

2020

Management Board's report on the activity
of the PZU Group and PZU SA
for the accounting year ended
31 December 2020





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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 nonfinancial 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





Beata Kozłowska-Chyła
President of the PZU Management Board

Dear Shareholders,

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

The past year was a huge unknown for the entire economy. Uncertainty in businesses and households triggered by the avalanche-like spread of coronavirus and the enactment of business restrictions in many industries led to a marked decline in economic activity. The year of the pandemic meant many challenges for the PZU Group companies. Even though they were difficult to anticipate, they did not form an obstacle to development. Rather they served as a driving force to introduce more dynamic change. By taking this approach to business the

PZU Group retained its strong position as the leader in financial services and the insurer crafted a new strategy for upcoming years.

High profitability and good client relations

The PZU Group's capital position continues to be strong. Return on equity attributable to the parent company in 2020 was 10.9%, which surpassed the levels generated by the entire market and our main competitors according to data for the first three quarters of 2020. The high level of profitability was also maintained. The PZU Group's combined ratio in non-life insurance in 2020 was 88.2%, 0.3 p.p. better than in 2019, the margin in group and individually continued insurance

was close to 20%, while the return on our investment portfolio consistently outpaces market rates.

Although the PZU Group's 2020 financial results were burdened by the effects of the COVID-19 pandemic, the companies did however jointly retain their leadership position on the financial services market. Net of the banking business, the result attributable to the equity holders of the parent company was 11.7% versus 2019. Gross written premium totaled PLN 23,866 million. This result is of special importance to us because it confirms that we do enjoy the trust of clients who entrust their assets and savings as well as their health and lives to us. There is no doubt that the determination shown by all of the PZU Group employees in their actions and their conscientiousness in performing their daily duties in the demanding reality of the pandemic bore fruit in the form of good relations with clients.

The newest technologies to serve clients

As the leader in digital transformation that continues to draw upon the newest technologies and consistently rolls them out, we focused on accelerating the digitalization of our products and services and migrating many processes to remote channels during the pandemic to afford our clients a high degree of safety when taking advantage of our offering. The utilization of artificial intelligence, among others, gave clients and employees alike the maximum level of service comfort in this trying time, while at the macro scale it contributed to the development of the overall economy by setting new market trends. Remote forms of sales and claims handling have become widespread, the process of digitization in health protection has accelerated and the role played by telemedicine has grown considerably. Its development is currently the most important trend.

In the health segment we have given an excellent response to patients' new needs by rolling out multiple innovative solutions to serve them in making quick, effective and remote diagnoses. This consists of extending e-offerings and e-benefits and developing the myPZU portal where the option has been added to authenticate identity remotely using the myID and mCitizen apps without having to visit a branch. These are innovative projects that have lent support to the offer in health and have led to greater interest in this offer. The increase in gross written premium in the group and individually continued insurance

segment in 2020 was caused by the acquisition of more contracts in health insurance. New clients in ambulatory insurance and higher sales of health products at the end of 2020 gave the PZU Group a portfolio of more than 2.8 million in force contracts of this type.

New sustainable development challenges

The challenges the pandemic has brought have released enormous layers of energy and creativity in us whereby we have found a host of new solutions and we are dynamically developing all of the areas of our business. We will face the additional challenges we have included in the new strategy. The priorities in the upcoming years will include the following: ensuring business growth, doing business in a sustainable manner while adhering to ESG standards, providing shareholders with above-average rates of return and an attractive stream of dividends.

I am confident that with the support of the Supervisory Board and the commitment of all of our employees we will achieve our targets. I thank you for your trust.

Respectfully,

Beata Kozłowska-Chyła, PhD Hab.

President of the PZU Management Board





Maciej Łopiński
Chairman of the PZU Supervisory Board

Dear Stakeholders,

The global coronavirus pandemic meant that 2020 required for business to demonstrate exceptionally effective management and efficient adjustment to new market conditions. The PZU Group utilized this time to grow dynamically while simultaneously maintaining a high level of safety in its business. It ended the year of the pandemic among the groups reporting the highest solvency ratios in the world. It discharged other obligations in addition to its

business objectives. It accomplished an important social goal by getting involved in the fight against the COVID-19 pandemic.

The PZU Group's financial results place it among the most profitable financial institutions in Poland. Its high asset utilization and solvency ratios place it among the best in the world. The American rating agency, namely S&P Global Ratings recognized in Q2 2020 that the PZU Group would maintain its leading business position in Poland, strong

capital position and stable results on insurance activity whereby it would be capable of surviving any further potential deterioration in the business environment. This was reflected by affirming PZU's financial rating of A- and its outlook as stable.

Thus the PZU Group is strengthening its position despite the exceptionally demanding market situation precipitated by the pandemic and several interest rate cuts. Poland's GDP slumped 2.8% in 2020 while back in Q1 when the country was just beginning to prep for the onslaught of the coronavirus it had climbed 1.9% versus the previous year. The isolation that protected Poles' health while simultaneously restricting their mobility led to a 3% decline in household consumption at the end of 2020 accompanied by the concurrent 3.4% increase in the consumer price index. Registered unemployment in Poland according to the data published by the Central Statistics Office remained at the low level of 6.2% at the end of 2020, though it was up 0.4% from the level seen in early Q2 when Poland embarked on its battle against the pandemic.

The economic effects of the pandemic were markedly attenuated by governmental support programs. Then allowed businesses to preserve their operational continuity and keep employment at a constant level. The PZU Group, in particular its constituent banks played an enormous role in the transfer of government aid to businesses. That was why pessimistic scenarios did not materialize that had anticipated unemployment skyrocketing into a double digits.

On top of risk the pandemic also brought a new perspective. The restrictions placed on the operations of many industries, the shift companies made towards remote work and the lower mobility of consumers decisively accelerated digital transformation and the deployment of advanced technologies in products and services in the insurance and banking sector. Digitization will therefore be crucial for the PZU Group's further development. In the longer run the pandemic may also enhance the need to take out insurance against the consequences of events that are difficult to predict. The health segment stands out in terms of its huge growth potential and fast pace of growth. Telemedicine has gained a particular amount of popularity with such progress in digitization in health protection. It makes it possible to give a remote

diagnosis and thus without having to engage in personal contact with a physician.

The PZU Group is adjusting its products and services to clients' evolving needs. During the pandemic they require above average support. In 2020 the PZU Group also focused on charitable assistance given to the health service and patients grappling with COVID-19. In total, the companies belonging to the PZU Group donated more than PLN 25 million for that noble goal. This was a great act of solidarity. We have gained absolute certainty that as a Group we are capable of combining forces to help weaker people. I am genuinely proud of the PZU Group's employees who personally got involved in charitable campaigns to mitigate the effects of this disease as it spread. They proved that together they are capable not only of building the company's strong business position but also of uniting efforts to help the most needy. I am enormously grateful for that.

More challenges reflected in the new business strategy in 2021-2024 already await the PZU Group. One of its priorities will be to conduct its business in accordance with environmental, social and governance standards. I am confident that the PZU Group will play a crucial role in sustainable development efforts.

I wish the management teams of the companies belonging to the PZU Group and all of the employees good luck in pursuing the ambitious targets and generating above-average rates of return for shareholders.

Respectfully,

Maciej Łopiński

PZU Supervisory Board Chairman

22 million

clients in five countries

#1

largest insurance and banking group in CEE

100%

most recognizable brand in Poland*

STRONG BALANCE SHEET

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

86.3%
INSURANCE

investment and pension products



5.2%
INSURANCE



7.2%
BANKING



1.3%
INSURANCE



Baltic States

Poland

Ukraine

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

* Assisted recognition of the PZU / PZU Życie brand, study by the GfK Polonia institute, 2020

Recup of 2020 results

Gross written premium

PLN 23.9 bn

-1.3%



Net insurance claims and benefits

PLN 15.6 bn

-0.7%



Net profit (parent company)

PLN 1.9 bn

-42.0%



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

10.9%¹

/17.9% / 22.5%
2020
(10.3) p.p. vs.
2019

>22%

2020 target

Solvency II

257%²

3 Q 2020
+12 p.p. vs. 2019

>200%

2020 target

Dividend

Dividend
Payout Ratio **0%**
DPS PLN 0
2019³

**Dividend Payout Ratio
50% - 80%**

2020 target

Green PZU

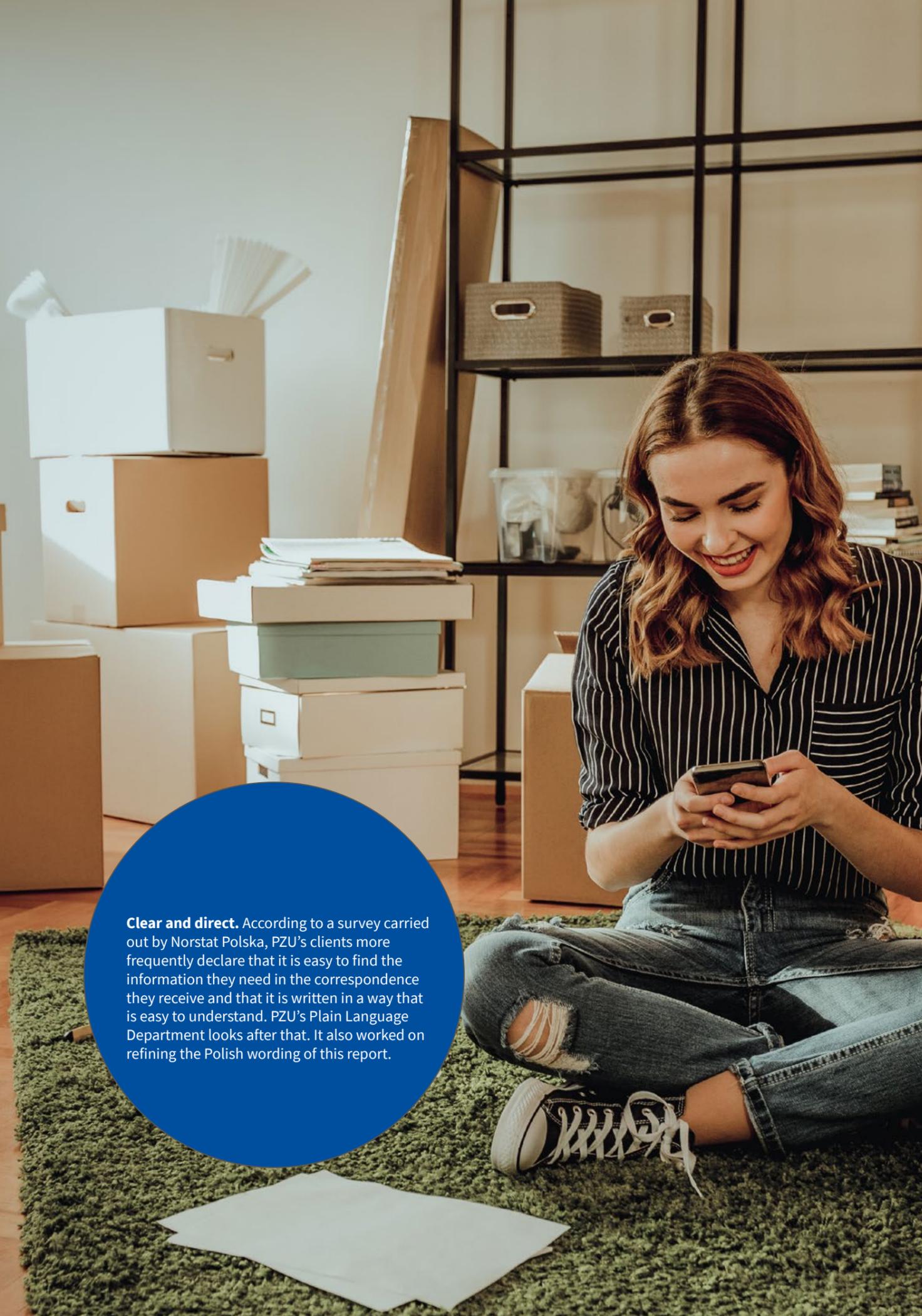


**Implementation of
„Green PZU” Standard**

2020 target

¹ ROE reported / profit and equity adjusted for the impairment loss on assets related to banks acquisitions in the amount of PLN 1,343 million / profit and equity adjusted for the impact of COVID-19 calculated in CHAPTER 6.9 Impact of the COVID-19 pandemic on the PZU Group's results and the Issuer's results; additionally, equity adjusted by PLN 2,636 million (80% of the consolidated profit for 2019, which was not paid in the form of dividend)² KNF (the regulatory authority) expected that in 2020 insurance companies retain the entirety of profit earned in previous years. That stance the KNF expressed on 26 March 2020 in a letter sent to insurance and reinsurance companies

² Data not audited or reviewed by a statutory auditor
³ KNF (the regulatory authority) expected that in 2020 insurance companies retain the entirety of profit earned in previous years. That stance the KNF expressed on 26 March 2020 in a letter sent to insurance and reinsurance companies indicated the situation involving the epidemic announced in Poland and its possible further adverse economic consequences as well as expected adverse impact on the insurance sector.
Dividend payout ratio and dividend per share (DPS) for the preceding 3 years were as follows: 62.5%, PLN 1.40 (2016); 74.6%, PLN 2.50 (2017); 75.3%, PLN 2.80 (2018).



1.

PZU Group Overview

PZU is much more than insurance. We focus all PZU Group's activities around the client: non-life and health insurance, medical and assistance services, banking, investments and pension funds. Our client relationships, based on the best satisfaction of client needs and expectations, are our main value.

Clear and direct. According to a survey carried out by Norstat Polska, PZU's clients more frequently declare that it is easy to find the information they need in the correspondence they receive and that it is written in a way that is easy to understand. PZU's Plain Language Department looks after that. It also worked on refining the Polish wording of this report.

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. Its stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its stock exchange debut PZU has been part of WIG20, an index of the Warsaw Stock Exchange's largest companies. It is one of the most highly valued companies and heavily traded stocks on the Polish stock exchange. Since 2019, PZU's shares have been also part of the WIG ESG (sustainability) index.

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

The PZU Group's consolidated assets total PLN 379 billion. The Group enjoys the trust of 22 million clients in five countries. It offers products and services to retail clients, small and medium enterprises and big business entities. Poland is the PZU Group's core market measured by its magnitude scale of operations and client numbers. Nevertheless, the Group's subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

The Group companies offer not only in life, non-life and health insurance but also in banking, investment, pension and health care products. They also render assistance services to retail clients and businesses through strategic partnerships. The Group's operations are founded on clients' trust.

It is the Group's strategic ambition to build long-lasting relations with both retail and business clients and care for their future. This is supported by integration of all areas of operations around the client. 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 client expectations in a comprehensive and flexible manner. The key elements of this process are tools rooted in artificial intelligence, big data and mobile solutions that contribute to building an entrenched technological advantage in integrated client service.

The execution of the strategy is underpinned by the most recognizable insurance brand in Poland. According to surveys, spontaneous recognition of the PZU brand stands at 90% while assisted recognition is 100%.

Among all insurers operating in Poland PZU offers its clients the largest sales and service network. It has 410 branches, 9.9 thousand tied agents and agencies, 3.2 thousand multiagencies, nearly 1.1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 13 banks and 21 strategic partners.

In addition, the PZU Group's clients in Poland have access to Bank Pekao's distribution network (713 branches) and Alior Bank's distribution network (674 branches, including 180 traditional branches, 7 Private Banking branches, 13 Regional Business Centers and 474 partner centers). Both banks have professional call centers and mobile and internet banking platforms.

In the Baltic States where the PZU Group is in the insurance business, its distribution network consists of over 700 agents, 18 multiagencies and 400 brokers. PZU also cooperates with 7 banks and 42 strategic partners in these countries. In Ukraine insurance products are distributed through approximately 400 agents and in cooperation with over 20 multiagencies, nearly 40 brokers, 9 banks and 2 strategic partners.

We manage our business responsibly

Operating at a large scale PZU is cognizant of the expectations various stakeholder have of it, including clients, employees, investors, partners, industry experts, institutions and organizations, and the entire general public. Therefore, in doing business and in its relations with the stakeholders, it is guided by sustainable development principles. It is a company that is open to social expectations. It strives to set trends and construe business solutions responsibly. It also gets involved in social actions, including those benefiting the local communities in which the Group's clients and employees function. For the PZU Group, sustainable management is

a deliberate choice which makes 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 sustainable development principles that also incorporates all the legally-required non-financial information can be found in the 2020 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



We cultivate a culture of ethics and compliance



We manage our environmental impact in a deliberate manner

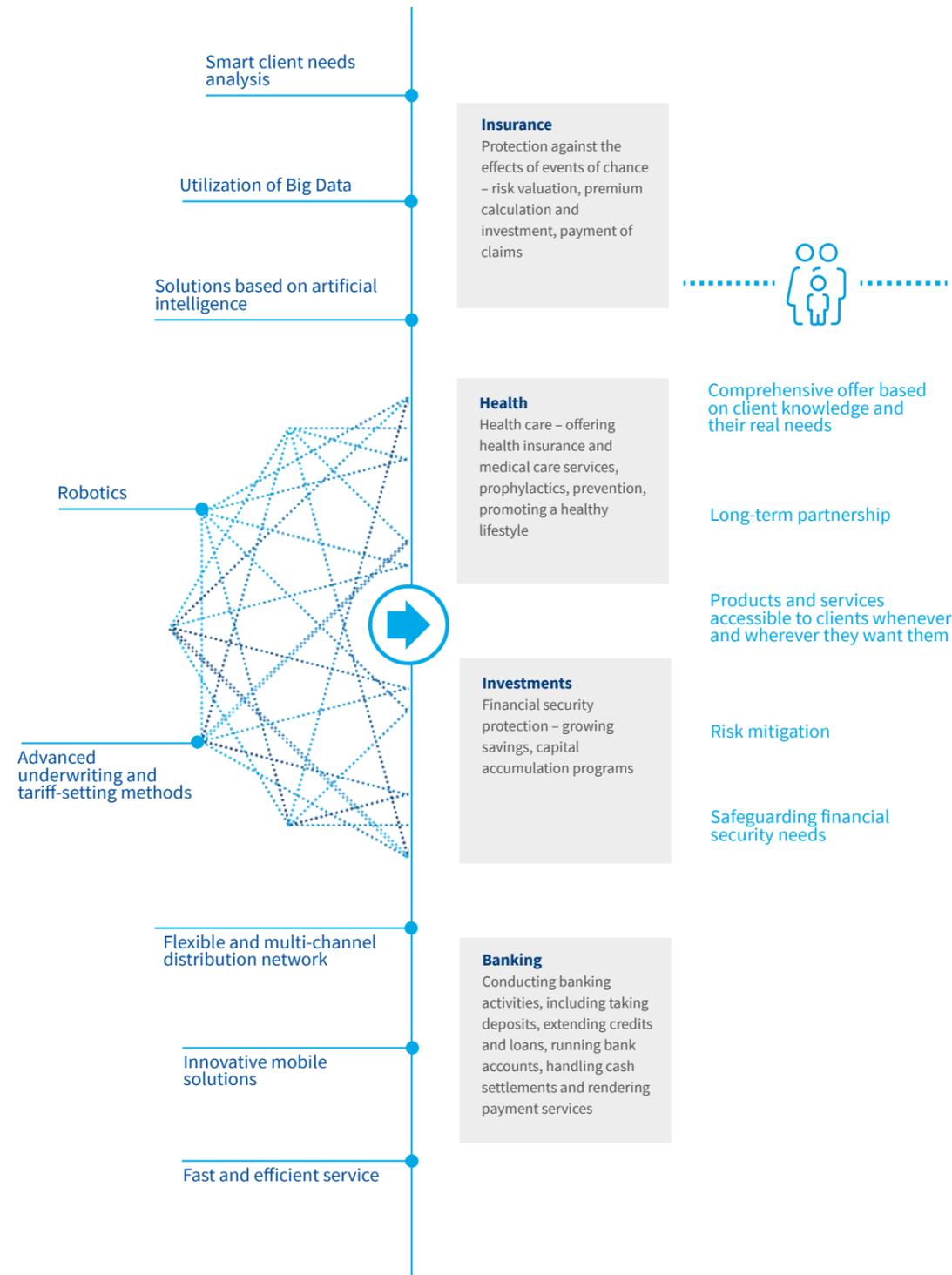
The Group's value growth should be aligned to the needs of the environment and rely on sustainable and responsible resource utilization

We follow these values in our actions



INNOVATION creates new value for PZU Group's clients

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



Key operating areas

Insurance – for many years the PZU Group has provided insurance cover in all of the most important areas of private, public and business life, thereby safeguarding its clients' lives, assets and health. PZU (non-life insurance, including motor, residential and buildings, agricultural and third party liability insurance) and PZU Życie (life insurance) are the leaders on Poland's insurance market. Since 2014, after the acquisition of LINK4, the Group has been offering insurance under two brands: the most recognizable PZU brand, with its 200-year tradition, and the much younger LINK4 brand, associated with direct sales channels. In 2015 the third brand, TUW PZUW, or Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych, a mutual insurer, was founded to sell and handle insurance products for companies in various industries, focusing on cooperation with large corporates, medical entities (hospitals and clinics) as well as for church institutions and local government units.

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

Poland is the Group's core market, where it generates 92 % of its revenue (measured by gross written premium). The insurance activity in the Baltic States 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 health care services rendered.

The PZU Zdrowie network has 130 own and approximately 2,200 partner centers. Its advantages include quick appointments, respecting referrals for tests from physicians from outside the PZU Zdrowie network, remote medical consultations which make it possible, in addition to obtaining medical advice or discussing test results, to receive a prescription or referral to tests. The offer is supplemented by prevention services



CLIENT

Investments – The PZU Group is one of the largest asset managers on the Polish market.

It is also the market leader in employee pension schemes.



The PZU Investments brand offers an extensive range of investment products: open and closed-end mutual funds and pension products, open-end pension funds, individual retirement accounts (IRA), individual retirement security accounts with a voluntary pension fund, employee pension schemes (EPS) and employee capital schemes (ECS). PZU TFI also invests the PZU Group's own funds.

The PZU Group owns three mutual fund management companies: PZU TFI, Pekao TFI and Alior TFI. It also has Powszechne Towarzystwo Emerytalne PZU managing the PZU Złota Jesień Open-end Pension Fund



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

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

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

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

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

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

2020	13.3
2019	13.7
2018	13.5
2017	12.8
2016	11.0

Combined ratio - COR

2020	88.4%
2019	88.4%
2018	86.6%
2017	89.3%
2016	95.0%

Life insurance in Poland

Gross written premium (PLN billion)

2020	8.7
2019	8.5
2018	8.2
2017	8.5
2016	7.9

Group and continued insurance operating margin*

2020	19.7%
2019	21.3%
2018	22.1%
2017	20.6%
2016	25.8%

HEALTH

Revenues (m PLN)

2020	446	503	949
2019			844
2018			575
2017			456
2016			364

■ Health care companies ■ Health insurance and subscriptions

EBITDA margin

2020	11.8%
2019	10.4%
2018	8.8%
2017	8.2%
2016	7.2%

Number of agreements (m)

2016	1.3
2017	1.5
2018	2.3
2019	2.7
2020	2.8

Cooperating centers

2016	1.8
2017	2.0
2018	2.1
2019	2.2
2020	2.2

INVESTMENTS

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

2016	27.0
2017	30.6
2018	29.4
2019	30.9
2020	31.6

Net result on asset management of TFI PZU and PTE PZU (PLN m)

2020	75
2019	93
2018	97
2017	95
2016	84

Assets of TFI Pekao clients (PLN bn)

2016	16.8
2017	18.4
2018	19.4
2019	21.6
2020	19.3

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

2020	103
2019	126
2018	90
2017	81
2016	74

BANKING

Banking assets in the PZU Group (PLN bn)

2016	61
2017	255
2018	264
2019	280
2020	312

ROE (return on equity)

2016	11.9%
2017	7.4%
2018	11.7%
2019	10.1%
2020	-4.6%

— Pekao — Alior Bank

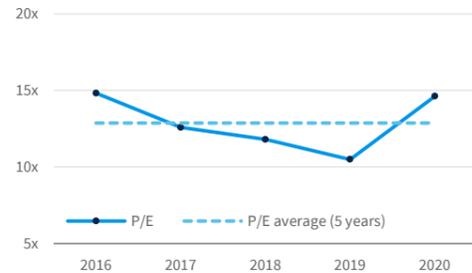
Contribution of banking activity to net profit attributable to the parent company (PLN m)*

2020	-1,194	3,106
2019	2,780	515
2018	2,559	654
2017	2,502	393
2016	1,754	181

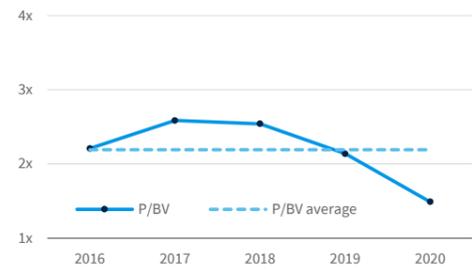
■ Net profit of the PZU Group (excluding banks) ■ Net profit/loss of banks (Pekao and Alior Bank) attributed to PZU

SELECTED RATIOS

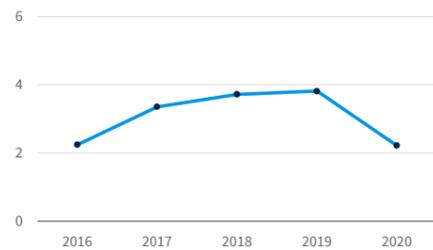
P/E (price to earnings per share)



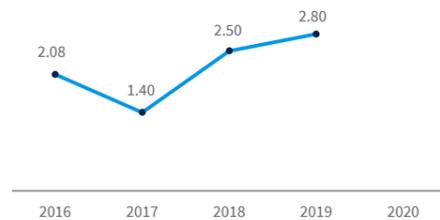
P/BV (price to book value)



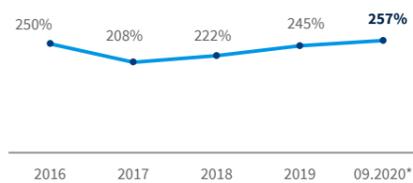
EPS (earnings per share) PLN



DPS (dividend per share) PLN



Solvency II*



* Unaudited data

ROE (Return on equity)*



*ROE attributed for the parent company

PZU, WIG20 (2020)



PZU TSR, WIG20 TR (2020)



Some of the ratios depicted in the charts above are Alternative Performance Measures (APM) under the ESMA Guidelines on Alternative Performance Measures 2015/1415. Definitions, basis of calculation and explanation of their use are presented in Chapter 11. Attachment: Glossary of terms and Alternative Performance Measures

PZU Group's consolidated highlights** for 2016-2020 (PLN m)

	2016	2017	2018	2019	2020
A) PZU GROUP NET OF ALIOR BANK AND PEKAO					
Gross written premium	20,219	22,847	23,470	24,191	23,866
Net result on investing activity including interest expenses	1,217	1,855	904	1,995	2,044
Net insurance claims and benefits paid	(12,732)	(14,941)	(14,563)	(15,695)	(15,580)
Acquisition expenses	(2,613)	(2,901)	(3,130)	(3,363)	(3,317)
Administrative expenses	(1,644)	(1,637)	(1,636)	(1,739)	(1,801)
Operating profit	2,287	3,298	3,300	3,606	3,941
Net profit attributable to equity holders of the parent company	1,754	2,502	2,559	2,780	3,106
B) Impairment of goodwill (Alior Bank, Bank Pekao) and intangible assets (Alior Bank)					
	-	-	-	-	(1,343)*
C) BANKS: ALIOR BANK I BANK PEKAO					
Net profit attributable to equity holders of the parent company	181	393	654	515	149
(A+B+C) Net profit attributable to equity holders of the parent company	1,935	2,895	3,213	3,295	1,912
Total assets	125,304	317,458	328,554	343,385	378,974
Equity attributable to the owners of the parent company	12,990	14,599	14,925	16,169	18,777

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

** Restated data as at 31 December 2017-2019. 2016 data restated as at 1 January 2017

The financial results generated by the PZU Group in recent years place it among the most profitable financial institutions in the country. At the same time, they translate into high efficiency ratios. In 2020 the return on equity was 10.9% on the reported basis and 17.9% on the adjusted basis¹, much higher than the average posted by insurance companies in Europe. The rapid growth is accompanied by preservation of a high level of security in the business. This is corroborated both by its high solvency ratios and by the A- (stable) investment grade rating awarded by the US rating agency S&P Global Ratings. As at the end of 3 Q 2020, the solvency ratio (calculated according to the standard Solvency II equation) was 257%, a level above the average

solvency ratio reported by insurance groups in Europe. On 6 April 2020, S&P Global Ratings (S&P) upheld PZU's A- rating and changed the ratings outlook from positive to stable. The

A-
/STABLE/

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

change of the outlook resulted from the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic, which, according to the agency's analysts, could affect the PZU Group's

business; in particular, it may lead to a lower contribution from banking activity. At the same time, S&P emphasized that the PZU Group's position

should continue to be stable. This outlook reflects the viewpoint of the agency's analysts that the PZU Group will maintain its leading business position in Poland, a strong capital position and a stable result on insurance activity whereby it will be capable of withstanding any further potential deterioration in the business environment. As at the end of 2020, PZU's market capitalization neared was about PLN 28 billion.

