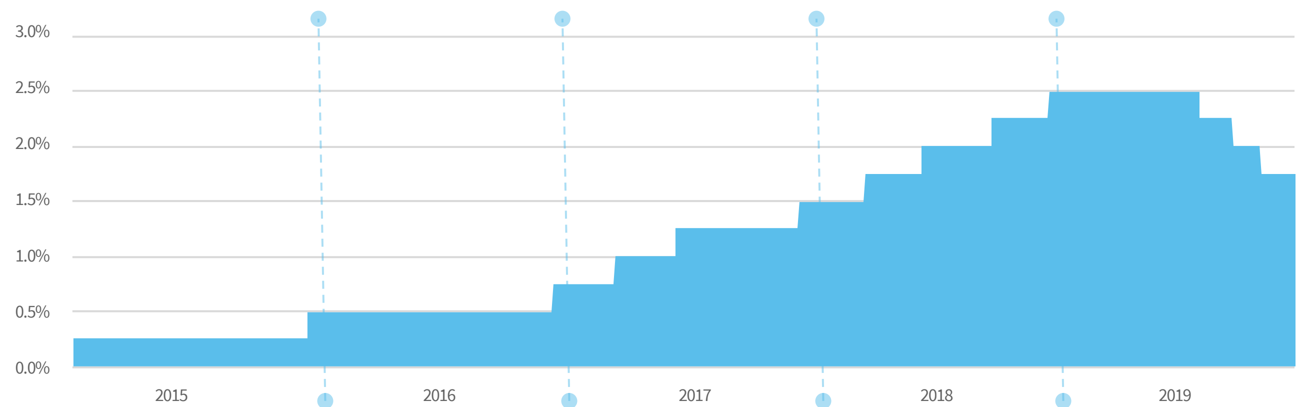
In March 2019 this strategy changed materially when the FED withdrew from additional hikes of interest rates, and in July 2019 rate cuts were revisited (three rate cuts of 25 basis points each in 2019). Quantitative easing was also resumed in October 2019, whereby the balance sheet of the US Federal reserve began to swell again.

MSCI ACWI ($) 2017-2019)



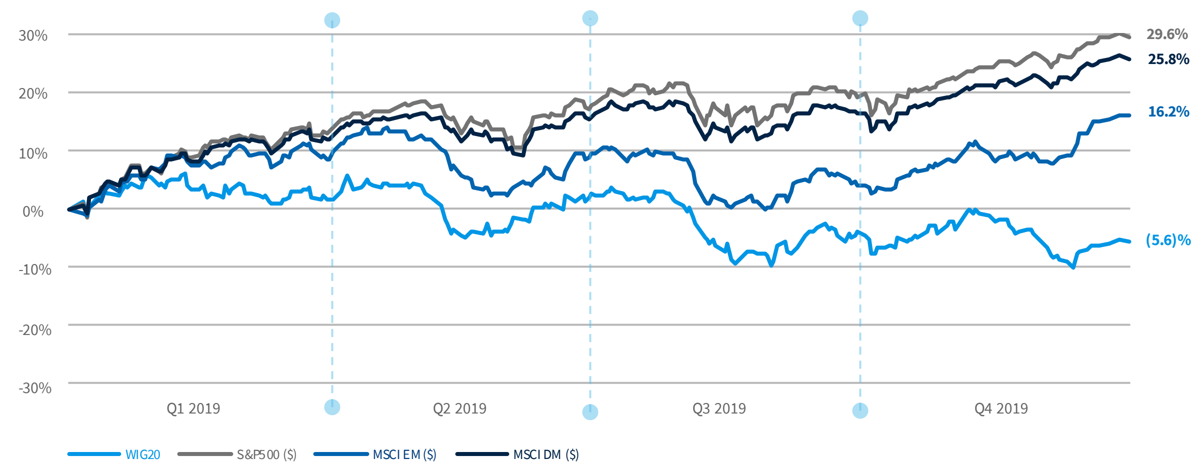
Source: www.infostrefa.com, www.msci.com

US fed funds rate (upper limit)



Source: https://fred.stlouisfed.org/

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



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

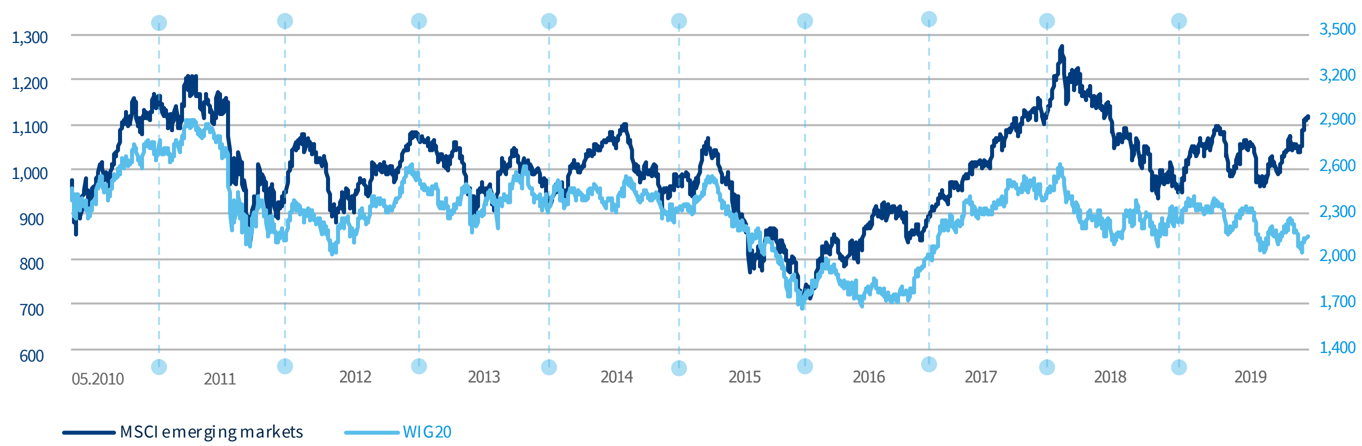
The measures taken by the ECB also indicated a loosening policy. In early June 2019 ECB's Governing Council announced that ECB's prime interest rates will remain at their current level at least until H1 2020. A mere few weeks later the President of the ECB stated that it would be possible to continue reducing interest rates and renew quantitative easing (QE), which transpired in September 2019.

The measures taken by central banks in 2019 supported the S&P500 performance. At the end of 2019, S&P500 had risen 29.6% SECTION 2.3. SITUATION ON THE FINANCIAL MARKETS.

Vibrant market conditions in the US and Europe also translated into growth on emerging markets. In 2019 the MSCI Index moved up 15.4% y/y, thereby presenting relatively greater strength than the WIG20, an index of the Warsaw Stock Exchange's largest companies.

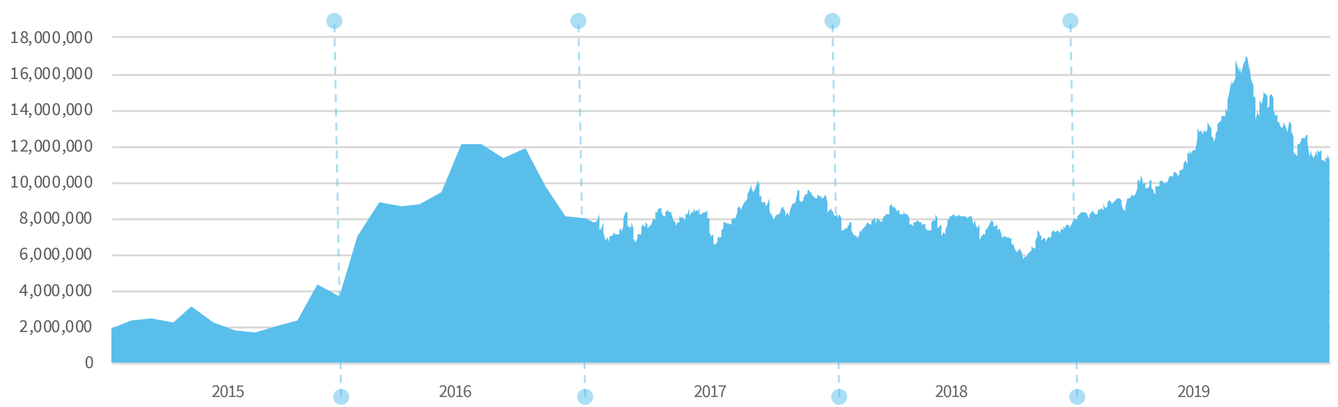
The WIG index gained 0.3% y/y in 2019 while WIG20 backtracked 5.6% y/y. The weakness of local indices was related among other things to portfolio conversions in open-end pension funds (OFE) (due to transformations in the pension system) and the escalation of banking sector's problems associated with their Swiss franc loan portfolios. Revisions to the MSCI emerging markets index also had an

MSCI Emerging Markets / WIG20



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

Value of debt securities with negative yields ($ million)



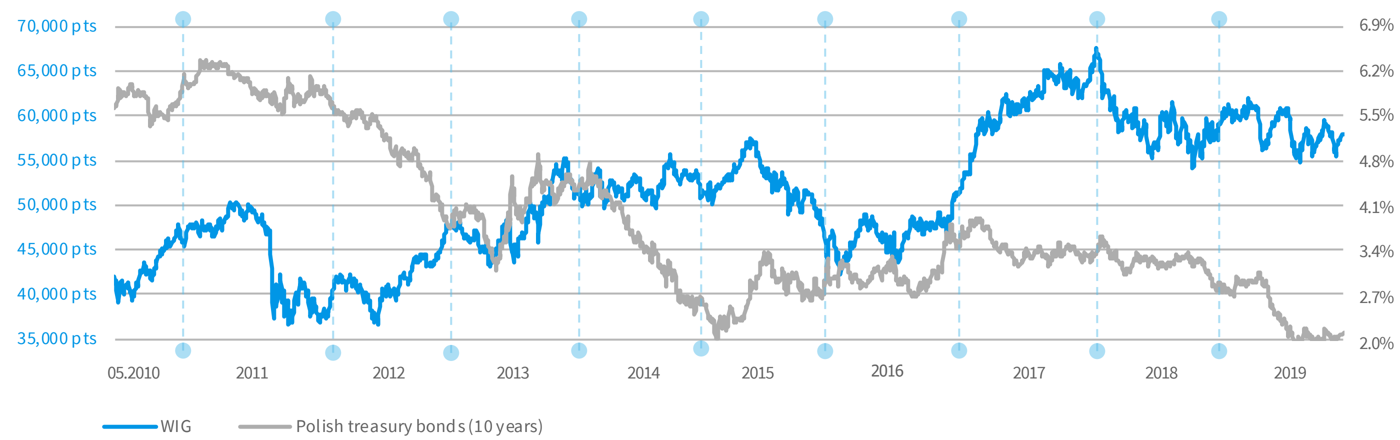
Source: Bloomberg – Barclays negative yielding index

adverse impact; revisions were made three times in 2019: in May, August and November. All these changes precipitated a decline in weight of Polish equities in this index, chiefly to the benefit of Saudi Arabia and China. According to analysts' estimates, the incremental supply may have run into several billion Polish zloty.

The measures taken by the major central banks revealed the phenomenon of negative interest rates on global debt which surpassed the record-breaking amount of USD 17 trillion in Q3 2019. Tensions between the US and China and the threat of a "hard" Brexit aggravated this phenomenon. At the end of 2019 the value of debt securities with negative yields was USD 13.2 trillion.

Medium-term and long-term treasury bond yields fell in 2019. The behavior of Polish 10-year treasury bonds was largely correlated with changes in the yields on 10-year bonds on the core markets. At the same time, during the year the spread between Polish and German 10-year treasury bonds tightened by 26 basis points, which resulted partly from the robust fundamentals of the Polish economy against the backdrop of European economies. Throughout 2019, the yields on 10-year treasury bonds slumped by 78 bps from 2.85% to 2.07%. The yields on 5-year treasury bonds declined by 48 bps and stood at 1.81% at the end of the year, while the yields on 2-year bonds increased by 16 bps to 1.50% during the year. The yield of Polish debt treasury securities with a one-year maturity increased by 7 bps, reaching 0.98% at the end of the year. SECTION 2.3. SITUATION ON THE FINANCIAL MARKETS

WIG / Treasury bonds (10 year)



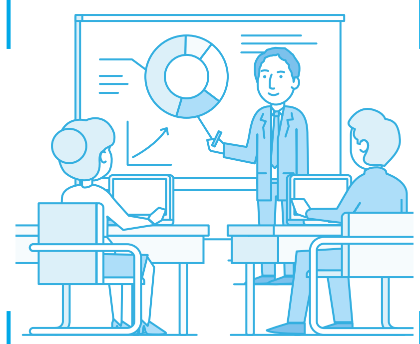
Source: www.infostrefa.com, www.stooq.com

The dividend yield for PZU's stock was **6.4%**

The dividend per share paid in 2019 was **PLN 2.80**

The P/E ratio (price / earnings) for PZU's stock at the end of 2019 was **10.5x**

P/BV (price / book value) **2.1x**



Average daily turnover of PZU's stock was **PLN 67.0 million**

while the average number of trades per session was **3,744**

The percentage of foreign investors in PZU's shareholder structure at the end of 2019 was **35.4%**

with North American investors holding a **14.7%**

The dividend yield for Pekao's stock was **6.1%**

The dividend per share paid in 2019 was **PLN 6.60**

The number of conferences for institutional investors:

16 international conferences

4 domestic conferences

3 non-deal roadshows in New York, Paris and Frankfurt

Number of recommendations issued for PZU shares in 2019: **28**

highest target price at the end of December 2019: **PLN 53.0**

average target price at the end of December 2019: **PLN 44.1**

Percentage of PZU held by open-end pension funds (OFE) was **16.8%**

while the percentage held by mutual fund management companies (TFI) was **4.2%**

Financial strength rating and credit rating for PZU and PZU Życie awarded by S&P Global Ratings:

A- (positive)

PZU's market value at the end of 2019 was **PLN 34.6 billion**

Bank Pekao's was **PLN 26.4 billion**

Alior Bank's was **PLN 3.7 billion**

The percentage of retail investors in PZU's shareholder structure at the end of 2019 was **7.5%**

8.2 PZU's share price

PZU IPOed on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation it has been included in its most important index, WIG20 (calculated on the basis of the portfolio value of the 20 largest and most liquid companies on WSE's main market)[1]. PZU also belongs to the following Polish indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, WIG.MS-FIN, CEEplus and WIG ESG (sustainable development index) and the following international indices: MSCI Poland (emerging markets), Stoxx Europe 600 (developed markets) and FTSE Russel mid cap index (developed markets).

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

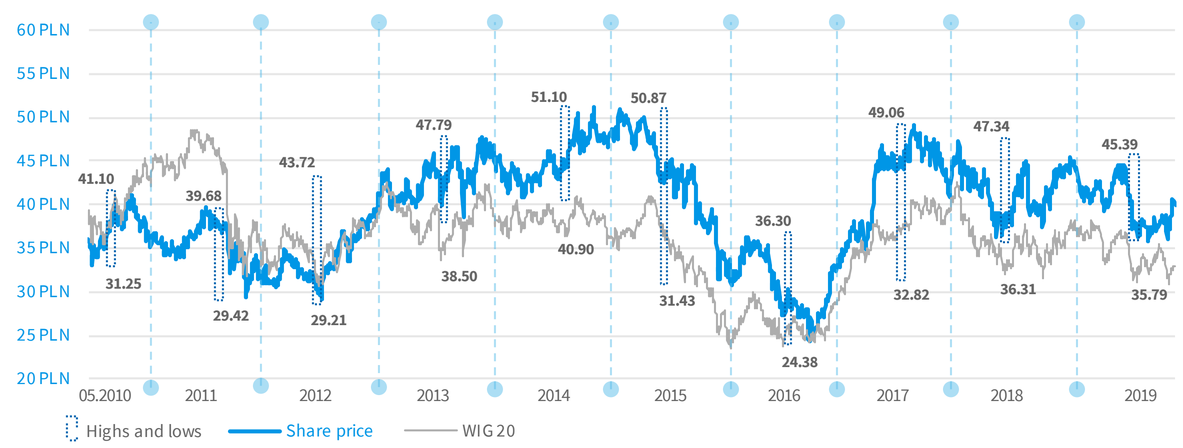
Warsaw Stock Exchange indices

In 2019, the Polish blue chip index (WIG20) oscillated in the range between 2,047 and 2,414 points (vs. between 2,083 and 2,630 points in 2018), ending the year's last session at 2,150 points (down 5.6% y/y and down 2.6% when adjusted for dividends). The sWIG small cap index behaved much better in this year with upward movement of 13.9% y/y.

PZU's share price

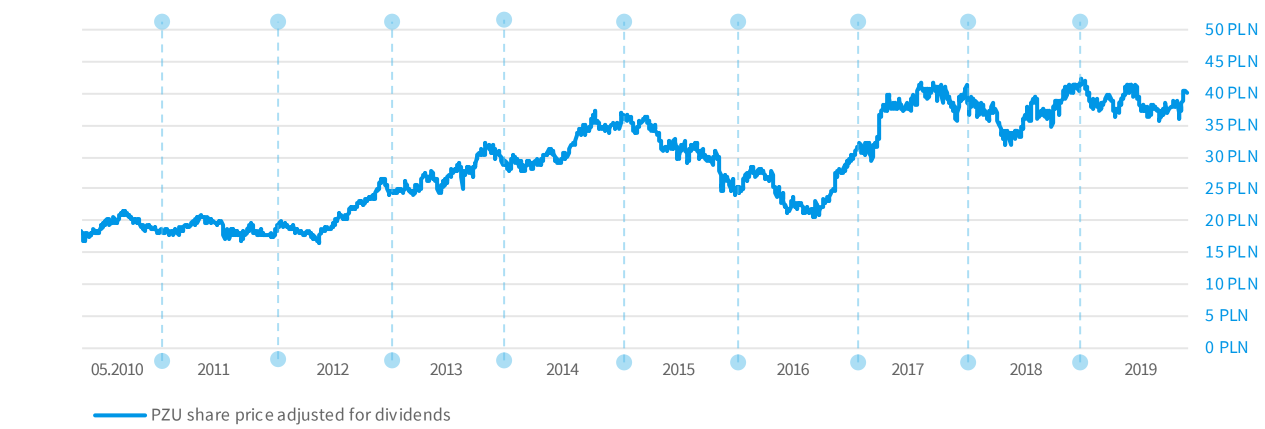
In 2019, PZU's shares remained among the most liquid companies traded on the WSE. With a market capitalization of over PLN 34.6 billion at the end of 2019, PZU ranked as the third largest company by market cap on the Warsaw Stock Exchange. PZU's share in WSE's total trading volume was 8.7% (4th place).

PZU's min/max share price at session closing from May 2010 to 2019



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

PZU's share price adjusted for dividends paid from May 2010 to 2019



Source: www.stooq.pl

PZU's maximum share price (not adjusted for dividends) in 2019 was PLN 45.39 (at closing prices) and its minimum price was PLN 35.79. In 2018, these prices were PLN 47.34 and PLN 36.31, respectively.

The share price at the last trading session in 2019 was PLN 40.03, down 8.8% y/y. After adjusting the share price for the dividend according to the methodology used by the stooq service (http://stooq.pl/pomoc/?q=9&s=pzu), movement in PZU's share price in 2019 was -2.0% versus WIG20 index down by 5.6%, WIG20TR[2] down by 2.6% and WIG Banks down by 9.2%.

PZU's share price (unadjusted for dividends) in 2019 peaked on 25 January at PLN 45.39. During the first three quarters PZU's share price underperformed the main local benchmark indices of WIG and WIG20. In turn, in Q4 PZU's share price shot up 7.1%, outperforming the WIG index's (up 0.3%), WIG20 (down 1.1%) and WIG Banks Index (down 5.2%). The WIG overall market index ended the year slightly up by recording growth of 0.3%.

In 2019, PZU's shares were highly liquid. The average daily spread of PZU's stocks was only 7 bps compared to the average spread of 13 bps for the 20 most liquid companies. PZU's stock turnover exceeded PLN 16.6 billion and accounted for 8.7% of the total market's turnover.. The average daily trading volume of PZU's stock in 2019 was 1.6 million shares. The largest daily volume (6.0 million shares) was recorded on a rising (+0.9%) trading session held on 15 March 2019, i.e. two days after PZU's 2018 financial results were published.

[2] WIG20TR is the WIG20 adjusted for dividends

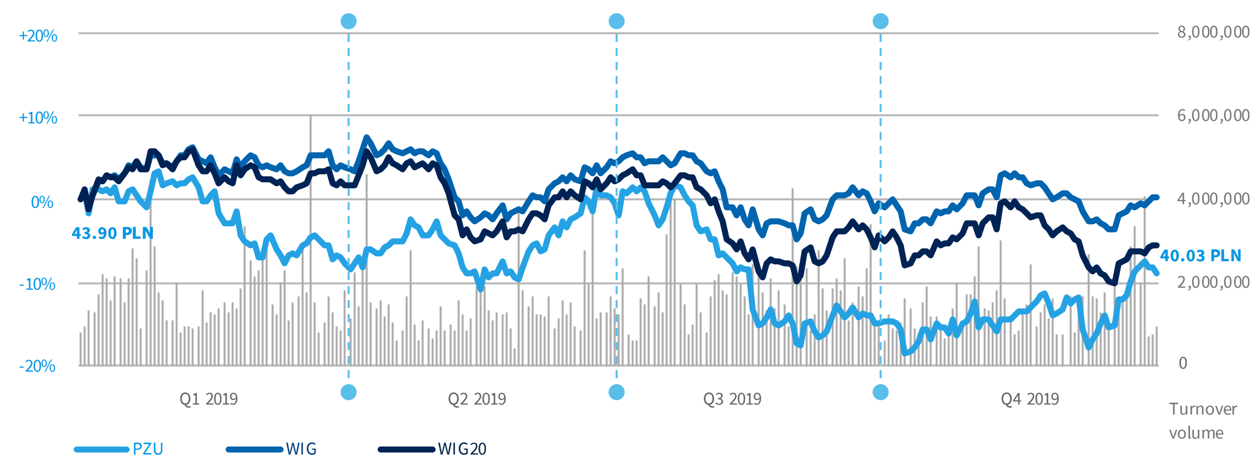
Volatility

Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU share price versus the WIG index for daily changes) in 2019 was 0.86 (1.23 in 2018). The decline in beta was linked to the relatively soft performance of large cap companies (including PZU) compared to the overall market.

The annualized standard deviation for daily changes in the PZU share price declined by 7.1 p.p. to 20.0%. These values for WIG and WIG20 fell by 2.6 p.p. and 1.7 p.p. to 12.6% and 17.0%, respectively. The value of shares traded for the overall WIG index contracted 6.8% y/y to PLN 190 billion.

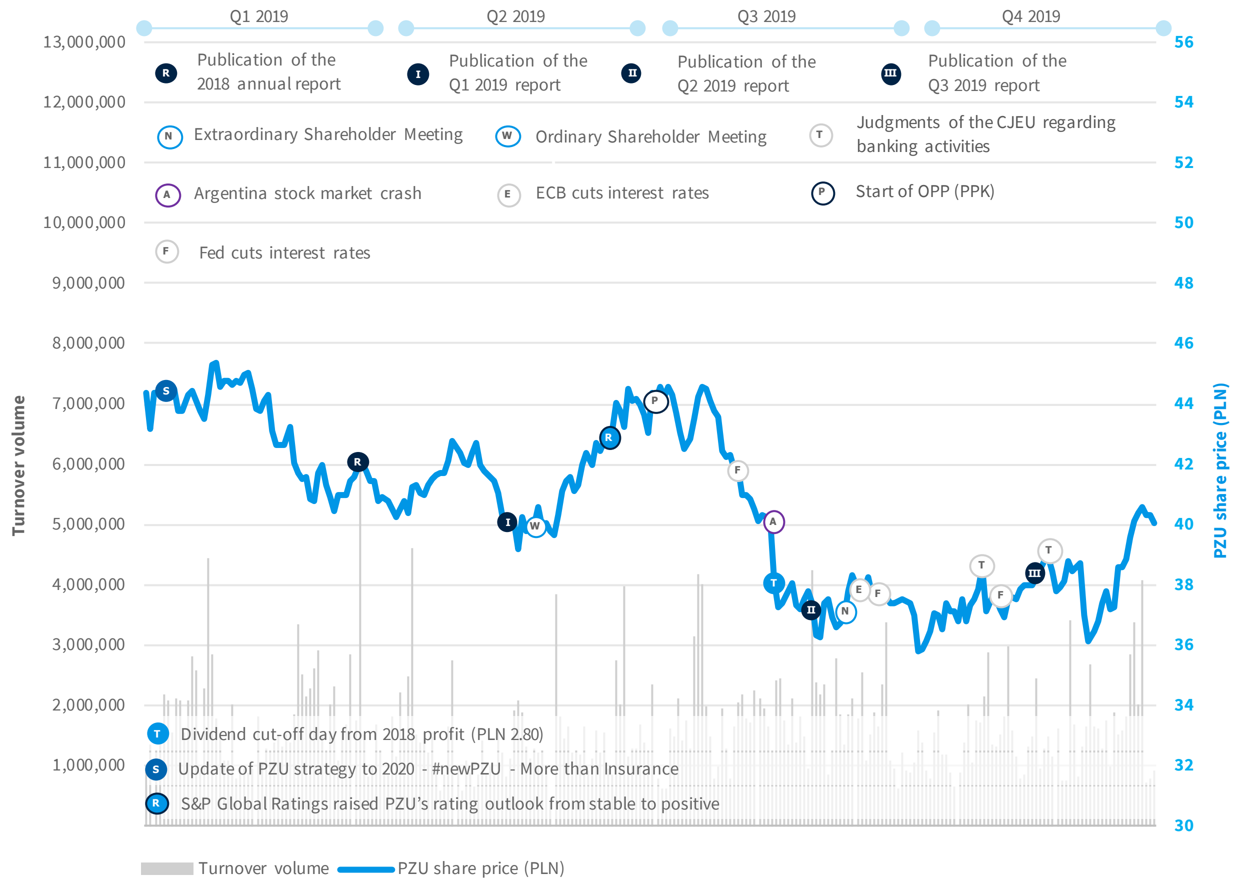
PZU's total shareholder return (TSR) calculated as the change in the share price plus the distributed dividend was -2.4% at the end of 2019. TSR in 2015-2019 was 18.7%. At the end of 2019 the WIG20TR index recorded a loss of 2.6% y/y.

PZU stock price versus WIG and WIG20



Source: www.gpwinfostrefa.pl

Factors impacting PZU's stock price in 2019



Source: www.gpwinfostrefa.pl

Kody Quick Response (QR)

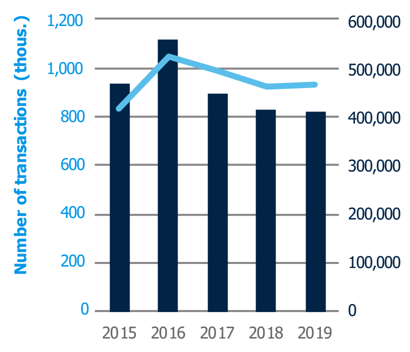
Publication of the 2018 annual report

Publication of the Q1 2019 report

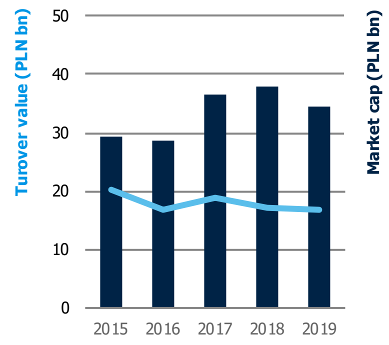
Publication of the Q2 2019 report

Publication of the Q3 2019 report

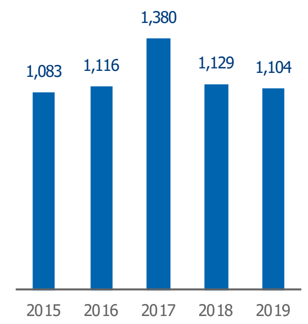
PZU's trading volume / Number of transactions



PZU's capitalization / Trading volume



WSE's capitalization



Source: www.gpwinfostrefa.pl

PZU's stock-related statistics	2015	2016	2017	2018	2019
Maximum price (PLN)	50.87	36.30	49.06	47.34	45.39
Minimum price (PLN)	31.43	24.38	32.82	36.31	35.79
Closing price on the last trading session of the year (PLN)	34.02	33.21	42.16	43.90	40.03
Average session price (PLN)	43.72	30.76	42.53	41.48	40.61
Value of shares traded (PLN m)	20,145	16,755	18,902	17,183	16,620
Average trading value per session (PLN m)	80.3	66.8	75.6	69.6	67.0
Number of trades (units)	835,471	1,046,398	985,515	926,486	928,493
Average number of trades per session	3,329	4,169	3,942	3,751	3,744
Trading volume (units)	470,048,842	558,496,833	448,832,864	415,380,500	408,999,167
Average trading volume per session (shares)	1,872,705	2,225,087	1,795,331	1,681,702	1,649,190
Capitalization at the end of the period (PLN m)	29,377	28,677	36,406	37,908	34,567

Source: www.gpwinfostrefa.pl

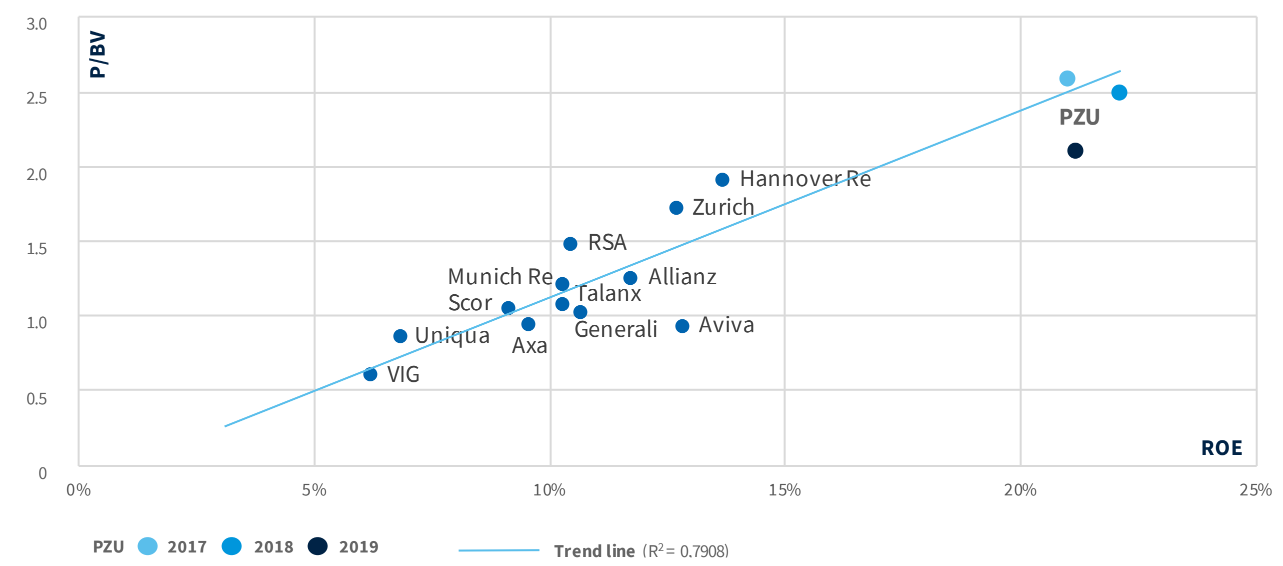
Statistics concerning the PZU share price adjusted for dividends paid	2015	2016	2017	2018	2019
Closing price on the last trading session of the year (PLN)	51.32	52.59	62.94	67.18	66.11
Capitalization at the end of the period (PLN m)	44,319	45,416	54,354	58,015	57,091

Source: www.gpwinfostrefa.pl

Ratios

As at the end of 2019, PZU's shares had a high P/BV ratio of 2,1, i.e. twice the average for European insurance companies, which the analysts perceive as attributable to its high ROE (in 2019, it was 21,2%).

PZU's valuation versus its peer group (P/BV and ROE) 2019



Source: PZU (2017,2018,2019) – reported data; other companies - 2019 annual forecasts (Bloomberg); share prices at year end 2019

PZU's stock*	2015	2016	2017	2018	2019
P/BV Share price / book value per share	2.3x	2.2x	2.6x	2.5x	2.1x
BVPS (PLN) Book value per share	15.0	15.0	16.3	17.3	18.7
P/E Share price / net earnings per share	12.5x	14.8x	12.6x	11.8x	10.5x
EPS (PLN) Net profit (loss) / number of shares outstanding	2.7	2.2	3.4	3.7	3.8

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

8.3 Banking sector on the Warsaw Stock Exchange

Context in the banking sector

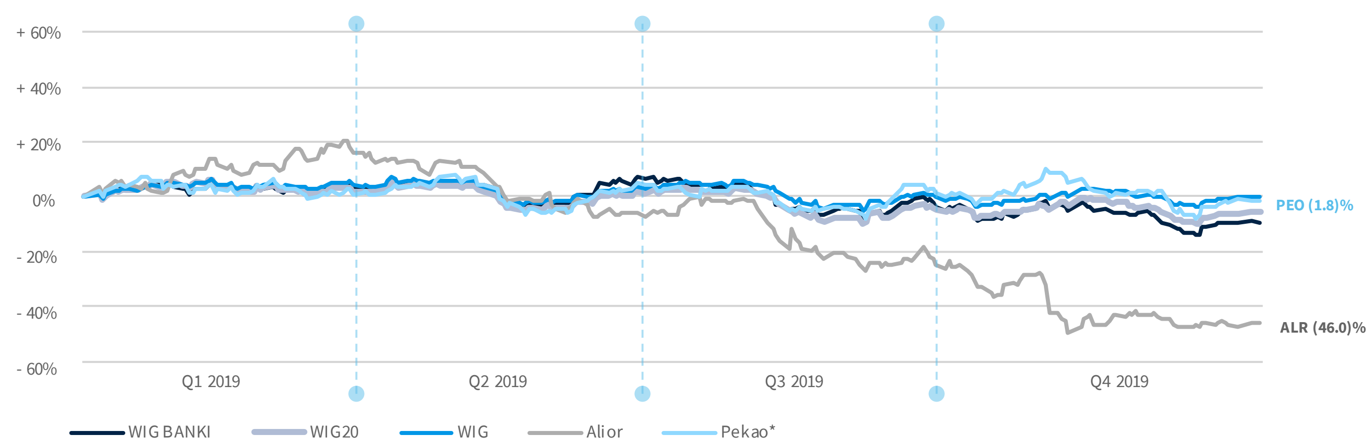
In 2019 the WIG Banks index[3] contracted by 9.2%. The correlation between the WIG Banks index and the WIG20 index at the end of June 2019 was 90% (no change y/y). Beta (versus WIG20) was 0.98, i.e. an increase of 0.01 y/y.

In the first half of 2019, the WIG Banks index advanced by 6.1% y/y, or 3.9 p.p. more than the WIG20 index. The unfavorable judgments handed down by CJEU (Court of Justice of the European Union) on consumer loans and Swiss franc loans were among the major contributors responsible for the softening of sentiment in this index. Their outcome was that banks were compelled to set up additional provisions. This also led to lower market expectations regarding future commission and fee income.

The decision of the Bank Guarantee Fund concerning the level of contribution and its allocation among various banks was also an additional burden for the banking sector. In 2019, the entire sector saw its contribution shoot up by 27%. 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.

[3] It is an income-based index and thus, when it is calculated, it accounts for the prices of the underlying shares and the income from dividends and subscription rights.

WSE-listed banks in 2019



Source: www.gpwinfostrefa.pl

The greater burden place on banks' results led to worse performance of the overall WIG Banks index.

In 2019, the share prices of the banks controlled by PZU, i.e. Pekao (a member of the PZU Group since 7 June 2017) and Alior Bank (a member of the PZU Group since 18 December 2015), went down 1.8% (adjusted for a dividend of PLN 6.6 per share) and 46.0%, respectively. Alior Bank's softer performance relative to the WIG Banks index ensued among other things from the concern for the condition of the loan portfolio in the corporate segment, especially in the context of the emerging potential problems of two corporate clients, exacerbated at a later time by CJEU's unfavorable rulings on consumer loans. CJEU's rulings on Swiss franc loans exerted a relatively small impact on the share prices of the PZU Group's banks – in comparison to most of the banks listed on the Warsaw Stock Exchange, the PZU Group's banks' exposure is very low.

The shares of PZU, Pekao and Alior Bank generated 19.7% of total turnover of the Warsaw Stock Exchange in 2019.

8.4 PZU's investor relations

Meeting stringent information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency in the company and procuring equal access to information. Therefore, PZU has consistently applied the "Principles for PZU to Conduct its Information Policy for Capital Market Participants".

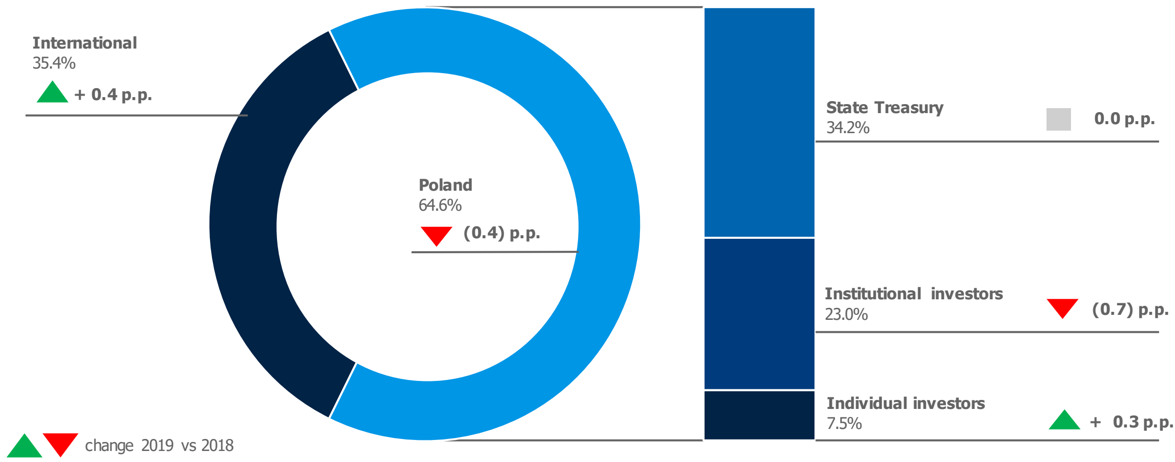
PZU's shareholder structure

According to current reports regarding the percentage of share capital and votes held by shareholders at the shareholder meeting, the sole shareholder controlling more than 5% of PZU's stock as of 31 December 2019 was the State Treasury of the Republic of Poland (34.2%). In July 2019 Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny reported that they had dropped below 5% of share capital and votes at the PZU shareholder meeting SECTION 9.6 PZU'S SHARE CAPITAL AND SHAREHOLDERS.

According to a survey[4] carried out at the end of 2019, PZU's shareholder structure was stable. The share of foreign investors increased 0.4 p.p. y/y to 35.4% at the expense of domestic investors, which was chiefly related to the decline in the share held by open-end pension funds (OFE). SECTION. 8.1 EQUITY AND BOND MARKET. The share held by retail investors remained at a similar level to the one seen in 2018, namely 7.5%.

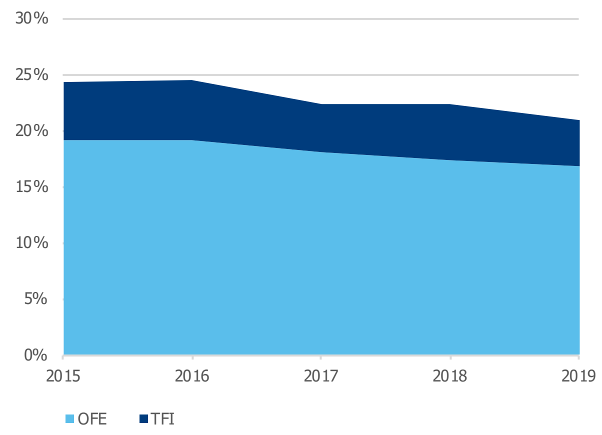
[4] Shareholder structure survey by IPREO.

PZU shareholder structure - main investor groups



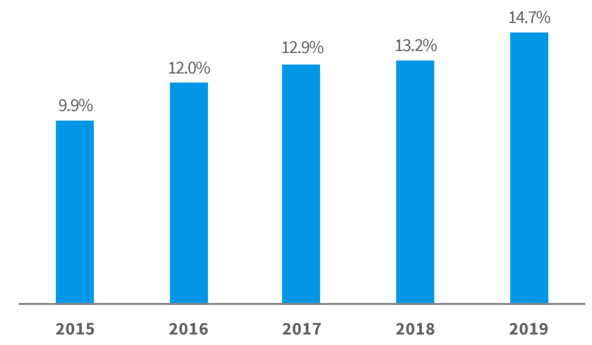
Source: IPREO

Open-end pension funds and fund management companies in PZU's shareholder composition in 2015-2019



Source: IPREO

North American investors 2015-2019

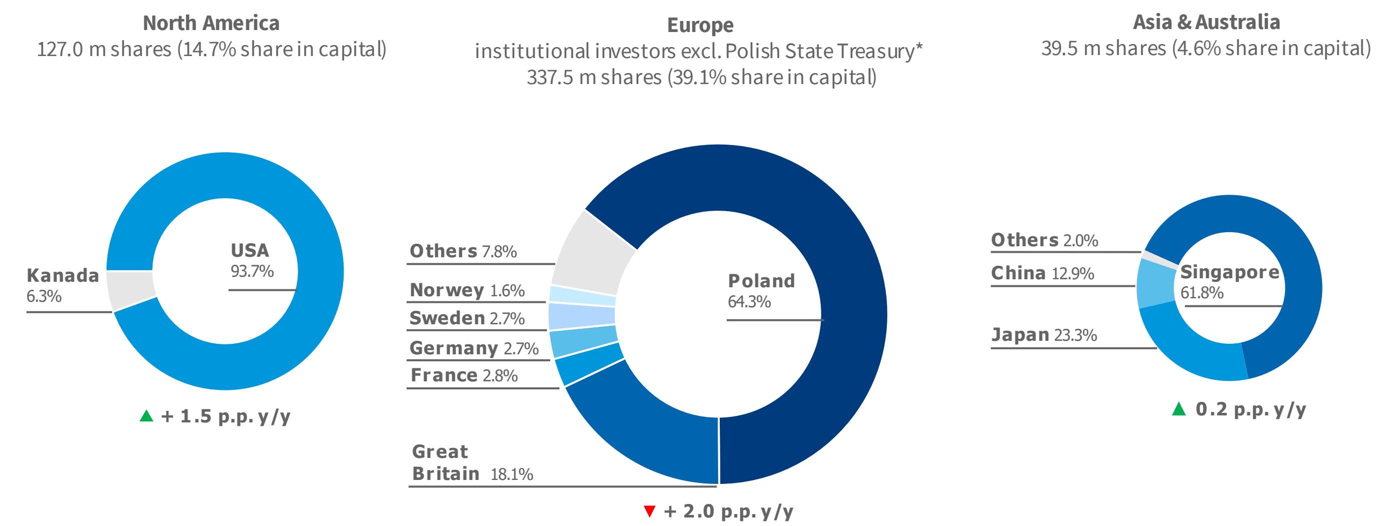


Source: IPREO

Percentage of stocks held by North American investors continued to increase in 2019. At the end of 2019 it was 14.7%, i.e. up 1.5 p.p. y/y (vs. 5.1% in 2014).