¹ Excluding the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on intangibles arising from the acquisition of Alior Bank (i.e. trademark and relations with clients adjusted for the impact of deferred tax and minority interest) in the amount of PLN 42 million



AWARDS:

Business:

PZU: Trustworthy Brand



PZU: Super Ethical Company



TFI of the Year in the ranking published by Gazeta Giełdy i Inwestorów Parkiet



TFI PZU: Two Alfa awards from the Anality Online service given to PZU Obligacji Krótkoterminowych and PZU Dłużny Aktywny



Bank Pekao: The best offer of mortgage loan in „Złoty Bankier” competition



Innovations:

PZU Zdrowie: Golden OTIS Trust Award 2020 for its Virtual Clinic



PZU: Celent Model Insurer 2020 in the Data, Analytics, and AI category



PZU: Master of Innovative Transformation, special distinction in a contest organized by the ICAN Institute and the MIT Sloan Management Review Poland



Link4: Client's Golden Laurel in 2020 in the motor insurance category



Link4: Client's Silver Laurel in 2020 in the residential insurance category



Alior Bank: First place in the cash loan category and distinction in the safe bank category; best practices awarded in the Golden Banker plebiscite



Alior: Invest Cuffs, Kantor Online 2019



PZU: Innovation Eagle awarded by the Rzeczpospolita daily in the category of Innovative Solutions mitigating the effects of the COVID-19 pandemic



Pekao Direct: Bronze medal in the Stevie Awards for Sales & Customer Service in the category Best use of technology in sales



Pekao Direct: Main prize in the European Customer Centricity Awards in the category Best omnichannel experience



CSR:

PZU Zdrowie: Wprost Business Leader for its health protection activities



Alior Bank: Best Team supporting the Contact Center



Alior Bank: Second place in the Bankier.pl ranking for the least expensive brokerage account



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



Alior: Newsweek's Friendly Bank of 2020 in traditional banking and remote banking



HR:

PZU: Distinction in the Internet campaign category in the Employer Branding Excellence Awards 2020



LINK4: Best Quality Employer 2020



Pekao: Special prize Friendly Workplace 2020



Pekao: Top Employers 2020



Pekao: Best Investment Bank in Poland and CEE



Bank Pekao: Best bank for transactional banking and treasury products



Bank Pekao: Five stars in the rating of Private Banking services awarded by the Forbes monthly



Bank Pekao: Best Bank in the category of large commercial banks in the Gazeta Bankowa competition



Lietuvos Draudimas: Third place for the best COVID-19 internal communication campaign in the PR Impact Award 2020 contest



AAS Baltia: Best employer 2020 in the Baltic States according to Kincentric



Marketing:

Pekao: Best Bank Advertising Spot in the Golden Bankier ranking



IR:

PZU: The Best Annual Report 2019 - The Best of the Best” (second time)



PZU Group's development

1803

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



1950



1960



1970

1927

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

1991

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



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



1998

Establishment of PTE PZU – pension insurance management company



1999

Formation of TFI PZU – mutual fund management company



2002

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

2017

Finalization of the acquisition of Bank Pekao



2015

Agreement to acquire Alior Bank



Formation of TUV PZUW – a mutual insurance company



2014

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



and a direct insurer in Poland - LINK4



Launch of the PZU Zdrowie brand



2012

Rebranding



2010

PZU's Initial Public Offering (IPO)



2005

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

2018
- 2020

**The New PZU
- More Than Insurance**

Calendar 2020

<p>12 MARCH</p> <p>Appointment of Beata Kozłowska-Chyła to be the President of the PZU Management Board</p>	<p>26 MARCH</p> <p>KNF's recommendation on suspending payment of dividends from the profit generated in 2019</p>
<p>06 APRIL</p> <p>S&P's change of PZU's ratings outlook from positive to stable</p>	<p>04 MAY</p> <p>Appointment of Ernest Bejda to the PZU Management Board</p>
<p>26 MAY</p> <p>PZU's Ordinary Shareholder Meeting</p>	<p>05 JUNE</p> <p>Purchase of bonds worth nearly PLN 2 billion (issued by PFR) under the governmental program to support businesses in the fight against the consequences of COVID-19</p>
<p>10 SEPTEMBER</p> <p>Appointment of Małgorzata Kot and Krzysztof Szypuła to the PZU Management Board</p>	<p>25 NOVEMBER</p> <p>Purchase of bonds worth nearly PLN 2 billion (issued by BGK) for the COVID-19 Response Fund</p>
<p>16 DECEMBER</p> <p>KNF's recommendation on resuming the possibility of paying dividends from the profits generated in 2019 and 2020</p>	<p>17 DECEMBER</p> <p>Nationale-Nederlanden PTE exceeds the 5% threshold in the total number of votes</p>



That's simple! Using the app bearing the very same name PZU employees can check as they go whether the texts they write are overly complicated. "Concise, simple and plain language shows respect to other people", Przemysław Babiaryz, a journalist and winner of the Master of Spoken Polish award contends. He trained PZU employees on how to communicate to be understood.

2. External environment

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

In this section:

1. Main trends in the Polish economy
2. External environment in the Baltic States and Ukraine
3. Situation on financial markets
4. Polish and Baltic States insurance sector compared to Europe
5. Polish banking sector compared to Europe
6. Regulations pertaining to the insurance market and the financial markets in Poland
7. Factors that may affect the conditions of operations and the PZU Group's activities in 2021

External environment

2.1 Main trends in the Polish economy

Gross Domestic Product

According to preliminary estimates, real GDP in 2020 declined 2.7% amidst the COVID-19 pandemic. The strongest contributing factors to this decline were slumps in household consumption (-1.7 p.p.) and gross fixed capital formation (-1.6 p.p.). Household consumption and investments dropped by 3% and 8.4%, respectively. As a consequence, in 2020, the investment rate in the national economy (the ratio of gross fixed capital formation to gross domestic product at current prices) fell to 17.1%, compared to 18.5% in 2019. The scale of decline in GDP was curtailed by net exports, which added 1.0 p.p. to its growth rate.

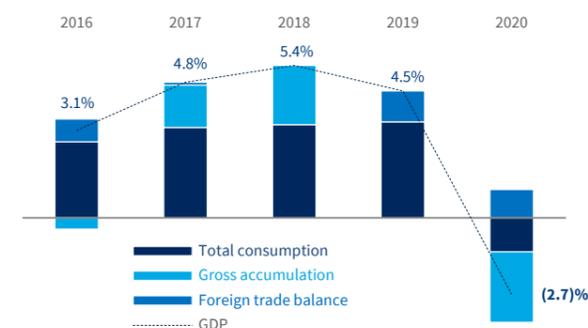
The restrictions on economic activity and freedom of movement imposed in March 2020 with a view to preventing the dissemination of the coronavirus translated into a decline in real GDP in Q2 2020 by as much as 8.4% y/y, following an increase by 1.9% y/y in Q1 2020. Disruptions in industrial supplies caused by the outbreak of the pandemic in China and Italy and the resumption of border controls within the European Union also exerted a negative impact on GDP in this period. In Q2 2020, private consumption plunged by as much as 10.8% y/y. Cost cuts effected by enterprises and a greater degree of uncertainty additionally suppressed investments in fixed assets, which dwindled by 10.7% y/y.

The gradual lifting of restrictions and the revival of mobility in Q3 2020 translated into an 'automatic' rebound in economic activity and the unclogging of delayed consumer demand, in particular for durable goods. In parallel with the restoration of international trade and the economic upturn in China, this contributed to a significant improvement across the global industrial sector in H2 2020, of which Poland was also a beneficiary. As a result, the country's GDP in Q3 2020 increased significantly compared to Q2 2020, meaning that in annual terms the decline in this period was reduced to -1.5% y/y with a slightly positive rate of growth in private consumption (0.4% y/y). The easing of fiscal and monetary policies helped protect the country's economic potential and reduce the unfavorable impact of the pandemic on the labor market. Compared to Q2 2020, even investments turned out to be on the rise, owing to which their negative rate of growth shrank to -9.0% y/y in this period.

The escalation of the COVID-19 pandemic in the last quarter of 2020 and the partial reinstatement of restrictions on

service industries resulted in another slowdown in economic growth. However, because the economy managed to attune to operating in the conditions of a pandemic, the drop in GDP in Q4 2020 turned out to be relatively minor. According to estimates, the rate of GDP growth in Q4 2020 declined to nearly -2.8% y/y, with private consumption dropping by 3.2% y/y. Consumption is estimated to have dwindled by approx. -3.0% y/y, a rate of decline significantly smaller than that experienced in the spring. In the same period, industrial production was on a significant rise, and in October 2020 exceeded the February level, i.e. that generated before the pandemic, followed by an even greater improvement in growth rate in December of approx. 2.7%. However, the situation of service industries exposed to the highest risk of coronavirus infection, where restrictions on the conduct of business were the most severe, was significantly harsher (the data after the Central Statistical Office).

Decomposition of GDP growth in 2016-2020



Source: Statistics Poland, preliminary estimate of GDP in Q4 2020 as at 26 February 2021

Labor market and consumption

The COVID-19 pandemic caused a deterioration of the situation in the labor market in 2020, albeit to a lesser extent than was predicted in the spring when the coronavirus reached Poland. For the first time since 2012, the number of people employed in the national economy decreased, and the average headcount in the enterprise sector was 1.1% lower than in 2019. After six years of uninterrupted improvement, since April 2020, registered unemployment has bounced back up: the number of registered unemployed individuals and the registered unemployment rate have been greater than the year before.

Still, owing to government support programs, the increase in unemployment was much lower than may have been feared at the outset of the pandemic. Enterprises, by cutting their costs, made efforts to protect employment to the best of their ability. At the end of 2020, the registered unemployment rate stood at 6.2% (compared to 5.2% in December 2019, the data after the Central Statistical Office). In December 2020, the seasonally adjusted rate of economic unemployment (according to Eurostat) stood at 3.3% (compared to 2.9% in December 2019), clearly below the European Union average (7.5%) and the euro area (8.3%).

The slowdown in employee compensation growth in the enterprise sector was less severe than had been expected in the context of the decline in economic activity. The nominal average gross monthly employee compensation in the enterprise sector increased by 4.7% in 2020, compared to a rate of 6.5% in 2019. The average monthly salary across national economy in the last year increased in nominal terms by 5% (the data after the Central Statistical Office).

Due to intermittently imposed restrictions on economic activity and health concerns, which resulted in the isolation and self-limitation of consumer mobility, household consumption declined by 3.0% in 2020. The largest such decline was recorded in Q2 2020, when the restrictions were the most severe. Following a strong rebound in Q3, consumption dwindled again in the concluding months of the year. However, due to the adjustments made by companies enabling them to operate in the conditions of the COVID-19 pandemic, the scale of this decline was significantly smaller. Another consequence of the pandemic was an increase in household savings in 2020.

Inflation, monetary policy and interest rates

In 2020, the consumer price index (CPI) increased on average by 3.4% in annual average terms, compared to 2.3% in 2019. Accordingly, the shock caused by the COVID-19 pandemic did not suppress the rate of inflation. On the contrary, the prices of services increased significantly (by 6.9% y/y compared to 3.9% y/y in 2019), largely due to an increase in costs resulting from the need to abide by the requirements associated with efforts aimed at counteracting the pandemic. Commodity prices increased by 2.1% compared to 1.7% in 2019. Net core inflation (CPI without food and energy prices) was 3.9% in 2020, compared to 2% in 2019. In 2020, food and energy prices increased 4.7% and 4.9%, respectively, while fuel prices dropped by 10.4%, suppressing the overall growth in the price index (the data after GUS i NBP).

Starting in mid-March 2020, the Monetary Policy Council took a number of steps to support the economy in the face of the COVID-19 pandemic. It effected three cuts of the NBP basic interest rate – to 1% in March, to 0.5% in April and to 0.1% in May. The Monetary Policy Council also lowered the reserve requirement for banks and carried out a bond purchase program through structural open market operations. Moreover, it introduced a promissory note loan program under which banks may obtain cheap refinancing of loans granted to commercial undertakings.

Public finance

As was the case in other countries, the COVID-19 pandemic and the measures taken by the government to minimize its effects resulted in an increase in the deficit of the public finance sector. According to the European Commission's forecasts of November 2020, the deficit of the general government sector in Poland might increase to 8.8% of GDP in 2020, while public debt (as defined by the European Union) might increase to 56.6% of GDP. In 2020, Poland did not experience any problems with obtaining market financing. According to the Ministry of Finance's estimates, at the end of the year, approx. than 36% of the country's borrowing needs planned for 2021 were pre-financed.

2.2 External environment in the Baltic States and Ukraine

Lithuania

In Q4 2020, seasonality-adjusted GDP decreased by 1.3% y/y. While public consumption showed a favorable growth rate, the other GDP components recorded a decline. It is expected that the COVID-19 pandemic will continue to exert an adverse impact on the economy, yet the economic activity should improve at the beginning of Q2 2021.

In December 2020, the unemployment rate was 10.1%, thus by 3.7 p.p. more than the year before. The COVID-19 pandemic deteriorated to a significant extent the situation on the labor market. Employees affected most were those from the services sector and with low qualifications. Unemployment had a slightly weaker impact on commerce, construction industry, transport and production activity. At the same time, a high supply of jobs is being observed, which in the situation of growing unemployment shows structural changes in the labor market. On the one hand, the number of people looking for work has increased considerably; on the other hand, companies are not able to fill the existing vacancies. Structural

External environment

unemployment may therefore relatively quickly change into long-term unemployment, which poses a threat to the labor market and to prospects of economic growth.

In 2020, inflation subsided to low levels, with the annual rate of 0.2%. At the beginning of the crisis caused by the COVID-19 pandemic, the inflation was considerably reduced as a result of the global decrease in demand for energy goods and their prices; with the second wave of the pandemic, the inflation remained lower because of the already visible impact of the crisis on prices of services.

Latvia

Latvia's GDP fell down in Q4 2020 by 1.7% (annual data, adjusted for seasonality), i.e. lower than in Q2, when the decrease was 8.9%, and in Q3, when it reached 2.6%. The data suggest that the economy recovered faster – the production sectors did not show a decrease in production, and the service sectors quite quickly restarted business activity. The major cause of the economic downturn in 2020 was a decrease in private consumption resulting from the restrictions introduced because of the COVID-19 pandemic, which significantly limited business activities. That was at the same time prevented by the increase in expenditures on public consumption. In terms of sectors, the downturn was most marked by a decline in the transport sector, business connected with accommodation and catering as well as cultural, entertainment and leisure areas. A growth was observed only in the construction industry, agriculture, public administration and defense.

Data of the Latvian statistical office show that in December 2020, the actual unemployment rate was 8.3%, i.e. it was higher by 1.7 p.p. than in December 2019. The number of unemployed increased by 16.8 thousand y/y and reached 80.5 thousand at the end of 2020.

The annual inflation rate was -0.5% in December 2020, commodity prices dropped by 1.4%, whereas prices of services grew by 1.6%. Compared to December 2019, the average level of consumer prices was mainly affected by a fall in the prices of commodities and services related to transport, housing maintenance, clothing and footwear. On the other hand, price increases were recorded for food, tobacco products and non-alcoholic and alcoholic beverages, as well as for leisure, cultural and catering services and in the area of healthcare.

Estonia

In Q3 2020, when the restrictions imposed in the spring because of the COVID-19 pandemic, the annual GDP growth rate in Estonia was at -1.9%. After the first wave of the coronavirus, the business activity recovered quite quickly but unevenly. The reduction in restrictions contributed to a rapid recovery of private consumption but exports were still dependent on restrictions in other countries. The adverse influence on the economic situation was seen in the tourism sector, hit hardest by the crisis.

At the end of 2020, the unemployment rate stood at 7.4%, up 3.3 p.p. compared to December 2019. The economic recovery, with the simultaneous shortage of workforce, was conducive to an increase in the average salaries and wages, which was 3.2% in Q3.

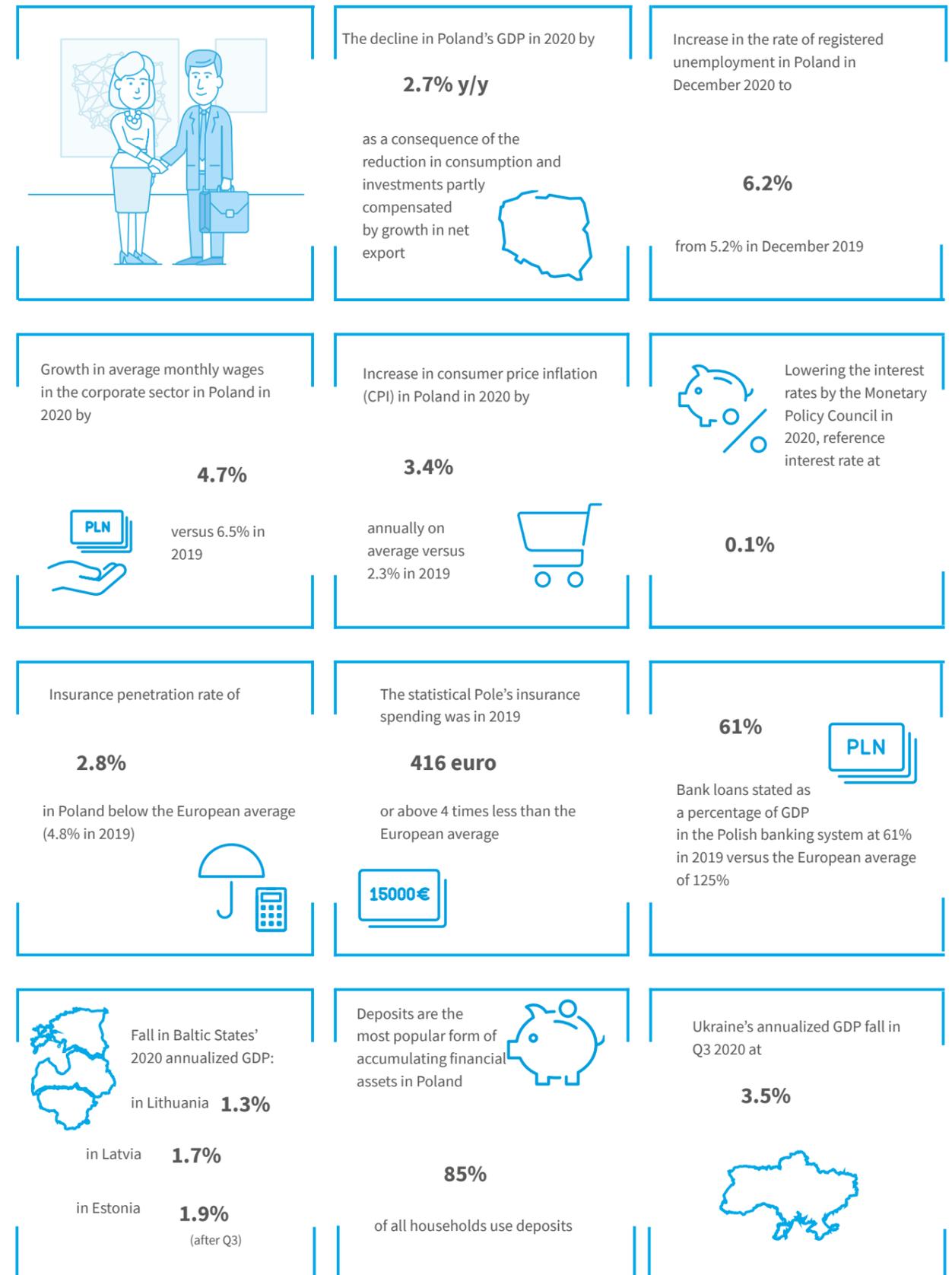
The annual consumer price index (CPI) stood at -0.4%. Prices reacted strongly to the outbreak of the pandemic in the spring and to the consequent rapid decrease in oil prices. By November, energy prices fell (mostly fuels), dramatically increasing only towards the end of the year. From the beginning of the pandemic, food prices grew, which also resulted from a relatively quick increase in prices in external markets. In Q4, the consumer price index stabilized at -0.8%.

Ukraine

After years of political and economic tensions, the Ukrainian economy overcame the signs of crisis and, before the outbreak of the COVID-19 pandemic, went into a stage of recovery, although with a modest growth rate. In 2020, however, as a result of the pandemic, there was a decrease – in the third quarter, the annual GDP growth rate remained at -3.5%. The annual inflation rate was 5% in December, thus reaching the center of the target range of 5.0% ±1 p.p. defined for 2020. The unemployment rate rose to 9.3% in September 2020¹ from 8.2% in December 2019.

After 11 months of 2020, a negative balance of foreign trade in goods and services was recorded (USD -1.3 billion). The conflict in the eastern part of Ukraine is still harmful for the economy. The loss of control over resources in this part of the country significantly reduced Ukraine's export capabilities because of disruptions connected with mining production and with electricity generation.

¹ according to the definition of the International Labor Organization (ILO)



External environment

2.3 Situation on the financial markets



The COVID-19 pandemic was a key factor to determine the situation in financial markets in 2020. The outbreak and the related restrictions of business activities as well as the perspective of a strong GDP reduction, which posed the risk

of a long-term limitation of the economic growth potential, contributed in the initial period to a sharp decrease of prices of risky assets, a reduction of bond yields and gold price increases. With time, however, the strong response of central banks, involving cuts of interest rates, a large-scale purchase of assets and supporting liquidity of banks to stimulate credit flow to the economy, contributed to calming the market situation. What also helped was government programs, introduced relatively soon and on a large scale, to support companies and employees affected by effects of the pandemic. Towards the end of the year, the imminent prospect of COVID-19 vaccine registration further improved investors' moods. In 2020, a clearly increased volatility in financial markets continued.

Bond market

The profitability of Polish 10-year treasury bonds was 1.25% at the end of 2020 compared to 2.06% at the end of 2019 (the data after Refinitiv Datastream). This meant a decrease in the spread relative to similar German treasury bonds from 225 bps to 182 bps. This is because the yield of 10-year "Bunds" declined in the period from -0.19% to -0.575%. The decline in the bond yield in Poland began as early as in February 2020, while in April and May, it deteriorated as a result of loosening strongly the monetary policy in the situation of a strong GDP

Treasury bond yields in 2020 (the data after Refinitiv Datastream)



decrease. After the NBP's reduction of interest rates in May, yields of 10-year treasury bonds only incidentally rose over 1.40%. The central banks, by buying out bonds, were able to prevent longer-term market interest rates to normalize too early so as not to make it difficult for the economy to operate during the pandemic. At the same time, the yields of one-year and two-year treasury bonds in Poland in the second half of 2020 (and especially in Q4) were periodically even close to zero.

Equity market

Although the COVID-19 pandemic had a particularly strong impact on the equity market, between the end of 2019 and the end of 2020, the WIG index lost merely 1.4% and the WIG20 index declined by 7.7% (the data after WSE). The indices that increased were those of medium (mWIG40, slightly) and small companies (sWIG80). However, during the year, share prices have fluctuated strongly, reacting in this way to information about the development of the pandemic and actions taken by governments and central banks. After the growth in the beginning of the year, both main stock market indices started to fall at the end of February, reaching the minimum on 12 March 2020, when large-scale restrictions were announced because of the COVID-19 pandemic. The WIG index slipped 35.7% and the WIG20 index fell 39.3% between the end of 2019 and 12 March 2020.

Then an upward trend appeared. Until 17 August, the WIG index rose by 42.3% and the WIG20 by 42.6%. Realizing profits and entering the period of dynamically intensifying „second wave” of the pandemic resulted in a renewed fall

WIG and WIG20 indices (the data after Warsaw Stock Exchange)



in stock market indices, with the turning point being the announcement of the next phase of the restrictions on 30 October 2020. Between 17 August and 30 October, the WIG index dropped 16.6% and the WIG20 index fell 18.6%. Then equity prices increased until the end of the first ten days of December, and then slightly fell in the last weeks of the year because investors realized profits. Between 30 October and 31 December 2020, the WIG index rose by 29.3% and the WIG20 by 30.9% (the data after WSE).

Foreign market indices behaved in a diverse manner, reflecting the course of the COVID-19 pandemic and the specific situation in each country. US indices rose very strongly between the end of 2019 and the end of 2020, e.g. S&P500 grew by 16.3% (the data after Refinitiv Datastream). What contributed to this was the outcome of the presidential election known in November 2020. The German DAX30 index increased by 3.5%. On the other hand, the British FTSE 100 lost 14.3%, due to, apart from the pandemic, the completion of the Brexit. The “emerging markets” index MSCI EM rose by nearly 16% in 2020 (the data after MSCI).

Currency market

In 2020, the Polish zloty strengthened slightly relative to the US dollar and weakened relative to the euro. The EUR/PLN exchange rate increased by 8.4%, between the end of 2019 and the end of 2020, from 4.26 to 4.61 (the data after NBP). The PLN exchange rate was very volatile during the year. Since the end of February 2020, the zloty has weakened in the face of the development of the COVID-19 pandemic and later decisions to introduce restrictions and relax the monetary policy, while the EUR/PLN exchange rate remained above PLN 4.50 from 19 March to 25 May. Loosening restrictions and the economic recovery resulted then in the strengthening of the zloty. The EUR/PLN exchange rate periodically decreased, especially in the second half of August, when it fell, for a short time, slightly below the threshold of 4.40. From the end of September, the zloty became weaker again, having exceeded even the level of 4.60 at the end of October and the beginning of November. Slowing down the development of the pandemic resulted in the strengthening of the zloty to approx. 4.43–4.44 between 9 and 17 December. At the end of 2020, interventions by the NBP pushed the EUR/PLN exchange rate over 4.50 again.