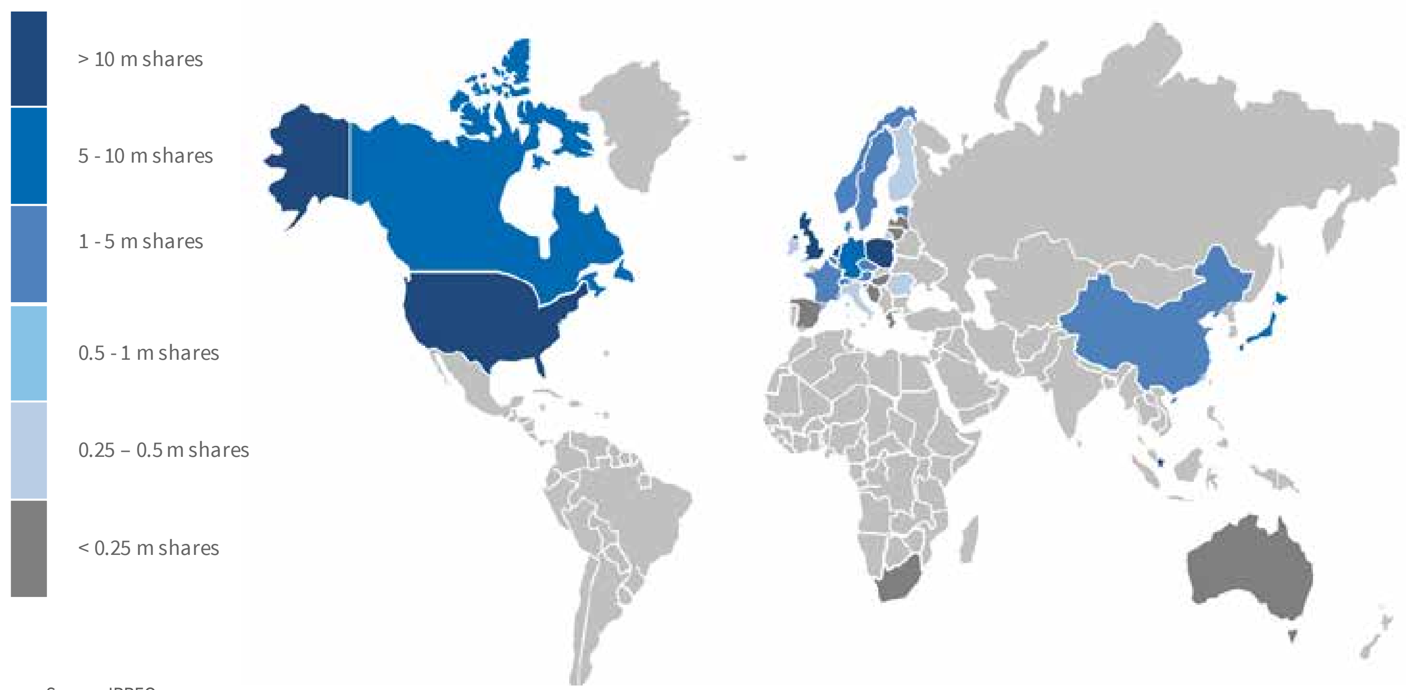
Investors from the United Kingdom maintained the largest weight in PZU's shareholders structure with a share of 18.1% of all stocks held by institutional investors (excluding the State Treasury of the Republic of Poland). Compared to 2018 funds from Norway and Sweden emerged in the community of investors with a shareholding of several percentage points.

Composition of PZU's shareholders by geography



change 2019/2018

* Polish State Treasury – 295.2 m shares (34.2% share in capital)



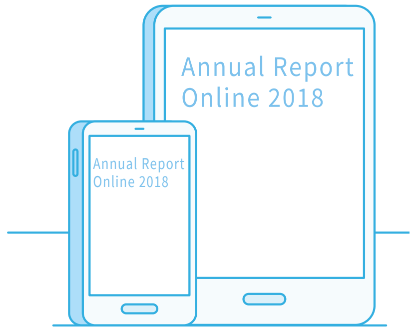
Source: IPREO

Communication with capital market participantsusing digital tools

In 2019, PZU continued to hold regular meetings attended by representatives of its Management Board during which it published its quarterly results. The strategy update was an additional event. All corporate events held with capital market participants in mind were transmitted live in the form of a webcast (with simultaneous translation into English). Recordings of these meetings are available on PZU's website in the investor relations section at https://www.pzu.pl/relacje-inwestorskie/do-pobrania.

15	MARCH	Execution of the #newPZU 2018 strategy
14	MAY	Q1 2019 report
24	MAY	Ordinary Shareholder Meeting
29	AUGUST	Q2 2019 report
06	SEPTEMBER	Extraordinary Shareholder Meeting
14	NOVEMBER	Q3 2019 report

The most important events, achievements and plans were presented once again in the form of an online Annual Report at annualreport2018.pzu.pl. Users have been provided with tools enabling a multi-directional analysis of corporate and macroeconomic events as well as financial results. This report includes interactive infographics, animations and video clips, which offer a succinct presentation of the PZU Group's activity in 2018.



annualreport2018.pzu.pl

Activities targeting institutional investors

In 2019, PZU representatives participated in the following:

- 3 non-deal roadshows in New York, Paris and Frankfurt (2 in 2018);
- 16 international finance conferences attended by global institutional investors (14 in 2018);
- 4 conferences for institutional investors held in Warsaw (6 in 2018);

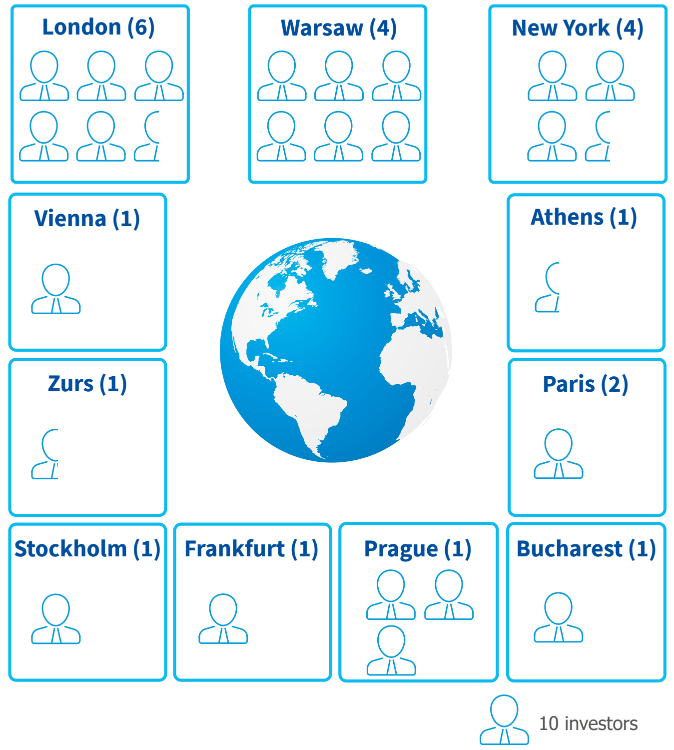
during which nearly 150 meetings with approximately 240 fund managers and analysts representing funds and asset management companies were held.

Moreover, in 2019 the number of face-to-face meetings and the number of investor meetings held with investors, especially international investors using remote means of communication in the company's headquarters increased. PZU representatives took part in approximately 40 meetings and conference calls with more than 100 people representing asset management companies and in approximately 70 meetings and conference calls with analysts who issue recommendations for PZU's stock.

Activities addressed to retail investors

In 2019, PZU engaged in active dialogue with retail investors providing them with reliable and up-to-date information on PZU's business, the insurance industry and its financial results. In this respect, PZU implemented both communication projects (e.g. the online report, a newsletter, a factsheet,

Investment centers visited in 2019 (number of visits)



mass mailing) and took active steps to enable direct contact between investors and the Company's representatives, including, in particular:

- for the ninth time it participated in the largest conference for retail investors from Central and Eastern Europe organized in Poland by the Polish Association of Individual Investors: the 23rd Wall Street Conference in Karpacz;
- organized 4 chats with retail investors hosted by the Member of the PZU Management Board in charge of the PZU Group's Finance Division after publication of each quarter's financial results.

Without interruption since 2012 PZU has also been participating in a program conducted by the Polish Association of Individual Investors called "10 of 10: Communicate Effectively. Its purpose is to promulgate high communication standards between public companies and retail investors.

Prizes and distinctions for IR activities

PZU's investor relations activities are highly regarded by investors, analysts and the media. In 2019, PZU received among others the following prizes and distinctions in this area:

- 2nd place for Paweł Surówka, the PZU Group's CEO in the Extel 2019 survey in the ranking of the best CEOs in terms of investor relations in Poland;
- special award entitled "The Best of the Best" in the contest entitled "The Best Annual Report 2018", whereby it joined the community of the best public companies in terms of reporting;
- special prize for the best on-line annual report in the Banks and Financial Institutions category;
- award for offering the best Investor Relations service in the contest entitled Issuer's Golden Website (public companies constituting the WIG20 and mWIG40 indices);
- distinction for the best IFRS/IAS-compliant activity report in the Banks and Financial Institutions category.

IR objectives in 2020

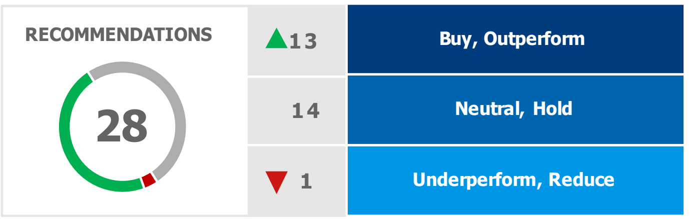
The main objectives of PZU's investor relations function in 2020:

- strengthen good relations between the PZU Management Board and the community of investors, both in the local market and in the global market;
- ensure understanding and approval for PZU's business strategy among investors and analysts;
- secure a deep and broad market for PZU's shares and bonds by continuing investor-friendly measures to build a diversified base (in terms of geography, numbers and profile) of an appropriate number of well-informed investors familiar with the company;
- ensure a reliable valuation for PZU's stock by providing sell-side analysts of investment banks and brokerage houses with high quality information about PZU's operations, industry trends, drivers of financial performance and feedback after analysis of their recommendations;
- widen sell-side research coverage, in particular among international investment banks;
- provide the PZU Management Board with regular feedback concerning the perception of PZU among capital market players and broad knowledge of current and potential shareholders of the company;
- monitor investor sentiment towards PZU shares and changes in the shareholder structure in order to adopt the most adequate investor relations measures and tools;
- develop digital tools to address investor needs better, i.a. implement new solutions in the online annual report and enhance the functionality of the investor relations service;
- extend the scope of non-financial reporting;
- report carbon footprint data;
- deploy a loyalty program.

8.5 Analysts' recommendations regarding PZU's shares

In 2019, PZU stock recommendations were issued by 12 domestic and international financial institutions. In total, sell side analysts published 28 recommendations.

Statistics related to the recommendations published in 2019



In 2019 "buy" and "hold" recommendations were prevalent. One "sell" recommendation was issued in January. In September it was revised to "hold". At year end, there were 5 "buy" and 7 "hold" recommendations.

The median target price in the recommendations valid as at 31 December 2019 was PLN 43.4, down 12.3% y/y (the decline would be 6.7% y/y after adjusting for the cut-off of the dividend in September 2019). The average target price was 10.2% higher than the share price at the end of 2019 (at the end of 2018 the deviation was 11.4%).

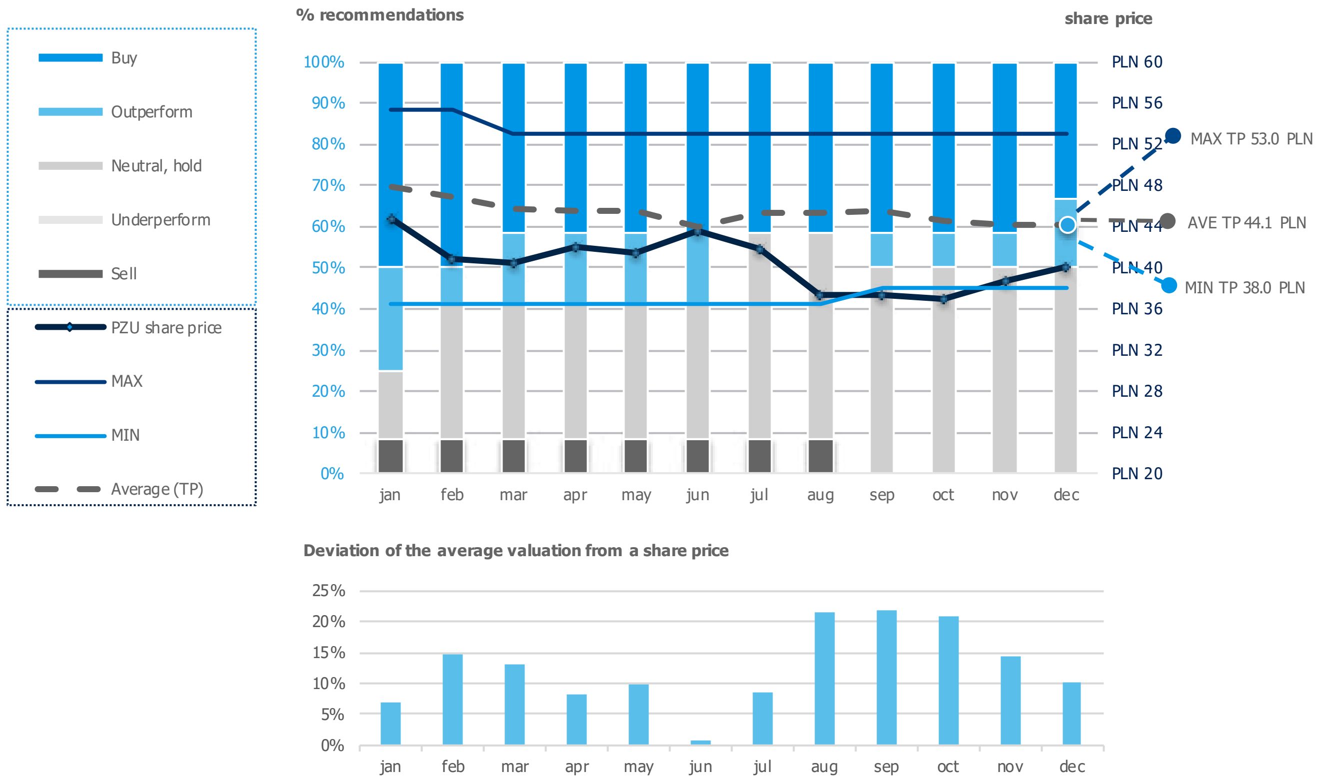
In 2019 PZU's average target share price according to analysts was PLN 45. The largest difference between the average target price and the PZU's actual share price was observed in Q3 2019 when the recommended price was as much as 22% higher than PZU's actual share price. The smallest difference (0.78%) was observed in June 2019. At the end of 2019 the gap was 10%, i.e. it was at a comparable level to the gap seen at the same time in 2018. At the end of December 2019 the PZU share price was PLN 40.03, while the average price from these recommendations was PLN 44.20. In the full year of 2019 the average target price determined by analysts was on average 13% higher than PZU's market price.

Price variance of the recommendations in 2019

	31 December 2018	31 December 2019	change	Price variance between the recommendations and the share price at the end of 2019 (PLN 40.0)
Highest target price	54.0	53.0	(1.9%)	32.4%
Median of the target prices	49.5	43.4	(12.3%)	8.4%
Average of the target prices	48.9	44.1	(9.8%)	10.2%
Lowest target price	43.0	38.0	(11.6%)	(5.1%)

Source: PZU data

Analysts' expectations concerning PZU's share price in 2019 based on recommendations in effect at the end of December 2019



Source: PZU data

Institutions issuing recommendations for PZU's stock (as at 31 December 2019)

Institution	Analyst	Contact details
Citi	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Haitong	Marta Czajkowska-Bałydga	+48 22 347 40 48 marta.czajkowska-baldyga@haitongib.com
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8.6 PZU Group's Capital and Dividend Policy

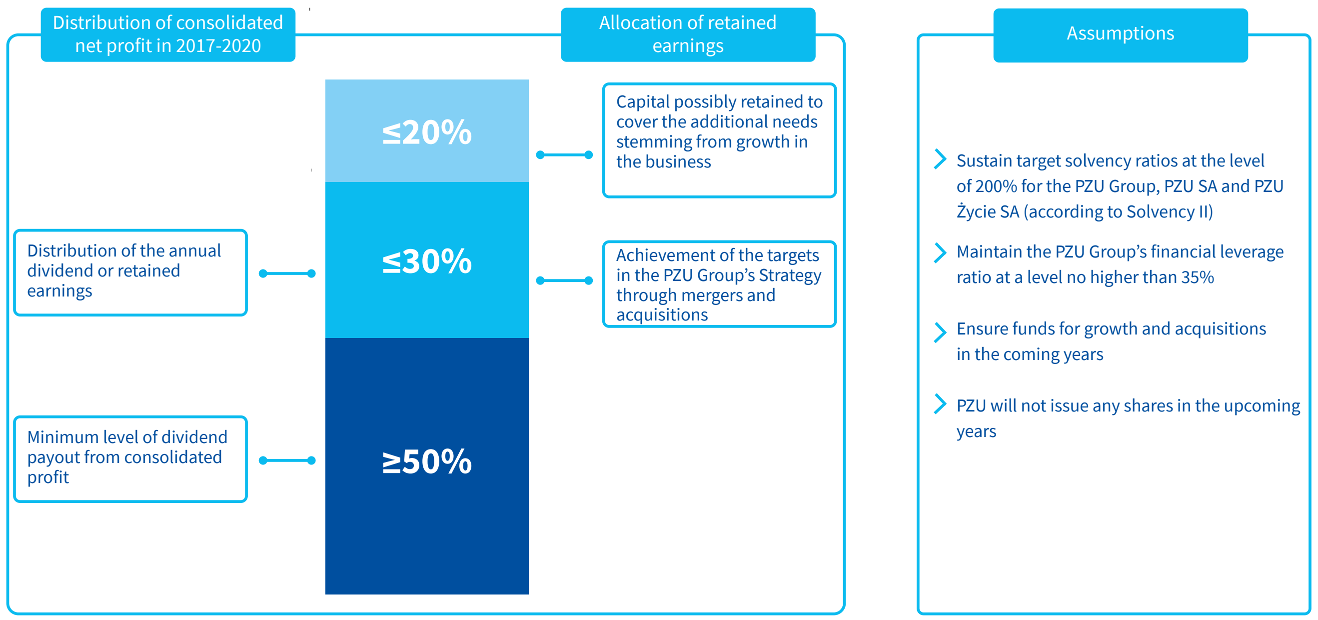
PZU Group's Capital and Dividend Policy in 2016 – 2020 was adopted in a PZU Supervisory Board resolution in 2016. SECTION 7.9 CAPITAL MANAGEMENT. According to this Policy, the PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions.

PZU's dividend policy rests on the following principles:

- The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- the dividend amount proposed by the parent company's Management Board which PZU pays for a given financial year is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:
  - no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives,
  - no less than 50% is subject to payment as an annual dividend,
  - the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

with a reservation that:

PZU Group's Dividend and Capital Policy



Source: PZU data

- according to the Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of the parent company and the PZU Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the capital policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

Payment of a dividend from the profits generated in 2018

On 24 May 2019, the PZU's Ordinary Shareholder Meeting adopted a resolution (in accordance with PZU's capital and dividend policy[5]) to distribute PZU's net profit for the financial year ended 31 December 2018 in which it resolved to distribute profit of PLN 2,712 million in the following way:

- 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.

[5] 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

The dividend record date for the financial year ended 31 December 2018 was set for 14 August 2019 and the dividend payment date was set for 5 September 2019.

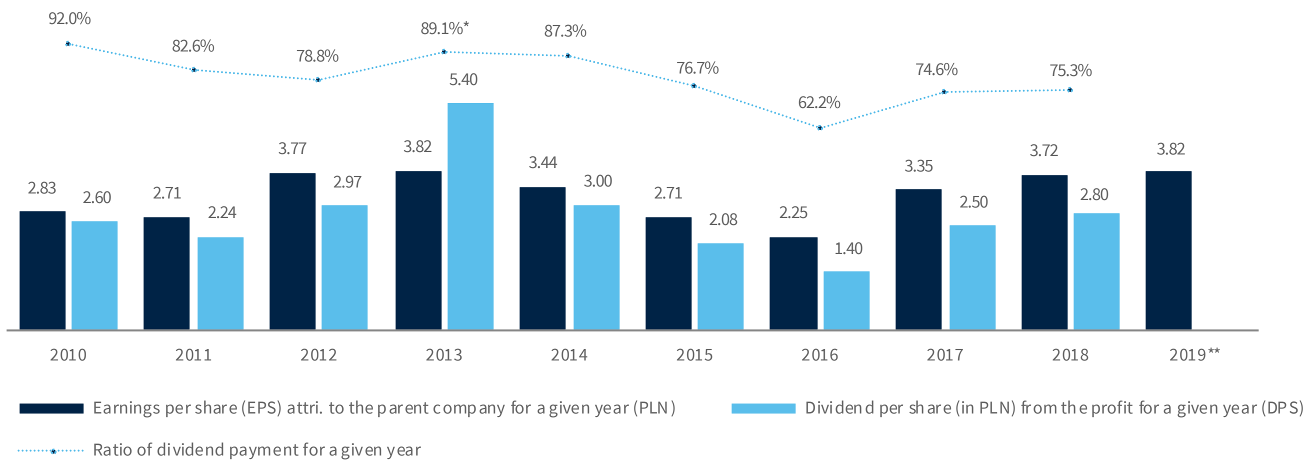
The Polish FSA's recommendation on paying dividends from 2019 profits

On 3 December 2019 the Polish Financial Supervisory Authority took a stance on the dividend policy of insurance and reinsurance undertakings.

As recommended by the regulatory authority, dividends should be paid only by insurance undertakings meeting certain financial criteria and ones that received a good or satisfactory score on their Test and Regulatory Assessment [Polish abbreviation: BION[6] for 2018. At the same time, the dividend payout should be limited to no more than 75% of the 2019 profit, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%.