What contributed to the decrease in the USD/PLN exchange rate by 1% in 2020, from 3.80 to 3.76, was the strengthening of euro against the US dollar. The EUR/USD exchange rate grew by 9% in 2020, from 1.12 to 1.22. On the other hand, the Polish

zloty clearly weakened against the Swiss franc – the CHF/PLN exchange rate increased by 8.7% to 4.26.

PLN exchange rate (the data after NBP, central bank of Poland)



2.4 Polish and Baltic States insurance sector compared to Europe



Insurers running their businesses in European Union countries collected EUR 1,047 billion in premiums in 2019. This accounts for approx. 18.6% of the world's gross written premium².

Concerns regarding the more pronounced global slowdown in economic growth, commercial tensions and the risk of persistently low interest rates, especially for life insurers appeared on the insurance market in 2019. The topic of climate change and the losses it will generate for society and the economy showed up in discussions. Insurers faced challenges such as the technological transformation of the insurance markets, cybersecurity and data security, as well as the growing significance of ESG factors. Despite the detection of the first case of the SARS-CoV-2 coronavirus infection on 17 November 2019 in the city of Wuhan in the Hubei province in central China, nobody had imagined the consequences the COVID-19 pandemic would evince for the functioning of the global economy and the global financial markets.

In 2020 the statistical European spent EUR 1,997 on insurance³. A year earlier, it was EUR 1,958⁴. In 2018, the average Pole spent EUR 436, or more than 4 times less. Insurance spending in the

² Swiss Re, sigma 4/2020: World insurance: riding out the 2020 pandemic storm
⁴ Insurance Europe, <https://www.insuranceeurope.eu/insurancedata>

2.5 Polish banking sector compared to Europe



Banking assets in Poland have recorded a significant increase since the transformation. Currently, the Polish banking sector, as measured by the value of assets, ranks around the European median. According to data of the

European Central Bank (ECB), at the end of 2019¹³ the Polish banking sector's assets totaled EUR 474.3 billion. The largest banking sector in Europe is that of the United Kingdom (EUR 10.7 trillion at the end of 2019), with Latvia occupying the other end of the spectrum (EUR 22.1 billion at yearend 2019). At the end of 2019, the assets of European (EU-28) banks stood at approx. EUR 42.9 trillion (EUR 28.9 trillion in the euro area)¹⁴. Poland has a relatively low, compared to the European Union, ratio of banking assets to GDP, oscillating around 90%, while the average for the European Union and the countries of Central and Eastern Europe is approx. 260% and 92%¹⁵, respectively.

¹³ As at the date of the report, the most up-to-date data for Europe's banking market are available for 2019

¹⁴ European Central Bank, <https://sdw.ecb.europa.eu/>

¹⁵ National Bank of Poland, „Development of the financial system in Poland in 2019

The Polish banking sector operates in accordance with the classic model of financial intermediation in which banks mainly provide loans to the non-financial sector using their customers' deposits in the process. This is reflected in the high share of loans in the banking sector's assets, which at the end of 2019 accounted for 68% of such assets and was higher than the average for the banking sectors of the European Union (66%)¹⁶.

At yearend 2019, loans in the Polish banking sector totaled EUR 324 billion, which placed Poland in the middle of the pack among European countries.

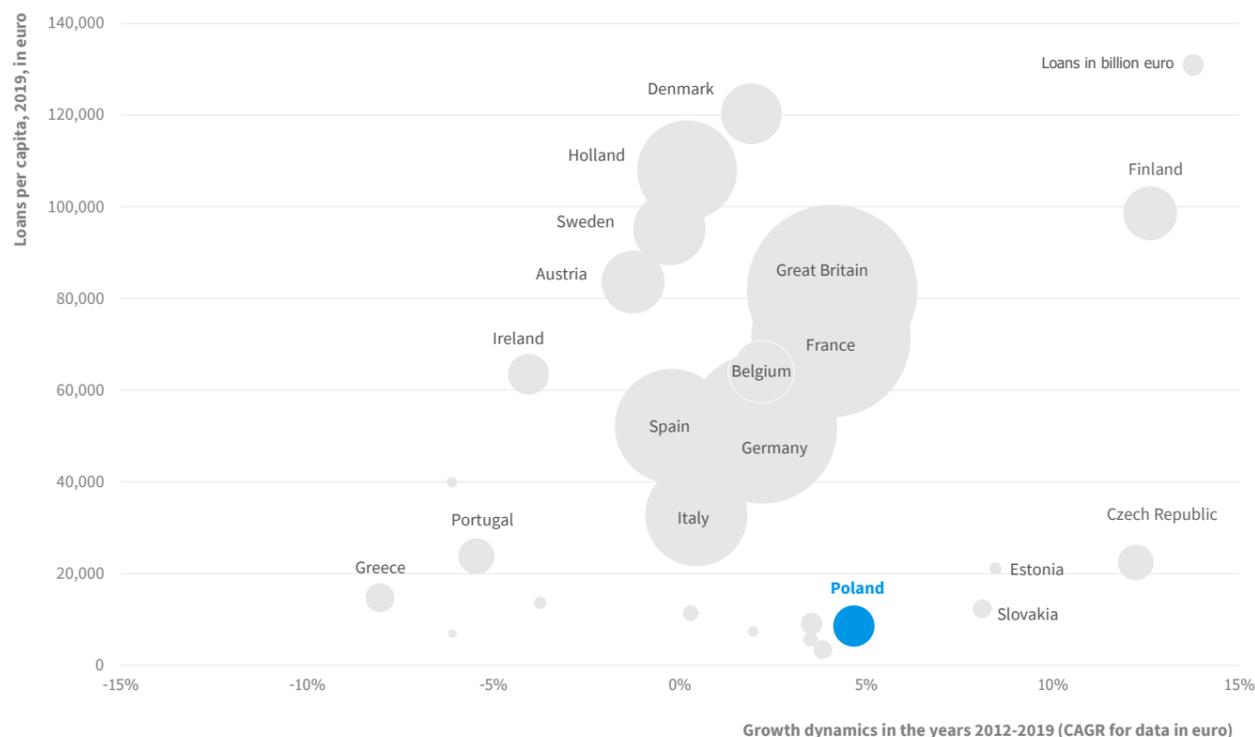
Compared to other European Union states, Poland's banking sector is small in relation to the country's GDP. Bank loans in the Polish banking system account for 61% of GDP while the European average is 125%. The Netherlands, Finland and Denmark have the highest ratios of loans to GDP.

The Polish banking market features a relatively low percentage of business loans in the total value of loans extended to the non-financial sector (33.9% at year end 2019)¹⁷. In turn, the

¹⁶ European Central Bank, <https://sdw.ecb.europa.eu/>

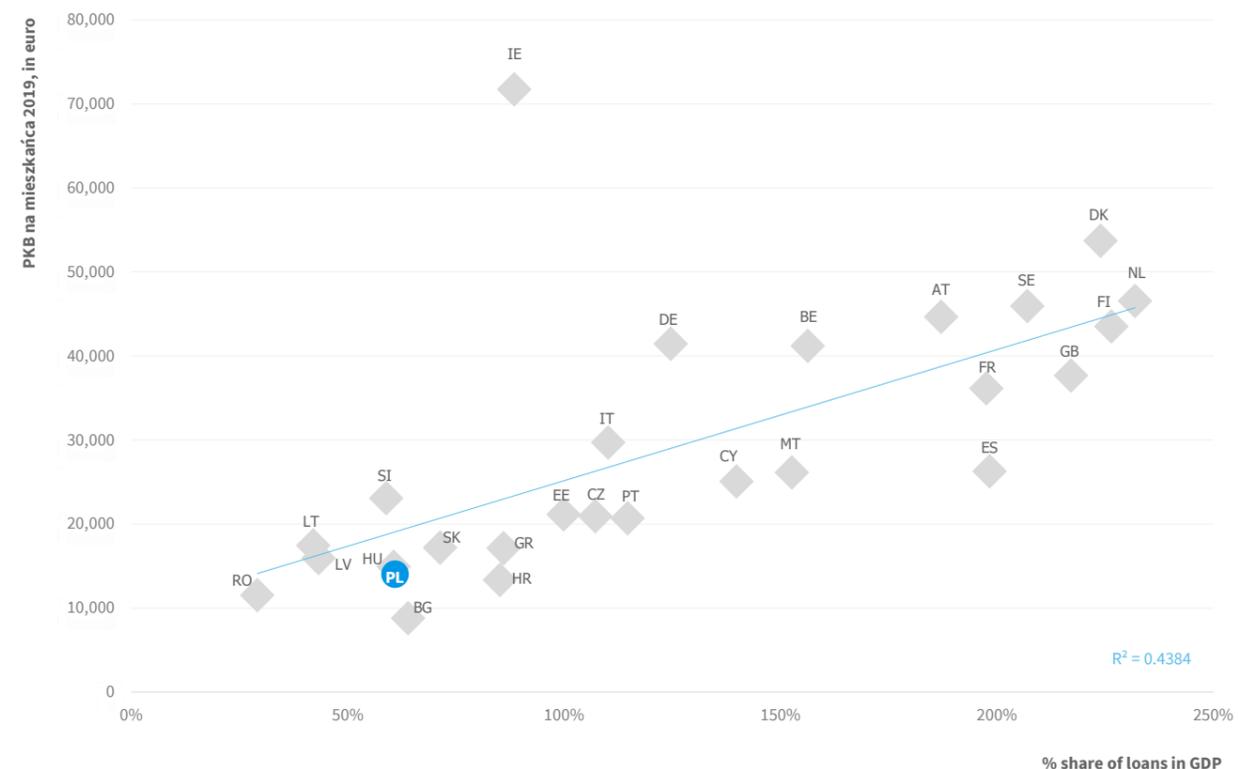
¹⁷ National Bank of Poland, „Financial data of the banking sector”

Loans per capita (2019, EUR) in relation to the insurance market growth rate (2012-2019)



Source: Own calculations based on ECB data

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



Source: Own calculations based on ECB data

lending activity of banks in Poland, like in most other European Union countries, focuses on granting loans to households. Poland ranks third among the EU states in terms of the share of household loans in total financing provided to the non-financial sector by banks and financial markets¹⁸.

The 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 total¹⁹.

¹⁸ National Bank of Poland, „Development of the financial system in Poland in 2019”

¹⁹ 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

Mortgage loans account for the highest percentage of household loans – roughly 58%. In the European Union, this proportion is higher and stands at approx. 74% on average, while in the countries of Central and Eastern Europe it is roughly 65%. The lesser significance of mortgage loans in the assets of Polish banks results from the fact that such loans are a relatively new product. For comparison, in 2005 their share in household loans in Poland was approx. 30%, compared to more than 80% in some West European countries²⁰. Mortgage loans in Poland represent a mere 20% of GDP, while the average in the European Union is 42% of GDP. Meanwhile, Poland is among the countries with the highest share of consumer loans in total loans. The value of extended consumer loans versus GDP at the end of 2019 was 9.1% of GDP, or more than the average in the European Union (6.1%) and less only than in comparison with Bulgaria and Portugal²¹.

²⁰ National Bank of Poland, „Development of the financial system in Poland in 2019”

²¹ European Central Bank, <https://sdw.ecb.europa.eu/>

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Banks in Poland, to a greater extent than the average for the European Union, finance their business with deposits from the non-financial sector (66% of which are deposits by private individuals). At the end of 2019, they accounted for 63% of the total balance sheet value of the banking sector²². The surplus of deposits over loans granted to the non-financial sector in Poland has been growing steadily since 2015. This has been caused, among other factors, by declining demand for financing housing loan portfolios with foreign currencies. The value of the loan-to-deposit ratio in Polish banks is 91%, which is lower than the EU average of 102%²³.

At the end of 2019, the relatively freely disposable financial assets of households increased by 10.4% compared to 2018. At the end of December 2019, they totaled PLN 1,422.9 billion, and their relation to GDP increased to 62.2%. Deposits are the most popular form of accumulation of financial assets by households. At yearend 2019, deposits in banks and credit unions accounted for 63.7% of the financial assets of households, 79.1% if counted together with the cash kept by these households. Financial assets of households in the form of life insurance assets (including policies with unit-linked funds) totaled PLN 60.8 billion in 2019, which accounted for 4.3% of total financial assets of these households. Less frequently, households invest their savings in shares listed on the Warsaw Stock Exchange (4.0% of financial assets), treasury securities (1.9%) and non-treasury securities (0.4%)²⁴.

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

Regulations adopted as a result of the COVID-19 pandemic

The economic life and regulations adopted in 2020 were shaped by the challenges caused by the COVID-19 pandemic. Legislative solutions aimed at reducing the economic consequences of the pandemic on the Polish economy were adopted as part of “Anti-Crisis Shields”, in particular:

- Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them;
- Act of 31 March 2020 Amending the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them and Certain Other Acts;

²² National Bank of Poland, “Financial data of the banking sector”

^{23 24} National Bank of Poland, “Development of the financial system in Poland in 2019”

- Act of 16 April 2020 on Special Support Instruments in Connection with the Spread of the SARS-CoV-2 Virus;
- Act of 14 May 2020 Amending Certain Acts in Respect of Protective Measures in Connection with the Spread of the SARS-CoV-2 Virus;
- Act of 19 June 2020 on Interest Subsidies for Bank Loans Granted to Commercial Undertakings Affected by COVID-19 and on a Simplified Procedure for Approval of a Settlement in Connection with the Occurrence of COVID-19;
- Act of 9 December 2020 Amending the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them and Certain Other Acts.

Apart from anti-crisis solutions (such as exemption from payment of social security contributions, micro-loans and idle time pay), the “Anti-Crisis Shields” aligned legal solutions with the new reality.

Amendments to the **Commercial Company Code** enabled the holding of meetings of the company’s corporate authorities via means of distance communication. They also extended the possibility of remote work by the company’s corporate authorities, in particular by changing in the manner of holding meetings and adopting resolutions by the Supervisory Board by written procedure or using means of direct remote communication. This also applies to matters for which a company’s articles of association provide for the holding of a secret ballot, provided that none of the supervisory board members raises an objection.

The regulations of the “Anti-Crisis Shield” also have a direct impact on changing the organization of work at PZU, because in 2020 and until the date of publication of this report they have served as the basis for a large portion of the Company’s employees to work remotely. As regards the organization of work and the operation of PZU branches, PZU’s business during the epidemic has also been affected by regulations issued by the Council of Ministers on the establishment of certain restrictions, orders and prohibitions related to the announcement of the state of epidemic and recommendations of the State Labor Inspection Service. In accordance with these regulations, PZU has taken steps to ensure safe working conditions for its employees and agents and to provide safe customer service operations.

Another major change was the **loosening of requirements for the rotation of audit firms**. The maximum permissible uninterrupted duration of engagements for the conduct of statutory audits by the same audit firm, any of its related parties or members of its network operating in the European Union has been increased from 5 to 10 years.

On 19 May 2020, the Regulation of the Minister of Finance of 14 May 2020 Amending the Regulation on the Examination for Persons Applying for the Performance of Agency Activities, Distribution Activities of an Insurance Company and Distribution Activities of a Reinsurance Company entered into force and defined the conditions for the conduct of such examinations using an ICT system during the period of the epidemic. Then, on 27 May 2020, the Regulation of the Minister of Finance of 22 May 2020 Amending the Regulation on Applications for Entry in the Register of Insurance Agents and Agents Offering Supplementary Insurance entered into force. These amendments permit the submission of an application for entry on the basis of copies of documents during the period of an epidemic threat, epidemic or emergency.

In connection with the pandemic, solutions for insurance companies have also been prepared by the Polish Financial Supervision Authority, entitled: “**Supervisory Incentive Package for Security and Development of the insurance industry**”. These solutions are aimed to:

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

The Polish Financial Supervision Authority also initially recommended that insurance companies refrain from paying out dividends from their 2019 profits. In December, KNF issued a statement regarding its assumptions for the dividend policy in 2021, according to which a dividend in the maximum

amount of 100% of the profit generated in 2019 and 50% of the profit generated in 2020 may be distributed by insurance and reinsurance companies that meet the criteria defined in KNF’s document. For more information on this, see SECTION 8.6 PZU GROUP’S CAPITAL AND DIVIDEND POLICY.

Moreover, the insurance sector has developed its own solutions to assist clients affected by the COVID-19 pandemic. The Polish Insurance Association has issued “**Recommendations for pro-customer actions for the insurance market**”. The postulates of this document are as follows:

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

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

On 4 May 2020, the Regulation of the Minister of Health of 28 April 2020 on Information to Be Provided to Insurance Companies by Entities Performing Medical Activities and by the National Health Fund entered into force. In accordance with

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this Regulation, the insurance undertaking's application to an entity performing medical activities or the National Health Fund must be accompanied by data on the health condition of the insured person or the person on whose account the insurance contract is supposed to be entered into, and the insurance undertaking must only enclose information about the consent of the person concerned or his or her statutory representative, along with the date and form of expressing such consent. The amendment results in the revocation of the previously binding requirement to receive written consent from clients of insurance companies, which made it difficult to enter into insurance contracts remotely.

A regulation that may be adopted in 2021 and may potentially exert a major impact on the operations of the PZU Group is the planned amendment to the Commercial Company Code. It is expected to introduce into Polish law the so-called 'holding law' governing private and legal relations between the parent company and its subsidiaries and improving governance in companies.

Regulations associated with climate issues

Some of the consequences of the COVID-19 pandemic will probably involve a greater focus on solutions aimed at protection of the natural environment. The European Union's ambition is for Europe to become a climate-neutral continent by 2050. To this end, it intends to pursue the European Green Deal initiative, one of the elements of which is to redirect resources of financial institutions towards the funding of investments contributing to sustainable development.

On 29 December 2019, [Regulation \(EU\) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, entered into force](#). It is scheduled to be applied from 10 March 2021. It applies, without limitation, to insurance companies that offer insurance-based investment products. The Regulation imposes on financial market players certain disclosure requirements related to sustainable development. Such entities are required, without limitation, to publish on their websites information about their strategies on the integration of sustainability risks in their investment decision-making process.

On 12 July 2020, [Regulation \(EU\) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable](#)

[investment \("taxonomy"\), entered into force](#). It defines the criteria for building "green" financial products. It has also introduced the need to use markings in product information letting the user know whether they are products that include the "EU taxonomy", i.e. a classification system for the taking of action aimed at reaching sustainable development objectives. Moreover, a company that is required to publish non-financial information will be required to report in its non-financial statement or consolidated non-financial statement how and to what extent its business relates to economic activity that qualifies as environmentally sustainable. The Regulation is expected to be applied, in principle, from 1 January 2022.

Selected Supreme Court rulings affecting insurance activity

Among the Supreme Court rulings handed down in 2020 with regard to the insurance business, the following were the most important:

- on the liability of an insurance undertaking for expenses incurred on the rental of a replacement vehicle;
- on a benefit disbursed in the event of an early termination of a unit-linked life insurance contract;
- on indemnification for care provided by relatives;
- on the inclusion of the amount of value-added tax in the amount of indemnification under third party liability insurance of the motor vehicle owner.

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

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

On 22 July 2020, in case no. III CZP 31/19, the Supreme Court recognized in its resolution that an injured party who has suffered a bodily injury or health disorder may claim, pursuant to Article 444 § 1 of the Civil Code, indemnification for the costs of care provided to him or her gratuitously by relatives.

On 11 September 2020, in case no. III CZP 90/19, the Supreme Court announced in its resolution that indemnification under third party liability insurance of a motor vehicle owner, payable to the lessee in connection with expenses incurred for the repair of a damaged leased vehicle, must include the amount of value-added tax to the extent the lessee may not reduce the amount of tax payable by him or her by the amount of tax paid.

2.7 Factors that may affect the conditions of operations and the PZU Group's activities in 2021

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

- macroeconomic and geopolitical;
- legal and regulatory;
- market factors, specific to individual sectors or businesses in which the Group is involved.

Macroeconomic and geopolitical factors

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

According to all indications, 2021 will be a time of recovery for both the global economy and the Polish economy following the shock caused by the COVID-19 pandemic. The launch of a vaccination program by the end of 2020 is of crucial significance. It is forecasted that Q2 2021 will mark a rebound

in economic activity related to spring warming and the lifting of pandemic restrictions as a result of the society acquiring "herd immunity" to COVID-19. Of decisive significance for the economy will be the elimination of the risk of persisting restrictions unfavorably affecting economic activity. According to broadly accepted scenarios, vaccinating health care workers, members of professional groups of key significance for the functioning of the state and individuals most exposed to coronavirus infection will lead to neutralization of the negative impact of the pandemic on the economy in H2 2021. The impulses for a GDP rebound will include the release of withheld consumer demand, the restoration of the service sector to full freedom of operation and the revival of global trade while maintaining quantitative easing-based fiscal and monetary policies.

Based on these assumptions, GDP growth in Poland may, according to PZU's forecasts, reach approx. 4% or even more in 2021. This relatively quick economic recovery in 2021 will also be possible due to the measures that prevented the destruction of the production potential in the form of mass bankruptcies and a spike in unemployment. Although certain service industries and smaller companies have found themselves in a challenging situation, the financial and liquidity standing of companies remains relatively good (in light of the decline in GDP in 2020). This was also due to the public aid extended to them during the pandemic. The forecasted economic recovery should create conditions for improvement in the labor market, including improvement in consumer sentiments. This, in turn, with the accumulated household savings and the restoration of a small overall real growth in payroll expenditures reported by companies, which began already in the closing months of last year, provides the basis for the expectation of a major increase in consumption in 2021. The expiration of support programs creates a risk factor, yet we assume that in a recovery environment it will be possible to avoid a deterioration of the situation in the labor market.

Moreover, in the face of the uncertainty related to the pandemic situation persisting in early 2021, enterprises may also delay their investments. However, the second half of the year should bring a clearer rebound of fixed capital formation, supported by the inflow of funds from the EU's Next Generation reconstruction program at the end of 2021.

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A key risk factor for GDP growth remains the uncertainty as to the development of the COVID-19 pandemic going forward. As at the end of January 2021, Poland managed to maintain the improvement in the number of new infections, however in March the “third wave” of the pandemic has appeared. A major risk factor is the emergence of new coronavirus mutations resistant to the currently available vaccines. Other risk factors include a possible delay in vaccinations and “social fatigue” with restrictions. The materialization of these risks would translate into an increase in the number of infections and deaths and an extension of the adverse impact of the pandemic on the economy, including the labor market, with all unfavorable consequences for the PZU Group’s insurance segment, such as a reduction in demand for voluntary non-life insurance and an increase in costs related to the disbursement of life and health insurance claims and, possibly, claims under hospital liability insurance. Another consequence might also be a drop in demand for group insurance and an increase in the loss ratio of contractual and financial insurance.

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

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

Any disruptions in the rollout of the recovery scenario, including the persistence of the pandemic and related restrictions, may also result in additional monetary policy easing, including interest rate cuts by the National Bank of Poland and a suppressed yield curve. This would translate unfavorably into the financial performance of the PZU Group, including its banks. Among others, it would curtail investment income and hinder the achievement of the required rates of return, which might trigger the need to lower the technical rate applied for discounting provisions in life insurance and provisions for the capitalized value of annuities in motor insurance. For banks, a delayed rebound in economic recovery would mean a reduction in interest margins amidst reduced demand for loans.

The coming into life of the economic recovery scenario and a reduction in the level of uncertainty across the financial markets should result in a certain degree of appreciation of the Polish zloty in a situation of a large surplus of the balance of payments generated in 2020. This would help reduce expenses related to the prices of spare parts in motor insurance. However, a risk factor in this context is the policy pursued by the National Bank of Poland, which intervened at the turn of

the year to weaken the Polish zloty. Accordingly, if the negative pandemic scenario prevails, there will be a high risk of the Polish zloty remaining above 4.50 against the euro.

Legal and regulatory factors

The PZU Group’s activity and operations are subject to the impact of both national regulations and European legislation.

In 2021, the regulations adopted in the previous year in connection with the outbreak of the COVID-19 pandemic and aimed at combating it, including restrictions on the conduct of business, and measures taken with a view to reducing the adverse impact of the pandemic on the economy, will be of decisive significance. These changes are described in SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND.

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

From the perspective of the insurance business, the Group’s activity will be affected by any legal changes and case-law that may contribute to an increase in the insurance companies’ burdens, e.g. court verdicts on payout of general damages under TPL insurance. The adopted solutions may translate into the amount of the claims paid by the PZU Group.

The Group’s business may also be affected by the completion of work by KNF on the so-called ‘product intervention’ concerning unit-linked life insurance products. Sales of unit-linked policies may suffer as a result or the structure of the product may be changed.

Product intervention is a legal measure described in Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products. In accordance with

the latter regulation, the competent regulatory authority has the power to impose a general prohibition or restriction of certain activities specified in the intervention and related to financial instruments, structured deposits and insurance-based investment products or a specific financial business or financial practice.

One of the more important factors in 2021 in the context of banks continues to be the issue of foreign currency mortgage loans. In the absence of a final systemic solution, the largest impact on the banking system will be exerted by court rulings handed down in lawsuits concerning specific loan agreements. A number of events (among others, the CJEU ruling of 3 October 2019) prompted a growing number of borrowers to adjudicate this dispute through litigation. This will have a strong adverse impact on the performance of banks, in particular banks with a large portfolio of these types of loans. So far, the main area of impact were the provisions recognized by banks in connection with the anticipated legal risk – they had a strong adverse impact on the sector’s results in 2020. 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 elect to litigate), interpretations adopted by national courts in individual cases, 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. Because the exposure of the PZU Group’s banks to foreign currency loans is minor compared to other banks operating in Poland, the direct impact of this phenomenon should be limited. However, any statutory or systemic regulations, including those having to do with the capital weakness of certain banks, that would translate into heavier burdens for the whole sector, might also affect the PZU Group’s banks.

Factors specific to the sectors in which the PZU Group operates

The operating conditions and financial performance of the PZU Group in the distinct areas of its business are affected by sector-specific conditions and their evolution. The most

Polish economy highlights	2018	2019	2020	2021*
Real GDP growth in % (y/y)	5.4	4.5	(2.7)	4.2
Individual consumption growth in % (y/y)	4.3	4.0	(3.0)	4.2
Growth of gross fixed capital formation in % (y/y)	9.4	7.2	(8.4)	2.4
Consumer price index in % (y/y, annual average)	1.6	2.3	3.4	3.1
Nominal salary growth in the national economy in % (y/y)	7.1	7.2	5.0	5.5
Unemployment rate in % (end of period)	5.8	5.2	6.2	6.0
NBP’s prime rate in % (end of period)	1.50	1.50	0.10	0.10

* Forecast as of 15 March 2021
Source: PZU’s Department of Macroeconomic Analyses

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important one is the level of competition in individual product groups constituting the core of the Group's business.