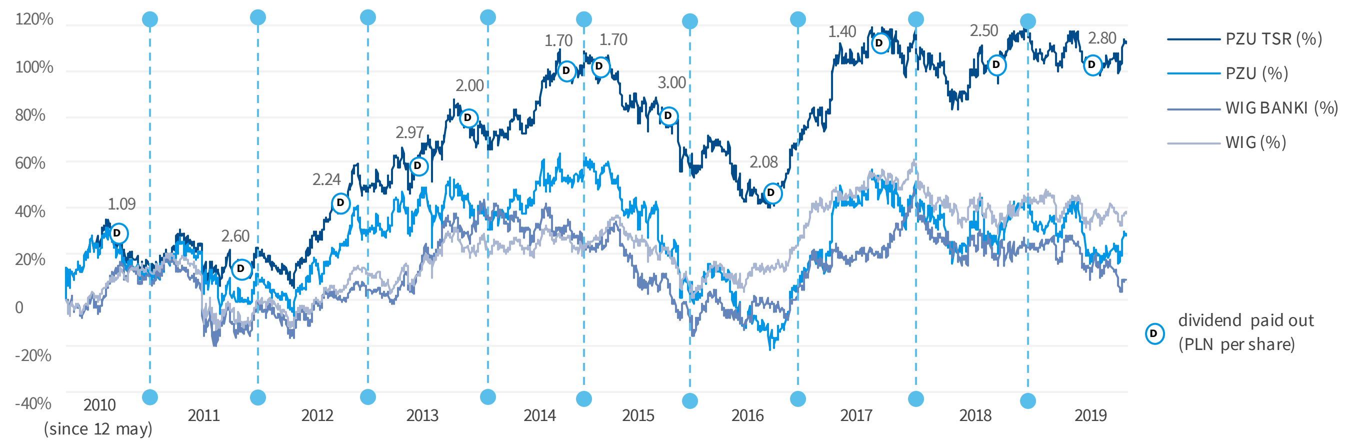
[6] The BION assessment is a thorough process involving the utilization of all available information in the regulator's possession regarding an insurance undertaking / reinsurance undertaking, including information obtained from licensing activities, desktop research and on-site inspection-related activities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

PZU's earnings and dividend per share in 2010-2019



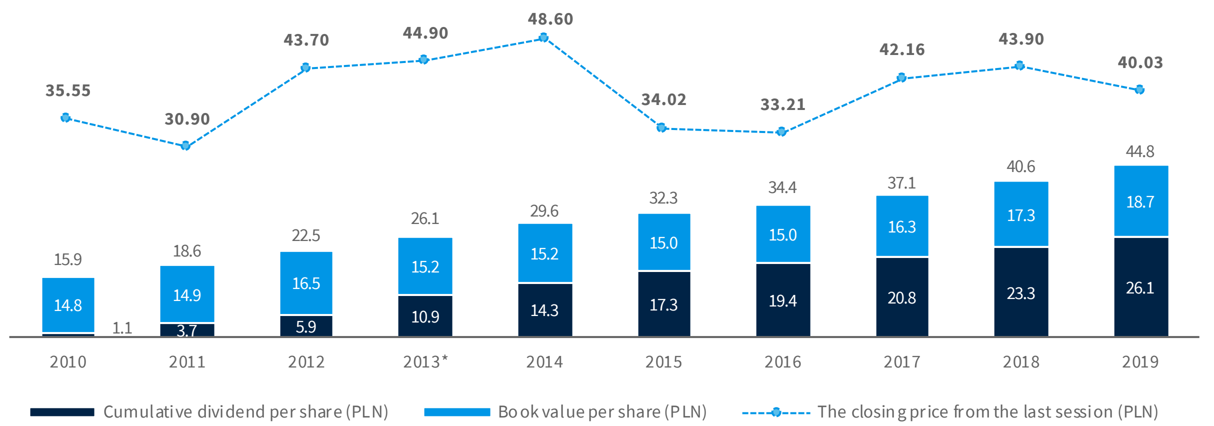
* the payout ratio net of the dividend payout from excess capital (PLN 2 per share)
** up to the date of preparing this Activity Report, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2019
Source: PZU data

Dividend distributions and PZU's total shareholder return (TSR) (2010-2019)



Source: PZU data

PZU's book value per share and gross accumulated dividends per share (PLN) (2010-2019)



* in 2013 a dividend was paid from excess capital (PLN 2 per share)
Source: PZU data

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

The Polish FSA also recommended that the undertakings that satisfy the above criteria, when deciding on the level of dividends, should take into account the additional capital needs within the period of twelve months from the approval date of the 2019 financial statements, which may result, among others, from changes in the market and legal environment.

Up to the date of preparing this Report on the activities of the PZU Group, the Management Board has not adopted a resolution concerning the distribution of profit for 2019.

8.7 Debt financing of PZU, Pekao and Alior Bank

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, which at the same time was the first issue in Poland complying with Solvency II requirements. The bonds with a nominal value of PLN 2.25 billion bear interest at WIBOR6M + 180 bps. The maturity date is 29 July 2027, or 10 years after issue with an early redemption option 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.

Dividends paid by PZU from its earnings in the 2015-2019 financial years

	2015	2016	2017	2018	2019
Consolidated profit attributable to the parent company (in PLN m)	2,343	1,935	2,895	3,213	3,295
PZU SA's standalone profit (in PLN m)	2,249	1,573	2,459	2,712	2,651
Dividend paid for the year (in PLN m)	1,796	1,209	2,159	2,418	**
Dividend per share for the year (PLN)	2.08	1.40	2.50	2.80	**
Dividend per share on the date of record (PLN)	3.00	2.08	1.40	2.50	2.80
Ratio of dividend payout to consolidated profit attributable to the parent company	76.7%	62.5%	74.2%	75.3%	**
(a) Movement in the share price y/y	(30.0)%	(2.4)%	26.9%	4.1%	(8.8)%
(b) Dividend yield during the year (%)*	6.2%	6.1%	4.2%	5.9%	6.4%
(a+b) Total Shareholder Return (TSR)	(23.8)%	3.7%	31.2%	10.1%	(2.4)%

** yield calculated as the dividend (as at the record date) in relation to the share price at the end of the previous reporting year
** up to the date of preparing this Activity Report, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2019

PZU bonds: XS1082661551 for 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 interest rate of 1.375% per annum. The coupon was paid once a year. The bonds were redeemed on 3 July 2019.

Alior Bank

Opening of Alior Bank S.A.'s new Long-Term Bond Issue Program

Pursuant to the resolution adopted by the Bank's Supervisory Board on 5 August 2019 the Bank opened a Long-term Bond Issue Program (Long-term Program) making it possible to hold multiple issues of unsecured bonds. The total nominal value of the bonds issued under the Long-term Program will not exceed PLN 5 billion.

A bond offering program for issues of unsecured, unsubordinated or subordinated, bearer bonds for up to PLN 1.5 billion was set up under this Long-term Program on the basis of the Bank's Management Board decision of 10 September 2019. The Offering Program will be covered by a basic prospectus prepared by the Bank according to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

The application to approve the prospectus was submitted to the Polish FSA on 4 October 2019. As of the date of the publication of this report, the prospectus has not been approved by the Polish FSA.

Closure of Alior Bank S.A.'s current Bond Issue Program

On 5 August 2019 the Bank wrapped up its own bond issue program established under the Bank's Management Board Resolution No. 253/2015 of 29 July 2015, which was approved by the Bank's Supervisory Board under resolution no. 54/2015 of 10 August 2015.

Bond issues and redemptions conducted by Alior Bank in 2019

The Bank did not conduct any bond issues in 2019. On 4 October 2019 the Bank's Management Board adopted a resolution on the early redemption on 21 October 2019 of series C own bonds with a total nominal value of PLN 80 million issued on 21 October 2014 by Meritum Bank ICB SA (presently Alior Bank S.A.) whose final redemption date was 21 October 2022. These bonds were redeemed and retired.

Bank Pekao

Covered bonds

Under the covered bonds program established in 2010, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue program is limited to PLN 2 billion. Pekao Bank Hipoteczny's covered bonds have been rated by Fitch at A- with a stable outlook (1 notch above the rating for Pekao Bank Hipoteczny whose risk Fitch assesses at BBB+).

The total value of the company's liabilities due to covered bonds amounted to PLN 1.3 billion (principal value) as at the end of December 2019. The liabilities under covered bonds with maturity date up to 1 year account 6.8%, from 1 year up to 3 years account for 47.6% with maturity date from 3 up to 5 years account for 21.2% and with maturity date from 5 years up to 10 years account for 24.4% of the total nominal value.

Subordinated bonds

On 30 October 2017, Pekao placed its first issue of subordinated bonds with a value of PLN 1.25 billion in order to improve its capital ratios. The bonds have a 10-year maturity with an early redemption option five years after the date of issue. The bonds bear interest at a reference rate based on WIBOR6M plus a margin of 1.52%. After receiving on 21 December 2017 the Polish Financial Supervision Authority's consent, the funds from this issue were earmarked to raise the Bank's Tier II capital.

On 15 October 2018 Pekao issued subordinated bonds in subsequent B and C series worth PLN 550 million and PLN 200 million, respectively. The series B bonds have a 10-year maturity while the series C bonds have a 15-year maturity. Both series bear interest at a floating interest rate equal to the sum of the underlying WIBOR6M rate and a 1.55 p.p. margin (for series B bonds) and a 1.80 p.p. margin (for series C bonds), respectively. These bonds offer an early redemption option of five years before maturity. As a result of classifying the series B and C bonds as instruments in Tier II capital, after obtaining the consent of the Polish FSA on 18 October 2019 (for the series C bonds) and 16 November 2019 (for the series B bonds), the total capital ratio (TCR) for the bank and the bank's group increased.

On 4 June 2019, Pekao issued series D subordinated bonds worth PLN 350 million. The D series bonds have a 12-year maturity with an early redemption option seven years after the date of issue. The bonds bear interest at a reference rate based on WIBOR6M plus a margin of 1.70%. After receiving on 3 July 2019 the Polish Financial Supervision Authority's consent, the funds from this issue were earmarked to raise the Bank's Tier II capital. Additionally, on 4 December 2019 the Bank issued D1 series subordinated bonds with a nominal value of PLN 400 million and parameters identical to the D series. On 11 December 2019 the Bank received the Polish FSA's decision expressing its consent for the Bank to treat the D1 series bonds as instruments in the Bank's Tier II capital.

On 30 December 2019 both series of the bonds were assimilated and designated by the National Securities Depository (KDPW) with a single ISIN code.

All the series of the subordinated bonds issued by Pekao are listed on Catalyst's alternative trading system.

Other unsecured bonds

The Pekao Group's various entities have programs to issue unsecured bonds backed by Bank Pekao. These instruments are used to diversify funding sources; in particular, they elevate the percentage of the Bank's subsidiaries' assets funded directly from the wholesale market.

In 2019 Pekao Bank Hipoteczny held 2 bond issues under the issuer's bond issue program for up to PLN 1.0 billion:
PLN 150 million with a maturity of 6 months and
PLN 150 million with a maturity of 1 year.

Regularly renewed securities with maturities ranging from 3 months to 1 year are the most prevalent among the issues conducted by Pekao Leasing (issue program of PLN 3.0 billion) and Pekao Faktoring (issue program of PLN 5.0 billion). The total liabilities under these two entities' issues as at 31 December 2019 were PLN 3.077 billion.

8.8 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 data, competitive position, management and corporate strategy as well as the country's financial standing. It also includes a rating perspective (an outlook), namely, an assessment of the future rating of the company in the event specific circumstances occur.

On 14 June 2019, S&P Global Ratings raised PZU's rating outlook from stable to positive (this rating was affirmed most recently on 8 October 2019). 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 solvency 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 and 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 2019-2022, 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%.[7]

[7] 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	
Company name	**Rating and outlook**	**Updated on**	**Rating and outlook**	**Updated on**
PZU				
Financial strength rating	A- /Positive/	14 June 2019	A- /Stable/	31 October 2017
Credit rating	A- /Positive/	14 June 2019	A- /Stable/	31 October 2017
PZU Życie				
Financial strength rating	A- /Positive/	14 June 2019	A- /Stable/	31 October 2017
Credit rating	A- /Positive/	14 June 2019	A- /Stable/	31 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 31 December 2019 Bank Pekao's financial creditworthiness ratings were as follows:

Pekao rating

Rating (Fitch)	Bank Pekao	Poland
Issuer's long-term rating (IDR)	BBB+	A-
Issuer's short-term rating (IDR)	F2	F2
Viability rating	bbb+	-
Support rating	5	-
Minimum support rating	No support	-
Outlook	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 its standalone credit profile from "bbb" to "bbb+". The long-term rating stayed at the same level of BBB+.

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)	**Bank Pekao**	**Poland**
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 Alior Bank's ratings outlook from positive to stable. On 27 January 2020 Fitch Ratings Ltd. upheld the Bank's long-term rating in foreign currency at the level of 'BB' and raised its short-term domestic rating from 'F2(pol)' to 'F1(pol)' in connection with the improvement in the evaluation of the Bank's funding composition and liquidity.

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'.

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

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

8.9 Calendar of PZU's major corporate events in 2020

12 MARCH
PZU Group's financial statements (2019)

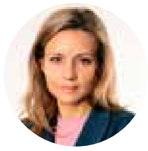
14 MAY
PZU Group's financial statements (Q1 2020)

29 MAY
24nd WallStreet Conference for individual investors

29 AUGUST
PZU Group's financial statements (Q2 2020)

14 NOVEMBER
PZU Group's financial statements (Q3 2020)

Investor contact: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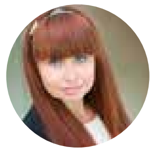
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Twoja inicjatywa
ma znaczenie

9.

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:

9.1 Application of corporate governance rules

PZU applies the corporate governance rules laid down by law, in particular the Commercial Company Code and the Insurance and Reinsurance Activity Act, the regulations governing the operation of the capital market and the rules set forth in the documents described below.

PZU applies the Corporate Governance Rules for Regulated Institutions published on 22 July 2014 by the Polish Financial Supervision Authority ("KNF"). This a collection of rules that define the internal and external relations of regulated institutions, including their relations with shareholders and customers, their organization, the functioning of internal oversight and key internal systems and functions as well as the governing bodies and the rules for their cooperation. This document is available on KNF's website: (https://www.knf.gov.pl/dla_rynku/regulacje_i_praktyka/zasady_ladu_korporacyjnego) and on PZU's website.

Since the day when its shares were admitted to trading on a regulated market, PZU has followed the corporate governance rules laid down in the Best Practices of WSE Listed Companies 2016 adopted by the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. The best practices of public companies constitute a collection of corporate governance rules and rules of conduct that affect how public companies interact with their market environment. The best practices are available on the Warsaw Stock Exchange's website: (www.gpw.pl/dobre-praktyki) and on PZU's website.

The set of principles expressed in the Best Insurance Practices adopted on 8 June 2009 by the General Assembly of the Polish Chamber of Insurance ("PIU") informs how PZU conducts its business operations and shapes relations with its stakeholders. This document defines the rules of corporate social responsibility in terms of how insurance undertakings interact with customers, insurance intermediaries, the regulatory authority and the Financial Ombudsman, the media and in public securities trading. By applying the Best Insurance Practices insurance undertakings conduct regular efforts to develop insurance awareness in the public at large.

The rules for interactions with stakeholders are shaped by its own code entitled PZU Group's Best Practices. PZU Group's Best Practices lay down the fundamental ethical standards and standards of conduct employed by PZU Group entities. They constitute a set of values and rules by which all the employees of PZU Group entities should be guided.

Application of Corporate Governance Rules to regulated institutions

The PZU Management Board and Supervisory Board have declared their readiness to apply the Rules to the broadest possible extent while giving consideration to the rule of proportionality and the rule "comply or explain" stemming from their wording. These declarations were confirmed by the PZU Management Board and Supervisory Board in their respective resolutions.

Information on the application of the Rules was presented by the PZU Management Board and Supervisory Board during PZU's Ordinary Shareholder Meeting held on 30 June 2015. The PZU Ordinary Shareholder Meeting declared that, acting within its powers, it will be guided by the Corporate Governance Rules in the wording issued by the Polish Financial Supervision Authority on 22 July 2014, except for certain specific rules waived by the PZU Ordinary Shareholder Meeting.

Detailed information is provided on PZU's website on the application of the Corporate Governance Rules, including rules that are partially applied, namely:

- in reference to the rule laid down in § 8 sec. 4. the Corporate Governance Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting, it should be noted that, presently, PZU shareholders may follow the broadcast of the Shareholder Meeting, however the Issuer decided not to introduce the so-called e-Shareholder Meeting, because, in PZU's opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting. Legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;
- in reference to the rule laid down in § 21 sec. 2. of the Corporate Governance Rules stating that the supervising body should have a separate chairperson function in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence; it should be emphasized that, in accordance with the Commercial Company Code and PZU's Articles of Association, the chairperson function has been established in the PZU Supervisory Board; the PZU Supervisory Board's composition and the chairperson's function are shaped using the independence criteria in the Statutory Auditor Act; the Supervisory Board Chairperson is selected using the criterion of knowledge, experience and skills confirming the competences required to discharge duly the duties of supervision; applying the independence criterion to the chairperson according to the KNF Office's explanation of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;
- in respect of the rule laid down in § 49 section 3 of the Corporate Governance Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee, it should be pointed out that PZU applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU Management Board is the sole body empowered to, and responsible for, managing the Company's activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU has adopted a solution that anticipates that the selection and dismissal of the person managing the internal audit cell is accomplished while taking into account the opinion of the Supervisory Board's audit committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these decisions, the Management Board obtains the audit committee's opinions.

The PZU Ordinary Shareholder Meeting has waived the following rules:

- the rule laid down in § 10 section 2 of the Corporate Governance Rules reading as follows: "The implementation of personal rights or other special rights for shareholders of the regulated institution should be justified and serve the accomplishment of the regulated institution's material operating goals. The possession of such rights by shareholders should be reflected in the wording of the primary governing document of the regulated institution."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 12 section 1 reading as follows: "Shareholders are responsible for recapitalizing without delay a regulated institution in a situation in which it is necessary to maintain the regulated institution's equity at the level required by the legal regulations or oversight regulations as well as when the security of the regulated institution so requires."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 28 section 4 reading as follows: "The decision-making body assesses whether the implemented compensation policy fosters the regulated institution's development and operating security."
  – the waiving of this rule is due to the overly broad scope of the subject matter of the compensation policy subject to assessment by the decision-making body. The compensation policy in respect of persons who discharge key functions but are not members of the supervising body or the managing body should be subject to assessment by such persons' employer or principal, i.e. the Company represented by the Management Board and supervised by the Supervisory Board.

Furthermore, the following rules are not applicable to PZU:

- the rule laid down in § 11 section 3 reading as follows: "In the event that the decision-making body makes a decision concerning a transaction with a related party, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."
  – in PZU, the Shareholder Meeting does not make decisions on transactions with related parties;
- the rule laid down in § 49 section 4 reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;
- the rule laid down in § 52 section 2 reading as follows: "In a regulated institution in which there is no audit or compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;

- the rules laid down in Chapter 9 entitled "Exercising rights from assets acquired at a client's risk" – PZU does not offer products entailing asset management at a client's risk.

Application of Best Practices of WSE Listed Companies

In 2019, PZU complied with the recommendations and principles set forth in Best Practices of WSE Listed Companies 2016, except for recommendation IV.R.2. which provides for a possibility for shareholders to participate in a Shareholder Meeting using means of electronic communication, in particular via the following:

- real-time transmission of the Shareholder Meeting;
- real-time bilateral communication where shareholders may take the floor during a Shareholder Meeting from a location other than the shareholder meeting;
- exercising, in person or by proxy, voting rights during a Shareholder Meeting.

Presently, PZU shareholders may follow the broadcast of the Shareholder Meeting. However, the Company has not elected to introduce an electronic shareholder meeting. According to PZU, there are many legal, technical and organizational factors that may affect the proper course of the Shareholder Meeting. Legal doubts pertain to the inability to identify shareholders and check their right to participate in the shareholder meeting. The risk of technical difficulties may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course. PZU has a stable majority shareholder structure, and a large portion of the minority shareholder structure attends every shareholder meeting.

Furthermore, the following rules are not applicable to PZU:

- rule I.Z.1.10, providing for posting financial projections on the corporate website, insofar as the company has decided to publish them, published for at least the last 5 years, including information about their execution because, as at the date of publication of this report, PZU has not published any financial projections or estimates;
- rule III.Z.6., concerning cases of non-separation of the internal audit function within the company's organizational structure, because this function has been separated in PZU's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU securities are traded only on the Polish market.

A detailed description of how these rules are applied has been set forth in the collection entitled Best Practices of WSE Listed Companies 2016 available on the Company's website in the Investor Relations tab.

The scope of information on the site and access thereto are monitored on an ongoing basis. In the event of detecting any technical problems posing an impediment to documents, efforts are promptly taken to reinstate the website's full functionality.

9.2 System of control in the process of preparing financial statements

Financial statements are prepared in the Finance Division and central units operating based on the applicable regulations. The PZU Finance Division is supervised by a PZU Management Board Member.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the PZU Management Board specifying key rules for recording business events in PZU, the valuation of assets and liabilities and dedicated reporting systems.

Data are prepared in the source systems using formal operating and acceptance procedures which specify the powers of specific persons.

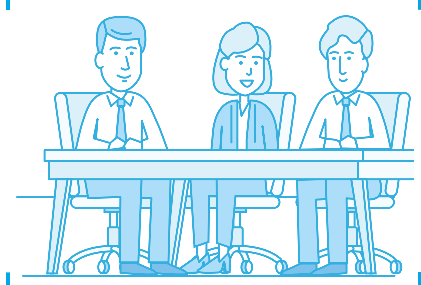
The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors changes in external regulations concerning, without limitation, the accounting policy and reporting requirements applicable to insurers and carries out appropriate adaptation processes in these areas.

The accounting records are closed and financial statements are prepared in accordance with schedules, including the key activities and control points with assigned liability for timely and correct completion.

3

Supervisory Board committees: audit committee, nomination and compensation committee, strategy committee



Women constitute **18%** of the PZU Supervisory Board

Women constitute **36%** of the Management Boards in PZU and PZU Życie

PZU has been a signatory of the diversity charter **since 2013**

863,523,000 ordinary shares with a nominal value of PLN 0.10 each forming PZU's share capital

Long-term and stable shareholder

34.19% the percentage of the PZU shareholder structure held by the State Treasury

Application of all the recommendations and rules expressed by 2016 best practices of public companies except for the recommendation pertaining to holding an e-shareholder meeting

PZU Group's Code of Best Practices

is a set of ethical standards and standards of conduct according to which all PZU Group employees should conduct themselves

13 Supervisory Board meetings

16 Audit Committee meetings in 2019

ETYKA

Daily application of **the Best Insurance Practices** laying down the principles according to which insurance sector companies as institutions of social trust should conduct themselves

Endorsement and application of **Corporate Governance Rules for Regulated Institutions** in accordance with the 2015 declaration

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by financial systems with defined rules of data correctness, in accordance with PZU's internal regulations governing the control of accuracy of accounting data;
- data mapping from the source systems to financial statements supporting the proper presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the applicable legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting processes are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union. PZU controls all its consolidated subsidiaries through these companies' management boards and supervisory boards.

The process of consolidated financial reporting is governed by a number of internal regulations. They govern the principles of accounting policy adopted by the PZU Group and accounting standards. Moreover, they are subject to detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Consolidation packages forwarded by subsidiaries are subjected to:

- verification procedures by a statutory auditor scrutinizing the PZU Group's consolidated financial statements;
- analytical reviews by specialists and, in the case of consolidation packages forwarded by banks, also reconciliation with their published stock exchange disclosures.