The operation of the markets where the PZU Group is a player is also affected in the short and long term by the social and economic consequences of the pandemic. Certain lines of business experienced this impact immediately. Notably, travel insurance was the first area to take a punch. In the initial phase of the pandemic, the loss ratio increased, whereas following the imposition of travel restrictions, sales of insurance in this product group were suspended.

In connection with the lockdown periods affecting the Polish economy and restrictions in the movement of people, in 2020 the loss ratio decreased in the key market segment of non-life insurance, namely motor own damage insurance and motor third party liability insurance. The frequency of claims decreased (as a result of less intense domestic and international traffic), although at the same time the average claim value increased. This was due to a lower number of minor claims, a shortage of spare parts due to the disruption of supply chains, causing a longer use of replacement vehicles, and higher costs of these parts due to the appreciation of the euro.

The profitability generated on the motor insurance business may trigger competition among insurers for clients through an active pricing policy and, as a result, to a reduction in the rate of growth in gross written premium in this segment. On the other hand, curtailment of the pandemic and the related increase in mobility are likely to elevate the quantity of traffic-related claims to earlier levels.

In life insurance, after the first three quarters of 2020, a decrease was recorded in the loss ratio in group and health insurance. It resulted from a lower number of deaths and a lower loss ratio of paramedical risks, chiefly in the areas of inpatient treatment, surgical operations, critical illness and permanent dismemberment, all caused by a lower number of reported claims. A major spike in the loss ratio in life insurance took place in Q4 along with a sharp increase in the number of deaths (+72.8% y/y). The elevated number of deaths persisted into the beginning of Q1 2021.

The slowdown in economic activity due to the COVID-19 pandemic also dampened the financial standing of the banking sector. The quality of the loan portfolio deteriorated, sales of

loan products decreased and participation units in mutual funds were frequently redeemed due to the challenging situation on the financial markets. The gradual retreat of the pandemic and the onset of economic recovery should result in an improvement in the situation of the banking sector. Of key significance will be the scale of demand for banking services and the clients' ability to timely pay their liabilities, itself largely dependent on the clients' financial situation.

The operations and financial performance the PZU Group in distinct business areas will also be affected by evolving customer expectations. In particular, they concern the personalization of the offering and the provision of a quick and easy access to a comprehensive ecosystem of financial services. Also, other changes may occur in clients' awareness, expectations and habits.

The pandemic and the accompanying sense of insecurity may cause clients to start generating stronger demand for classic protective life insurance products and health insurance products. These factors have already driven the rapid growth of telemedicine.

The transfer of clients from traditional to remote channels may take place even faster. The change in customer habits which, under normal circumstances, would have taken several years, was a consequence of the lockdowns, which forced the transition to remote work. These factors accelerated the digitization and the use of advanced technologies, especially in the insurance sector. Remote forms of sale, inspection and claims handling became popular relatively rapidly.

The anticipated changes in the insurance and banking sectors will also emerge as a result of the emergence of new entrants and trends associated with development of new technologies, including operators of big databases, insurtechs and fintechs²⁵.

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

²⁵ Fintech – sector of economy encompassing companies operating in the financial and technological industries. Fintech companies most often provide financial services using the Internet. It is also a term for all types of technological or financial innovations. Insurtech is one of the areas of the fintech industry encompassing new technological solutions in insurance.

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

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

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

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



Client perspective. As the saying goes: “Do not do to others what is unpleasant to you”. “Who would be elated to receive a three page letter from a company or an official notice instead of half a page of text? And whom does the prospect of having to muddle through intricate wording please?” warned Grzegorz Zarzeczny, PhD from the Institute of Plain Polish at the University of Wrocław during the annual conference held by PZU’s Plain Language Department.

3.

PZU Group’s activity

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

In this section:

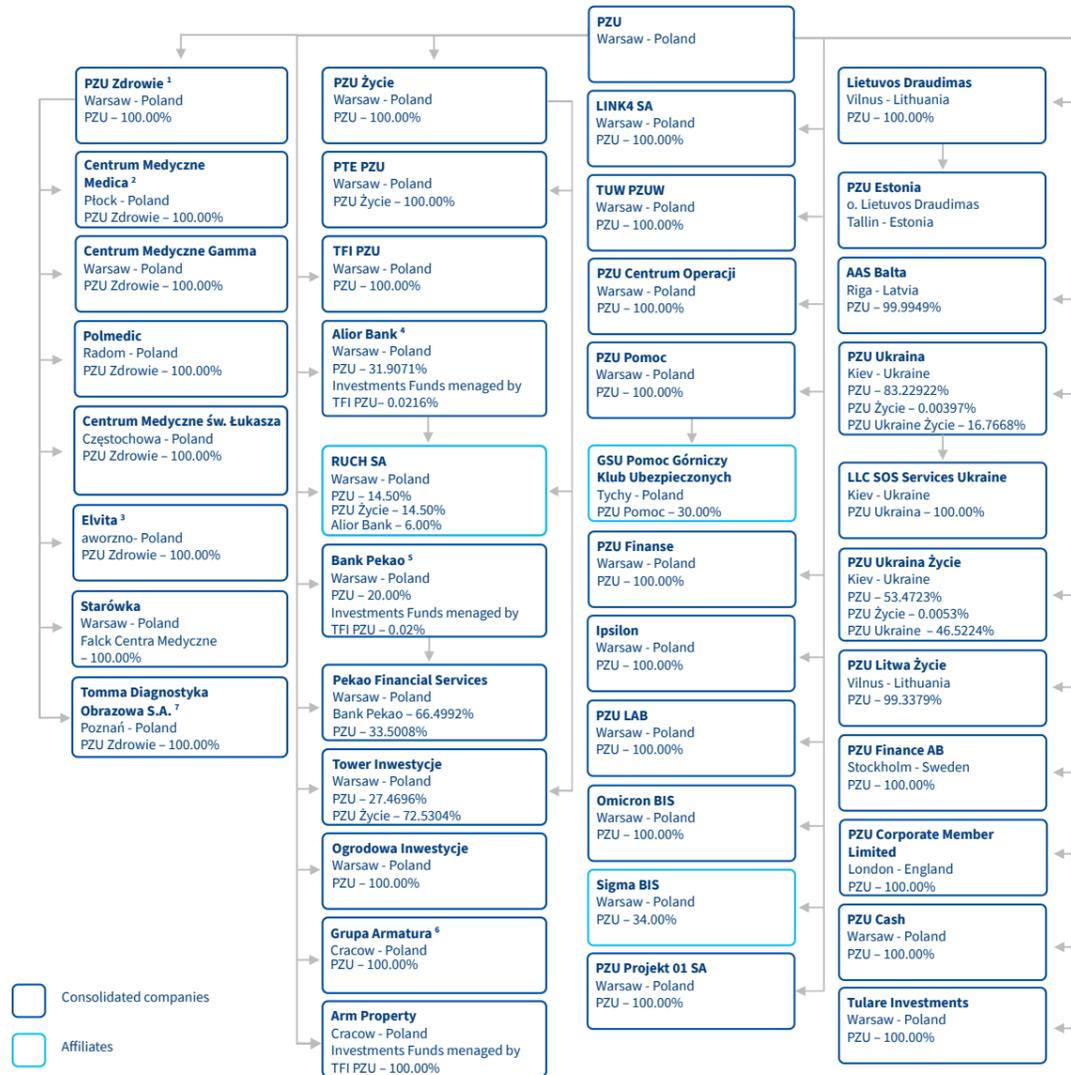
- 1. Structure of the PZU Group
- 2. Non-life insurance (PZU, LINK4 and TUW PZUW)
- 3. Life insurance (PZU Życie)
- 4. Banking (Bank Pekao, Alior Bank)
- 5. Mutual funds and Employee Capital Schemes (TFI PZU)
- 6. International operations
- 7. Medical services (Health Area)
- 8. Pension funds (PTE PZU)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

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group entities offer services in

life insurance, non-life insurance, health insurance and they manage client assets within in an open-end pension fund and mutual funds. As a result of its investments in Bank Pekao and Alior Bank, the PZU Group also provides banking services.

Structure of the PZU Group (as at 31 December 2020)



¹ The following branches operate within PZU Zdrowie: CM FCM in Warsaw, CM Tarnów, CM Nasze Zdrowie in Warsaw, CM Medicus in Opole, CM Cordis in Poznań, CM in Warsaw, CM in Krakow, CM in Poznań, CM in Wrocław, CM Gdańsk Abrahama, CM Artimed in Kielce, CM Warsaw Chmielna
² The Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowskowie "Krystynka" Sp. z o.o. with its registered office in Ciechocinek
³ The Elvita Group consists of the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA - Jaworzno III Sp. z o.o., Przedsiębiorstwo Usług Medycznych PROELMED Sp. z o.o. in Łaziska Górne
⁴ The Alior Bank Group is composed of: 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., CORSHAM Sp. z o.o. (which holds 20% in Pay Po Sp. z o.o.), RBL_VC Sp. z o.o., RBL_VC Sp. z o.o. ASI S.K.A., Harberton sp. z o.o.
⁵ The Bank Pekao Group is composed of, among others: Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing Sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring Sp. z o.o., Centrum Kart SA, Pekao Financial Services Sp. z o.o., Pekao Direct Sp. z o.o. (until 16 January 2020: Centrum Bankowości Bezpośredniej Sp. z o.o.), Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA (holding a 100% stake in Pekao TFI SA)
⁶ The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL
⁷ The Tomma Group is composed of the following companies: Tomma Diagnostyka Obrazowa S.A., Bonus Diagnosta Sp. z o.o.
 The structure chart does not include mutual funds or companies in liquidation or under bankruptcy.

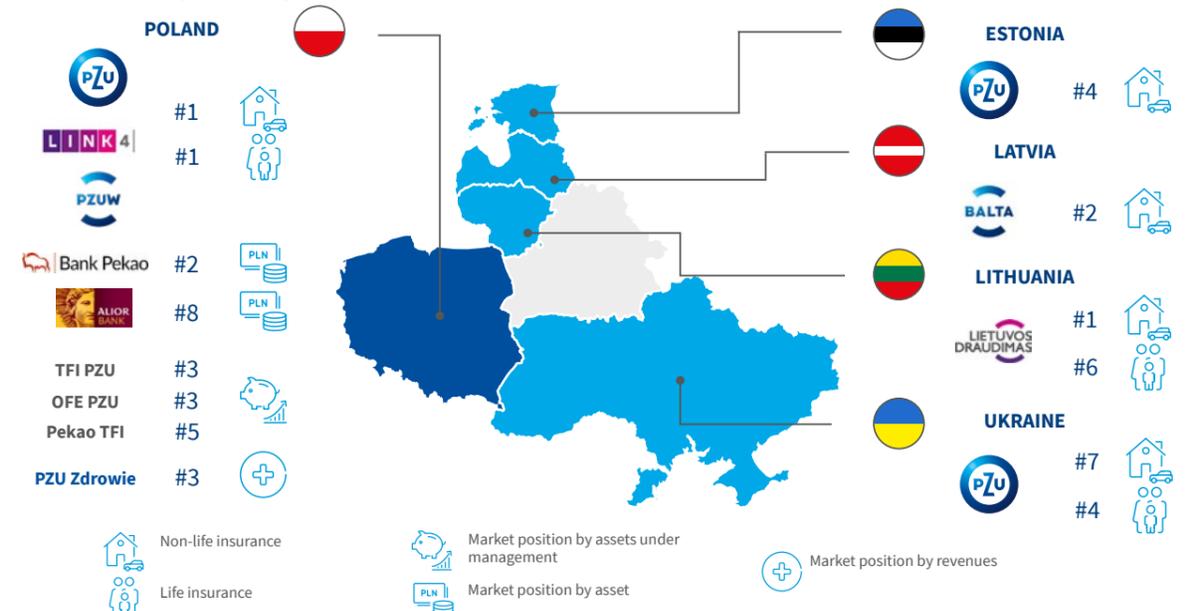
PZU as the parent company, through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of the Group members. As selected companies focus on their specialization, they provide services to each other at an arm's length basis, using the internal cost allocation model within the tax group.

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

- On 2 January 2020, Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o. merged with Centrum Medyczne Medica Sp. z o.o.;
- On 19 February 2020, Alior Bank acquired a 100% stake in Harberton sp. z o.o.;
- On 17 April 2020, RBL_VC sp. z o.o. ASI S.K.A, a company established by Alior Bank and RBL_VC sp. z o.o. on 21 November 2019, was registered in the National Court Register;
- On 3 June 2020, Harberton Sp. z o.o., a wholly-owned subsidiary of Alior Bank SA, and Lurena Investments B.V., entered into a final share purchase agreement. On its basis, Alior Bank indirectly acquired 108,824,007 shares in RUCH SA, representing in total 100% of the company's share capital, for the price of PLN 1. Harberton Sp. z o.o. became an indirect parent of the following wholly-owned subsidiaries of RUCH SA: Fincores Business Solutions sp.

- z o.o., RUCH Detal SA, RUCH Marketing sp. z o.o., RUCH Nieruchomości V sp. z o.o.;
- On 30 June 2020, PZU Zdrowie merged with Alergo-Med Sp. z o.o., and Bonus-Diagnosta Sp. z o.o. merged with Asklepios Diagnostyka Sp. z o.o.;
- On 1 September 2020, a joint stock company PZU Projekt 01 SA was established with the share capital of PLN 150 thousand;
- On 30 October 2020, PZU Zdrowie merged with FCM Zdrowie sp. z o.o. As a result of that transaction, all assets of FCM Zdrowie sp. z o.o. were taken over by PZU Zdrowie and FCM Zdrowie sp. z o.o. ceased to exist;
- On 30 October 2020, PZU Zdrowie acquired 24,000 shares in CM Gamma sp. z o.o. with a par value of PLN 50 each, as a result of which the stake held by PZU Zdrowie in CM Gamma sp. z o.o. rose from 60.46% to 100%;
- On 3 November 2020, PZU acquired 96,000,000 shares in Armatura Kraków SA with a par value of PLN 1 each. The shares were released on 10 November 2020. Consequently PZU holds 100% of the share capital and has 100% votes in Armatura Kraków SA;
- On 24 November 2020, the ownership structure of RUCH SA changed, as a result of which PZU and PZU Życie now hold 14.5% each in the share capital and 14.5% each of votes in Ruch SA, while Alior Bank holds 6% in the share capital and 6% of votes in Ruch SA;
- On 7 January 2021 Corsham sp.z o.o. sold all owned shares of PayPo sp. z o.o.;
- On 1 February 2021 Harberton sp z o.o. was liquidated. National Court Register registered the change on 25 February 2021.

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

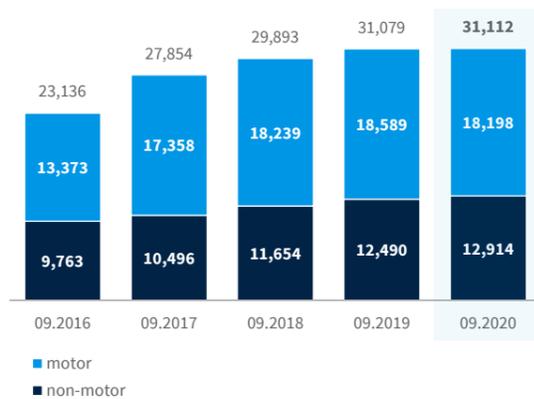


3.2 Non-life insurance (PZU, LINK4 and TUW PZUW)

Market situation

Measured by gross written premium in the first three quarters of 2020, the non-life insurance market in Poland grew by a total of PLN 33 million (+0.1%) in comparison to the corresponding period of the previous year.

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



Source: KNF (www.knf.gov.pl), Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2020, Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016

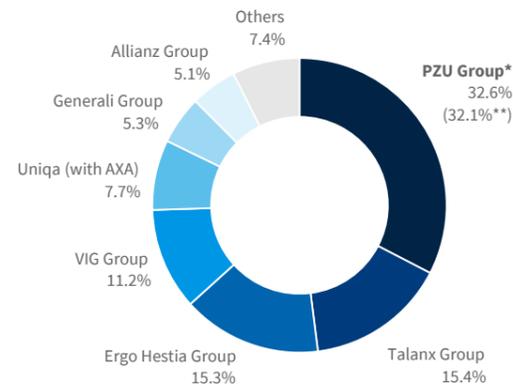
The market growth was driven primarily by gross written premium increase in the non-motor insurance area by PLN 424 million (+3.4% y/y), while gross written premium in the motor insurance area was PLN 391 million lower (-2.1% y/y).

In motor insurance the gross written premium in motor TPL insurance, which is the most important category for the overall market, (PLN 11.8 billion representing 37.8% of the overall premium in non-life in the first three quarters of 2020) fell by PLN 384 million y/y (-3.2% y/y). The change in premium was negative again, both in direct (down by PLN 329 million, -2.9% y/y) and indirect business (down by PLN 55 million, -6.1% y/y). These trends were caused by active price-based competition initiated after a period of high profitability of the portfolio, supported by lower frequency of losses (the period of periodic social isolation as a result of the pandemic) and a slow-down on the leasing market. The sales of motor own damage insurance declined by PLN 6 million (-0.1% y/y) to PLN 6.4 billion, which accounted for 20.7% of the overall written

premium in non-life insurance in the first three quarters of 2020.

In non-motor insurance, the increase in gross written premium growth was affected mostly by higher sales of insurance against fire and other damage to property (up PLN 559 million, or 10.0% y/y, of which PLN 361 million was for direct activity), liability insurance (up PLN 97 million, 5.3% y/y) and assistance (up PLN 50 million, 5.2% y/y). A decline occurred only in various financial risk insurance products (down PLN 157 million, -18.9% y/y) and accident and sickness insurance (down PLN 196 million, -8.9% y/y).

Non-life insurers – percentage of gross written premium in the first three quarters of 2020 (in %)



* PZU Group – PZU, LINK, 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, Inter-Risk, TUW TUW, Wiener (Gothaer); Generali – Generali, Concordia
 Source: Polish Insurance Chamber / KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2020

In the first three quarters of 2020, the overall non-life insurance market generated a net result of PLN 3,038 million, which is PLN 893 million less in comparison with the corresponding period of 2019. Excluding the dividend from PZU Życie, net profit of the non-life insurance market decreased PLN 892 million (-34.3%).

After the first 3 quarters of 2020, the technical result of the non-life insurance market rose PLN 243 million to PLN 2,362 million.

<p>32.1%</p> <p>PZU Group's non-life insurance market share (direct activity) as at the end of Q3 2019, including of LINK4's share</p>	<p>34.3%</p> <p>PZU Group's motor insurance market share (direct activity) as at the end of Q3 2020 roku</p>	<p>45.6%</p> <p>PZU Życie's share of periodic gross written premium in the first three quarters of 2020 roku</p>
<p>2.8%</p> <p>TFI PZU's net assets under management, representing a market share at the end of 2020</p>	<p>13.7%</p> <p>OFE PZU Złota Jesień's share of total assets in the open-end pension funds operating in Poland at the end of 2020 roku</p>	<p>29.6%</p> <p>Lietuvos Draudimas' share of the non-life insurance market in Lithuania at the end of 2020 roku</p>
<p>24.4%</p> <p>AAS Balta's share of the non-life insurance market in Latvia in the first three quarters of 2020</p>	<p>14.7%</p> <p>Lietuvos Draudimas branch's share of the non-life insurance market in Estonia at the end of 2020 roku</p>	<p>3.8%</p> <p>PZU Ukraine's share of the non-life insurance market in Ukraine in the first three quarters of 2020 roku,</p>
<p>2 and 8</p> <p>market position held by Bank Pekao and Alior Bank, respectively, measured by assets at the end of Q3 2020</p>	<p>3</p> <p>PZU Group's 3rd market position measured by revenue in health at the end of 2020 roku</p>	<p>11.0%</p> <p>PZU Ukraine Life's share of the life insurance market in Ukraine in the first three quarters of 2020 roku</p>

The largest contributor was an increase of the technical result on motor own damage products by PLN 235 million (effect of an increase in earned premium with a simultaneous decline in claims and benefits paid) and by PLN 62 million in assistance products, while the result on insurance against fire and other damage to property fell by PLN 78 million and on loan and guarantee insurance products was PLN 31 million lower y/y.

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

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

After three quarters of 2020, the PZU Group had a 32.6% share in the non-life insurance market (32.1% on direct activity) compared to 33.7% in the corresponding period of 2019 (33.2% on direct activity). It recorded a slight decline but maintained high profitability of the portfolio.

After the first three quarters of 2020, the PZU Group's technical result (PZU together with LINK4 and TUV PZUW) stated as a percentage of the overall market's technical result was 45.6% (the PZU Group's technical result was PLN 1,077 million while the overall market's technical result was PLN 2,362 million).

The total value of the investments made by non-life insurers at the end of Q3 2020 (net of the investments in subsidiaries) was PLN 66,630 million, up 9.1% compared to the end of 2019.

Non-life insurers estimated their net technical provisions at an aggregate amount of PLN 58,030 million, signifying 3.4% growth compared to the end of 2019.

PZU's activity



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

yearend 2020, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

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

PZU's activities in the **mass insurance** segment:

- in **PZU Home** insurance, it extended the scope of the assistance product to include the new personal data protection service, **Alerty BIK**. The service offers protection against unauthorized use of personal data by third parties, for example to take out a loan. Additionally, a Service Option clause was added to the private property insurance and the insurance cover of the **Health Assistant** product was modified. The Service Option is a new claims handling standard, in which the company organizes and pays for repairs following a water damage loss, instead of paying out a claim. The new Health Assistant product offers rehabilitation procedures to clients suffering from an

orthopedic injury. Also, a new pricing tool Radar Live was introduced, which will enable an even better alignment of the offering with the client's expectations and risks;

- in the **PZU Crops** product, an additional limit of 10% was introduced to supplement the existing limits of 17% and 25% – in the risk of adverse effects of ground frost for grain and rape. Additionally, the limit of claims paid for total losses occurring after May 31st was increased from 85% to 90% to adapt it to market regulations;
- expanded the scope of **PZU Firma** by adding the following:
 - the **PZU Cyber** clause providing insurance cover, among others, against the consequences of cyberattacks and breaches of privacy regulations (including the GDPR and the Polish Personal Data Protection Act). In the event of a cyberattack, PZU will arrange for and cover the costs of assistance by incident management specialists, IT investigators, law firms and a PR agency,
 - changes to make the offer more attractive for businesses, which included definitions, a catalog of liability inclusions and a catalog of additional clauses, which was extended; simplifications were introduced in the area of data collection to speed up the offering process, as well as system prompts pertaining to the insurance cover recommended by PZU depending on the business profile;
- increased the appeal of **General TPL** insurance (independent product) and **PZU Advisor** for businesses, forwarders and IT service providers, by making changes to certain definitions and liability exclusions. The wording of some clauses, including forwarder's third party liability, was modified;
- rolled out the **PZU against Cancer** product for clients under the age of 65 who have not been diagnosed with cancer prior to enrolling in the insurance. The insurance offers funds needed for treatment in the event that a malignant neoplasm is diagnosed, including pre-invasive or non-malignant brain tumor. It also offers the possibility of obtaining an additional medical opinion from an international specialist;
- changed the pricing of the **PZU ADD** insurance for athletes and in short-term contracts;
- launched the **UTO TPL insurance** of personal transport devices to accompany the TPL insurance for owners of motor vehicles. The insurance covers losses caused by the use of a personal transport device, such as e.g. a bicycle, electric scooter or a segway transporter. A new rider to the TPL insurance for motor vehicle owners who are natural

persons increases its appeal and differentiates the product on the competitive motor insurance market;

- supplemented the **PZU AUTO Assistance** insurance with doctor consultations in the event of an accident of a bodily injury suffered in connection with the use of a vehicle. The additional benefit is an element of the medical insurance growth strategy in the PZU Group. Its purpose is to encourage clients to use medical care in PZU;
- extended the coverage in the **PZU AUTO Legal Protection insurance** for businesses and their car fleets, mainly for corporate and fleet clients, to also include:
 - assistance abroad provided over the phone for an owner or a driver of a vehicle insured with PZU; this product assistance in determining liability for a loss, protecting the client from being falsely attributed fault,
 - legal consultation in Poland or abroad after an accident involving a vehicle insured with PZU,
 - increased the sums insured to PLN 2,000 in the Komfort option and to PLN 50,000 in the Super option. Modification of the legal protection insurance cover ensures comprehensive protection of a fleet and a corporate client and reduces its operating costs. PZU benefits by reducing the frequency and value of foreign losses in TPL insurance of motor vehicle owners;
- added the **PZU Motor Tires** insurance to its offering, providing assistance and funding for clients with PZU Auto TPL or PZU Auto MOD for the repair or replacement of a damaged tire in a vehicle. This insurance stands out due to its very broad available cover, adjustable in accordance with the client's needs. Another advantage is the largest assistance network on the market comprising over 700 PZU partners providing road assistance services.

Most of the changes in the **corporate insurance** segment increased the effectiveness of collaboration with intermediaries and the appeal of the dedicated offering for fleet clients and leasing companies. Major new products included:

- deployment of a new offering in the property insurance in international transport, aimed at increasing PZU's competitiveness and standardizing the offering, in particular for clients in the business of both domestic and international transport;

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

Gross written premium vs. technical result	1 January – 30 September 2019			1 January – 30 September 2020		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Gross written premium	10,482	31,079	20,597	10,131	31,112	20,981
Technical result	1,016	2,119	1,103	1,077	2,362	1,285

* includes LINK4 and TUV PZUW

Source: KNF (www.knf.gov.pl), Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2020, Rynek ubezpieczeń 3/2019, PZU's data



- development of the **PZU D&Oskonała Ochrona** [PZU D&O Perfect Protection] sub-product for small and medium-sized enterprises, which covers third party liability insurance for members of governing bodies of such companies.

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

- modified the Environmental guarantee product to secure claims by owners of waste, who are obligated to obtain a permit for collecting and processing waste;
- introduced a financial loss insurance GAP in the dealer channel;
- changed the risk assessment process for offering insurance guarantees, insurance of bank loans and GAP financial loss insurance.

In 2020, PZU cooperated with 8 banks and 10 strategic partners. PZU's business partners are leaders in their respective industries and they have client bases offering the possibility of extending the PZU's offering with additional innovative products geared towards those clients. By actively **cooperating with PZU Group's banks**, i.e. Bank Pekao and Alior Bank, PZU continues the implementation of a comprehensive offering using the banks' distribution networks. This cooperation has allowed PZU to steadily expand the offering and scale of sales of insurance products linked to bank products, including insurance coverage for cash loans and mortgage loans.

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

LINK4's activity



LINK4, the first insurance company in Poland offering products by phone continues to be one of the leaders on the direct insurance market, extending its cooperation with multi-agencies, banks and strategic partners. It offers an extensive array of non-life insurance products, including motor, home, travel and third party liability insurance.

Given the changing market situation, the company has focused on the development of innovative solutions providing added value to both its clients and business partners. By using new technologies in internal processes and in relations with clients, the company continues to challenge the way of thinking about insurance. At the end of 2020, LINK4 had **47 fully-robotized processes and 9 applications**, which support daily tasks of employees.