Audit Committee

The PZU Supervisory Board appoints the audit committee composed of at least three Supervisory Board Members. The majority of audit committee members, including the Chairperson, satisfy the independence criteria defined in the Statutory Auditor Act and at least one member has knowledge and skills in accounting or audit of financial statements in accordance with the requirements provided for in the Statutory Auditor Act, which is the key legal act applicable to the operation of the audit committee. Moreover, PZU analyzes Best practices for public interest entities pertaining to the appointment, composition and operation of the audit committee as published by the Office of the Polish Financial Supervision Authority on 24 December 2019.

The audit committee members have knowledge and skills pertaining to the insurance industry, which is construed as at least one audit committee member having knowledge and skills in the field of insurance or various audit committee members having knowledge of specific branches within this field.

The audit committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities in respect of the correctness of financial reporting, the effectiveness of internal control system, including internal audit, and the risk management system.

A statutory auditor appointed by the PZU Supervisory Board, based on a recommendation of the audit committee, reviews interim standalone and consolidated financial statements, audits annual standalone and consolidated financial statements and audits annual solvency and financial standing reports required by the Solvency II Directive (for PZU and the PZU Group).

9.3 Audit firm auditing the financial statements

On 23 May 2019 KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt to audit the standalone and consolidated financial statements. In this manner the Supervisory Board made the decision to continue cooperation with the auditor to audit the 2019-2020 financial statements.

The scope of the concluded agreement encompasses the following in particular:

- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

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.

Fee payable to the audit firm auditing PZU's financial statements (PLN 000s)	1 January –31 December 2018	1 January –31 December 2019
compulsory audit of the annual financial statements / consolidated financial statements	609	828
other assurance services, including a review of financial statements/consolidated financial statements	759	878
tax advisory services	-	-
other services	-	-
Total	**1,368**	**1,706**

Fee charged by the entity authorized to audit the PZU Group's financial statements (PLN 000s)	1 January –31 December 2018	1 January –31 December 2019
audit of financial statements	7,813	8,371
other assurance services	4,814	5,148
Total	**12,627**	**13,519**

9.4 Share capital and shareholders of PZU, stock held by members of its governing bodies

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10. The share split did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

On 24 November 2015 the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date for splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

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

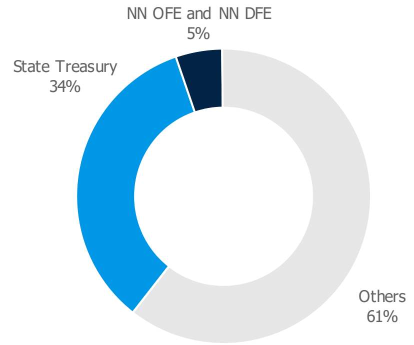
The State Treasury is the sole PZU shareholder holding a majority equity stake as of 31 December 2019 and as of the date of publishing these financial statements.

The State Treasury holds 295,217,300 shares representing 34.19% of PZU's share capital giving the right to 295,217,300 votes at the Shareholder Meeting.

On 24 July 2019, PZU received a notification pertaining to movement in the equity stake held in PZU by Nationale Nederlanden Otwarty Fundusz Emerytalny.

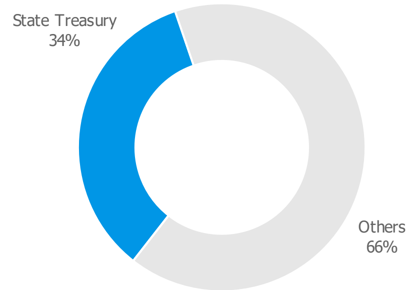
According to this notification, as a result of selling PZU shares in transactions on the Warsaw Stock Exchange settled on 18 July 2019, Nationale-Nederlanden OFE reduced its equity stake in PZU to below 5% of the votes at PZU's shareholder meeting. At the same time, as a result of the same transaction, the funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz

PZU's shareholder structure as at 31 December 2018



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

PZU's shareholder structure as at 31 December 2019



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

Emerytalny, reduced their total stake in PZU to a level below 5% of the votes at PZU's 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 2013-2019, PZU did not have any employee stock programs in place.

According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of doubt, the provisions regarding the restriction on voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code.

In line with PZU's Articles of Association, these voting restrictions will expire starting from the moment when the equity stake held by the shareholder who held shares giving the right to more than 10% of the total number of votes in PZU when the Shareholder Meeting adopted the resolution drops below 5% of the Company's share capital.

Shares or rights to shares held by members of management or supervisory bodies and PZU Group Directors
As at the date of publication of this Activity Report, only Tomasz Kulik, Member of the PZU Management Board held PZU shares numbering 2,847, which the Company reported in current report 23/2018. No changes transpired from the date of conveying the 2018 consolidated financial statements (i.e. 13 March 2019) with respect to members of the Management Board and Supervisory Board or Group Directors holding PZU shares or rights to shares.

9.5 Rules for amending the Company's Articles of Association

PZU's Articles of Association may be amended by the Shareholder Meeting provided that a resolution is adopted by a majority of three fourths of the votes, the Polish Financial Supervision Authority's approval is issued in the cases referred to in the Insurance Activity Act and the amendments are entered in the National Court Register. The Supervisory Board has the powers to approve the consolidated amended text.

9.6 Shareholder Meeting and shareholder rights

The Shareholder Meeting is PZU's highest corporate body. The method of operation and the rights of the Shareholder Meeting are regulated by the Commercial Company Code and PZU's Articles of Association.

The PZU Ordinary Shareholder Meeting adopted its Rules and Regulations under Resolution No. 31/2018 of 28 June 2018.

The Shareholder Meeting is the body authorized to make decisions concerning issues related to the organization and operations of the Issuer. Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes, except in cases provided for in the Commercial Company Code or the Articles of Association.

The powers of the Shareholder Meeting, in addition to those specified in the Commercial Company Code or the Articles of Association, include the adoption of resolutions concerning the following:

- examination and approval of the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year and granting a discharge to individual members of the Company's corporate bodies on the performance of their duties;
- review of the Management Board's report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- distribution of profits or coverage of losses;

- decisions on claims to remedy damages incurred during the incorporation of the Company or in its administration or oversight;
- transfer or lease of a business or an organized part thereof or establishing a limited right in rem thereon;
- redemption of shares or issue of bonds;
- establishing reserve capital accounts and making decisions on their allocation or manner of allocation;
- split of the Company, merger of the Company with another company, winding up or dissolving the Company;
- appointment and dismissal of members of the Supervisory Board, subject to the personal right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules for remunerating members of the Supervisory Board;
- purchase or transfer by the Issuer of real estate, perpetual usufruct or a share in real estate or perpetual usufruct whose gross value exceeds the equivalent of EUR 30.0 million (thirty million euros), subject to § 18a of the Articles of Association;
- setting the rules for shaping the compensation of Management Board members.

In accordance with the Articles of Association, the Shareholder Meeting's approval is required for:

- disposal of non-current assets within the meaning of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, items 1047 and 2255) classified as intangible assets, property, plant and equipment or long-term investments, including contribution to a company or a cooperative – if the market value of those assets exceeds 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements; and also handing those assets over for use to another entity for a period longer than 180 days in a calendar year based on a legal act, if the market value of the subject matter of the legal act exceeds 5% of total assets, whereas the handing over of assets for use in the case of the following:
  - lease, rental and other agreements to hand over an asset for use to other entities against payment, the market value of the subject matter of a legal act is defined as the value of benefits for:
    - one year if the asset is handed over on the basis of contracts entered into for an unspecified term,
    - the full duration of the term of validity in the case of contracts entered into for an unspecified term,
  - lending for use agreements and other agreements to hand over an asset to other entities for gratuitous use, the market value of the subject matter of a legal act is defined as the value of benefits that would be due if a lease or rental agreement was executed instead, for:
    - one year if the asset is to be handed over on the basis of a contract entered into for an unspecified term,
    - the full duration of the term of validity in the case of contracts executed for an unspecified term,
- purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
  - PLN 100 million or
  - 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- subscription or acquisition of shares in another company, with the value exceeding:
  - PLN 100 million or
  - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- disposal of shares in another company, with the value exceeding:
  - PLN 100 million or
  - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Shareholder Meeting resolutions concerning the following issues require a three-fourths majority of votes:

- amendments to the Articles of Association;
- decrease in the share capital;
- transfer or lease of a business or an organized part thereof or establishing a limited right in rem thereon.

A majority of 90% of votes at the Shareholder Meeting is required to pass resolutions relating to the following:

- preference shares;
- Issuer's business combination by transferring all its assets to another company;
- merger by forming a new company;
- dissolving the Company (also as a result of moving its registered office or the head office abroad);
- liquidation, transformation or reduction in the share capital through the redemption of a portion of shares without a concurrent capital increase.

A Shareholder Meeting is held:

- as an Ordinary Shareholder Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary Shareholder Meeting which is convened in cases specified in the generally applicable law and the Articles of Association.

The Management Board convenes an extraordinary shareholder meeting at its own initiative or in response to the written motion of the Supervisory Board, a shareholder or shareholders representing at least one-twentieth of the share capital. A motion can be filed electronically.

The Supervisory Board convenes:

- an Ordinary Shareholder Meeting if the Management Board fails to convene an Ordinary Shareholder Meeting by the prescribed deadline;
- an Extraordinary Shareholder Meeting if it deems that to be necessary;
- an Extraordinary Shareholder Meeting if the Management Board fails to convene an Extraordinary Shareholder Meeting in response to a motion submitted by an eligible shareholder, eligible shareholders or the Supervisory Board within fourteen days after the motion is filed.

Shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary Shareholder Meeting. These shareholders designate the Chair of this meeting.

Shareholder Meetings are held in Warsaw and convened by placing an announcement on PZU's website in accordance with the method for providing current information specified in the Act on Public Offerings, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of 19 July 2005 in the form of current reports. Such announcement should be made not later than twenty-six days before the date of the Shareholder Meeting. The announcement and materials presented to shareholders are available on the date of convening the Shareholder Meeting on PZU's corporate website in the "Investors relations" section under the "Shareholder Meeting" tab.

A duly convened Shareholder Meeting is deemed valid regardless of the number of attending shareholders.

All the matters submitted by the Management Board to the Shareholder Meeting should be first presented to the Supervisory Board to be examined and get an opinion. The Supervisory Board's opinions are presented to the Shareholder Meeting no later than prior to the opening of the shareholder meeting along with other documents conveyed to the shareholders participating in the Shareholder Meeting and are available on the company's website.

Resolutions are passed in an open ballot. A secret ballot is ordered in elections or on motions to dismiss members of the Issuer's corporate bodies or liquidators, in matters concerning their personal liability to the Company as well as in other personal matters or, excluding cases when voting by open ballot ensues from a statute, at the request of at least one of the shareholders attending or represented at the Shareholder Meeting.

Shareholder rights and the method of exercising them at the Shareholder Meeting are specified in the Commercial Company Code and the Articles of Association. Only persons who were shareholders of the Issuer sixteen days prior to the date of the Shareholder Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting).

Shareholders may attend the Shareholder Meeting and exercise the right to vote in person or through a proxy. The proxy document to participate in the Shareholder Meeting and exercise the voting right must be granted in writing or electronically.

One PZU share gives the right to a single vote, subject to restrictions on exercising the voting rights described in the Articles of Association. A shareholder may vote differently from each of the shares held by it.

According to the Articles of Association, shareholders' voting rights are restricted in a way that no shareholder may exercise at a Shareholder Meeting more than 10% of the overall number of votes existing in the Company on the date of the Shareholder Meeting, with the reservation that, for the purposes of determining the obligations of the buyers of large blocks of shares contemplated by the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and the Insurance and the Reinsurance Activity Act of 11 September 2015, such restriction of voting rights will be deemed to be non-existent. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting a Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes in existence in the Company;
- shareholders acting with the shareholders specified in item 1 pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

During the Shareholder Meeting, each shareholder may provide draft resolutions concerning items on the agenda.

In accordance with the Commercial Company Code, detailed procedures concerning participation in the Shareholder Meeting and exercising voting rights are always presented in an announcement of the Shareholder Meeting published on the date of convening the Shareholder Meeting on PZU's corporate website in the "Investors relations" section under the "Shareholder Meeting" tab.

9.7 Supervisory Board and Management Board - composition, powers, method of operation

Supervisory Board's composition

In accordance with the Articles of Association, the Supervisory Board is composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting.

Members of the Supervisory Board are appointed by the Shareholder Meeting for a joint term of office which lasts three consecutive full financial years. At least one member of the audit committee appointed by the Supervisory Board must hold qualifications in accounting or auditing financial statements within the meaning of the Act on Statutory Auditors, Audit Firms and Public Supervision. Furthermore, in accordance with the said Act, the majority of the audit committee members should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. An independent supervisory board member is obligated to present a written declaration on satisfying all the independence criteria and advise the Company of ceasing to satisfy these criteria. In addition, the Articles of Association give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. This right will expire if the State Treasury ceases to be a Company shareholder. A candidate to be a Supervisory Board member named by the State Treasury should meet the requirements set forth in Article 19 of the Act of 16 December 2016 on Rules for Managing State Property. According to this article, the entity eligible to exercise the rights to shares owned by the State Treasury or a state legal person as a candidate to be a member of the supervising body designates a person holding a positive opinion from the Council for companies with State Treasury shareholding and state legal persons who:

- holds the pertinent education and experience supported by an academic title or certificate enumerated in a law;
- is not employed by the company, does not do work for it, or provide services to it, on the basis of some other legal relationship;
- does not hold shares in a subsidiary except for shares permitted to be traded on a regulated market within the meaning of the Financial Instruments Trading Act of 29 July 2005;
- is not employed by the company, does not do work for it, or provide services to it, on the basis of some other legal relationship;
- is not engaged in activities that are at odds with his/her duties as a member of a supervising body or that could evince a suspicion of partiality or interest or generate a conflict of interest with the company's business;

and

- meets the requirements for a member of a supervising body as laid down in separate regulations.

As at 1 January 2019, the following persons sat on the PZU Supervisory Board:

- Maciej Łopiński - Supervisory Board Chairman;
- Paweł Górecki - Supervisory Board Deputy Chairman;
- Alojzy Nowak - Supervisory Board Secretary;
- Marcin Chludziński - Supervisory Board Member;
- Agata Górnicka - Supervisory Board Member;
- Robert Jastrzębski - Supervisory Board Member;
- Katarzyna Lewandowska - Supervisory Board Member;
- Robert Śnitko - Supervisory Board Member;
- Maciej Zaborowski - Supervisory Board Member.

PZU's Ordinary Shareholder Meeting appointed the following Supervisory Board members to serve on the new term of office in 2020-2022 as of 24 May 2019: Maciej Łopiński, Robert Jastrzębski, Alojzy Nowak, Marcin Chludziński, Agata Górnicka, Robert Śnitko, Maciej Zaborowski, Elżbieta Mączyńska–Ziemacka, Tomasz Kuczur and Krzysztof Opolski. Paweł Górecki was appointed by the State Treasury to the Supervisory Board pursuant to § 20 Section 7 of PZU's Articles of Association.

On 27 May 2019 PZU's Supervisory Board selected its chairman, deputy chairman and secretary from among its membership. The PZU Supervisory Board composition was as follows:

- Maciej Łopiński - Supervisory Board Chairman;
- Paweł Górecki - Supervisory Board Deputy Chairman;
- Alojzy Nowak - Supervisory Board Secretary;
- Marcin Chludziński - Supervisory Board Member;
- Agata Górnicka - Supervisory Board Member;
- Robert Jastrzębski - Supervisory Board Member;
- Tomasz Kuczur - Supervisory Board Member;
- Elżbieta Mączyńska-Ziemacka - Supervisory Board Member;
- Krzysztof Opolski - Supervisory Board Member;
- Robert Śnitko - Supervisory Board Member;
- Maciej Zaborowski - Supervisory Board Member.

The current term of office of the PZU Supervisory Board will end after the elapse of three full financial years, i.e. on 31 December 2022. 2020 will be the first full financial year. The mandates of Supervisory Board members will expire no later than on the date of the Shareholder Meeting approving the financial statements for the last full financial year in which they server in their capacity, i.e. for 2022.

PZU's Supervisory Board composition as at 31 December 2019

Name	Period of acting in the capacity of a PZU Supervisory Board member
Maciej Łopiński	Supervisory Board Chairman since 9 January 2018 (on the Supervisory Board since 8 January 2018)
Paweł Górecki	Supervisory Board Deputy Chairman since 9 January 2018 (on the Supervisory Board since 8 February 2017)
Alojzy Nowak	Supervisory Board Secretary since 14 March 2017 (on the Supervisory Board since 30 May 2012)
Marcin Chludziński	Supervisory Board Member since 7 January 2016
Agata Górnicka	Supervisory Board Member since 8 February 2017
Robert Jastrzębski	Supervisory Board Member since 9 March 2018
Tomasz Kuczur	Supervisory Board Member since 24 May 2019
Elżbieta Mączyńska-Ziemacka	Supervisory Board Member since 24 May 2019
Krzysztof Opolski	Supervisory Board Member since 24 May 2019
Robert Śnitko	Supervisory Board Member since 12 April 2017
Maciej Zaborowski	Supervisory Board Member since 7 January 2016

Maciej Łopiński

Supervisory Board Chairman

In the Supervisory Board since 8 January 2018

Graduate of the University of Gdańsk. Editor-in-Chief of Tygodnik Gdański, a journalist of Głos Wybrzeża and Tygodnik Czas, among others. A member of parliament in the 7th term of office. Secretary of State in the Office of President Lech Kaczyński in 2005-2010 and in turn in the Office of President Andrzej Duda in 2015-2016. He has many years of experience in company law and corporate governance also gained in supervisory bodies in commercial law companies, among others, KGHM Poland Miedź SA, PZU Asset Management SA, Telewizja Polska SA.

Paweł Górecki

Supervisory Board Deputy Chairman

In the Supervisory Board since 8 February 2017

Graduated from the Faculty of Law, Administration and Economics of the University of Wrocław. He received the degree of Doctor of Law. He was a legal advisor trainee and a court trainee and has been entered in the legal advisor registry. He attended numerous training courses and workshops in law of evidence, civil and penal law and management of public entities. He has authored several dozen peer-reviewed papers on the subject of law published by Polish and international journals. Member of supervisory boards of several capital companies. Currently the Vice-President of the KDPW S.A. Management Board.

Alojzy Nowak

Supervisory Board Secretary

In the Supervisory Board since 30 May 2012

Professor ordinary at the University of Warsaw, a graduate of the Department of Foreign Trade of the Central School of Planning and Statistics. Completed economics studies at the University of Illinois Urbana-Champaign in the USA and completed studies in banking, finance and capital markets at the University of Exeter in the United Kingdom; international economic at the Freie Universitat in Berlin and in Belgium. Head of the Department of National Economy at the Management Faculty of the University of Warsaw, Director of the European Center of the University of Warsaw, Dean of the Management Faculty of the University of Warsaw. Member of the National Development Council at the President of the Republic of Poland, in the past an adviser to the Prime Minister. Has extensive experience in corporate governance, including, among others, as a Supervisory Board member in PTE WARTA S.A., PKO BP S.A. and JSW S.A., Millennium and Eurolot. Authored more than 300 publications in Poland and abroad. Visiting professor at numerous universities internationally. In December 2018, along with 22 prominent economists from around the world, including 4 Nobel Prize winners, he became a member of the Academic Council of the Institute for New Structural Economics at the University of Beijing.

Marcin Chludziński

Supervisory Board Member

In the Supervisory Board since 7 January 2016

President of the KGHM Polska Miedź S.A. Management Board since June 2018. He graduated from the Social Policy Institute at Warsaw University. Completed MBA studies at the Institute of Economics of the Polish Academy of Sciences. He worked for Warsaw University, the Collegium Civitas and the Łazarski University as a lecturer. A member of the National Development Council, a consultative and advisory body for the President of the Republic of Poland. From January 2016 to June 2018 he served as President of the Agencja Rozwoju Przemysłu S.A. Management Board where he was in charge of restructuring processes, mergers and acquisitions. He defined the strategic directions of growth for Agencja Rozwoju Przemysłu S.A. He was in charge of restructuring projects involving such companies as Przewozy Regionalne, H. Cegielski – FPS and ŚKSM, among others. President of the Republican Foundation (a Polish economic think tank) in 2011–2015. Since 2005 he has been sitting on management boards and supervisory boards of commercial law companies. An experienced manager in the field of strategic consulting and corporate governance. He specializes in development-oriented restructuring of enterprises and capital investments.

Agata Górnicka

Supervisory Board Member

On the Supervisory Board since 8 February 2017

Master of political science at the Faculty of Journalism and Political Science of the University of Warsaw. She received a post-graduate diploma in media management from the Kozminski University in Warsaw. She acquired professional experience: in 2006-2012 in Telewizja Polska S.A., in 2012-2013 as a Project Coordinator at the Bank Zachodni WBK S.A. Foundation and then as CEO's Assistant in Bank Zachodni WBK S.A. from 2013 to 2014 and subsequently as the Manager of the Management Board and Supervisory Board Office in Bank Zachodni WBK S.A. from 2014 to 2015 then in 2015-2017 as Director of the Political Office at the Ministry of Development and in 2017-2018 as chief advisor at the Prime Minister's Office. Since April 2018 she has been a Director of the External Relations Office at PKN ORLEN S.A. and Chairwoman of the ORLEN Foundation Council.

Robert Jastrzębski

Supervisory Board Member

On the Supervisory Board since 9 March 2018

Graduated from the Faculty of Law and Administration at the Warsaw University. In 2001 he was granted a doctor of juridical science degree and in 2009 a degree of habilitated Ph.D. degree. Employed since 2019 as a university professor. Authored about 100 academic publications. Recipients of awards and distinctions, including the Awards of the Department of Law and Administration of Warsaw University for outstanding scholarly achievements and the Team Award granted by the Rector of the Warsaw School of Economics. Employed since 2001 in the Department of Law and Administration at the University of Warsaw. Since 2015, Head of the Laboratory of Polish 20th Century Law and since 2019 Head of the Administration History Department. Member of the program board of the "Review of Economic Legislation" journal (2010), the editorial committee of the "Scholarly Papers of the Sejm Analysis Office" journal (2016).