As the first insurance company on the Polish market, LINK4 started to **provide public documents to clients** in 2020 on a durable medium using the blockchain technology. Thanks to that, they have access to electronic versions of documents with a guarantee that they cannot be modified and removed over time. By doing this, the company satisfies legal requirements by using cutting-edge technology, making communication much easier, while reducing the need for mailing hard copy documents.

LINK4 was one of the first insurers in Poland to establish the function of the **Client Ombudsman** in 2020 in cases that go beyond the available complaint paths.

In connection with the COVID-19 pandemic, the company introduced a number of solutions to facilitate the work of intermediaries. Just one week after the state of epidemic was announced, it introduced the option of **executing insurance contracts remotely**, without the client having to sign the documents. It also introduced the option of **carrying out inspections without the participation of an agent**.

It also launched a special claims hotline for clients who are employees of medical services, the police, city guards or other public service institutions that are **directly involved in combating the pandemic**, as well as volunteers assisting the infected and the elderly. Their notifications are processed first.

The recognition enjoyed by LINK4 on the market and among its employees is confirmed by the title of the **Best Quality Employer 2020**. The award granted by Centralne Biuro Certyfikacji Krajowej places LINK4 among the best employers in Poland

In 2020, LINK4 focused on expanding further its product offering, adapting it to the changing expectations of its clients and business partners. Its key activities included:

- extending the offer to clients holding a TPL motor policy by adding the Assistance after an Accident product. It guarantees fast handling of a loss if the event has occurred in the territory of Poland at the fault of another driver holding a TPL insurance with an insurer other than LINK4. In such a situation, LINK4 will pay indemnification to the client and will have recourse to the perpetrator's insurer. This is very convenient for clients, who do not have to pursue a claim with a company with which they have signed no contract;
- introducing the **All Risks MOD** insurance, which extends the insurance cover by replacing the existing named events;
- extending the **LINK4 Child** offering with the disbursement of a benefit for sickness and hospitalization related to COVID-19;
- extending the cover in motor ADD insurance to include less severe, rather than just permanent dismemberment. Such injury will be classified in a new dismemberment table, which describes both the diagnosis and the consequences of an accident. LINK4 does not wait until the end of treatment with the disbursement of the benefit. Rather, it pays out the benefit on the basis of medical documentation;
- supplementing the LINK4 Travel offering to include treatment costs and assistance services related to COVID-19;
- editing the GTCI of other motor insurance products to ensure that the wording is as accessible and understandable for clients and meet the standards of a simple language.

TUW PZUW's activity



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

At the end of 2020, the TUW PZUW had 432 members, which is 50 more than the year before. They are grouped by specific criteria (industry, corporate, risk types) in 52 mutual benefit societies (their number grew by two as compared to the previous year).

TUW PZUW is consistently attuning its operating model to the growing scale of business by expanding its team of professionals, who provide comprehensive service of its members' insurance and tailor the offering to the members' individual preferences.

In 2020, TUW PZUW **continued its dynamic growth in terms of sales**. It implemented new products and innovative service solutions, responding to the needs of the changing market and client expectations.

The most significant change in the offering was the launch of the **Machinery Loss of Profit (MLOP)** product for both large and smaller businesses. In the strategic partnership (affinity) area, an insurance offer was developed for renewable energy sources and assistance for clients with photovoltaic installations.

On the „500 List”, which is the list of largest Polish companies prepared by the Rzeczpospolita daily, TUW PZUW increased its ranking in 2020 from 460th (in 2018) to 407th. As a result it ranked 12th in the „Top Movements” category. It was also ranked 30th in the list of companies with the highest income growth (53rd in last year's edition).



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

In addition to chance events, such as flood, drought and spring ground frosts, the following risks are possible:

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

3.3 Life insurance (PZU Życie)

Market situation

After three quarters of 2020, the life insurance market in Poland, measured by gross written premium, was worth PLN 15,395 million, meaning that over the most recent 5 years it contracted on average by 3.6% per annum. At the same time, the premiums collected during the three quarters were 3.1% lower than those in the corresponding period of 2019. This resulted principally from the evolution in the single premium business in investment products. Gross written premium in periodic premium products has increased both in life insurance (class I) and in accident and illness insurance (class V).

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



* based on tables „Technical Account of Life Insurance Companies by Insurance Classes”
Source: KNF, Quarterly Newsletter. Rynek ubezpieczeń [Insurance market] 3/2020, Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016

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. Similarly, the premium contraction for the overall market year on year pertained to single premiums (down PLN 825 million, i.e. -24.1% y/y, compared to -17.0% in the previous year). The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in a trend over several years. The low interest rates and the tax on short-term endowment insurance products with fixed or index-based rates of return, which was introduced in 2015, contributed to the declining interest in those investment products and caused them to be gradually

withdrawn from offer (mainly the fixed rate products). In subsequent years the guidelines of the regulatory authority, including those regulating the level of fees charged to clients of unit-linked products, as well as EU directives regulating the market for unit-linked products and their distribution led to insurance undertakings constricting their offering of these types of products, especially in cooperation with banks. After three quarters of 2018, the first sudden decline in single premiums was recorded (-31.7% y/y, of which -41.3% in the area of investment products) which was followed by downward movements in subsequent years (-24.1% after three quarters of 2020).

The outcome of this market evolution was the expanding significance of periodic premium that constitutes PZU Życie's competitive edge on the market. During the three quarters of 2020, premium with this payment form was 2.6% higher compared to the same period in 2019, with a cumulative average growth rate of 1.1% for the last 5 years. Despite the declining periodic premium in unit-linked life insurance (by PLN 197 million y/y), the premium in protection products in classes I and V continues to trend upward (PLN +511 million y/y), in both group products (PLN +170 million y/y) and individually purchased insurance (up by PLN 117 million y/y).

At the same time, market concentration measured by the periodic gross written premium remained high. During the last year, the sequence of the four largest market players has not changed and their combined share rose to 71.2%.

The total technical result generated by life insurers in Q1-Q3 2020 was up PLN 176 million (+6.9% y/y) from the corresponding period of 2019 to PLN 2,718 million. An increase

occurred only in the accident and illness insurance class (class V) – by PLN 352 million (+24.1% y/y). It resulted from an increase in net earned premium with a simultaneous decline in claims and benefits (the impact of temporary social isolation due to the pandemic and therefore lower accessibility of medical services).

In this same period, life insurers generated a net result of PLN 2,175 million, representing a PLN 114 million (5.5%) increase y/y. This is the effect of the technical result being better than in the corresponding period of 2019, with a simultaneous unfavorable impact of investment performance realized on insurers' free funds.

The total value of the investments made by life insurers at the end of Q3 2020 was PLN 42,259 million, signifying a 4.8% growth compared to the end of 2019. However, the high level of claims paid out, which exceeded the level of contributions to funds led to a lower net asset value of life insurance in which the policyholder bears the investment risk (down 5.9% to PLN 46,141 million).

PZU Życie's activity

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

- group and individually continued insurance;
- individual insurance;
- investment contracts.

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

Life insurance market – gross written premium vs. technical result	1 January - 30 September 2019			1 January - 30 September 2020		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	6,351	15,887	9,536	6,519	15,395	8,875
Technical result	1,334	2,542	1,208	1,519	2,718	1,199
Profitability	21.0%	16.0%	12.7%	23.3%	17.7%	13.5%

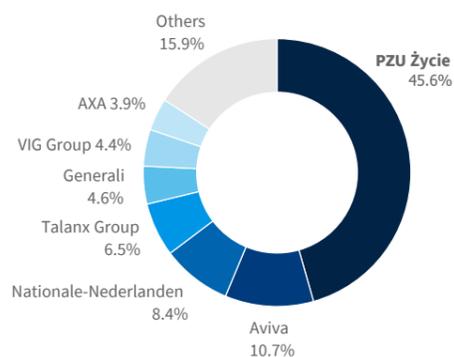
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2020, Rynek ubezpieczeń 3/2019, PZU Życie's data

During Q1-Q3 2020, PZU Życie wrote 42.3% of the gross written premium of all life insurers on the market, signifying further growth on top of last year's market share (2.4 p.p.). The reason for the increase is the higher level of single gross written premium than a year earlier (both among protection insurance products and investment insurance products) with a decrease in the share of other market participants (mainly in the unit-linked life insurance class).

At the same time, PZU Życie continued to be the leader in the periodic premium segment. The first three quarters of 2020, it generated 45.6% of these types of premiums, signifying a small decrease (by 0.3 p.p.) in the market share in this segment as compared to the previous year. The rate of increase in gross written premium at PZU Życie in this segment was 2% y/y, while the other market players taken together posted a 3.1% growth rate. One of the major factors was the rapid growth in the portfolio of health insurance (class V) and individual protection insurance (class I). PZU Życie had nearly 2.2 million health insurance policies in its portfolio.

PZU's share in just the life insurance segment (class I) for periodic premiums at the end of Q3 2020 was 59.7% when measured by gross written premium and 64.2% when measured by the number of contracts in force. In turn, PZU's market share in terms of the method of entering into an agreement just in the life insurance segment (group vs. individual) was 64.9% for group policies and 41.8% for individual policies (measured by gross written premium).

Life insurers – percentage of periodic gross written premium in Q1-Q3 2020 (%)



Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva - Aviva, Santander-Aviva
Source: KNF, Quarterly Newsletter. Rynek ubezpieczeń [Insurance Market] 3/2020

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was 1.7 times higher than the overall margin generated by other companies offering life insurance (23.3% versus 13.5%).

Product offer

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

The changes in the offering take into account the new requirements of the regulatory authority and the growing extent of statutory consumer protection. The changes are made not only to the product itself but also entail the modernization and simplification of the way in which insurance is offered and sold. They also enable the client to take advantage of various contact channels to reach the insurance undertaking (e.g. in a branch, by phone, e-mail, Internet client account, person providing technical insurance services in the workplace or through an insurance intermediary, whether tied or external).

Under **group and health insurance**, PZU Życie took the following actions in 2020:

- added a new insurance rider, "Child Cover", to the offering of PZU Cover and Health and PZU Life Protection products. The rider includes three additional risks: critical illness (26 diseases), hospitalization as a result of an illness or accident, and the child's health loss. The insurance covers children less than 18 years of age. Insurance riders are available in two variants which differ in the amount of the sum insured with the premium amount independent of the number of children covered. The insured has the option to decide on his or her own whether or not to extend the cover with a new rider (My Choice);
- extended the P Plus group insurance offering with the following three new riders designed to provide insurance cover for children:

- accidental dismemberment of a child,
- hospitalization of a child caused by an accident or illness,
- occurrence of a critical illness of a child (26 different diseases).

Each of these riders may be extended to include medical services, among others consultations with specialist physicians and rehabilitation;

- introduced a pilot of the **PZU Cover for Farmers** product for natural persons who are owners and co-owners of an agricultural farm. Insurance cover may also include their spouses or life partners and adult children. The advantages of this offering include high benefits in the event of accidents and protection for additional risk, addressed only to this group of clients: i.e. death of the insured as a result of an accident at agricultural work. A client may choose from four options of the offering;
- launched an **industry-specific offer** in the PZU Cover and Health and PZU Life under Cover insurance. In this offer, clients may choose a non-standard sum insured and higher benefits for specific permanent dismemberments, which are more prevalent for people employed in specific industries. The scope, and even the graphic design, of each offer refers to the industry, for which it has been developed;
- extended the corporate insurance offering by adding new insurance riders against the **loss of abilities in everyday life**. It is the first product of this type on the Polish market. It ensures financial support if, as a result of illness or accident, the insured loses his/her ability or skill affecting the quality of his/her everyday life and work (such as e.g. sight, hearing, speech, walking, standing, sitting, bending). The key advantage of the PZU Życie's offering over the products existing on the market, in terms of permanent inability to work and/or function independently is the lack of an obligation to present ZUS decisions on inability to work as well as simple and easy to understand definitions of impairment. The money received from insurance may provide assistance, for instance in rearranging the insured's apartment or vehicle to the new requirements arising from his or her disability, hiring a rehabilitation specialist or home assistant, or settling current liabilities. In July 2020, a new insurance rider supplemented the PZU Cover and Health and PZU Life under Cover offer;
- launched sales of **PZU Thinking about Life and Health** product for companies employing up to 4 people. Employees may select from among 6 insurance options with different covers and benefit amounts. Each option

may be extended to include private medical care. The insurance covers have been prepared to address different needs, depending on the client's stage in life. Agreements are concluded remotely via the **mojePZU** portal. PZU Życie can insure even a single employee – also when an employer itself does not take out a cover;

- supplemented the PZU Cover and Health and PZU Life under Cover offer to include **riders for the insured's spouse**: hospital treatment, surgical operations and permanent dismemberment. The new riders extended the cover for spouses and enhanced the competitiveness of the whole offer;
- updated selected insurance riders for the P Plus group insurance (among others, critical illness of the insured/spouse, specialist treatment). The changes involved mainly adaptation of the definition to the current medical knowledge and simplification of enrollment. In the **specialist treatment** rider the scope of covered medical procedures was extended (from 6 to 10), thus improving the competitiveness of the agreement.

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

- implemented pioneering insurance riders covering the **loss of abilities in everyday life**. The product, just like the new one offered in group and health insurance, ensures financial support if, as a result of illness or accident, the insured loses his/her abilities affecting the quality of his/her everyday life and work;
- modified the insurance rider covering death caused by a motor accident and introduction of a promotion under the name „**Additional sums insured**” The purpose of this campaign is to incentivize clients to purchase insurance riders offered under protection and unit-linked products. The campaign focuses on increasing the sum insured in the insurance rider selected by the client without charging an additional premium;
- introduced **three insurance riders covering critical illness, hospital treatment and surgical operations**, covering the largest in Poland list of critical illnesses. These products

offer, among others, the possibility of multiple payout of the benefit and receipt of a pharmacy card after hospitalization, i.e. free medicines up to a specified limit. They also provide an additional benefit in the event of hospitalization in connection with a malignant neoplasm;

- supplemented the offer by adding the **PZU Treatment abroad** individual insurance, providing comprehensive organization of treatment in specialized medical centers abroad and covering its costs. The insurance covers:
 - development of a neoplasm,
 - cardiac surgery,
 - neurosurgical procedure,
 - organ or bone marrow transplant;
- **introduced 5 new products offering insurance coverage for children.** They provide for disbursement of a policy benefit in the event of critical illness, hospital treatment, surgical operation or accidental dismemberment of a child. They allow for treatment of the child abroad in specific situations, e.g. if they have a malignant neoplasm, if a cardio- or neurosurgical operation or transplantation is required. As part of the **PZU child treatment abroad** insurance, PZU arranges for the treatment and covers its costs up to as much as EUR 2 million;
- expanded the individual insurance offer to also cover a **spouse or partner**, making it possible to take out a comprehensive insurance of the whole family under a single policy. Thanks to the joint policy the conclusion of the insurance agreement is simpler and all policy components can be paid for in a single premium.

Thanks to the new cover and the numerous changes introduced over the past dozen or so months, PZU's **individual life and health insurance offer** has become one of the broadest and the most competitive in the Polish market.

In **individual pension insurance**, the PZU IRSA (Individual Retirement Security Account) insurance has been modified to adapt it to the new regulations effective as of 1 January 2021. From this date, the IRA and IRSA Act introduced a new amount limit for persons who conduct non-farming business activity.

These person may pay into IRSA up to 1.8 times the average forecasted monthly salary in the national economy for the given year. Other clients may pay into IRSA up to 1.2 times the average forecasted monthly salary for the given year.

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

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

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

The main risk factors include:

- the COVID-19 pandemic and its social and economic consequences, in particular deterioration of the financial standing of businesses and employees from industries affected by the restrictions and the related problems with maintaining and paying for the policies, and the higher death rates among Poles and the need to develop modern, remote solutions for product distribution and service;
- availability of medical personnel in public health care;
- the prospect of lower interest rates and their impact on the insurance industry;
- 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 mortality and fertility levels;
- constant price pressure in group insurance and the battle for client ownership (and client data), thereby cutting the insurer's margins, reducing the quality of the product and fostering entry and exit obstacles for clients to overcome with independent intermediaries;

- changes in client trends and behaviors towards customization of the offering;
- possible product intervention of the regulatory authority in the unit-linked fund segment;
- the emergence of new competitors and solutions from outside the insurance industry, including the operators of large client bases or insurtechs;
- 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.

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

In 2020, in connection with the COVID-19 pandemic, the balance of the banking sector was put to a test, and the results of a number of players were burdened with additional provisions. Despite that, banks managed to go through this phase of the crisis with stability. Polish banks started 2020 with, among others, efforts to adapt to the CJEU judgments concerning mortgage loans in foreign currencies and the so-called "small CJEU" concerning consumer loans. However, additional challenges associated with COVID-19 arose quickly. The pandemic spreading across the globe has pushed the global economy into a crisis at a scale not previously seen in the post-war history. Poland entered recession already in the second quarter and has not managed to make up for the losses before the end of the year. Deterioration of economic activity had direct impact on the results of the banking sector. Additionally, the sector had to struggle with record low interest rates. This was one of the instruments which the MPC introduced in order to support the economy during the slowdown period.

As at the end of December 2020, there were 30 domestic commercial banks, 530 cooperative banks and 35 branches of credit institutions operating in Poland. The banking network comprised a total of 5,551 branches, 2,911 offices, agencies and other customer service outlets and 3,106 representative offices (including partner outlets). Therefore the banking network comprised a total of 11,568 outlets, i.e. 1,213 outlets less than at the end of the previous year.

Headcount in the banking sector at the end of December 2020 fell to 149.0 thousand people and was 7.9 thousand (5.0%) lower than at end of 2019.

In 2020, the banking sector generated a net profit of PLN 7.8 billion, compared to PLN 13.8 billion in 2019, down PLN 6.0 billion (i.e. 43.8% y/y). The interest income movement (PLN -9.4 billion y/y) had the most profound impact on the development of the net profit. In addition the result on provisions and impairment losses was PLN 4.1 billion lower y/y and the dividend income declined by PLN 1.2 billion y/y. Positive impact came from a decrease of interest expense (PLN -7.3 billion y/y) and commission income (PLN +1.5 billion y/y).

The economic recession already from Q2 2020 exerted strong pressure on the margins in the sector. April and May brought a noticeable deterioration of the interest margin. Despite keeping financial costs under control, the margin dropped to 2.24% at the end of the year, compared to 2.63% in December 2019.

Return on equity in 2020 was gradually dropping, starting from March. In 2020, ROE in the banking sector stood at 3.38%, which was the lowest since 2012. Compared to 2019, it fell by 3.35 p.p.

In December 2020, the assets of the banking sector stood at PLN 2,356 billion, up 17.8% y/y. The increase in the assets of the banking sector was driven mainly by an increase of the value of debt instruments.

Loans and advances in December 2020 stood at PLN 1,295 billion, down 0.2% y/y, which is a sign of the slowdown of the lending activity as the crisis developed. Despite lower interest rates, the growth rate of deposits increased noticeably. At the end of December 2020 they increased to PLN 1,688 billion, i.e. 14.2% y/y.

The structure of deposits recorded a slight decrease of the share of the non-financial sector from 85.6% in December 2019 to 80.4% in December 2020. The biggest increase was posted in corporate deposits, as result of the crisis tendency to increase the liquidity cushion by businesses and accumulation of funds from the "Anti-crisis Shield". Household deposits also accelerated but to a lesser extent than in the case of corporates.

At the end of September 2020, the banking sector's own funds for capital ratios, calculated in accordance with the regulations

laid down in the CRR Regulation¹, was PLN 227.5 billion, up 8.1% from the end of September 2019.

The banking sector's total capital ratio at the end of September 2020 was 20.4% (up 150 bp compared to the end of September 2019). The Tier I capital ratio at the end of September 2020 was 18.4% (up 143 bp compared to September 2019).

Operations of the Pekao Group



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

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

At the end of Q3 2020, Bank Pekao was the second largest bank in Poland (in terms of the asset value).

New products and services

In 2020, Bank Pekao took broad actions supporting employees, clients and business partners, adapting its activity to the challenges and restrictions associated with the COVID-19 pandemic. The solutions implemented were aimed at maintaining business continuity. The key was to reduce the risk of a coronavirus infection by the employees and provide clients with safe access to banking services.

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

Bank Pekao promoted “7 golden safe banking rules” encouraging clients to:

- use online banking – Pekao24 and the PeoPay mobile app;
- use remote contact via chat, video or phone;
- limit visits in the bank outlets;
- apply safety rules while visiting a branch.

Caring about client safety, Bank Pekao was one of the first banks to increase the limit for contactless payments to PLN 100, without authorization required, for all Bank Pekao clients using payment and credit cards.

Bank Pekao supported clients in maintaining financial liquidity during the COVID-19 pandemic. Retail banking clients were enabled to suspend repayment of consumer and mortgage loans for the time of temporary problems with managing the household budget during the pandemic. The “moratorium period” covered 6% of the retail loan portfolio and 4% of the micro business and SME loan portfolio. In Pekao24 the Bank launched the possibility of a fully remote application process.

Moreover, to alleviate the adverse consequences of the COVID-19 pandemic on the operation of enterprises, Bank Pekao signed a portfolio agreement with Bank Gospodarstwa Krajowego regarding a de minimis guarantee facility. As a result, clients from the micro business and SME sector could secure their loans with a guarantee granted on special terms, and portfolio guarantee agreement with BGK under the Liquidity Guarantee Fund. In addition, Pekao signed an agreement with the European Investment Fund pertaining to free guarantees for loans for micro businesses.

In 2020 Pekao opened 409 thousand new accounts. The account sales were driven by the innovative solutions introduced for clients, including primarily **opening accounts using a selfie** based on biometrics and implementation of the **PeoPay KIDS** package. In 2020, 26% accounts for retail clients were initiated online, which was four times more than in 2019. In the best months, as much as one out of three accounts was opened this way.

In June 2020, the bank released the PeoPay KIDS app developed specifically for children aged between 6 and 13. The app lets children learn in an easy and accessible manner how to save and manage their money. Children may also obtain their own PeoPay KIDS payment card to let them make purchases in stores and withdraw cash. PeoPay KIDS is linked to the parent panel in the PeoPay app and Pekao24 online banking. All child transactions require a parent's authorization. Thanks to an intensive advertising campaign, Pekao acquired over 37 thousand PeoPay KIDS packages. As a result, the growth rate of the number of child accounts reached 31% y/y.

In H1 2020, Pekao implemented a **Smart City** solution – a modern contactless technology for acceptance of payment cards in public transport in Białystok. Thanks to this solution you can buy tickets without cash and the payment card authorizes the holder to ride on city busses. At the beginning of October, Białystok Public Transport started a new stage of the development of the Smart City. An alternative method of charging the fee for multiple trips during the day, the so-called Smart BKM Tariff, was introduced. The tariff offers measurable savings to passengers who travel by bus a few times a day. The bank plans to roll out this solution also in other cities.

In September 2020, the bank's clients holding Visa Debit Gold and Visa Business debit cards were given the possibility of connecting them to Apple Pay. The service allows for quick contactless payments using Apple devices, such as iPhone, Apple Watch or iPad. To use these convenient payments, you just need to activate Apple Pay in the PeoPay app or add the card directly in Apple Wallet.

Since December 2020, the bank's clients may enjoy the benefits of Google Pay. The service is available to holders of Mastercard and VISA cards.

In addition, in 2020 Pekao accepted applications under the governmental program Dobry Start 300+ subsidizing the purchase of school items, emerging as a leader among banks with the largest number of applications accepted online. In addition, together with PZU, an offer of school ADD insurance with a 10% discount was prepared.

The bank granted preferential loans for environmental investments, reduced the volume of consumed paper by encouraging clients to give up hardcopy bank statements, and used recycled paper for production of advertising materials.

Pekao TFI



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

As at 31 December 2020, the net asset value of Pekao TFI funds (including ECS) totaled PLN 19.3 billion, down PLN 2.2 billion, i.e. 10.4% in comparison to the end of December 2019. The drop in the value of assets was driven down by the pandemic. Meanwhile, a lion's share of cash obtained from the redemption of participation units in mutual funds was accumulated in bank accounts. SECTION 3.5 MUTUAL FUNDS AND EMPLOYEE CAPITAL SCHEMES(TFI PZU)

Operations of the Alior Bank Group



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

Alior Bank provides services predominantly to clients from Poland. In 2017, Alior Bank opened a foreign branch in Romania, offering retail banking products and services.

However the percentage of international clients in the overall number of the bank's clients is negligible.

In 2020 Alior Bank published its new strategy for 2020-2022 entitled "More than a bank". 2020 was also a period of challenges in the difficult COVID-19 pandemic conditions. Introduction of solutions that guarantee employee and client safety and ensure business continuity was key.

At the end of Q3 2020, Alior Bank was the 8th largest bank in Poland (in terms of the value of its assets).

New products and services

In 2020, Alior Bank focused on solutions which provided clients with online access to products and services, without the need to visit branches. Among the projects, the solutions supporting remote verification of identity were of key importance. This is an area that was being developed as a priority, to provide clients with convenient, fast and safe access to Alior Bank's offering, at any time and in any place, also in the unique conditions created by the COVID-19 pandemic.

The first big project in 2020 of this category was the investment in the **Autenti fintech**. The platform developed by Autenti is used for authorization of documents and concluding agreements online, using all available sIDAS e-signatures: standard, advanced and qualified.

In Q1 2020, Alior Bank implemented also a proprietary client identity verification method without the need to visit a branch. Thanks to the **FOTO ID method**, the identity verification method takes no more than 5 minutes. At the same time, the solution is intuitive and does not require advanced digital skills.

The next effort focused on remote client identification was the cooperation with Polska Wytwórnia Papierów Wartościowych [Polish Security Printing Works]. One of the areas of cooperation is the use of an e-ID, which supports client identity verification without visiting a branch. Thanks to the **eDo App**, with an e-ID clients can confirm their personal data and may freely use Alior Bank's products and services.

In 2020, Alior Bank made available to clients the "**one click loan**" option in a special offer in Alior Mobile and Alior Online. Thanks to the offer, those interested in borrowing additional money may apply for a loan quickly and conveniently without leaving home.

The bank expanded its **credit card installment** service by offering it through **remote channels**. Clients may themselves split the repayment into installments by logging into online or mobile banking.

Micro businesses were offered a **fully remote borrowing process**, based on the Foto ID method and the Autenti platform. The existing and new clients from this segment may obtain financing up to PLN 200 thousand without having to visit a branch. This comfortable solution comprises working capital loans in the form of a BGK guarantee and repayment period of up to 3 years.

From H2 2020, business clients may also sign, in Alior Bank's branches, **Employee Capital Scheme management agreements** with the TFI PZU – inPZU SFIO ECS.

Alior TFI



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

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

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

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

- impact of the COVID-19 pandemic on the economic conditions and macroeconomic factors which will drive the demand for banking products, changes of the risk costs and the quality of the credit portfolio;
- scale of demand for banking services and the ability of banks' clients to timely pay their financial liabilities, which

largely depends on the clients' financial standing. Apart from the country's macroeconomic standing, the economic situation of a number of client groups also depends on the national economic policy being pursued. Both a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients of banks;

- possibility of a temporary increase in risk aversion due to the uncertainty caused by the impact of the COVID-19 pandemic on the level of global economic activity, which may translate into reduced investment activity of banks' clients;
- continuing low interest rates exerting strong unfavorable impact on the results of the banking sector (through impact on the net interest income);
- interest rate policy of the Monetary Policy Council;
- banking sector consolidation and restructuring processes;
- development of banking services offered by non-regulated entities, including global technological companies;
- the fiscal and regulatory environment, including, in particular, the tax on certain financial institutions, the strict capital requirements, the BFG charges, the costs of further adjustments to a plethora of regulatory solutions (including MIFID II, GDPR, PSD II, MREL).

Other than the factors mentioned above, one of the most important issues of today remains that of foreign currency mortgage loans. In the absence of a final systemic solution of this issue, the largest impact on the banking system will be exerted by court rulings handed down in lawsuits concerning specific loan agreements. A number of events (among others, the CJEU ruling of 3 October 2019) prompted an increasing group of borrowers to bring their claims to court. This will have a strong adverse impact on the financial performance of the affected banks, in particular those with large portfolios of such loans. So far, the main area of impact were the provisions recognized by banks in connection with the anticipated legal risk – they had a strong, negative impact on the sector's results in 2020. 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, reactions of national regulatory institutions

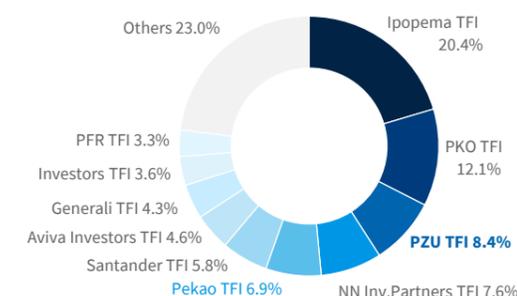
and steps taken by the banks themselves. Also, a scenario cannot be ruled out in which the CHF loan problem will be eventually solved by the adoption of appropriate legislative measures.

3.5 Mutual funds and Employee Capital Schemes (TFI PZU)

Situation on the mutual fund market

As at the end of 2020, assets under management of domestic mutual funds were nearly PLN 280.5 billion, compared to 268.0 billion at the end of 2019, representing an increase by 4.7%.

Mutual fund companies – share in assets as at 31 December 2020 (in %)



Source: IZFiA

In 2020, according to data by Anality Online, the balance of payments to and withdrawals from retail funds offered by TFIs in the domestic market stood at PLN 0.1 billion. This low sales result was caused mainly by the massive fund outflows in March and April (PLN 23.1 billion in total) in response to the panic behavior of capital markets in connection with the start of the COVID-19 pandemic in Poland. From May to December positive fund flows gradually increased, thanks to which the year ended with net inflows.

As a result of low interest rates on bank deposits from May to the end of 2020, debt funds were the most popular, but despite that, as a result of March and April outflows they recorded negative flows (PLN -2.7 billion). In 2020, the importance of Employee Capital Scheme (ECS) funds increased – they are, by nature, resistant to the market situation thanks to systematic

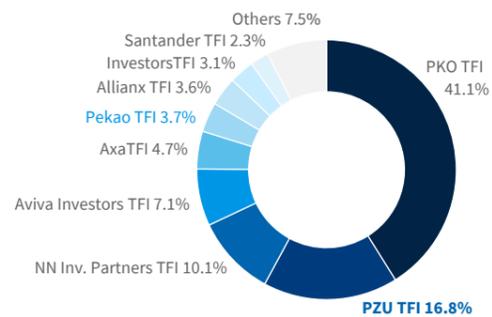
PZU Group's activity

payments made by employees, employers and the State Treasury. These funds attracted the most money in 2020 (over PLN 2 billion). Net inflows were also recorded by mixed funds (PLN 1.7 billion) and commodity funds (PLN 0.6 billion).

Employee Capital Schemes

According to the Polish Financial Supervision Authority, the net asset value of the defined date funds under the ECS system at the end of 2020 was over PLN 2.8 billion. Net asset value of the defined date funds in the ECS system operated only by mutual fund management companies (TFI), without universal pension fund management companies (PTE) and insurance undertakings (ZU), at yearend 2020 stood at PLN 2.3 billion.

Mutual fund companies – share in assets (Defined Date Funds) as at 31 December 2020 (%)



Source: KNF, net asset value of Defined Date Funds (FZD) according to management institutions, data for TFI only, without PTE and TU

- Employee Capital Schemes are voluntary long-term savings programs for employee. Money on the employee's ECS account comes from three sources:
- the employee's own payments (the so-called basic contribution, which is mandatory and voluntary additional contribution);
- contributions financed by the employer (basic and additional contributions);
- subsidies financed by the State Treasury (the so-called welcome contribution of PLN 250 and annual contributions of PLN 240).

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

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

The money collected on the ECS account, coming both from own contributions and from contributions made by the employer and State Treasury subsidies, are fully owned by the employee and are inherited. The idea behind ECS is to accumulate savings for the future, when the employee turns

60. He/she may withdraw the money at any time before but will lose the State Treasury subsidies and will have to pay the capital gains tax.

Employee savings accumulated in the ECS are invested in defined date funds, that is funds with a specific investment target date, which will be close to the participant's expected retirement date. Depending on the participant's age, the degree of risk is modified: initially, funds are invested in more risky assets (such as equities), and over time they are switched to safer assets (such as bonds).

The ECS are introduced in stages. In the first stage, started on 1 July 2019, the reform covered employers with more than 250 people, followed by other groups in the next periods.

In connection with the outbreak of the COVID-19 pandemic, the final deadline for signing ECS management contracts by companies employing from 50 to 249 people (II stage of the reform) was postponed by half a year relative to the earlier deadline to 27 October 2020.

ECS may be managed and operated only by companies entered in the records kept by the Polish Development Fund. As at the end of December 2020, there were 20 such institutions: 16 TFIs, 3 PTEs and 1 ZU (Towarzystwo Ubezpieczeń na Życie).

TFI PZU's activity



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

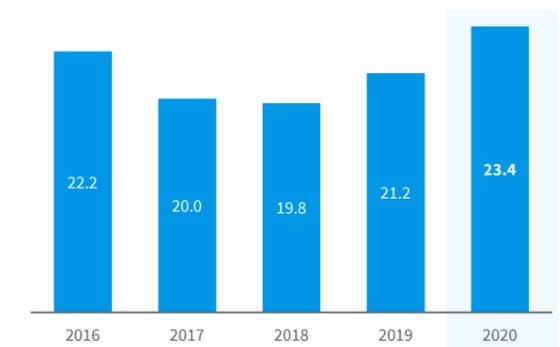
- Individual Retirement Accounts (IRA);
- Employee Savings Plans (ESP);
- Employee Pension Schemes (EPS);
- Employee Capital Schemes (ECS);
- Company Investment Plans (CIP);
- Group Pension Plans (GPP), within which Individual Retirement Security Accounts (IRSA) are available.

As at the end of 2020, TFI PZU had 50 funds and sub-funds in its portfolio, including 9 ECS sub-funds.

In 2020 the offer of specialized open-end mutual funds inPZU SFIO was strongly developed. These funds are available on the online platform inPZU.pl. Clients were offered new passive strategies based on cooperation with such partners as the Warsaw Stock Exchange and Goldman Sachs Asset Management, as well as actively managed 'lifecycle' funds with investment policy changing over time, adapted to savings for pension. TFI PZU also offers intensively developed managed account services.

As at the end of 2020, TFI PZU managed a portfolio of net assets worth PLN 23.4 billion, representing a 10.5% increase from the end of 2019 and an 8.36% share in the mutual fund market. Accordingly, TFI PZU reached the status of one of the three largest mutual fund companies in Poland (it was ranked third according to reports published by the Chamber of Fund and Asset Management (IZFIA)).

TFI PZU's net assets (in PLN billion)



Source: IZFIA

The largest increase in TFI PZU assets was posted by the following funds: PZU Papierów Dłużnych POLONEZ (up PLN 632 million), inPZU Inwestycji Ostrożnych (up PLN 254 million), PZU Stabilnego Wzrostu MAZUREK (up PLN 178 million), PZU SEJF+ (up PLN 168 million), PZU Akcji KRAKOWIAK (up PLN 139 million), PPK inPZU 2035 (up PLN 72 million), PPK inPZU 2040 (up PLN 68 million), PZU FIZ AKORD (up PLN 65 million), PPK inPZU 2030 (up PLN 61 million) and PPK inPZU 2045 (up PLN 60 million).

The following funds recorded the largest decreases in net assets at yearend 2020: PZU Obligacji Krótkoterminowych, inPZU Obligacje Polskie, inPZU Akcje Rynków Rozwiniętych, inPZU Akcje Polskie and PZU FIZ FORTE.

ECS implementation stages

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

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

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

TFI PZU is the leader in the pension product segment. At yearend 2020, it accumulated net assets in the amount of PLN 5.1 billion in Employee Pension Schemes.

TFI PZU is also one of the leaders of the Employee Capital Schemes market. The amount of assets accumulated in ECS funds managed by TFI PZU stood at PLN 392.2 million, which accounted for nearly 17% of the market (according to Chamber of Fund and Asset Management's report) as at end of 2020. By 22 January 2021, ECS management agreements were signed with TFI PZU by over 35 thousand employers. This result is attributable to, among others, the broad support that TFI PZU offers to employers in deployment and service of ECS. They may use a free online service for remote conclusion of ECS management and operation agreements and daily service of ECSs. After the outbreak of the pandemic TFI PZU also introduced the possibility of entering into ECS agreements by phone.

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

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

- macroeconomic situation (including the rate of GDP growth, the unemployment rate and the inflation rate in Poland and throughout Europe) affecting the financial standing of enterprises and households;
- the condition of Polish economy and global economies as a result of the restrictions associated with the COVID-19 pandemic;
- effectiveness of the COVID-19 vaccinations and the pace of the vaccination campaigns in individual countries;

- actions taken by central bank (Federal Reserve System – FED, European Central Bank – ECB, Bank of Japan, People's Bank of China) translating into global money supply and liquidity on the financial markets;
- continuation of the record low interest rates which affect the attractiveness of bank deposits while increasing the attractiveness of alternative forms of investments;
- uncertainties related to privacy and technology regulations, new taxes and the enactment of antitrust regulations;
- interest in savings in ECS among employees in the IV stage of the reform, affecting the amount of money accumulated in ECS funds.

3.6 International operations

Lithuanian market

According to the Bank of Lithuania, in 2020 gross written premium collected by non-life insurance companies totaled EUR 664 million, representing a decrease by 1.6% compared to the previous year.

This was attributable mainly to motor insurance that has a dominant market share (59.7%). Reduced traffic on the roads as a result of the restrictions introduced in connection with the COVID-19 pandemic and the increasing competition between insurers brought down TPL premium rates by 7.3% and MOD rates by 1.9%.

Real property insurance was resistant to the crisis. The premium written growth in this group remained at 8.0%. The health insurance sales, which dynamically increased in 2019, slowed down by 1.2% from the beginning of 2020.

As of the end of December 2020, there were 11 companies operating in the non-life insurance sector, including 7 branches of insurance companies seated in other EU member states. The number of companies dropped in comparison to last year after the Compensa and Seesam merger in July 2020.

Lietuvos Draudimas continues to be the largest insurance company in terms of total gross written premium in non-life insurance – the company's market share at the end of 2020 stood at 29.6%. The shares of top four players in the non-life insurance market totaled 69.6%.

Gross premiums accumulated by Lithuanian life insurance companies in 2020 were EUR 291 million, up 7.5% relative to 2019. The increase was generated by regular premiums, increasing by 7.7%, and single premiums growing by 4.9%.

In the life insurance structure, unit-linked insurance represented the largest share at 65.1% of the portfolio value. Traditional life insurance accounted for 14.2% of written premium.

The value of new business dropped by 20.4%, which resulted from the restrictions imposed due to the pandemic. Premiums from the sale of new unit-linked products dropped 25.3%, and from the sale of new endowment products by 38.7%. Only premiums from the sale of life products increased – by 8.3%.

The Lithuanian life insurance market is highly concentrated. As at the end of December 2020, 8 companies operated in this sector but the share held by the 4 largest life insurance companies in total gross written premium was 78.1%.

Swedbank is the largest life insurance company in Lithuania in terms of total gross written premiums with a 23.3% market share. The next players are Aviva (19.2% market share) and Compensa (18.7% market share).

Latvian market

At the end of 2020 the Latvian non-life insurance market recorded a gross written premium of EUR 380 million, down 4.6% (EUR 18 million) relative to the previous year².

The biggest drop in sales was recorded in motor TPL insurance (by EUR 14 million) and MOD (by EUR 6 million), which was related to the travel restrictions during the COVID-19 pandemic. The pandemic also resulted in a significant decline in the sale of travel insurance (by EUR 6 million). Health insurance, in turn, recorded an increase in sales by EUR 3 million.

² The data published in 2019 took into account also the deductions associated with mandatory fees on account of motor TPL insurance. After their restatement, the sales growth rate is estimated at -5.7% y/y.

The motor insurance business had the largest share in the non-life insurance market measured by gross written premium. Motor TPL insurance accounted for 23.7% of the market while motor own damage accounted for 23.0%. Also property insurance (21.3% market share) and health insurance (18.4% market share) had an important position in the product mix.

At the end of 2020, 10 insurance companies operated on the Latvian non-life insurance market; the top 4 insurers held 68.8% of the market.

Estonian market

In 2020, non-life insurance companies operating in Estonia recorded a decrease in gross written premium by 3.7%, recording sales in the amount of EUR 383 million. 32.0% of this amount, i.e. EUR 123 million, was collected by branches of foreign insurers operating in Estonia.

The travel restrictions introduced in connection with the COVID-19 pandemic affected the non-life insurance market. Sales of travel insurance dropped by EUR 7 million (36.9%) relative to 2019, and motor TPL insurance by EUR 12 million (12.1%), which was additionally attributable to the price pressure and the resulting reduction of insurance rates in this market segment.

The structure of non-life insurance in 2020 was dominated by motor insurance, with 57.2% market share (including MOD motor insurance accounting for 31.1%). 29.1% of the gross written premium in the market, in turn, was collected on property insurance.

At the end of 2020, 13 companies operated in the non-life insurance sector (including 6 branches of foreign insurance companies) among which the top 4 held a combined market share of 70.4%. In 2020 Seesam closed its operations following a merger with Vienna Insurance Group.

Activity of PZU companies in the Baltic States



Lithuania

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

Estonia.

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania. Its market share at the end of 2020 was 29.6%. Compared to 2019, the company recorded a 3.4% decrease in gross written premium, reaching the sales of EUR 197 million. The biggest drop (by EUR 12 million, i.e. 9.0%), caused by the restrictions introduced as a result of the COVID-19 pandemic, was recorded in the motor insurance business.

PZU Group's life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas (PZU Lithuania Life). The collected gross written premium was EUR 19 million, which means an increase by 8.5% compared to 2019. The share of PZU Lithuania Life in the life insurance market in 2020 was 6.4% and did not change from 2019.

Latvia

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

In 2020 gross premium written by AAS Balta reached EUR 107 million, down 6.2% relative to 2019. Market share of AAS Balta in the non-life insurance market stood at 28.2%. The restrictions introduced in connection with the COVID-19 pandemic affected the sales of mainly motor insurance – gross written premium dropped by 7%.

Estonia

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

The share in the Estonian non-life insurance market in 2020 was 14.7%, and the accumulated gross written premium was EUR 56 million, down 10.4% relative to 2019. The biggest drop

in sales was recorded in motor insurance (by EUR 5 million, i.e. 12.2%), which was mainly the effect of the restrictions introduced in connection with the COVID-19 pandemic.

Activity of PZU in Ukraine



As of the end of June 2020, the supervision over the insurance market in Ukraine was taken over by the National Bank of Ukraine. This change resulted in, among other things, final implementation of the regulations on the

solvency levels required of insurance undertakings, which, in turn, led to termination of operations by some entities and the contraction of the financial and property insurance market. The Ukrainian insurance market after Q3 2020 posted a 18.7% decline in gross written premium to UAH 33 billion. The premium written for non-life insurance was UAH 29.4 billion, down 21.1% compared to the corresponding period of 2019. In addition to the reduction of the number of insurance companies, the lower sales were also attributable to the COVID-19 pandemic. As a result of the travel restrictions, significant sales declines were recorded in motor TPL and MOD insurance, green card and travel insurance.

As at the end of September 2020, insurance companies offering life insurance collected gross written premium of UAH 3.6 billion, signifying 8.4% growth compared to the corresponding period of the previous year.

The Ukrainian insurance market is highly fragmented. As at the end of September 2020, 215 insurance companies operated in the country, 20 of which offered life insurance. Despite the number of insurers that continues to be large, the top 100 non-life insurers generated 99% of gross written premium, while the top 10 life insurers generated 97% of written premium.

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

In 2020, gross written premium collected by PZU Ukraine was UAH 1,486 million, 13.1% lower than in the previous year. The restrictions introduced in connection with the COVID-19 pandemic affected the sale of travel and TPL insurance, required, among others, during submission of Polish visa applications (a 47.1% decrease) and green card insurance (a 39.3% decrease). In 2020, gross written premium collected by PZU Ukraine Life, in turn, was UAH 538 million, up 2.8% from 2019.

During three quarters of 2020, PZU Ukraine obtained 3.8% (up by 0.3 percentage points compared to the first three quarters of 2019) of the gross written premium on the Ukrainian non-life insurance sector, which enabled the company to come seventh on the non-life insurance market. The fourth place in the life insurance market went to PZU Ukraine Life with a 11.0% market share (down 0.3 percentage points relative to the previous year)³.

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

In addition to chance events, such as flood, drought and spring ground frosts, the following risks are possible:

- slowdown of economic growth in the Baltic States and Ukraine – the more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth in both motor and property insurance;
- adverse trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans as a result of the prolonged COVID-19 pandemic;
- resumption of price pressure in motor insurance, i.e. competition for clients through an active pricing policy applied by competitors;
- reduced demand for voluntary insurance due to an increase in the rate of unemployment and a decline in employment as a result of the ongoing COVID-19 pandemic;
- case law concerning the amounts of general damages paid in cash for the suffering sustained (legislative amendments in Lithuania) under the TPL insurance held by the owners of motor vehicles to the closest family members of persons who have died;

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

3.7 Medical services (Health)

Market situation

The health market is a dynamically developing and prospective business area. Experts from PMR⁴, dealing with market research and analyses in Central and Eastern Europe, expect that in 2020-2025:

- the growth rate of private health insurance will reach the average annual level of approx. 7.1% for supplementary health insurance and approx. 6.2% for subscriptions;
- the average annual growth rate of the fee-for-service market will be 5.8%.
In addition, the following is expected:
- further intensive development of telemedicine and service opportunities through remote channels;
- increasing number of persons outside working age and greater need to provide care to senior citizens;
- increasing public awareness of prevention and periodic examinations.

According to PMR⁵, the private health care offered under fee-for-service products at the end of 2019 was worth PLN 21.1 billion (up 12.9% y/y). The value of medical subscriptions reached PLN 5.1 billion (up 12.1%), while the value of private health insurance was nearly PLN 1 billion (up 8.9% y/y).

⁴ PMR Report entitled „Private Health Care Market in Poland 2020 – market analysis and development forecasts for 2020-2025”

⁵ PMR Report entitled „Private Health Care Market in Poland 2020 – market analysis and development forecasts for 2020-2025”

³ Insurance TOP, Ukrainian insurance quarterly, #7(75)2020



Activities in the health area



The PZU Group's operations in the health area include:

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

Development of the non-insurance health offering of PZU Zdrowie

Responding to the changing market environment, PZU Zdrowie adapted its offering to client expectations, introducing innovative solutions:

- In January 2020, PZU Zdrowie's own sales network started to sell subscription-based medical care, mainly for strategic corporate clients. Rules for internal communication with other PZU Group companies and for work on the shared portfolio were prepared to generate the best possible synergy, and the following were developed:
 - standardized Sales Contacts Report (CRM),
 - uniform documentation necessary for the execution of agreements,
 - rules for cooperation with external sales agents and brokers,
 - promotional and communication materials for the subscription product and occupational medicine;
- Within the structures of PZU Zdrowie, a tender offering area was established. Its key purpose is to align the product offering to the individual expectations of strategic tendering clients, in accordance with the tendering roadmap prepared by the company;

- Pilot sales of a product designed for seniors, named **Caring for seniors**, were launched. The offer provides for the use of geolocation bands for seniors, which monitor their basic life parameters and help summon assistance in life-threatening situations. The product also includes a medical package enabling prompt doctor consultations and tests – both stationary and remote;
- In August 2020, the **Safe Hotel** package was introduced for owners of hotel facilities, increasing the safety of hotel guests and providing telemedical care during their stay;
- As part of the **non-standard subscription offer**, the following were implemented:
 - update of the **subscription for Tauron's clients** – as part of the offer, prepared in cooperation with TUW PZUW, the possibility of concluding agreements for 36 months was introduced and the limits can be set based on the calendar year, rather than policy year, as before,
 - **subscription for PGNIG's clients** – comprises a medical package offered in cooperation with TUW PZUW,
 - **medical packages (vouchers) for car service garage employees** – a solution delivered in cooperation with PZU Pomoc,
 - **update of additional services**, such as:
 - elemedical consultations,
 - rental of rehabilitation equipment,
 - hospital consultant,
 - hospital advisor,
 - ambulance transport,
 - ad hoc oral medicine help,
 - **same-day surgery** – scheduled surgical procedures are performed and the patient is discharged from hospital on the same day or within 24 hours of the surgery. The service includes:
 - limited qualification consultations by a physician of the relevant medical specialty,
 - anesthesiological consultation,
 - surgical procedure,
 - required diagnostic tests accompanying the procedure and prescribed by the physician during hospitalization,
 - anesthesia,
 - dressing materials,
 - medical care,
 - cost of medicines prescribed as part of the service,
 - post-operation check-up.

Development of the insurance health offering of PZU Życie

- in March 2020, sales of **PZU Thinking about Life and Health** product for companies employing up to 4 people were launched. Employees may select from among 6 insurance options with different covers and benefit amounts. Each option may be extended to include private medical care. The insurance covers have been prepared to address different needs, depending on the client's stage in life. Contracts are concluded remotely via the **mojePZU** portal. PZU Życie can insure even a single employee – also when an employer itself does not take out a cover;
- thinking about children, in the first quarter of 2020 the "P Plus" product was expanded to include three **riders with medical services** for:
 - accidental dismemberment of a child,
 - hospitalization of a child caused by an accident or illness,
 - critical illness of a child.

Each of these types of insurance may be extended to cover medical services adapted to the events covered by insurance. PZU Zdrowie organizes, among others, consultations of specialist physicians and rehabilitation, to minimize the risk of complications.

Activities carried out in 2020

Development of medical infrastructure

- PZU Zdrowie became the sole owner of Centrum Medyczne Gamma – one of the leading orthopedic centers in Poland;
- another **greenfield PZU Zdrowie center** was opened, introducing a number of innovative solutions aimed at providing better patient service and equipping it with modern equipment. The center is located in the modern office complex Varso at ul. Chmielna in Warsaw;

- as part of PZU Zdrowie's Tomma Diagnostyka Obrazowa network, **new magnetic resonance imaging (MRI) laboratories** were opened in Wrocław and Częstochowa;
- the **service provider network** was expanded by further centers, thanks to which PZU Zdrowie's partner network comprises already 2,200 centers;
- in own centers in Warsaw, Kraków, Poznań and Wrocław, PZU Zdrowie was developing the **dental services** launched in 2019.

Development of e-commerce and IT infrastructure

- PZU Zdrowie centers started to **provide remote consultations**, adapting to the pandemic situation;
- psychological consultations over the phone were launched;
- thanks to further development of the tool for booking and purchase of online appointments through a **direct connection with the calendars of the medical centers**, the number of centers throughout Poland supporting such connections increased to approx. 200. They belong both to the PZU and the partner network. More than 20% of medical services are arranged by PZU Zdrowie patients on their own via the **mojePZU** portal;
- starting in January 2020, patients of PZU Zdrowie's own medical centers obtained access to their **online medical documentation** on the **mojePZU** portal. The patients also received an **online medical interview** free of charge, which allows them to check whether they have COVID-19 symptoms;
- as part of the phone-based patient service, in January 2020, PZU Zdrowie introduced an **IVA voicebot**, which supports the medical call center in booking (and canceling) standard medical appointments;
- in April 2020, PZU Zdrowie opened its own **PZU Zdrowie Telemedicine Center**;
- in May 2020, the **sales of medical bundles** for fee-for-service customers were launched via the **mojePZU** portal;
- the **service of health products for children** was launched on the **mojePZU** portal, offering the customers the possibility of making appointments and accessing medical documentation online;
- support for registration of claims for reimbursement for medical services was launched on the **mojePZU** portal.

Development of innovative solutions

The MedTech and HealthTech solutions market is developing faster than ever and the progress of digitization in health care

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



Outpatient care



Oral medicine



Occupational medicine



Rehabilitation



Prevention programs



Hospital care



Co-funding for medications



Telemedicine



Psychological care



has accelerated significantly. As a result, remote solutions, in particular telemedicine, will become the most important trend in the coming years. PZU Zdrowie is addressing these needs today, by implementing innovations in its medical centers and in patient services:

- **AccuVein vein imaging device** designed to support the nursing staff at blood specimen collection points. It uses a laser to display veins in patients whose veins are either invisible or impalpable, thereby minimizing the risk of painful insertions of a needle, which is especially important when the patients are children;
- **StethoMe electronic stethoscope** – in combination with headphones, the device may be used as a traditional stethoscope, which additionally recognizes and appropriately amplifies sounds originating in the lungs or in the heart. When integrated with a dedicated tablet app, the stethoscope supports the diagnosis of lung diseases in adults and children using medically certified artificial intelligence algorithms;
- **portable USG Lumify heads** are used among others by orthopedists for joint injections. Thanks to this device, in many cases procedures may be carried out without a need for an additional USG test. The device connects directly to a tablet, allowing a physician to perform the test in any location;
- **monitors in doctor's offices with visualizations of medical models** aid physicians in explaining medical problems to patients, thereby allowing the patient to take an active part in the diagnosis process;
- **electronic consents with biometric signature** – patients, who visit a PZU Zdrowie center for the first time, may place their signature on a tablet and that signature is as valid as one on a paper document. Biometric signature makes the document circulation easier and helps in the digitization of medical documentation;
- **artificial intelligence in stroke diagnostics** – Tomma Diagnostyka Obrazowa SA, which is owned by PZU Zdrowie, cooperated with the Polish start-up by the name of BrainScan, to become one of the first companies in Poland to launch a pilot in August 2020 for a solution, which uses artificial intelligence algorithms to identify strokes in computed tomography tests. This method supports the work of radiologists and helps detect a life-threatening change lesions automatically. Thanks to this cutting-edge solution, the time needed to prepare a description whenever a stroke is detected has been reduced from several hours to just a few minutes, which allows patients to be assisted quickly. This method reduces the likelihood of

severe brain damage and increases the patient's chances of survival;

- **tele-rehabilitation** – allows patients to perform rehabilitation exercises at home by using controllers connected to a personal computer. The pilot of the solution has been conducted since December 2020 in the PZU Zdrowie Medicus Medical Center in Opole.