Tomasz Kuczur

Supervisory Board Member

On the Supervisory Board since 24 May 2019

Lawyer and political scientist. He graduated from the Faculty of Law and Administration of the University of Warmia and Mazury in Olsztyn majoring in law and from the Bydgoszcz Academy (currently, the Kazimierz Wielki University in Bydgoszcz). He was awarded a Ph.D. degree in law by the Faculty of Law and Administration of the University of Warmia and Mazury. He holds a Ph.D. Hab. degree from the University of Wrocław in social sciences, specializing in political systems. A Professor Extraordinarius at the Faculty of Humanities of the Kazimierz Wielki University in Bydgoszcz. A member of the Local Government Board of Appeals in Bydgoszcz. Member of the Academic Council of the "Sejm Review" journal. He was appointed by the Minister of Science and Higher Education to serve as a member of the Interdisciplinary Team for projects submitted within the framework of the "Support for Scientific Journals" initiative.

Elżbieta Mączyńska-Ziemacka

Supervisory Board Member

On the Supervisory Board since 24 May 2019

Professor of economic science. Graduate of the Faculty of Economics at the University of Warsaw. Author of econometric models for predicting bankruptcies in enterprises and of a concept of early warning systems pinpointing threats to business activity. She headed the postgraduate course in Real Estate Valuation held by the Institute of Corporate and Investment Finance at the Business Administration College of the Warsaw School of Economics. Member of the Presidium of the "Poland 2000 Plus" Forecasting Committee, the Economics Committee of the Polish Academy of Sciences and the Academic Council of the Institute of Economics of the Polish Academy of Sciences. President of the Polish Economic Society. In 1996-1998 she was a member of the Supervisory Board of Polski Bank Rozwoju S.A. and in 2005-2007 she sat on the Supervisory Board of BGŻ S.A. Since 20 June 2013, she has been a member of the Supervisory Board of PKO BP S.A. Currently, she is also a member of the National Development Council at the President of the Republic of Poland.

Krzysztof Opolski

Supervisory Board Member

On the Supervisory Board since 24 May 2019

Professor Ordinarius of Economics. Head of the Department of Banking, Finance and Accounting at the Faculty of Economics of the University of Warsaw. A graduate of the Faculty of Psychology and Pedagogy of Warsaw University. Founder and long-term editor-in-chief of the "Economics. Market, economy, society" journal. Head of the Ph.D. program "Economy and Market. Financial Institutions and Corporate Business Strategies" at the Faculty of Economics of Warsaw University. Head of the Editorial Board of the "MAZOVIA – Regional Studies" journal and a member of the Academic Council of the "Safe Bank" journal. Head of the Academic Councils of the "Central European Economic Journal" and "E-Finance" journals. A former member of the supervisory boards of Bank Handlowy S.A., AXA Polska S.A. and Centrum Giełdowe S.A. In 2009-2010 he managed the team of strategic advisors to the President of the National Bank of Poland. Chairman of the Business Award Jury of the President of the Republic of Poland, Deputy Chairman of the Polish Economic Exhibition jury and a member of the "Teraz Polska" Contest Jury.

Robert Śnitko

Supervisory Board Member

On the Supervisory Board since 12 April 2017.

Academic teacher, deputy department director at the Ministry of Finance. Graduate of the London School of Economics and Political Science, University of London, School of Oriental and African Studies, University of London, Faculty of Economics at the Radom Technical University. Holder of a Scholarship awarded by the Minister of National Education (Minister of Science and Higher Education), the United Kingdom's Ministry of Foreign Affairs and non-governmental organizations from the United Kingdom and the United States. Ph.D. in economics obtained from the Warsaw School of Economics. Member of the International Institute for Strategic Studies.

Maciej Zaborowski

Supervisory Board Member

On the Supervisory Board since 7 January 2016

Graduated from the Law and Administration Department at the University of Warsaw. Completed post-graduate studies in intellectual property law and postgraduate studies in evidence law. He is also a graduate of the Harvard Law School (ALP), Center for American Law Studies, Leadership Academy for Poland. Advocate and professional mediator of the Mediation Center at the Polish Bar Council. Lecturer of advocate training at the Bar Association in Warsaw. Currently, he runs his own legal practice and is a Managing Partner at the law firm Kopeć Zaborowski Adwokaci i Radcowie Prawni sp.p. Member of the State Tribunal since February 2018. He has acquired experience in corporate governance as a member of the supervisory boards in various companies.

Supervisory Board's powers

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity. In accordance with the Articles of Association, the powers of the Supervisory Board include:

- evaluating the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year for compliance with the accounting ledgers and documents as well as the facts;
- approving the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU group;
- evaluating the Management Board's motions to distribute the profit or cover the loss;
- submitting a written report to the Shareholder Meeting on the results of the evaluation referred to in the foregoing items and submitting a concise annual evaluation of the Company's standing with an assessment of its internal control system and the system for managing significant risks to the Company, and an annual report on the Supervisory Board's work;
- concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation, giving consideration to the rules defined by the Shareholder Meeting, in accordance with § 18 item 12 of the Articles of Association;
- appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such a suspension;
- granting consent to transferring an insurance portfolio in its entirety or in part;
- accepting motions submitted by the Management Board to purchase, subscribe to or sell ownership interest and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without the obligation to obtain approval from the Supervisory Board, except in cases where the decision in this respect is made by the Shareholder Meeting pursuant to § 18a of the Articles of Association;
- seconding members of the Supervisory Board to perform temporarily the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions on how the Company's representatives should vote at Shareholder Meetings of PZU Życie in matters on increasing or decreasing the share capital, issuing bonds, selling or leasing PZU Życie's enterprise or establishing a usufruct right on the enterprise, dividing PZU Życie, merging PZU Życie with another company, liquidating or dissolving PZU Życie;
- selecting the audit firm to carry out the mandatory audit of the financial statements, including the annual financial statements of the Company and the annual consolidated financial statements of the PZU Group and the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group, and reviews of the financial statements in accordance with the obligations following from the prevailing laws;
- deciding on the consolidated text of the revised Articles of Association,
- approving the Company's long-term development plans and annual financial plans prepared by the Management Board;
- approving the Bylaws of the Management Board;
- examining and consulting matters submitted by the Management Board for deliberation at the Shareholder Meeting.

Moreover, one of the the Supervisory Board's powers its to give consent to the following:

- acquisition or disposal of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of EUR 3.0 million;
- execution of a material agreement, as construed by the the Regulation on Current and Periodic Information, by the Company with its related party, except for standard agreements executed by the Company on an arm's length basis as part of its operating activities;
- executing an agreement with an underwriter of the kind referred to in Article 433 § 3 of the Commercial Company Code;
- paying out an interim dividend;
- creating and shutting down regional or foreign branches;
- executing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services is greater than PLN 500 thousand annually;

- amending an agreement to provide legal, marketing, public relations and public communication services or management consulting services by increasing the said fee above and beyond the net amount of PLN 500 thousand annually;
- executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee;
- executing a donation or other agreement having a similar effect, the value of which exceeds PLN 20 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements;
- executing a debt release or other agreement having a similar effect, the value of which exceeds PLN 50 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Supervisory Board's method of operation

The Supervisory Board adopts the Bylaws of the Supervisory Board which define its organization and manner of acting. The Rules and Regulations were adopted by a Supervisory Board resolution of 24 February 2016, specifying the composition of the Supervisory Board and the way in which it is appointed, the tasks and the scope of its activities and the manner of convening its meetings and conducting them.

The Articles of Association stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

The Supervisory Board adopts its resolutions by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. Resolutions of the Supervisory Board may be adopted using means of direct remote communication and circular vote. Additionally, the Articles of Association stipulate that a vote may be cast in writing through another member of the Supervisory Board.

Resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning the appointment of the Chairperson, Deputy Chairperson or the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions on appointing, suspending and dismissing the President, members of the Management Board or the entire Management Board as well and making decisions to stop such suspension, which are adopted in a secret ballot. Moreover, a secret ballot may be held at the request of a member of the Supervisory Board.

The Supervisory Board elects from among its members the Chairperson and Deputy Chairperson and may also elect the Secretary from among its members.

In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing the audit committee and the nomination and compensation committee, provided for in the Articles of Association to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and manner of operation are laid down in the rules and regulations of the committee in question adopted by the Supervisory Board. The Bylaws provide for the possibility for the Supervisory Board and its appointed committees to use the services provided by experts and consulting firms.

Members of the Management Board, PZU's employees relevant to the issue under consideration selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board without the right to vote. In specific cases, the Supervisory Board may also invite members of the management board or supervisory board of other PZU Group member companies. Moreover, members of the Supervisory Board, with the consent of the Supervisory Board, may select no more than one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements and give their advice, provided that such a person adheres to the rules of confidentiality and signs a confidentiality undertaking.

At present, the following committees operate as part of the PZU Supervisory Board:

- audit committee;
- nomination and compensation committee;
- strategy committee.

The Articles of Association provide for the appointment of an audit committee by the Supervisory Board. The audit committee shall include at least three members. Pursuant to the Act of 21 June 2017 on Statutory Auditors, Audit Firms and Public Supervision, at least one member of the audit committee appointed by the Supervisory Board should hold qualifications in accounting or auditing financial statements. Furthermore, the majority of the audit committee members, including its chairman, should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. The detailed tasks and for appointing members of the audit committee and its operation are specified in a resolution of the Supervisory Board which takes into account the relevant competencies and experience of candidates in respect of the matters entrusted to this committee.

In accordance with the rules and regulations of the audit committee adopted by a resolution of the Supervisory Board, the audit committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effective supervision of the correctness of financial reporting and the effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. In addition, the audit committee may request the Supervisory Board to request specific control activities in the Company, whereby the requested activities may be performed by an internal unit or external entity.

The audit committee was appointed by a Supervisory Board resolution of 3 June 2008.

The following persons sat on the audit committee as at 1 January 2019:

- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Maciej Zaborowski – Committee Member.

On 27 March 2019 the PZU Supervisory Board resolved that the audit committee will number 4 people and simultaneously established the following composition of the committee:

- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

The audit committee composition was extended to 5 people on 27 May 2019 while establishing the following composition:

- Alojzy Nowak – Przewodniczący Komitetu;
- Marcin Chludziński – Członek Komitetu;
- Krzysztof Opolski – Członek Komitetu;
- Robert Śnitko – Członek Komitetu;
- Maciej Zaborowski – Członek Komitetu.

As at 31 December 2019, the composition of the committee was unchanged.

Alojzy Nowak, Krzysztof Opolski, Robert Śnitko and Maciej Zaborowski submitted a declaration of being independent members within the meaning of Article 129 Section 3 of the Act on Statutory Auditors, Audit Firms and Public Supervision. All audit committee members submitted a declaration of having the knowledge and skills in the industry in which PZU operates.

The following audit committee members hold qualifications in accounting or auditing financial statements: Alojzy Nowak, Krzysztof Opolski, Robert Śnitko and Marcin Chludziński.

The qualifications of committee members in accounting and auditing financial statements and the knowledge and skills in the insurance industry stem from the education, experience and professional practice gained by the various committee members.

In 2019, the audit committee held 16 meetings.

In accordance with the Rules and Regulations of the Supervisory Board, once PZU's shares are listed on a regulated market within the meaning of the Financial Instruments Trading Act of 29 July 2005, the Supervisory Board may appoint a nomination and compensation committee.

In accordance with the Articles of Association, detailed responsibilities and the method of appointing members of the nomination and compensation committee, the manner of its operation and remunerations are defined by a Supervisory Board resolution. The committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the nomination and compensation committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the nomination and compensation committee adopted by a resolution of the

Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to establishing the management structure, including organizational issues, the remuneration system and principles and the selection of properly qualified staff.

The committee is dissolved once five members of the Supervisory Board are elected by group voting, following which its powers are taken over by the whole Supervisory Board.

The following persons sat on the nomination and compensation committee as at 1 January 2019:
- Paweł Górecki – Committee Chairman;
- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member;
- Maciej Łopiński – Committee Member.

On 27 March 2019 the PZU Supervisory Board resolved that the nomination and compensation committee will number 6 people and simultaneously established the following composition of the committee:
- Paweł Górecki – Committee Chairman;
- Katarzyna Lewandowska – Committee Member;
- Agata Górnicka – Committee Member;
- Alojzy Nowak – Committee Member;
- Robert Jastrzębski – Committee Member;
- Maciej Łopiński – Committee Member.

In connection with the appointment of the PZU Supervisory Board for its new term of office, the composition of the nomination and compensation committee was established as of 27 May 2019 as follows:
- Robert Jastrzębski – Committee Chairman;
- Agata Górnicka – Committee Member;
- Paweł Górecki – Committee Member;
- Tomasz Kuczur – Committee Member;
- Maciej Łopiński – Committee Member;
- Alojzy Nowak – Committee Member.

The nomination and compensation committee composition was extended to 7 people on 29 November 2019 while establishing the following composition:
- Robert Jastrzębski – Committee Chairman;
- Agata Górnicka – Committee Member;
- Paweł Górecki – Committee Member;
- Tomasz Kuczur – Committee Member;
- Maciej Łopiński – Committee Member;
- Elżbieta Mączyńska-Ziemacka;
- Alojzy Nowak – Committee Member.

As at 31 December 2019, the composition of the committee was unchanged.

According to the rules and regulations of the strategy committee adopted by a resolution of the Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to issuing opinions on all strategic documents presented by the Management Board (in particular, the growth strategy) and providing the Supervisory Board with recommendations on planned investments that materially affect the Company's assets.

The following people served on the strategy committee as at 1 January 2019:
- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 27 May 2019 the PZU Supervisory Board resolved that the strategy committee would number 6 people, while simultaneously establishing the following composition of the committee:
- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2019, the composition of the committee was unchanged.

The attendance of Supervisory Board members in Supervisory Board meetings in 2019

	Attendance at meetings	Number of meetings over the time of performing the mandate
Maciej Łopiński	13	13
Paweł Górecki	13	13
Alojzy Nowak	13	13
Marcin Chludziński	10	13
Agata Górnicka	11	13
Robert Jastrzębski	13	13
Tomasz Kuczur (since 24 May 2019)	6	8
Katarzyna Lewandowska (since 24 May 2019)	3	5
Elżbieta Mączyńska-Ziemacka (since 24 May 2019)	7	8
Krzysztof Opolski (since 24 May 2019)	7	8
Robert Śnitko	13	13
Maciej Zaborowski	12	13

Supervisory Board's activity in 2019

The Supervisory Board held 13 meetings in 2019 at which it adopted 93 resolutions. It also adopted 22 resolutions between meetings under the written procedure. These resolutions pertained to all the areas of the Company's business and were consistent with the scope of oversight functions defined by the requirements of the generally binding law, the Insurance and Reinsurance Activity Act of 11 September 2015, the Polish FSA's recommendations, corporate governance rules and the ones described in PZU's Articles of Association and the Supervisory Board Rules and Regulations.

The results generated by the PZU Group and various business divisions were regularly discussed and evaluated at Supervisory Board meetings in 2019 versus the financial plan. The Supervisory Board also discussed and accepted other legally-required detailed reports on various areas of the Company's business, including, among others, regular reports on risk, compliance, audit and IT security. On top of that, the Supervisory Board monitored the execution of the PZU Group Strategy for 2017-2020 on an ongoing basis.

During regular meetings held in 2019 the Supervisory Board's committees discussed in detail the most important issues relating to the various areas of the company's business, which must be approved by the Supervisory Board in accordance with the prevailing regulations.

The table above illustrates the attendance of Supervisory Board members in Supervisory Board meetings in 2019.

Management Board composition
In accordance with PZU's Articles of Association, the Management Board is composed of three to eight members appointed for a joint term of office spanning three consecutive full financial years.

Management Board Members, including the President of the Management Board, are appointed and dismissed by the Supervisory Board. Such appointment takes place following a recruitment procedure designed to verify and evaluate qualifications of the candidates and to select the best candidate, for a shared term of office of three consecutive full financial years. The President of the Management Board of the new term of office appointed before the current term elapses has the right to submit a motion to the Supervisory Board requesting appointment of the remaining Management Board members of the new term of office before the current term elapses.

A Management Board Member must fulfill all of the following conditions:
- holds a graduate degree or a graduate degree received abroad and recognized in the Republic of Poland pursuant to separate regulations;
- has at least 5-year employment period based on an employment agreement, appointment, selection, nomination, cooperative employment agreement or provision of services on the basis of another contract or conducting business activity on one's own account;
- has at least 3 years of experience on managerial or independent positions or arising from conducting business activity on one's own account;
- in addition to the above requirements, meets other requirements arising from separate regulations, in particular is not in breach of any restrictions or prohibitions for holding an executive position in commercial companies.

A Management Board Member may not be a person who fulfills at least one of the following conditions:
- acts as a social associate or is an employee of an MP's office, senator's office, MP-senator's office or office of a member of European Parliament pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement;
- is a member of a political party's governing body externally representing a political party and authorized to take down obligations;
- is employed by a political party pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement;
- is an elected official of a company trade union or a company trade union in a group company;
- his/her public or business activity raises conflict of interest with the Company's business.

As of 1 January 2019 the Management Board composition was as follows:
- Paweł Surówka – President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

On 27 March 2019 the PZU Supervisory Board adopted a resolution to appoint Paweł Surówka to the PZU Management Board for the new term of office and entrusted him with discharging the function of CEO of PZU.

The appointment of Paweł Surówka was for the joint term of office commencing as of the date on which the PZU Supervisory Board resolution on his appointment was adopted and will span three full financial years from 2020-2022.

On 28 March 2019, the PZU Supervisory Board adopted resolutions to appoint the following persons to the PZU Management Board for its new term of office:
- Tomasz Kulik, entrusting him with discharging the function of Management Board Member;
- Maciej Rapkiewicz, entrusting him with discharging the function of Management Board Member;
- Małgorzata Sadurska, entrusting her with discharging the function of Management Board Member;
- Marcin Eckert, entrusting him with discharging the function of Management Board Member;
- Adam Brzozowski, entrusting him with discharging the function of Management Board Member;
- Elżbieta Häuser-Schöneich, entrusting her with discharging the function of Management Board Member.

Adam Brzozowski and Elżbieta Häuser-Schöneich were appointed on the day following the day of holding the PZU Ordinary Shareholder Meeting approving the financial statements for the 2018 financial year for a joint term of office commencing at the time of appointing the CEO of PZU and spanning the three full financial years from 2020 to 2022.

The other persons were appointed on 28 March 2019 for a joint term of office commencing at the time of appointing the CEO of PZU and spanning the three full financial years from 2020 to 2022.

The mandate held by PZU Management Board Member Roger Hodgkiss expired on 24 May 2019 in connection with the holding of the PZU Ordinary Shareholder Meeting.

Aleksandra Agatowska was appointed to the PZU Management Board on 24 October 2019.

Management Board consisted of the following persons:
- Paweł Surówka – President of the Management Board;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member;
- Marcin Eckert – Management Board Member;
- Adam Brzozowski – Management Board Member;
- Elżbieta Häuser-Schöneich – Management Board Member;
- Aleksandra Agatowska – Management Board Member.

On 19 February 2020, Aleksandra Agatowska resigned from the position of Member of the PZU Management Board.

As at the date of conveying this periodic report, the PZU Management Board consisted of the following persons:
- Paweł Surówka – President of the Management Board;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member;
- Marcin Eckert – Management Board Member;
- Adam Brzozowski – Management Board Member;
- Elżbieta Häuser-Schöneich – Management Board Member.

Up to the date of publication of this report, the Management Board composition has not changed.

The current term of office of the PZU Management Board spans three full consecutive financial years from 2020 to 2022. The mandates of the Management Board members will expire no later than on the date of the Shareholder Meeting approving the financial statements for the most recent full financial year of the discharge of their functions.

Management Board's powers and operating rules
The Management Board exercises any and all rights related to managing PZU which are not otherwise reserved by law or the provisions of the Articles of Association to the Shareholder Meeting or the Supervisory Board. Two Management Board members acting jointly or one Management Board member acting jointly with a commercial proxy are authorized to represent the Company. The Management Board adopts its rules and regulations, which are approved by the Supervisory Board. The Rules and Regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended by a Management Board resolution on 8 April 2013 and on 10 May 2018 and approved by a resolution of the Supervisory Board on 15 May 2018.

The Rules and Regulations of the Management Board define:
- the scope of the Management Board's powers and activities that require approval or confirmation by the Supervisory Board;
- powers of the President of the Management Board and other Management Board members;
- principles and organization of the Management Board's activities, including its meetings and decision making procedures;
- rights and obligations of Management Board members upon dismissal.

In accordance with the Rules and Regulations of the Management Board, Management Board resolutions are especially required for:
- adoption of a long-term plan for the Company's development and operations;
- adopting an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- accepting the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year;
- accepting the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group;
- accepting the Company's own risk and solvency assessment report and the PZU Group's own risk and solvency assessment report;

- adoption of a report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- approval of a motion to distribute profit or cover loss;
- determining premiums in compulsory and voluntary insurance and the general terms and conditions of voluntary insurance;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determining the terms and conditions of investment, prevention and sponsoring activities;
- granting sureties and guarantees excluding insurance operations and contracting or providing credit facilities or loans by the Company - excluding credit facilities and loans granted from the Company Social Benefits Fund;
- appointment of a commercial proxy.

In accordance with the Rules and Regulations, Management Board meetings are held at least once a fortnight. The work of the Management Board is headed by the President of the Management Board whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- convening meetings of the Management Board;
- setting the agenda of meetings of the Management Board;
- applying to the Supervisory Board for appointing or dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the President of the Management Board.

The work of the Management Board is headed by the President of the Management Board who defines the scope of responsibility for each member of the Management Board.

The Management Board prepares and presents to the Shareholder Meeting a report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services.

Resolutions of the Management Board are adopted only in the presence of the President of the Management Board or a person designated to head the work of the Management Board during the President's absence.

Resolutions of the Management Board are adopted by an absolute majority of votes; in the event of a voting tie, the President has the casting vote. The Management Board, with the CEO's consent, may adopt resolutions in writing, or in electronic form (i.e. using means of remote communication and a qualified electronic signature). The Articles of Association also provide that meetings of the Management Board may be held using means of direct remote communication.

The President of the Management Board makes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the Company within the scope specified by the President.

PZU's Articles of Association do not provide for the Management Board to have rights concerning decisions on issuing or redeeming shares.