PZU Zdrowie's involvement in health protection activities

PZU Zdrowie's social activity in 2020 focused on supporting the health care system and the patients in combating the COVID-19 pandemic:

- The PZU Zdrowie support hotlines gave 20 thousand pieces of free advice associated with COVID-19, which included medical and psychological consultations. From the beginning of the pandemic, PZU Zdrowie provided:
 - a psychological support hotline – offering free-of-charge psychological counseling for physicians, nurses, paramedics and lab technicians involved in the fight against COVID-19,
 - the NFZ [National Health Fund] Patient Information Hotline – a free hotline for all citizens, supported by consultants, physicians and psychologists, who provided consultations related to COVID-19,
 - free telemedicine advice – offering consultations with a PZU Zdrowie physician and expert information about COVID-19;
- PZU Zdrowie is an operator in the **Health Ministry's Home Medical Care** program. Within this program it provides internal medicine support and psychological counseling, but also provides remote monitoring of the health condition of those who are isolated due to COVID-19, among others by checking their oxygen saturation level, pulse and temperature as well as the severity of their symptoms of the illness. The program utilizes a pulse oximeter as a diagnostic tool and an application to transmit and monitor data;
- For its customers, PZU Zdrowie additionally launched a **Remote COVID Care** program, in which patients receive pulse oximeters to monitor their blood oxygen level. They also benefit from the remote internal medicine and psychological care.

Promotion of health also included:

- continuation of PZU Zdrowie's partnership with the **"Large Family Card"** program (extension of the 2018 contract) – in 60 own locations, PZU Zdrowie offers discounts on doctor

consultations and laboratory diagnostics tests, imaging and exercise diagnostics);

- a series of free health education webinars organized in cooperation with the **Her Impact** internet platform;
- PZU Zdrowie also partnered in creating the first **"Top Disruptors in Healthcare"** report in Poland on innovations in medicine prepared by the Polish Federation of Hospitals and Young Managers of Medicine;
- PZU Zdrowie assumed the patronage of a charity concert for the **Children's Transplant Center** at the Children's Memorial Health Institute;
- PZU Zdrowie also assumed the patronage of the "I, the Patient" debate held by the Medical National Interest Group think tank at the Polish Academy of Sciences on the occasion of the World Day of the Sick.
- participation in the **"Action Defibrillation"** educational project in the świętokrzyskie voivodship, which promoted the use of devices, which can restore normal heart action in the event of sudden cardiac arrests.

PZU was the first insurer in Poland to appoint a Health Ombudsman.

The PZU Health Ombudsman is a unique function, which has no equal in the entire private medical care and insurance market. The main responsibility is to carry out a dialog with patients and to support them on every stage of interaction with health care operators – from the moment of purchase to visits or examinations in a medical center. The Health Ombudsman will maintain impartiality when reviewing patient cases, assessing the quality of service and procedures in an objective manner. Close contact with patients will allow him or her to have real impact on the development of new solutions and health products. In addition to contacts with customers, the Health Ombudsman also promotes health and prevention activities undertaken by PZU.

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

- changes in fertility, mortality, and morbidity rates, as well as the health consequences of the fact that during the pandemic treatments for certain conditions (e.g., cardiovascular and oncology) were postponed, may affect the value of sales and the loss ratios (e.g. in subscription plans or in health insurance);
- changes in trends and behaviors displayed by clients, who will start searching for customized offerings – clients' new expectations may bring about the need to change processes and systems, which in turn may affect the business results;

- an increase in unemployment and uncertainty on the labor market may reduce sales growth of new insurance and medical subscriptions for corporate employees;
- 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;
- the demand for specialized doctors exceeds the supply, which may slow down growth and affect margins;
- salary pressures exerted by doctors and other personnel serving patients in medical centers may affect our financial performance in the Health Area.
- relatively high saturation of the market in larger cities and also staff shortages and lack of customer potential in smaller towns may reduce our growth rates;
- potential modification of the National Health Fund's contracting rules may cause significant changes in the financial results generated by medical centers.

3.8 Pension funds (PTE PZU)

Market situation

At the end of 2020, the net asset value of open-end pension funds was nearly PLN 149 billion, down 4% versus the end of 2019. The decline of assets was significantly affected by the environment of the COVID-19 pandemic. For the most part of 2020, high volatility of prices on stock markets was observed. Growth was restored only in the last two months of 2020, which allowed open-end pension funds to offset most of their first quarter losses.

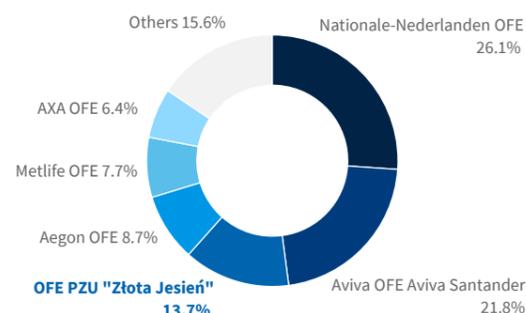
PTE PZU's activity



The PZU Złota Jesień Open-End Pension Fund, which is managed by Powszechnie Towarzystwo Emerytalne PZU, is one of the largest players on the pension fund market in Poland. At the end of 2020, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- the fund had 2,328 thousand members, i.e. 15.1% of all participants in open-end pension funds;
- net assets stood at over PLN 20 billion, thereby representing 13.7% of the total asset value of the open-end pension funds operating in Poland.

Open-end Pension Funds – percentage of net asset value as at 31 December 2020 (in %)



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

At yearend 2020, the PZU Voluntary Pension Fund (DFE PZU) ran 33.2 thousand individual pension security accounts (IKZEs) in which assets worth more than PLN 343 million were accumulated. It kept the leading position in the voluntary pension fund segment.

In spite of the challenges posed by the year 2020, the voluntary pension fund market increased the value of its assets. The active reallocation of portfolios into equity assets was allowed by the much smaller asset values of these funds compared to open-end pension funds.

Also, the value of DFE PZU's assets is strongly affected by current contributions, which in 2020 were higher than the year before.

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

Key challenges:

- the economic climate on the capital market in particular on the Warsaw Stock Exchange, resulting from the course of the COVID-19 pandemic and affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;

- active participation in the work on enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement;
- transfer of funds from open-end pension funds to individual retirement accounts.

On 12 March 2020, the Sejm of the Republic of Poland received a government bill on amendment of certain acts in connection with the transfer of funds from open pension funds to individual retirement accounts. The act is to enter into force on 1 June 2021, and the transformation of OFE into specialized open-end investment funds will take place on 28 January, 2022.

Assumptions for the project of redesigning the operating model of OFEs:

- universal pension fund management companies (PTEs) which currently manage open-end pension funds (OFEs) and voluntary pension funds (DFEs) will be transformed into mutual fund management companies (TFIs);
- OFEs and DFEs will become specialist open-end mutual funds (SFIOs) that will be managed by TFIs;
- an OFE member will have the following options what to do with the funds accumulated on his or her OFE account:
 - the default option will be the transfer of funds from the OFE account to an individual retirement account (IKE) with the possibility of continued payment of contributions on a voluntary basis. The transfer of funds from OFEs to IRAs will be subject to a 15% transformation fee. The payment will be distributed over two years. The disbursement of pensions from IRAs will be exempt from income tax, and savings accumulated in IRAs will be inheritable,
 - OFE members may submit a declaration on the transfer of assets from OFE to the Demographic Reserve Fund (FRD) at the Social Insurance Institution (ZUS) and have the value of the transferred funds added to their capital accumulated on the Social Insurance Fund account. There will be no conversion fee if the OFE member selects this option. The funds accumulated in ZUS will not be inheritable, and future pensions will be subject to income tax in accordance with the rate of the applicable tax bracket,
 - under the umbrella SFIO established as a result of the transformation of OFE, a pre-retirement sub-fund will be

- separated for the accumulation of assets owned by fund participants approaching the retirement age,
- the investment policy of the pre-retirement fund will be aligned with the age group of the insureds, meaning that the fund's investment risk will be significantly limited by statutorily imposed investment limits,
- the fees charged by the mutual fund management company for managing the assets of open-end pension funds transformed into individual retirement accounts as well as all other fees and costs will be strictly limited.

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.

No transition period has been envisaged for adapting the activity of the transformed open-end pension funds to the provisions on mutual fund management companies. 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. Such provisions include in particular the 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, depositories, leverage, transparency and supervision.

3.9 Other operating areas

PZU Pomoc

PZU Pomoc provides auxiliary services to PZU Group companies:

- managing the PZU repair network – at the end of H1 2020, the company cooperated with 915 repair shops;
- organizing motor assistance services for LINK4;
- conducting salvage auctions and sales after loss and damage incidents;
- supporting technical claims handling in motor claims;

- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services);
- managing the loyalty program, PZU Pomoc w Życiu Club – at the end of 2020, approx. 2 million club members were able to take advantage of insurance discounts and products of cooperating companies (rebate programs offered by partners).

PZU Centrum Operacji

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

PZU LAB

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

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

The PZU LAB team has developed methods for cooperation with the existing and prospective clients. First, the engineers identify critical installation sites, simulate critical events such as fire, flooding or explosion, and determine their consequences. Then the possible scenarios and the methods of minimizing the negative consequences are discussed. Ultimately, PZU LAB engineers implement innovative technological solutions in client companies that are to improve their safety.

This approach signifies an evolution in client relations. PZU ceases to be only a seller of insurance and becomes a risk management advisor.

Tower Inwestycje

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

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

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

PZU Finanse

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

Ogrodowa-Inwestycje

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

PZU Cash

The line of business of PZU Cash is brokerage in granting cash loans in the form of an employee benefit. It operates through the Cash lending platform, while the offer 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 offer is targeted at employees of those companies that have established cooperation with PZU Cash.

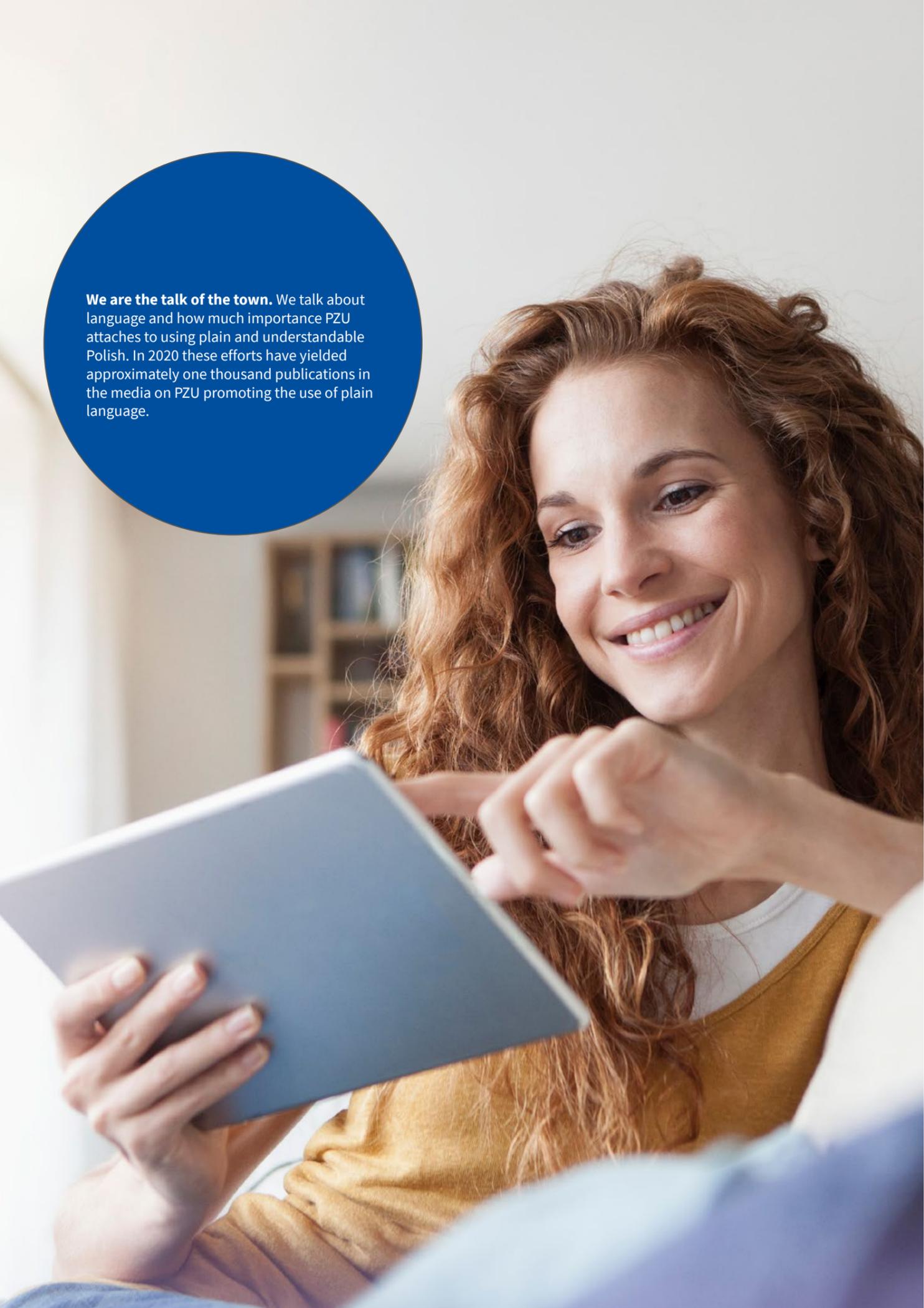
PZU Corporate Member Limited

On 28 September 2017, PZU acquired shares in PZU Corporate Member Limited, entitling it to 100% of votes at the shareholder meeting. The company is a member of Lloyd's, a market for insurance companies, brokers and agents, bringing together nearly 100 syndicates. PZU Corporate Member is handled by Argenta Holdings Limited agency, which deals with the ongoing activities of syndicates, invests their funds and employs underwriters.

Armatura Kraków

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

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



We are the talk of the town. We talk about language and how much importance PZU attaches to using plain and understandable Polish. In 2020 these efforts have yielded approximately one thousand publications in the media on PZU promoting the use of plain language.

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:

1. #newPZU strategy
2. Strategy operationalization
3. CSR strategy execution in 2020
4. Execution of the #newPZU strategy in 2020

4.1 newPZU strategy

The #newPZU strategic perspective for 2016-2020, announced on 23 August 2016, focused on the significance of profitability of the Group's core business, acceleration of growth (chiefly driven by the Health and Investment pillars) and a greater role of innovation. In the updated strategic assumptions adopted by the PZU Management Board and Supervisory Board on 9 January 2018, the Company's client approach was redefined.

The strategy update called for an increase in the frequency and quality of client interactions during every stage of life, anytime and anywhere PZU can lend a helping hand. The establishment of long-term, partnership-based relationships was defined as the provision of products and services tailored to the client's needs, requirements and capabilities, also in terms of price, at the right place and time.

(Pomagamy klientom dbać o ich przyszłość)

This strategy specified how various areas within the PZU Group would be integrated to focus on clients in order to maximize their convenience and satisfaction. Particular emphasis was put on an in-depth, multi-level analysis of the information

available in the PZU Group to improve understanding of the client's needs and increase the efficiency customer service.

In order to create the appropriate business environment and attain these targets, the area of client interactions was redefined from scratch. This entailed an alteration to the philosophy of how the overall Group operates. Distinct business units came under the umbrella of an a single integrated system, based on innovative solutions and enabling the provision of full-scale customer service.

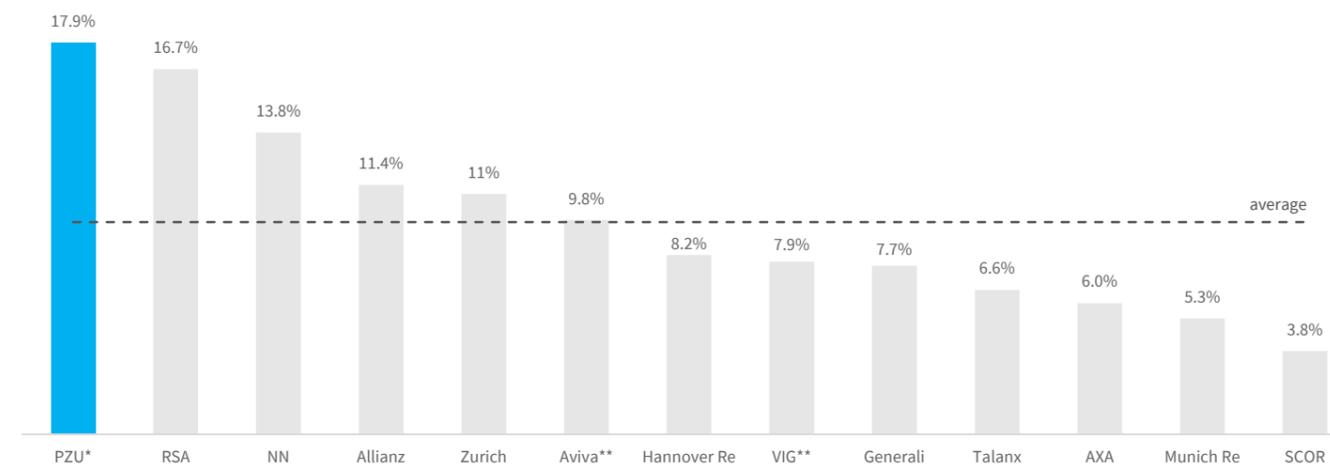
Client interactions were shifted towards the establishment of long-term partnership based on trust and understanding, adding great value through the high quality of solutions offered to clients. The purpose of these actions was to improve the return on equity (ROE) and other indicators.

In the PZU Group's next strategic outlook for the years 2021-2024, all key social, economic and business factors will be taken into account, including those related to the low interest rate environment, the COVID-19 pandemic and the ongoing regulatory and demographic changes. The PZU Group will focus on business development in each segment of its existing activity, including insurance, banking services, investments and healthcare. The priorities of the new strategy will include:

ensuring the stability of the Groups' business, conducting the business in a sustainable manner while adhering to the adopted ESG standards, providing shareholders with above-average rates of return and an attractive stream of dividends.

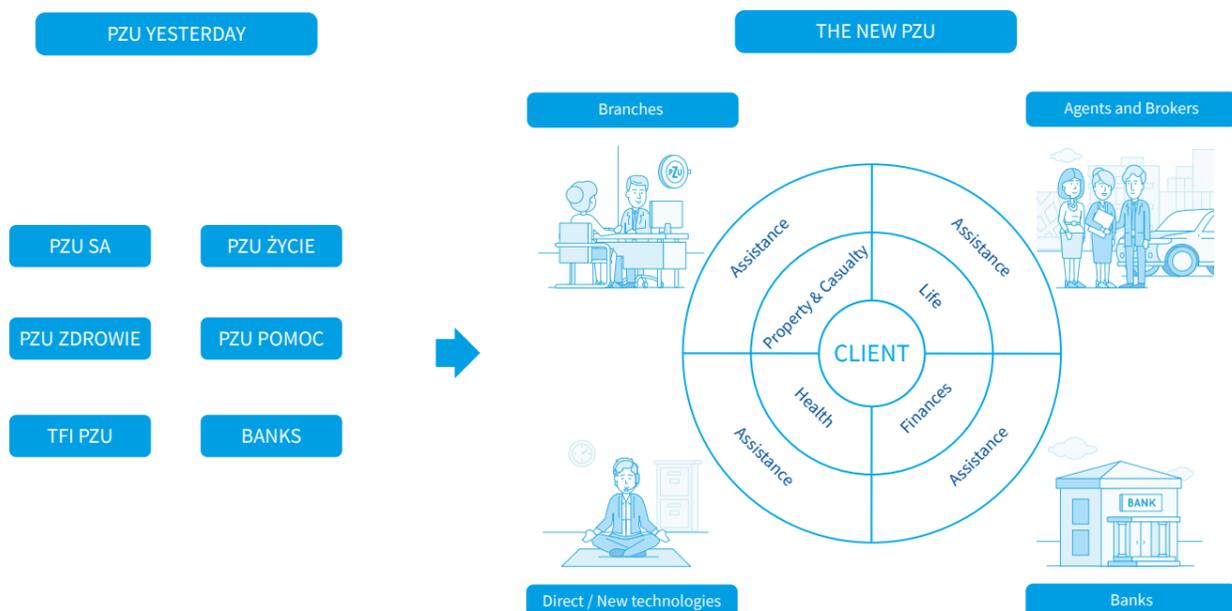


PZU's ROE versus European insurers in 2020



* profit and equity adjusted by the impairment loss on assets related to bank acquisitions in the amount of PLN 1,343 million
 ** based on preliminary data
 Source: PZU, company reports - annual data

#newPZU

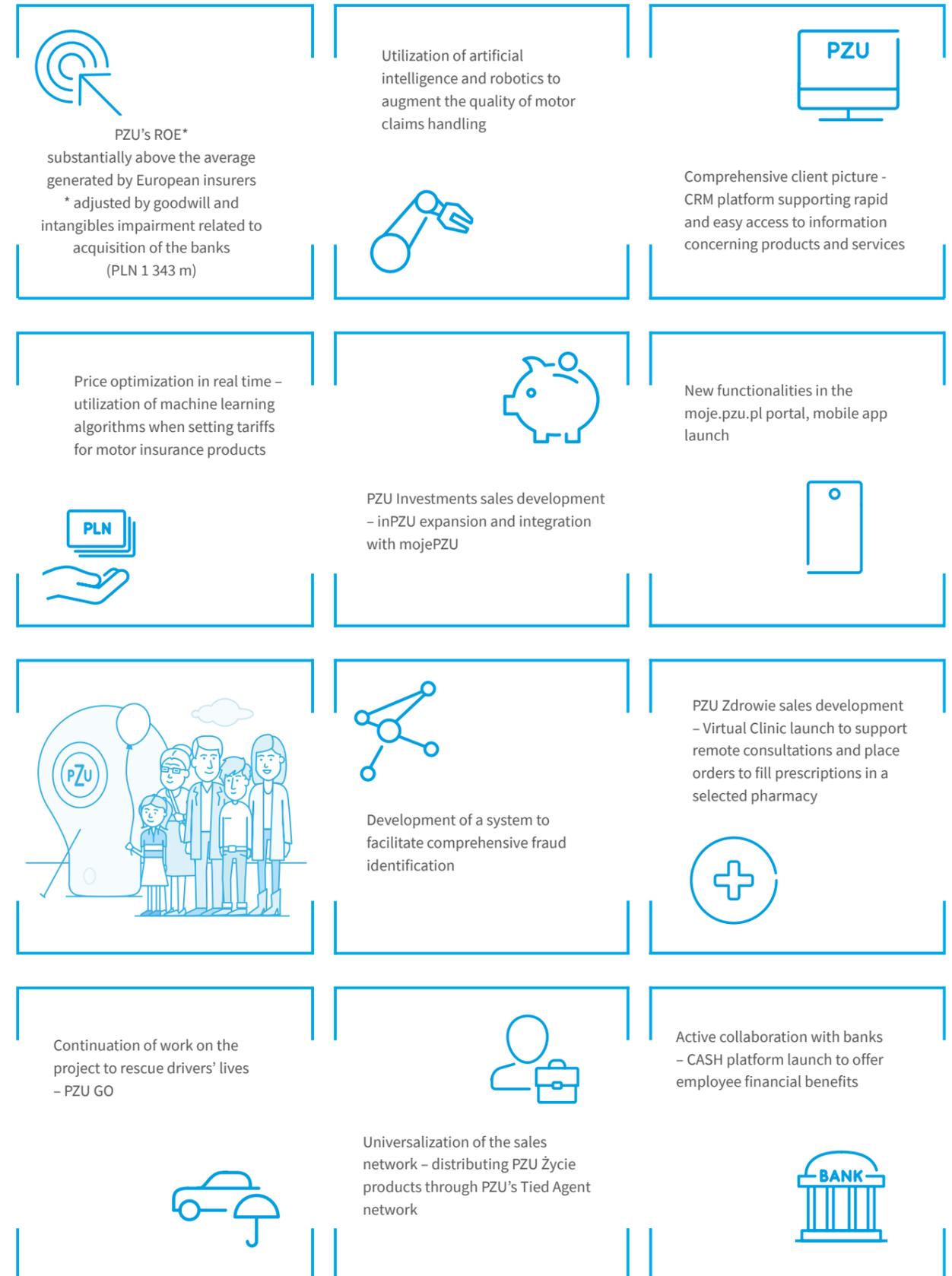
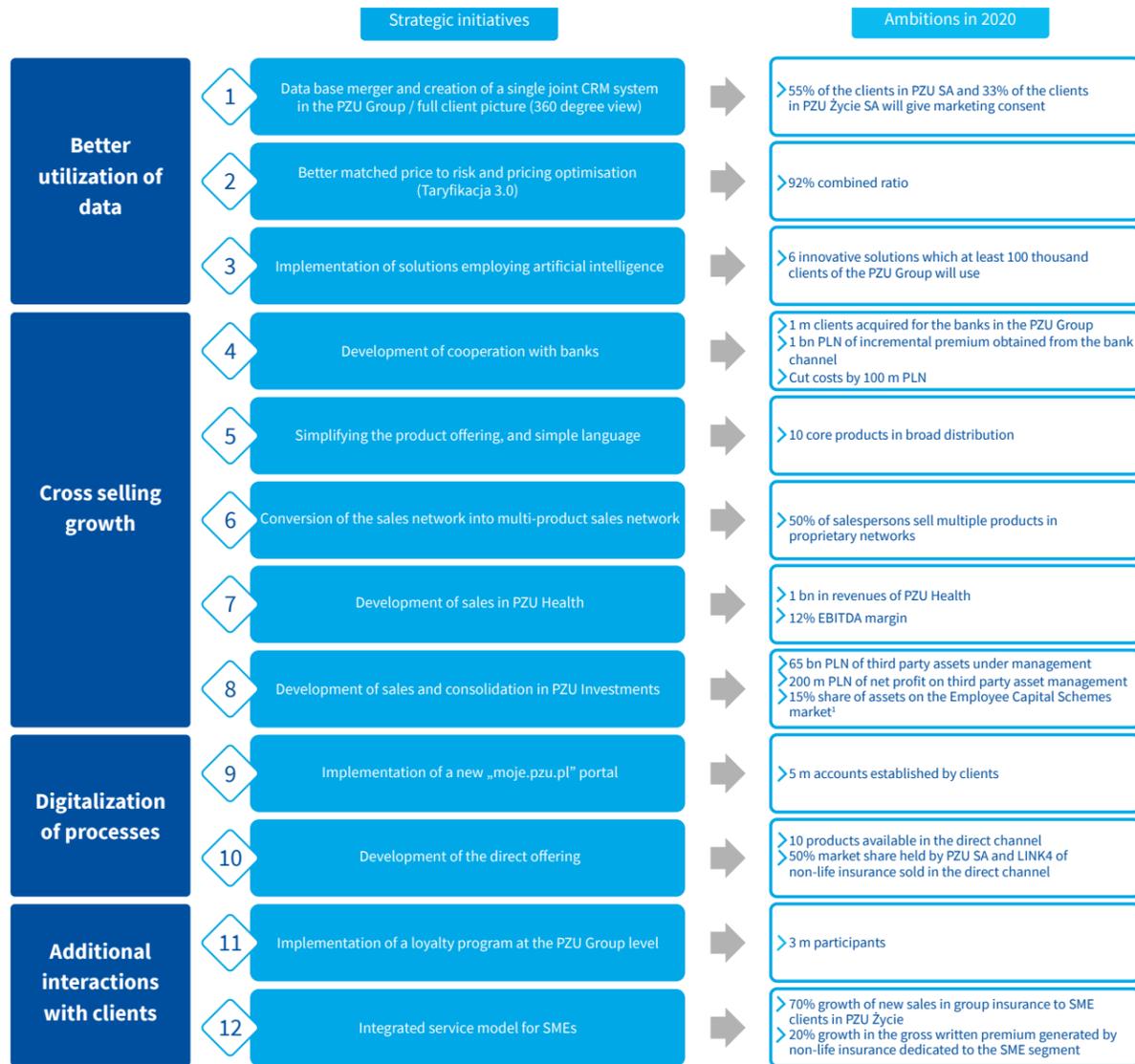


4.2 Strategy operationalization

To enable the achievement of the PZU Group's strategic goals for 2016-2020, 12 initiatives were pursued in the following four areas:

- data analysis;
- cross-selling;
- digitalization of processes;
- interactions with clients.