Presented below are the scopes of responsibility of the Management Board members in office in 2019:

Name (Management Board composition at the end of 2019)	In the PZU Group	Scope of responsibilities (as at the end of 2019)
Paweł Surówka	CEO of PZU from 13 April 2017 / CEO of PZU Życie from 23 June 2016 to 13 April 2017	internal audit, compliance, reinsurance, corporate communication, sponsoring, strategy and projects, PZU Group's business development, corporate sales, cooperation with the brokerage channel, individual health products
Aleksandra Agatowska	PZU Management Board Member since 24 October 2019 (PZU Group Director from 25 March 2016 to 23 October 2019)/ PZU Życie Management Board Member since 25 March 2016	marketing, client relations, health insurance
Adam Brzozowski	Member of the PZU Management Board since 25 May 2019 / PZU Group Director at PZU Życie since 25 May 2019	PZU – mass products and insurance programs, tariff actuarial services, product research PZU i PZU Życie – effectiveness of the retail sales network and commission systems
Marcin Eckert	PZU Management Board Member since 28 March 2019 / PZU Życie Management Board Member since 1 May 2019	management and corporate oversight, administration, IT, innovations, insurance operations
Elżbieta Häuser – Schöneich	PZU Management Board Member since 25 May 2019 / PZU Życie Management Board Member since 1 June 2019	retail sales, CRM, remote sales, digital services, development of mobile apps
Tomasz Kulik	PZU Management Board Member since 14 October 2016 / Member of the PZU Życie Management Board since 19 October 2016	actuarial, finance and investments
Maciej Rapkiewicz	PZU Management Board Member since 22 March 2016 / PZU Życie Management Board Member since 25 May 2016	risk
Małgorzata Sadurska	PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017	PZU and PZU Życie – oversight over international companies, procurement, assurbanking, bancassurance and strategic partnership programs PZU Życie – bank protection products, investment products, sales of investment products
Roman Pałac	CEO of PZU Życie since 26 April 2017 / PZU Group Director since 15 February 2016	PZU Życie – internal audit, compliance, reinsurance, corporate communication, sponsoring, strategy and projects, cooperation with the brokerage channel, agency sales, corporate sales, group, individual and health products, tariff actuarial services, product research PZU and PZU Życie – claims and benefits handling, assistance, customer service, management of the PZU branch network
Bartłomiej Litwińczuk	PZU Życie Management Board Member / PZU Group Director since 19 August 2016	HR, security, advisory services and legal services
Dorota Macieja	PZU Życie Management Board Member / PZU Group Director since 15 March 2017	prevention, CSR, customer communication, real estate

Paweł Surówka

CEO of PZU from 13 April 2017 / CEO of PZU Życie from 23 June 2016 to 13 April 2017 / Chairman of the Bank Pekao Supervisory Board since 8 June 2017

Graduate of Universitė Panthėon Sorbonne, Ecole des Hautes Etudes en Sciences Sociales (EHESS) and Hochschule für Philosophie in Munich. He is a CFA Charterholder. In 2016, he was head of corporate and investment banking in Germany of PKO Bank Polski, Poland's biggest bank. He set up PKO's Frankfurt branch, the first outlet of this kind of a Polish bank. He started his career with Merrill Lynch Bank of America in Paris where he was responsible for the biggest private and institutional clients from CEE. In the Boryszew Group (Management Board Member) he was responsible for the restructuring of its German automotive division. He is fluent in four languages. He has been named Young Global Leader (YGL) by the World Economic Forum. One of the most effective managers of stock listed companies in Poland according to Harvard Business Review.

Adam Brzozowski

Member of the PZU Management Board since 25 May 2019 / PZU Group Director at PZU Życie since 25 May 2019

He studied economics and banking at universities in Poland and received his degree in management from Kingston University in London. He gained experience working for international corporations, consulting firms and the start-up community, including as InsurTech Leader at EY in the Asia-Pacific region or as Head of Operations and Technology for Octo UK. During his career, he developed digital strategies, implemented innovative solutions and customized products with a transformative approach to insurance pricing and analytics. He worked with companies such as Allianz Insurance, BMW, Coverbox, InsureTheBox, Swiss Re and Zurich Insurance.

Marcin Eckert

PZU Management Board Member since 28 March 2019 / PZU Życie Management Board Member since 1 May 2019

Graduate of the Faculty of Law and Administration at the Nicolaus Copernicus University in Toruń. Graduate of the Leadership Academy for Poland. Associated with the PZU Group since 2017, where he previously was Managing Director on Corporate Matters. Since 2001 he has been practicing as a legal advisor. He specializes in commercial law, tax law, labor law. Prior to his employment in the PZU Group, he was a Senior Associate at Bird & Bird Szepietowski i wspólnicy (as leader of the Benefits & Compensation practice). Previously he was also associated with TGC Corporate Lawyers Warszawa (Director of the Tax Department), Mazars & Guerard Audyt (Director of the Law and Tax Department) and Ernst & Young (Senior Manager).

Elżbieta Häuser – Schöneich

PZU Management Board Member since 25 May 2019 / PZU Życie Management Board Member since 1 June 2019

She is a graduate in art history from the Catholic University in Lublin and of post-graduate studies in Value-Based Management at the Warsaw School of Economics. She is also a graduate of the General Management Programme at CEDEP/INSEAD and the Entrepreneurship and Innovation program at Stanford University. She has more than twenty years of experience in business development, management, sales and marketing gained in international institutions operating in the insurance, telecommunications and FMCG industries. Through most of her professional career, she was associated with the life and property insurance markets. She was one of the creators of the direct insurance market in Poland. In 2005-2007 she associated with ING Nationale-Nederlanden. In 2008-2015 she worked for the Aviva Group as vice-president and a supervisory board member of one of the group companies. Prior to taking a position in the PZU Management Board she was a management board member with T-Mobile Polska.

Tomasz Kulik

PZU Management Board Member since 14 October 2016 / PZU Życie Management Board Member since 19 October 2016 / Alior Bank's Supervisory Board Chairman since 9 September 2017 / TFI PZU's Supervisory Board Chairman since 26 June 2018

He graduated from the Warsaw School of Economics. He also completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program and is a graduate of the Harvard Business School Advanced Management Program. A member of The Association of Chartered Certified Accountants (ACCA). Through most of his professional career, he was associated with the Aviva Group (former Commercial Union). Prior to his appointment to the PZU Management Board, he served as the Director of the Planning and Controlling Department. He prepared the PZU Group's strategy for the years 2016-2020 and the PZU Group's capital and dividend policy.

Maciej Rapkiewicz

PZU Management Board Member since 22 March 2016 / PZU Życie since 25 May 2016

He graduated from the Faculty of Law and Administration at the University of Łódź and completed post-graduate studies in business insurance, an MBA in finance and insurance and risk management. Associated with the PZU Group intermittently since 1998. From 2006 to 2009 he was a Management Board Member and then Vice-President of the TFI PZU Management Board. Since 2015 he has worked for TFI BGK S.A., serving as a Management Board Member. He was also the President of the ŁSSE S.A. Management Board. He sits on supervisory boards of PZU Group companies: Alior Bank, PTE PZU, LINK4. He served on supervisory boards of foreign companies owned by the PZU Group. He also sat on supervisory boards of companies not affiliated with PZU.

Małgorzata Sadurska

PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017

Graduate of the Law and Administration Faculty of the Maria Curie-Skłodowska University in Lublin and a post-graduate course in Organization and Management at the Lublin School of Business. She completed her Master of Business Administration at the Faculty of Management at the Lublin University of Technology. From 2002 to 2005, she was a Member of the Puławy County Board. From 2005 to 2015, she was a member of the Sejm of the Republic of Poland. She was also member of the National Council of the Judiciary of Poland, Chairwoman of the Supervisory Board of the ZUS Social Insurance Institution. In 2007, she was the Secretary of the State on labor and social policy at the Prime Minister's Office. In 2015-2017, she served as Head of the Chancellery of the President of the Republic of Poland.

Aleksandra Agatowska

ACEO of PZU Życie since 19 February 2020 / PZU Życie Management Board Member since 25 March 2016 / PZU Management Board Member since 24 October 2019 till 19 February 2020 and PZU Group Director (from 25 March 2016 to 23 October 2019, reappointed from 20 February 2020)

Graduate of the Jagiellonian University majoring in Economic Sociology and Market Research. She gained her professional experience working for ING Życie, ING Powszechne Towarzystwo Emerytalne and ING Spółka Dystrybucyjna. She also collaborated with the team of the Public Policy Evaluation and Analysis Center. For HDI (currently Warta S.A.), she managed the product marketing team, developing and executing sales support campaigns. Then she headed the Marketing Intelligence team at Sony Europe. At Philips S.A. she managed the Marketing and Business Intelligence team in 17 countries of the region. As an external consultant, she advised among others Aviva on the implementation of distribution channel projects.

Roman Pałac

PZU Życie SA Management Board Member since 20 February 2020 / CEO of PZU Życie since 26 April 2017 till 19 February 2020 and PZU Group Director since 15 February 2016

He graduated from the Economics Faculty at the Warsaw School of Economics. Also a Master of Business Administration (MBA) graduate from the London Business School. Has extensive experience working for Polish and foreign financial institutions. In 2003-2007 he worked as a Project Manager for the World Bank. From 2009 to 2016 associated with The Boston Consulting Group, where he worked for the largest financial sector companies in Poland and abroad. Served on the PZU Group Management Board since February 2016. Appointed to the position of the CEO of PZU Życie in April 2017.

Bartłomiej Litwińczuk

PZU Życie Management Board Member and PZU Group Director since 19 August 2016

Graduated from the Faculty of Law and Administration at the University of Warsaw. Advocate at the Bar Association in Warsaw. Practiced as an advocate specializing in civil law. He combines the knowledge of business with extensive experience resulting from his provision of legal assistance services, in particular in cases related to commercial company law, copyright law, administrative law and criminal business law. He also served as an advisor to the Extraordinary Committee of the Sejm for changes in legal codes. He has acquired experience in corporate governance serving as a member of supervisory bodies of commercial law companies.

Dorota Macieja

PZU Życie Management Board Member and PZU Group Director since 15 March 2017

Graduate of Polish philology at the University of Warsaw. Associated with the PZU Group since 2016. As a director, she supervised prevention and sponsoring activities at PZU and PZU Życie. In 2010-2016, she coordinated and managed publishing and film production projects. In 2008-2010, she served as deputy director and director of Channel 1 of Telewizja Polska SA. Earlier, in 2007, she headed TVP1's News program. For many years, a journalist working for Tygodnik Solidarność, Wprost and Radio Free Europe. During martial law in Poland, she was associated with the underground publishing house "Wola".

9.8 Compensation of the members of governing bodies

The rules for compensating Management Board members are shaped by the Supervisory Board in accordance with Resolution No. 4 adopted by PZU's Extraordinary Shareholder Meeting on 8 February 2017 in the matter of determining the compensation of the Management Board members (as amended) and the requirements set forth in the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Some Companies.

The foregoing rules stipulate that the total compensation due to a Management Board member for rendering management services and discharging other obligations ensuing from the Management Services Provision Agreement concluded for the term of serving in the Company's Management Board consists of the following:

- fixed compensation – flat monthly base compensation (for a calendar month) that cannot exceed the reference range established pursuant to art. 4 section 2 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies without prejudice to the situations outlined in art. 4 section 3 of the aforementioned act;
- variable compensation – supplementary compensation for a given financial year depending on the extent to which management objectives are attained, within the catalogue of management objectives defined pursuant to the aforementioned act, and which include, among others, growing the Company's value and improving its economic and financial ratios. The variable compensation for a given financial year may not exceed 100% of the annual fixed compensation in the previous financial year for which the amount of variable compensation due is to be calculated. In addition, a significant portion of the variable compensation is awarded in the form of deferred variable compensation. Deferred variable compensation is payable over 3 years. After the elapse of 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred variable compensation for a given year subsequent to satisfying the conditions defined in the Management Services Provision Agreement.

As at 31 December 2019, the benefits for 2017 and 2018 for PZU Management Board members under the variable compensation system were awarded and paid. This payment was for the non-deferred portion of variable compensation.

Moreover, the Management Services Provision Agreements entered into with Management Board members regulate their term of notice and issues related to refraining from engaging in competitive activity to the Company's during their term of validity after their termination in consideration for damages. These contracts do not contain provisions contemplating damages in the event Management Board members resign or are dismissed from their position without a valid reason except for severance pay distributed after the fulfillment of contractual prerequisites which include dismissal or release on account of the issuer undergoing a merger by way of acquisition.

In 2019, the PZU Group companies subject to consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Group Directors

A joint management model is in place at PZU and PZU Życie. Under this model, the positions of PZU Group Directors exist, the rules governing the establishment of which and the appointment to and dismissal from which are laid down in the Organizational Rules and Regulations of these companies. According to this model, the persons discharging the functions of Management Board members at PZU Życie are at the same time employed as directors of the PZU Group at PZU and are in charge of the same business structures and areas at PZU and PZU Życie. Similarly, PZU Management Board members may be simultaneously employed as PZU Group Directors in PZU Życie.

The following persons served as PZU Group directors in PZU in 2019:

- Aleksandra Agatowska (until 23 October 2019);
- Tomasz Karusewicz (until 30 April 2019);
- Bartłomiej Litwińczuk;
- Dorota Macieja;
- Roman Pałac.

The following persons served as PZU Group directors in PZU Życie in 2019:

- Adam Brzozowski (since 25 May 2019);
- Roger Hodgkiss (from 1 until 24 May 2019).

Below is the compensation or non-cash benefits paid or transferred in 2019 or 2018 to the current and former members of the PZU Management Board, PZU Group Directors and Supervisory Board members.

Compensation and other short-term employee benefits paid by PZU (PLN thous.)	1 January – 31 December 2018	including bonuses and special awards:	1 January – 31 December 2019	including part of variable compensation for 2017 and 2018
Management Board, of which:	**3,857**	**-**	**10,664**	**4,412**
Paweł Surówka	793	-	1,799	915
Aleksandra Agatowska	nd.	nd.	611	423
Adam Brzozowski	nd.	nd.	532	-
Marcin Eckert	nd.	nd.	672	-
Elżbieta Häuser-Schöneich	nd.	nd.	532	-
Tomasz Kulik	766	-	1,482	627
Maciej Rapkiewicz	766	-	1,733	879
Małgorzata Sadurska	766	-	1,543	689
Rodger Hodgkiss	766	-	1,760 [1]	879
High-level managers (PZU Group Directors), including	**1,451**	**11**	**3,530**	**2,034**
Aleksandra Agatowska	203	-	239	-
Tomasz Karusewicz	307	-	793 [2]	565
Bartłomiej Litwińczuk	307	-	821	482
Dorota Macieja	317	11 [3]	754	415
Roman Pałac	317	-	923	572
Management Board, of which:	**1,420**	**-**	**1,761**	**-**
Maciej Łopiński	169	-	184	-
Paweł Górecki	170	-	182	-
Alojzy Nowak	170	-	182	-
Marcin Chludziński	156	-	167	-
Agata Górnicka	156	-	167	-
Robert Jastrzębski	127	-	176	-
Tomasz Kuczur	nd.	nd.	101	-
Elżbieta Mączyńska – Ziemacka	nd.	nd.	101	-
Krzysztof Opolski	nd.	nd.	101	-
Robert Śnitko	156	-	167	-
Maciej Zaborowski	156	-	167	-
Katarzyna Lewandowska	157	-	66	-
Aneta Fałek	3	-	nd.	nd.

[1] Including non-competition fee of PLN 383 thousand and severance pay of PLN 192 thousand.
[2] Including non-competition fee of PLN 49 thousand and severance pay of PLN 77 thousand.
[3] Bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017.

Compensation and other short-term employee benefits paid by other PZU Group entities (PLN thous.)	1 January – 31 December 2018	including bonuses and special awards:	1 January – 31 December 2019	including part of variable compensation for 2017 and 2018
Management Board, of which:	**90**	**-**	**1,471**	**1,012**
Paweł Surówka	90 [1]	-	67	67
Aleksandra Agatowska	nd.	nd.	788	377
Marcin Eckert	nd.	nd.	48	-
Tomasz Kulik	-	-	298	298
Maciej Rapkiewicz	-	-	135	135
Roger Hodgkiss	-	-	135	135
High-level managers (PZU Group Directors), including	**2,206**	**6**	**3,831**	**1,946**
Aleksandra Agatowska	344	-	nd.	nd.
Tomasz Karusewicz	460	-	857 [2]	515
Bartłomiej Litwińczuk	460	-	979	471
Dorota Macieja	466	6 [3]	943	434
Roman Pałac	476	-	1,052	526

[1] Remuneration for the function of Pekao Supervisory Board Member discharged from 1 January to 20 June 2018.
[2] Including non-competition fee of PLN 74 thousand and severance pay of PLN 115 thousand.
[3] Bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017.

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2018	1 January – 31 December 2018
Management Board, of which:	**515**	**2,242**
Paweł Surówka	149	331
Aleksandra Agatowska	nd.	207
Adam Brzozowski	nd.	148
Marcin Eckert	nd.	200
Elżbieta Häuser – Schöneich	nd.	119
Tomasz Kulik	77	649 [1)]
Maciej Rapkiewicz	64	227
Małgorzata Sadurska	110	259
Rodger Hodgkiss	115	102
High-level managers (PZU Group Directors), including	**525**	**768**
Aleksandra Agatowska	111	nd.
Tomasz Karusewicz	89	143
Bartłomiej Litwińczuk	118	200
Dorota Macieja	78	197
Roman Pałac	129	228

[1)] Including PLN 473 thousand for the Advanced Management Program at Harvard Business School.

The Company does not have any pension liabilities or similar benefits to former managers, supervisors or former members of its administrative authorities or liabilities taken out in connection with these benefits.

9.9 Diversity policy applied to the Issuer's administrative, managing and supervising bodies

PZU is a company in which the State Treasury has a shareholding. Accordingly, the persons who sit in its managing bodies are selected in accordance with the statutory regulations applicable to these types of entities.

PZU employs best practices promulgating diversity and it cares about equal treatment for employees.

Respecting human rights is assigned special significance in HR policy when it comes to organizational culture. This involves counteracting mobbing and discrimination, offering equal opportunities to all employees regardless of their professional position in the PZU Group, sex, age, disability, race, religion, nationality, political convictions, union membership, ethnic origin, ethnic origin, denomination, sexual orientation, employment for a specified or unspecified term or on a full-time or part-time basis while respecting the right of assembly and the right to strike.

Respecting individuality, promulgating equal treatment and combating discrimination at work are accomplished in practice by supporting procedures and initiatives:

- countering mobbing – support is given by the Anti-mobbing Procedure contemplating the appointment of an Anti-mobbing Commission to investigate every report of improper conduct that may involve elements of mobbing;
- ensuring equal treatment in employment opportunities and counteracting discrimination – support is given by the "Report an Incident" procedure enabling employees to convey information pertaining to the breach of a rule through the intranet platform.

In addition, e-learning training entitled "Mobbing – legal and psychological aspects" is available to all employees. This training deals not just with mobbing but also discrimination and equal treatment in employment opportunities.

Additionally, elements pertaining to the psychological working environment are part of regular occupational safety and health training offered to employees and managers alike.

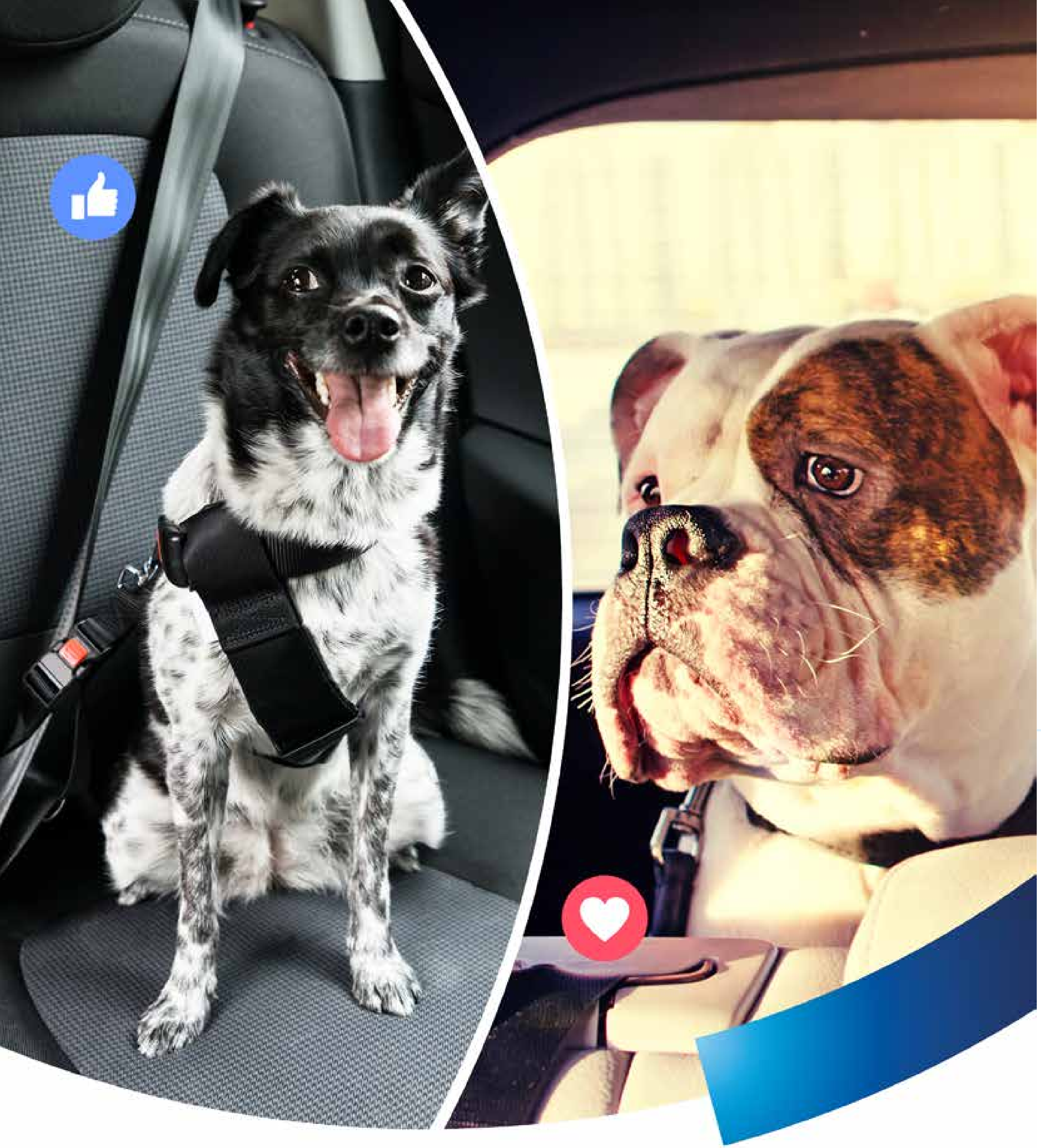
PZU provides its employees equal opportunities for development to enhance their skills, being promoted and compensation, while having regard for employees' individual potential, their accomplishments and work performance.

Respecting the personal dignity of employees is an important aspect of organizational culture.

Principles supporting diversity and equal treatment span all career stages in PZU, starting from the recruitment process to the duration of the employment relationship (employment terms, access to training and development-minded activities, opportunities to be promoted) to the termination of cooperation.

PZU confirmed its will to pursue a diversity policy by joining the signers of the Charter of Diversity in 2013.

As regards qualifications and requirements for those occupying positions in management and supervisory bodies, PZU in particular takes into account the criteria defined in the provisions of the Commercial Company Code of 15 September 2000, the Insurance and Reinsurance Activity Act of 11 September 2015 and the State Property Management Act of 16 December 2016. The criteria adopted by the legislator aim to ensure recruitment of people with the education and professional experience adequate to occupy management or supervisory positions in a company conducting insurance activity. Management Board and Supervisory Board members are selected for the new term of office in compliance with the principles of equal access of men and women to positions in the company's statutory bodies. The current composition of the governing bodies also addresses the need of age diversification among PZU Management Board and Supervisory Board members.



Like?

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Other

Representation of the Management Board of the Parent Company regarding the preparation of the standalone and consolidated financial statements and the activity report
According to the best knowledge of the PZU Management Board, the PZU Group's annual consolidated financial statements and the Issuer's annual financial statements and the comparable data have been prepared in compliance with the prevailing accounting standards and fairy, accurately and clearly reflect the assets and financial position of the PZU Group and of the Issuer and their financial results. According to the best knowledge of the PZU Management Board, the report on the activity of the PZU Group and PZU SA contains a fair picture of the growth, accomplishments and position of the PZU Group and the Issuer, including a description of the main threats and risks.

Cooperation with international public institutions
Under Solvency II PZU has the possibility of consulting the European Insurance and Occupational Pensions Authority (EIOPA).

PZU Group companies cooperate among others with the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund. EBRD acquired PLN 300 million in securities under the subordinated bond issue in 2017.

In 2018 Bank Pekao signed an agreement with the European Investment Fund pertaining to the portfolio guarantee line.

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

Information about significant executed agreements
In 2019 and 2018 no significant contracts were executed in respect of the Issuer's operations.

Related party transactions on terms other than on an arm's length basis
In 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
A Tax Group [Polish: Podatkowa Grupa Kapitałowa] was established under an agreement signed on 20 September 2017 by and between 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje, PZU Zdrowie SA, Tulare Investments sp. z o.o., Battersby Investments SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA (formerly: Omicron SA), Omicron Bis SA. The Tax Group has been established for a period of 3 years – from 1 January 2018 to 31 December 2020. PZU is the parent company representing the Tax Group.

Purchase of treasury shares in the financial year
Within its trading activity Bank Pekao enters into transactions on PZU shares and futures. As at 31 December 2019 Bank Pekao held 9,030 PZU shares. As at 31 December 2019 consolidated funds held 191 thousand PZU shares. PZU did not hold any treasury shares as at 31 December 2019.

Credits and loans extended and taken out
W ramach prowadzonej działalności inwestycyjnej w 2018 roku PZU SA, PZU Życie SA oraz fundusze zarządzane przez TFI PZU SA dokonały transakcji polegających na udzieleniu finansowania dłużnego w formie pożyczek i obligacji.

Under their investment activity in 2019 PZU, PZU Życie and the funds managed by TFI PZU executed transactions to extend debt financing in the form of loans and bonds.
Companies in the PZU Group extend loans to one another. The following loans were extended in 2019 to the issuer's related entities:
- loan agreement entered into by and between PZU Zdrowie and FCM Zdrowie Sp. z o.o. on 3 June 2019 for the amount of PLN 7 million maturing on 30 April 2024;
- loan agreement entered into by and between PZU Zdrowie and Tomma Diagnostyka Obrazowa SA on 9 December 2019 for the amount of PLN 61 million maturing on 31 October 2024;
- loan agreement entered into by and between PZU Życie and PZU Zdrowie on 17 October 2019 for the amount of PLN 195 million. The loan was disbursed on 6 December 2019. The loan maturity date is 31 October 2024;
- loan agreement entered into by and between PZU and PZU Zdrowie on 1 July 2019 for the maximum amount of PLN 95 million. The first tranche of the loan in the amount of PLN 30 million was disbursed on 6 December 2019. The loan maturity date is 30 May 2024;
- under the loan agreement entered into by and between PZU and PZU Zdrowie on 23 March 2015 and subsequent annexes thereto, on 29 May 2019 a tranche in the amount of PLN 75 million was disbursed. The loan maturity date is 31 December 2030.

Armatura Kraków SA chiefly funds its business using loans totaling PLN 63 million and maturing in 2021.

Granted and received guarantees and sureties
In 2019 and 2018 neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

Information regarding the off-balance sheet items as at the end of 2019 is set forth in Chapter 6.6 “Asset and liability structure”.

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

Rules of preparation
The Rules of preparing the annual consolidated financial statements have been described in the PZU Group's consolidated financial statements.

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

The PZU Group and the Issuer are in very good financial standing and satisfy all the safety criteria imposed by the legal regulations and the Polish Financial Supervision Authority.

The Issuer's positive 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 2019 and up to the date of preparation of this report on the activity of the PZU Group and PZU, there were no pending proceedings before court, a body competent to hear arbitration proceedings or a public authority body concerning liabilities or receivables of PZU or a direct or indirect subsidiary thereof whose unit value would be material except for the issues described in the PZU Group's consolidated financial statements and PZU's financial statements for 2019.

As at 31 December 2019, the total value of all the 294,687 cases pending before courts, competent bodies for arbitral proceedings or public administration authorities to which PZU Group entities are a party was PLN 8,363 million (of which PZU was a party to 200,676 cases with a total value of PLN 3,542 million). PLN 4,293 million of that amount pertains to liabilities and PLN 4,070 million to the accounts receivable of PZU Group companies (of which PLN 3,019 million pertains to liabilities and PLN 523 million to accounts receivable of the Issuer).

This Report on the Activity of the PZU Group and PZU for 2019 has 241 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, 11 March 2020

Nie palę - gaszę

11.

Appendix: PZU Group's financial data

Appendix: PZU Group's financial data

Basic amounts of the consolidated profit and loss account (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	18,359	20,219	22,847	23,470	24,191
Net earned premiums	17,385	18,625	21,354	22,350	23,090
Revenue from commissions and fees	243	740	2,312	3,355	3,279
Net investment income	1,739	3,315	7,921	9,895	11,340
Net claims and benefits	(11,857)	(12,732)	(14,941)	(14,563)	(15,695)
Acquisition costs	(2,376)	(2,613)	(2,901)	(3,130)	(3,363)
Administrative expenses	(1,658)	(2,923)	(5,357)	(6,609)	(6,606)
Interest expenses	(117)	(697)	(1,350)	(2,046)	(2,129)
Other operational revenues and expenses	(419)	(724)	(1,580)	(2,165)	(2,832)
Operating profit (loss)	2,940	2,991	5,458	7,087	7,084
Share in net profit (loss) of entities measured using the equity method	4	(3)	16	(1)	(4)
Gross profit (loss)	2,944	2,988	5,474	7,086	7,080
Net profit (loss), including:	2,343	2,374	4,185	5,368	5,185
Shareholders' profit (loss)	2,343	1,935	2,895	3,213	3,295
Minority profit (loss)	-	439	1,290	2,155	1,890
Basic and diluted weighted average number of ordinary shares*	863,523,000	863,510,930	863,519,608	863,347,220	863,285,340
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	2.71	2.24	3.35	3.72	3.82
Net profit of PZU (Issuer)	2,249	1,573	2,459	2,712	2,651
Basic and diluted Issuer's profit per ordinary share (in PLN)	2.60	1.82	2.85	3.14	3.07

*including shares in consolidated funds
Dane as at 31 December 2015-2018 restated

Assets (PLN million)	2015	2016	2017	2018	2019
Intangible assets	1,393	1,463	3,443	3,180	3,096
Goodwill	1,532	1,583	3,830	3,871	4,053
Property, plant and equipment	1,300	1,467	3,287	3,184	4,226
Investment property	1,172	1,738	2,355	1,697	1,981
Entities measured using the equity method	54	37	20	17	11
Loan receivables	30,254	44,998	169,457	182,054	194,868
Derivatives	1,113	953	2,351	2,487	3,107
Financial assets	57,862	59,335	110,046	101,665	111,416
Receivables	3,350	5,664	9,096	6,343	5,737
Reinsurers' share in technical provisions	1,097	990	1,250	1,512	1,856
Deferred tax assets	369	641	1,590	2,234	2,313
Deferred acquisition costs	1,154	1,407	1,485	1,546	1,574
Other assets	801	866	692	562	734
Cash and cash equivalents	2,440	2,973	8,239	17,055	7,788
Assets held for sale	1,506	1,189	317	1,147	580
Total assets	**105,397**	**125,304**	**317,458**	**328,554**	**343,340**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Equity (PLN million)	2015	2016	2017	2018	2019
Share capital	86	86	86	86	86
Supplementary capital	9,947	10,758	11,824	12,660	13,113
Revaluation reserve	241	106	157	(65)	294
Actuarial profits and losses related to provisions for employee benefits	(4)	3	4	-	1
Own shares	-	(1)	-	(11)	(7)
Other reserve capital	-	5	5	18	(324)
Exchange differences	(42)	(2)	(73)	(36)	(41)
Retained profits (losses)	353	100	(299)	(940)	(248)
Net profit (loss)	2,343	1,935	2,895	3,213	3,295
Appropriations on net profit during the financial year	-	-	-	-	-
Minority interest	2,194	4,067	22,961	22,482	23,119
Total equity	**15,118**	**17,057**	**37,560**	**37,407**	**39,288**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Liabilities (PLN million)	2015	2016	2017	2018	2019
Technical provisions	41,280	42,194	44,558	45,839	47,329
Unearned premium and unexpired risk reserve	5,856	7,076	8,008	8,525	8,885
Life insurance provisions	16,222	15,928	16,060	16,204	16,346
Outstanding claims provisions	8,264	8,272	8,898	9,690	10,298
Provision for annuities	5,808	5,673	5,776	5,981	5,999
Provisions for bonuses and discounts for the insured	2	5	14	7	9
Other technical provisions	384	323	287	256	214
Unit-linked technical provisions	4,744	4,917	5,515	5,176	5,578
Provisions for employee benefits	117	128	556	531	534
Other provisions	108	367	497	519	867
Deferred tax liability provision	509	469	638	486	734
Financial liabilities	44,695	60,045	224,550	236,316	246,490
Other liabilities	3,570	5,011	9,096	7,407	8,069
Liabilities directly associated with assets qualified as held for sale	-	33	3	49	29
Total liabilities	**90,279**	**108,247**	**279,898**	**291,147**	**304,052**
Total equity and liabilities	**105,397**	**125,304**	**317,458**	**328,554**	**343,340**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Appendix: PZU Group's financial data

One-off events in PZU Group -impact on gross result (PLN million)	2015	2016	2017	2018	2019
Provision for the reimbursement of fees on the premature amortization of consumer loans (TSUE)	-	-	-	-	(272)
Revaluation of reserves for claims for compensation for vegetative states	-	-	-	(148)	-
Higher than the average of the last 3 years, the level of damage caused by atmospheric phenomena (storms)	-	-	(170)	-	-
Conversion effect (IAS)	75	40	35	17	14
Gain on acquisition of the spun-off part of Bank BPH	-	465	-	-	-
Restructuring reserve in Alor Bank	-	(268)	-	-	-
Effect of Alior Bank consolidation	(176)	-	-	-	-
Agricultural insurance claims higher than the average of the last 3 years	-	(237)	-	-	-
Update of assumptions concerning future payments applied in the calculation of reserves	-	216	-	-	-
Result of the sale of PZU Lithuania	165	-	-	-	-

	Operational efficiency ratios	2015	2016	2017	2018	2019
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	66.9%	63.7%	67.3%	63.8%	66.5%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100	68.2%	68.4%	70.0%	65.2%	68.0%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	23.3%	22.5%	21.1%	21.4%	22.3%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.1%	14.3%	14.0%	14.5%	15.1%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	9.2%	8.3%	7.2%	6.9%	7.2%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	94.5%	94.9%	89.6%	87.1%	88.5%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	22.3%	25.3%	19.3%	21.3%	20.5%
8.	**Cost/Income ratio** - banking operations	-	44.4%	48.0%	42.3%	40.8%

Appendix: PZU Group's financial data

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	1,779	2,174	2,738	3,097	3,316
Net earned premiums	1,477	1,641	2,005	2,326	2,476
Investment income	121	115	85	113	100
Insurance claims	(871)	(1,062)	(1,323)	(1,591)	(1,610)
Acquisition costs	(288)	(361)	(425)	(477)	(519)
Administrative expenses	(127)	(125)	(137)	(131)	(131)
Reinsurance commission and share in profits	16	21	27	39	43
Other	(18)	-	(41)	(11)	(32)
Insurance profit	**310**	**229**	**191**	**268**	**327**
Acquisition costs ratio (including reinsurance commission)*	18.4%	20.7%	19.9%	18.8%	19.2%
Administrative expenses ratio*	8.6%	7.6%	6.8%	5.6%	5.3%
Claims ratio*	59.0%	64.7%	66.0%	68.4%	65.0%
Combined ratio (COR)*	86.0%	93.1%	92.7%	92.9%	89.5%

* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	7,364	8,833	10,068	10,401	10,403
Net earned premiums	6,793	7,836	9,513	10,168	10,261
Investment income	518	517	482	526	481
Insurance claims	(4,441)	(5,275)	(6,069)	(6,171)	(6,410)
Acquisition costs	(1,383)	(1,551)	(1,745)	(1,890)	(1,986)
Administrative expenses	(665)	(634)	(608)	(594)	(651)
Reinsurance commission and share in profits	(14)	(14)	(9)	(6)	3
Other	(150)	(220)	(237)	(308)	(249)
Insurance profit	**658**	**659**	**1,327**	**1,725**	**1,449**
Acquisition costs ratio (including reinsurance commission)*	20.6%	20.0%	18.4%	18.6%	19.3%
Administrative expenses ratio*	9.8%	8.1%	6.4%	5.8%	6.3%
Claims ratio*	65.4%	67.3%	63.8%	60.7%	62.5%
Combined ratio (COR)*	95.7%	95.4%	88.6%	85.2%	88.1%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – group and individually continued insurance (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	6,689	6,775	6,855	6,891	6,966
Group insurance	4,753	4,829	4,878	4,887	4,940
Individually continued insurance	1,936	1,946	1,977	2,004	2,026
Net earned premiums	6,691	6,776	6,854	6,890	6,965
Investment income	602	680	720	581	668
Insurance claims and change in other technical provisions net	(4,718)	(4,686)	(5,142)	(4,931)	(5,057)
Acquisition costs	(356)	(329)	(332)	(349)	(388)
Administrative expenses	(577)	(585)	(587)	(604)	(640)
Other	(67)	(71)	(63)	(44)	(51)
Insurance profit	**1,575**	**1,785**	**1,450**	**1,543**	**1,497**
Insurance profit excluding conversion effect	**1,500**	**1,745**	**1,415**	**1,526**	**1,483**
Insurance profit excluding one-off events	**1,500**	**1,529**	**1,415**	**1,526**	**1,483**
Acquisition costs ratio*	5.3%	4.9%	4.8%	5.1%	5.6%
Administrative expenses ratio*	8.6%	8.6%	8.6%	8.8%	9.2%
Insurance profit margin (excl. conversion effect)	22.4%	25.8%	20.6%	22.1%	21.3%
Insurance profit margin**	22.4%	22.6%	20.6%	22.1%	21.3%

* ratios calculated with gross premium written
** (excl. one-off events)

Data from the profit and loss account – individual insurance (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	1,234	1,174	1,664	1,346	1,581
Net earned premiums	1,234	1,174	1,662	1,344	1,579
Investment income	251	288	419	59	548
Insurance claims and change in other technical provisions net	(1,091)	(1,043)	(1,672)	(976)	(1,640)
Acquisition costs	(123)	(107)	(135)	(126)	(139)
Administrative expenses	(60)	(59)	(61)	(69)	(72)
Other	(5)	(9)	(4)	(5)	(5)
Insurance profit	**206**	**244**	**209**	**227**	**271**
Acquisition costs ratio*	10.0%	9.1%	8.1%	9.4%	8.8%
Administrative expenses ratio*	4.9%	5.0%	3.7%	5.1%	4.6%
Insurance profit margin*	16.7%	20.8%	12.6%	16.9%	17.1%

* ratios calculated with gross premium written

Data from the profit and loss account – investment contracts (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	141	86	44	40	35
Group insurance	3	3	2	2	1
Individual insurance	138	83	42	38	34
Net earned premiums	141	86	44	40	35
Investment income	16	18	18	(14)	16
Insurance claims and change in the balance of other technical provisions net	(136)	(89)	(50)	(15)	(42)
Acquisition costs	(10)	(4)	(1)	(1)	-
Administrative expenses	(9)	(9)	(7)	(5)	(4)
Other	(1)	-	-	(2)	-
Insurance profit	**1**	**2**	**4**	**3**	**5**
Profit margin*	0.7%	2.3%	9.1%	7.5%	14.3%

* ratios calculated with gross premium written

Data from the profit and loss account – banking activity (PLN million)	2015	2016	2017	2018	2019
Revenue from commissions and fees	-	547	2,133	3,115	3,146
Investment income	-	1,923	5,925	8,861	9,014
Interest costs	-	(605)	(1,249)	(1,904)	(2,013)
Administrative expenses	-	(1,290)	(3,743)	(4,989)	(4,850)
Other	-	73	(627)	(1,047)	(1,799)
Total	**-**	**648**	**2,439**	**4,036**	**3,498**

Data from the profit and loss account – pension segment (PLN million)	2015	2016	2017	2018	2019
Investment income	7	5	6	5	6
Other revenues	119	110	128	149	142
Administrative expenses	(40)	(41)	(44)	(40)	(43)
Other revenues	(4)	-	(3)	(7)	(4)
Operating profit (loss)	**82**	**74**	**87**	**107**	**101**

Data from the profit and loss account – Ukraine segment (PLN million)	2015	2016	2017	2018	2019
Gross written premiums	169	210	223	257	335
Net earned premiums	103	109	123	152	217
Investment result	41	23	18	19	33
Net insurance claims	(74)	(54)	(56)	(59)	(81)
Acquisition costs	(47)	(60)	(69)	(82)	(118)
Administrative expenses	(21)	(24)	(23)	(25)	(31)
Other	10	21	18	18	19
Insurance profit	**12**	**15**	**11**	**23**	**39**
Exchange rate UAH/PLN	0.1722	0.1542	0.1402	0.1330	0.1502
Acquisition costs ratio*	45.6%	55.0%	56.1%	53.9%	54.4%
Administrative expenses ratio*	20.4%	22.0%	18.7%	16.4%	14.3%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – Baltic states segment (PLN million)	**2015**	**2016**	**2017**	**2018**	**2019**
Gross written premiums	1,193	1,183	1,404	1,592	1,713
Net earned premiums	1,109	1,104	1,248	1,480	1,600
Investment result	22	23	20	2	38
Net insurance claims	(687)	(694)	(773)	(905)	(989)
Acquisition costs	(253)	(251)	(275)	(317)	(335)
Administrative expenses	(147)	(110)	(111)	(125)	(133)
Other	-	-	-	3	4
Insurance profit	**44**	**72**	**109**	**138**	**185**
Exchange rate EUR/LTL in PLN	4.1848	4.3757	4.2447	4.2669	4.3018
Acquisition costs ratio*	22.8%	22.7%	22.0%	21.4%	20.9%
Administrative expenses ratio*	13.3%	10.0%	8.9%	8.4%	8.3%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	**2015**	**2016**	**2017**	**2018**	**2019**
Total	**610**	**(515)**	**88**	**(390)**	**333**

Restated data for 2015-2018

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 insurance-based investment products

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

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

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

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

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

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

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

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

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

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

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

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

spread – the difference between the purchase and sale price of a given financial instrument

risk-free rate – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments

sum insured – amount in cash for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability

TSR (Total Shareholder Return) – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year. It is expressed as a percentage on an annualized basis

ICP – Insurance Capital Fund, a separate asset fund constituting a provision created from insurance premiums, invested in the manner specified in the insurance contract, a component of life insurance with an insurance capital fund (ICP), also referred to as an investment policy

Statutory Auditor Act – Act z 7 May 1999 roku on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Dz. U. 2009 nr 77 poz. 649 z późn zm.)

UOKiK – Office of Competition and Consumer Protection. The shaping of anti-monopoly policy and consumer protection policy is one of the powers of the President of the Office of Competition and Consumer Protection, inter alia, by conducting anti-monopoly proceedings in cases of practices limiting competition and in cases of practices violating the collective interests of consumers, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844, as amended), with most regulations in force as of 1 January 2016. This Actintroduced Solvency II requirements in the Polish legal system

up-selling – commercial technique involving the offering and selling of additional higher-priced and higher standard services to a current client

venture capital – medium and long-term investments in privately-held businesses in their early stage of development combined with managerial support, conducted by specialized entities (venture capital funds). The purpose of venture capital investments is to generate a profit ensuing from the incremental growth in the value of a business by selling its stock after the elapse of a specific period

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

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

solvency ratio – statutory multiple (under Solvency II) specifying the level of capital security for the operations conducted by an insurer; by law this multiple should be higher than 100%

leverage ratio of PZU Group - quotient of the debt from long-term financial liabilities (excl. bank deposits, deposit certificates and credit received in connection with the preferential financing of loans) and the sum of: debt from long-term financial liabilities and PZU Group's equity less: the value of intangible assets, deferred acquisition costs and deferred tax assets, which have been presented in consolidated financial statements of PZU Group.

prudent person principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk

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.