#newPZU 2020 strategic initiatives



#1 Joint CRM

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

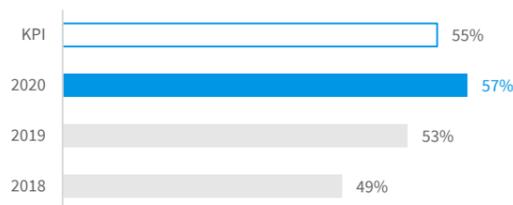
Tasks accomplished:

- 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.

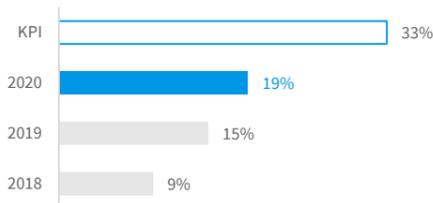


Metric: percentage of PZU and PZU Życie clients who consented to marketing communication.

Percentage of marketing consents in w PZU



Percentage of marketing consents in w PZU Życie



Execution: In 2020, development work on the integrated CRM platform was continued with a view to supporting all retail sales channels. The platform operates in the "360 degrees" environment – a system that provides PZU agents and employees with ergonomic and efficient access to full information about their clients. The 360-degree view helps build relations with clients and forms the basis for growing cross selling in the PZU Group

#2 More effective tariff setting

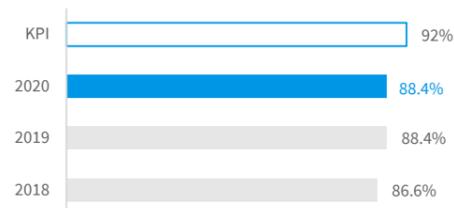
Initiative: shorten the tariff-setting process, in particular on the motor insurance market.

Purpose:

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

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

Combined ratio, "COR"



Execution: In 2020, the development of real-time price optimization tools continued. Solutions were also rolled out to support dynamic pricing to satisfy risk and client requirements and enhance the competitiveness of the offer while simultaneously increasing profitability.

#3 Artificial intelligence (AI)

Initiative: use new technologies developed both in-house and in cooperation with start-ups (insurtechs, fintechs, hi-tech companies).

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);
- deploy 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 using data and artificial intelligence;
- cut expenses;
- improve the quality of customer service;
- augment client loyalty;
- build a competitive edge;
- improve sales and profitability;
- grow the value of the brand and the Company.

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

Execution:

- AI in the claims handling process – owing to the deployment of a solution based on artificial intelligence algorithms, PZU experts who handle more than half a million motor claims annually, receive only selected cases for analysis. The remaining ones, those that do not raise any doubts, are approved automatically or semi-automatically. This translates into significant financial savings and improvement in client satisfaction. Work is underway to deploy artificial intelligence in all other motor claims handling processes.
- The Band of Life, adapted for use in care for patients infected with coronavirus, is an electronic device worn on a wrist that helps save human life. It monitors the basic vital parameters of patients, such as blood oxygen saturation, pulse and temperature, and alerts medical personnel of any emergencies. The Bands, introduced by PZU in 2019 under a pilot project, have been modified after the outbreak of the pandemic to support the care for patients suffering from COVID-19. By enabling remote monitoring of the patients' health, the Bands reduce the risk of transmission of the virus to medical personnel. PZU donated almost one thousand Bands of Life to hospitals across Poland.
- Cyber SME – a tool that scans the websites of small and medium-sized enterprises (SMEs) and verifies their cyber-attack safeguards. It protects companies against threats

coming from the Internet, providing them with tools to react quickly in the event of a cyberattack. PZU agents may also use this platform to prepare customized reports on cyber risks for distinct companies.

- PZU GO – an innovative beacon device that sends out automatic alerts about a road accident and helps to ensure the rapid arrival of assistance services to the injured. It is pasted to the car's windshield. It connects to the PZU GO app in the driver's smartphone through Bluetooth and when it detects a large g-force that may suggest an accident, it sends an alert to the PZU Emergency Center. At the same time, it transmits information concerning the vehicle's location. A PZU consultant immediately calls the client to check whether assistance is needed, and if the client does not pick up, the consultant summons rescue services to the site of the likely accident. More than 93%¹ of clients declare that they are satisfied with PZU GO.

#4 Cooperation with banks

Initiative: cooperate with the PZU Group's banking segment

Purpose:

- sell insurance to the clients of Bank Pekao and Alior Bank;
- acquire PZU's insurance clients for the banks;
- generate savings in procurement, IT and real estate.

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

¹ PZU data based on interviews with clients.

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

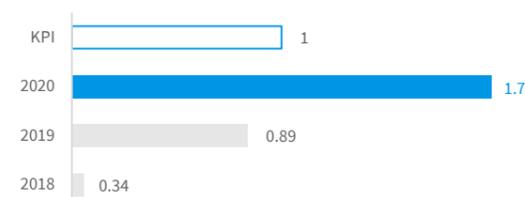
- > Offering bank products in the course of insurance-related contacts (sales and service), including "lead generation" through PZU's sales network
- > Sales efforts directed to PZU's clients in connection with the occurrence of specific life events such as childbirth, the purchase of a car, a motor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

Execution:

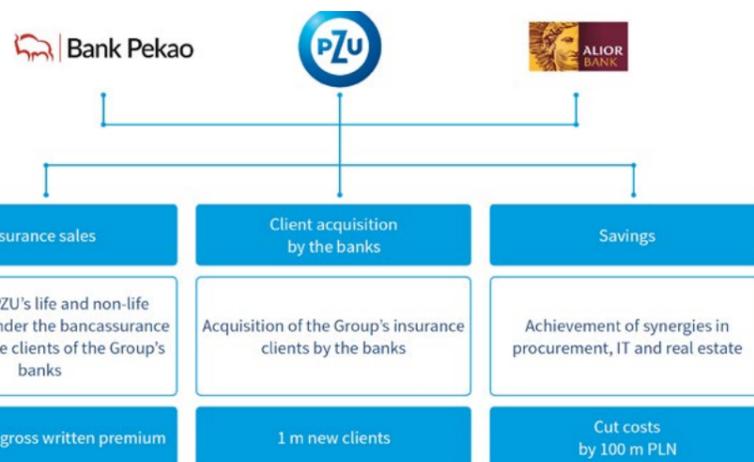
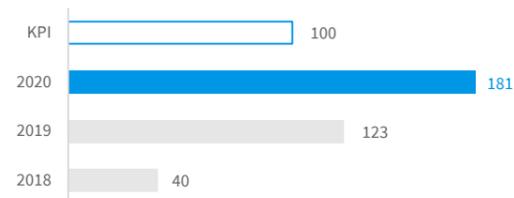
- Continued collaboration with banks through the development of both the product offering and the distribution channels enabled the attainment of the assumed objective (PLN 1 billion in written premium from the banking channel) after Q1 2020. At yearend 2020, this result increased to PLN 1.7 billion;

- Deployment of assurbanking as a new line of business, under which the CASH loan platform has been established, enabling employers to offer their employees a benefit in the form of quick loans with low interest rates and a simple method of repayment. This deployed business concept may become an unrivalled solution on the Polish loan market. The platform, accessible via the Internet address Portalcash.pl, was acquired in June 2020 by PZU Cash, a special purpose vehicle established for this purpose.

Amount of premium generated in collaboration with banks (in billions)



Cost cutting as a result of collaborating with banks

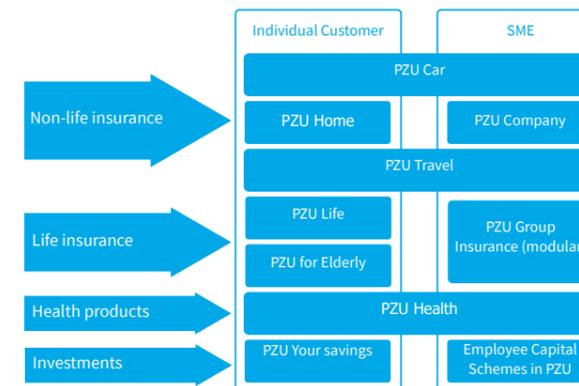


#5 Simplifying the product offering

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

Purpose:

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



Metric: number of products in general sales.

Execution:

- in 2020 there were continued works 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

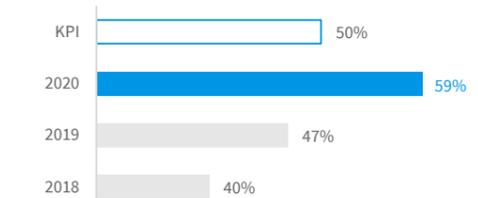
Initiative: modify PZU's own networks in the direction of becoming more universal in nature. This project applies to channels fully controlled by the PZU Group: branches, tied agents in life and non-life insurance and the corporate sales network.

Purpose:

- approximately 5,000 general salespersons, or 50% of the Group's proprietary network, by 2020;
- distribution of at least 3 of the 5 lines of business (life insurance, non-life insurance, medical care, investment products, banking products) by general salespersons.

Metric: percentage of generalist salespersons in our proprietary networks.

Percentage of generalist salespersons in our proprietary networks



Execution:

- In 2020, there were over 5,000 general salespersons
- 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:

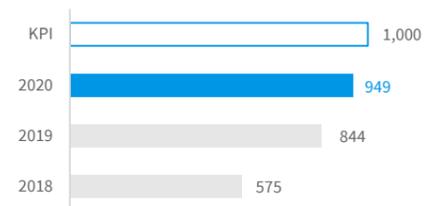
- develop new health insurance products and expand the "traditional" offering to include unique riders;
- activate the sales network and tap into the full potential rooted in the PZU Group's client base;

PZU 2020 - more than insurance

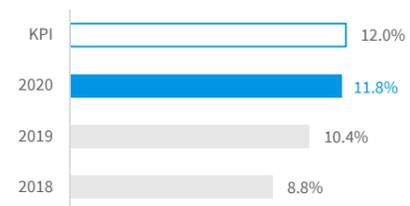
- offer a modern patient service process giving consideration to the best practices on the market, innovative technological and medical solutions and highest service standards, including VIP care;
- develop a network of proprietary centers through greenfield and M&A projects.

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

PZU Zdrowie's revenue



PZU Zdrowie's EBITDA margin



Execution:

- launch of sales of a subscription-based product, targeted predominantly at strategic corporate clients, distributed through the PZU Zdrowie sales network. At the same time, rules for internal communication with other PZU Group companies and for work on the shared portfolio were prepared to generate the best possible synergies enhancing the efficient sales of health products;
- establishment of a tender offering area – its key purpose is to align the product offering to the individual expectations of strategic tendering clients, in accordance with the adopted tendering procedure;
- launch of a Remote COVID Care program PZU patients suspecting or already suffering from a coronavirus infection. The program includes remote internist and psychological

- assistance and providing patients with pulse oximeters to measure blood oxygen saturation
- adaptation of PZU Zdrowie facilities to the conditions of the pandemic and commencement of the provision of remote consultations on a large scale;
- establishment of an own telemedicine center named Centrum Telemedyczne PZU Zdrowie [PZU Zdrowie Telemedicine Center];
- establishment of collaboration with other medical centers. At yearend 2020, the PZU Zdrowie partner network comprised approximately 2,200 entities;
- launch of a state-of-the-art medical center in downtown Warsaw, one of the best in Poland. The center has been fitted with a host of innovative solutions to improve care for patients and set new standards in this area.

#8 Development of sales and consolidation in PZU

Investments

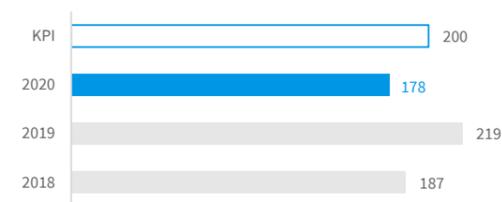
Initiative: design a uniform asset management structure in the PZU Group to utilize multi-channel distribution; under the strategy until 2020, launch sales of products also on foreign markets.

Purpose:

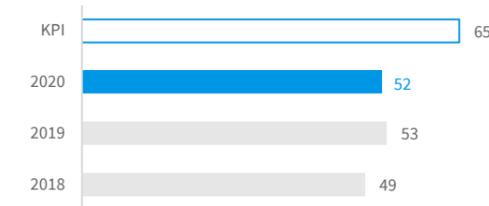
- achieve cost synergies (one factory of investment products);
- ratchet up sales by deploying new investment products based on indices or on what is known as life cycle;
- utilize the changes ensuing from the reform of the pension system (introduction of Employee Capital Schemes);
- improve the net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

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

Net result on third party asset management (m PLN)



Assets under management for third party clients (bn PLN)



Execution:

- Signing of ECS management contracts in 2020 with almost 20,000 companies employing between 20 and 249 staff, making TFI PZU a leader in this segment, with a 35% market share. At yearend 2020, TFI PZU had a total of over 35,000 ECS management contracts, including with companies employing at least 250 staff, in respect of which the requirement to establish the Schemes came into force already in 2019, and with companies employing fewer than 20 staff and public sector institutions required to establish the Schemes in 2021;
- 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 Akcje Amerykańskich Dużych Spółek and inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących. In addition, the Akcje CEEplus inPZU subfund was launched. It was created in cooperation with the Warsaw Stock Exchange and is based on the WSE CEEplus index.

#9 Implementation of a new mojePZU portal

Initiative: integrate the digital services for clients, enabling the broadest possible online use of PZU's offering. The largest project under this initiative is the mojePZU portal.

Purpose:

- gather client information in a single place;
- provide clients with a functional platform facilitating the use of PZU services, including the offering of insurance products, healthcare services (including the booking of doctor's appointments) and investment management;
- 5 million accounts opened by clients on the mojePZU platform.



Metric: number of accounts opened by clients.

Execution:

- provision of new functionalities of the mojePZU website to clients. In 2020, patients of PZU Zdrowie's own centers were granted online access to their medical records and were able to book doctor's appointments for their children. Since 2020, clients have also been able to view their list and status of claims and benefits through the platform. MojePZU also has a functionality enabling the purchase of selected products online (including Auto, Dom, Wojażer, Ja Plus, Edukacja, Auto Opony [Tires], Na wypadek Nowotworu [PZU against Cancer]), the use of an individual pension security account and accession to the PZU Pomocni loyalty club;
- launch of an easy authentication option by the client on the mojePZU platform – using the popular mojeID and mObywatel services. The client's identity is confirmed remotely through an electronic banking platform;
- promotion of mojePZU among clients – dissemination of information about the website's features and the resulting convenience of using the PZU offering;
- launch of the mojePZU app for mobile devices;
- 1.6 million mojePZU accounts at yearend 2020.

#10 Development of direct offering

Initiative: develop the best online sales platform among European insurers.

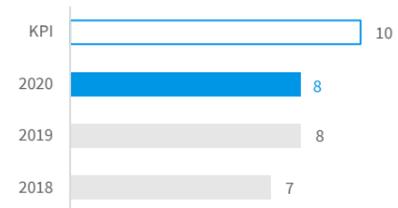
Purpose:

- create an offer of 10 products based on simple and understandable rules;
- reach clients who prefer digital channels;

- achieve a leadership position in the direct channel with a market share of at least 50%.

Metrics: number of products available in the direct channel (online and phone).

Number of products in the direct channel



Execution:

- Direct offer development strategy pursued on the mojePZU portal.

#11 Loyalty program

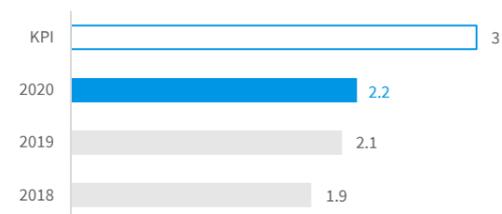
Initiative: launch a loyalty program for the PZU Group's clients spanning all its products. Reward clients with points for using the PZU Group's offering, for claim-free periods, for recommending the program to friends and other forms of activity.

Purpose:

- grow the number of client interactions;
- expand the range and reach new target client groups (including young people) and align the offer better;
- segment clients and personalize the offer;
- support the development of all of the lines of business;
- engage club members to act to benefit their local communities

Metric: number of participants in the loyalty program.

Number of participants in the loyalty program (in millions)



Execution:

- Reach 2.2 million club members by yearend 2020.

#12 Integrated service model for SMEs

Initiative: integrate sales models in the small and medium-sized enterprise (SME) segment.

Purpose:

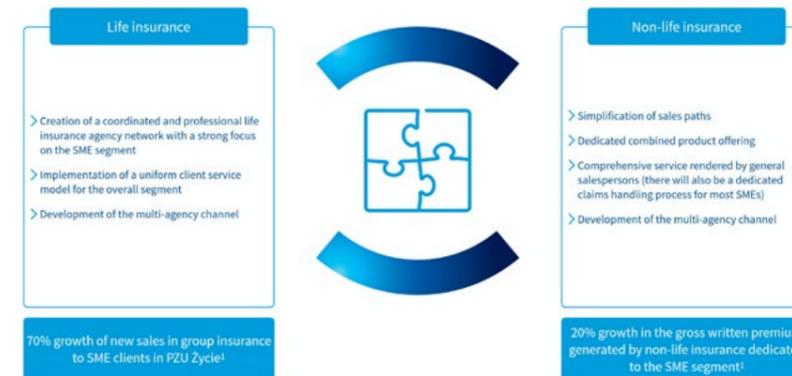
- by the end of 2020, ramp up the sales of group insurance for small and medium-sized enterprises by 70%, and property insurance in this segment by 20% compared to 2016;
- reorganize and unify the sales and service model, develop a multi-agency channel;
- create product offers targeted at the SME segment.

Metric: pace of new sales of group insurance to SME clients in PZU Życie, pace of growth of gross written premium on property insurance dedicated to the SME segment.

Execution:

- sales of group insurance to SMEs in 2016-2020 increased by 30% and property insurance by 34%. The continuation of the transformation processes in 2020 served the purpose of developing the sales network and acquiring new clients in the SME segment.

Integrated service model for SMEs



Value generated in 2020 compared with 2016

4.3 CSR strategy execution in 2020

The purpose of the corporate social responsibility (CSR) strategy, announced on 9 January 2018 along with the updated PZU Group strategy until 2020, was to systematize the key areas and principles of PZU's responsibility. The strategy also delineated the PZU Group's ambitions and directions of actions and initiatives associated with existing social and business challenges.

The experience acquired since its launch more than three years ago has become a significant reference point for the ESG strategy currently under development, which will focus on factors related to environmental protection, climate change, social commitment and corporate governance. This will permit the conduct of activities supporting sustainable development in the context of the products being offered, cooperation with business partners, care for the well-being of employees and local communities, and building value-based market leadership.

Indicator	Execution 2020	Objective for 2020	
 Clients	NPS for retail clients in insurance versus the competition	22.2% 6 p.p. more than the competition	> competition
	Indicator concerning the timeliness of examining complaints	98.05% up to 28 days	95% up to 28 days

The percentage of clients who are more willing to recommend PZU than other insurers (beating the competition by 6 percentage points) is driven by PZU's ability to satisfy the needs of its clients in an increasingly effective manner. Identification of strengths, weaknesses and areas in need of change and improvement owing to extensive surveys aimed at measuring client satisfaction and loyalty.

In 2020, more than half of the total number of complaints were dealt with within **14 days**. **The indicator concerning timely examination of complaints within 28 days was 98.05% in 2020.**

 Employees	Employee commitment index	61%	55%
	% of women in managerial positions	54.8%	at least 50%

In 2020, the employee engagement index rose 10 p.p. y/y to a record level of 61%. 82% of staff participated in the employee engagement survey (in 2019: 84%). The large increase in the employee engagement index was driven by the activities taken in 2020, which included:

- broader employee access to projects dedicated to professional development, including webinars and conferences; they were open to all employees, regardless of the area of their responsibility or the position held;
- exchange of managerial experience within on the #Management Lab platform with the participation of in-house and third-party experts; these activities were focused, in particular, on developing employee engagement;
- educational program #DobryStan (#WellBeing) serving the purpose of building high efficiency and mental resilience; psychological support was also provided as part of the program;
- efficient organization of work in new circumstances – by applying hybrid and remote models of work, introduced in connection with the outbreak of the COVID-19 pandemic; the adoption of this approach permitted the enterprise to maintain its efficient operation;
- ongoing dialogue with employees; surveys were conducted with a view to identifying their needs, in particular at the height of the pandemic.

Indicator	Execution 2020	Objective for 2020	
 Environment	Implementation of the Group's "Green PZU" standard	Fully implemented (100%)	Fully implemented (100%)
In 2020, the deployment of the Group's "Green PZU" standard was completed. The standard covers environmentally friendly initiatives in the following two areas: real estate: <ul style="list-style-type: none"> • curtailing the consumption of utilities; • conducting rational waste management; • installing air conditioning with an ecological refrigerants; • taking into consideration environmental and social aspects when choosing space for rent; administration: <ul style="list-style-type: none"> • reduced consumption of office supplies, including by cutting down on the volume of documentation printed out on paper; • collaboration in the area of waste disposal with companies that have adopted the highest environmental protection standards; • environmentally friendly actions in the car fleet management policy; • educational campaigns for employees aimed at encouraging environmentally friendly behaviors. 			
 Social activities	Financial commitment to social activity	PLN 77 million	> PLN 50 million per annum
Despite the COVID-19 pandemic, the PZU Group maintained its high level of commitment to social endeavors in 2020. The Group continued to support high-profile cultural institutions, running events and business gatherings.			
 Suppliers*	Percentage of suppliers adhering to the "Code of CSR Best Practices for PZU's Suppliers"	98% of suppliers covered by the tender process have accepted the "Code of CSR Best Practices for PZU's Suppliers"	90% of contracts contain an obligation to adhere to the "Code of CSR Best Practices for PZU's Suppliers"

The procurement platform rolled out in 2020 and constantly improved since its inception enables the completion, storage and continuous updating of documents related to collaboration with external firms. Companies seeking to do business with the PZU Group are required to complete a registration form, which includes a declaration of acceptance of the "Code of CSR Best Practices for PZU's Suppliers". Only on this basis are such companies added to the PZU Group Supplier Database.

*Suppliers of goods or services invited to participate in tenders organized by the Procurement Department at PZU and PZU Życie

4.4 Activities executed in 2020

ROE (%) attributable to the parent company		
2019	2020 ¹	2020S
21.2	10.9/17.9/22.5	>22

BUSINESS SIZE	NON-LIFE INSURANCE	LIFE INSURANCE	INVESTMENTS	HEALTH	BANKING
	Group's market share PZU ^{2,3}	Number of clients in PZU Życie (million) ¹⁰	Assets under management for third party clients (PLN billion)	Revenues (PLN million) ⁸	Assets (PLN billion)
	2019 2020 ⁴ 2020S	2019 2020 2020S	2019 2020 2020S	2019 2020 2020S	2019 2020 2020S
	33.8% 32.1% 38.0%	10.7 10.3 11.0	31/53 ¹¹ 32/52 ¹¹ 65	844 949 1,000	280 312 >300
Business profitability	Combined ratio ⁹	Operating margin in group insurance and individually continued insurance	Net result on third party asset management (PLN million) ⁷	EBITDA margin ⁹	Net financial result attributed to the PZU Group (PLN million)
	2019 2020 2020S	2019 2020 2020S	2019 2020 2020S	2019 2020 2020S	2019 2020 2020S
	88.4% 88.4% 92.0%	21.3% 19.7% >20%	93/219 ¹¹ 75/178 ¹¹ 200	10.4% 11.8% 12.0%	515 149 ¹² >900
	Administrative expense ratio ⁵	Surplus yield on its own portfolio above the RFR	Group objectives		
	2019 2020 2020S	2019 2020 2020S	Solvency II solvency ratio		
	6.8% 7.0 6.5%	2.5 p.p. 3.7 p.p. 2.0 p.p.	2019 ⁶ 2020 ⁴ 2020S ⁶		
			245% 257% >200%		
			Number of products per client		
			2019 2020 2020S		
			1.6 1.7 2.0		

¹ ROE attributable to the parent company: 10.9% - reported / 17.9% - adjusted by the impact of the impairment loss on goodwill arising from the acquisition of banks, impairment loss on assets arising from the acquisition of Alior Bank - in total PLN 1,343 million / 22.5% - adjusted by the impact of COVID-19 on the group's results in accordance with CHAPTER 6.9 IMPACT OF THE COVID-19 PANDEMIC ON THE PZU GROUP'S RESULTS AND THE ISSUER'S RESULTS, and for a dividend of 80% of the PZU Group's consolidated net profit, which was not paid in 2020 in the form of a dividend and increased equity

² Direct business
³ PZU jointly with TUW PZUW and LINK4
⁴ Data as at the end of Q3

⁵ Administrative expenses in PZU and PZU Życie
⁶ Own funds after subtracting anticipated dividends and asset taxes
⁷ Including assets under management / performance of fund management companies (TFI) owned by the PZU Group's banks
⁸ Annualized revenues of proprietary centers and branches, including revenues from PZU Zdrowie and the PZU Group
⁹ Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
¹⁰ Including clients acquired through cooperation with banks
¹¹ Including assets managed by TFI banks of the PZU Group
¹² Excluding the impairment loss on goodwill and intangibles



“Infectious” word of the year. The word coronavirus is the word of the year according to the plebiscite run by the Institute of the Polish Language at the University of Warsaw and the Polish Language Foundation with which PZU collaborates. Unfortunately, in 2020 this word exerted a major impact on our lives and the economy and it also triumphed in the linguistic realm.

5.

Business model

We want to depart from the classic model of an insurer’s client relations. We mean a situation in which the client’s only contact with the insurer after buying a policy is when they have to report a claim. We gradually modify this insurer model (pricing and transferring risk) to the model of a company specializing in utilizing data. We provide advisory and risk management services and care for the future our retail and business clients.

In this section:

1. PZU Group’s operating model
2. Insurance
3. Investments
4. Health
5. Banking and strategic partnerships
6. Management of the PZU Group’s brands

5.1 PZU Group's operating model

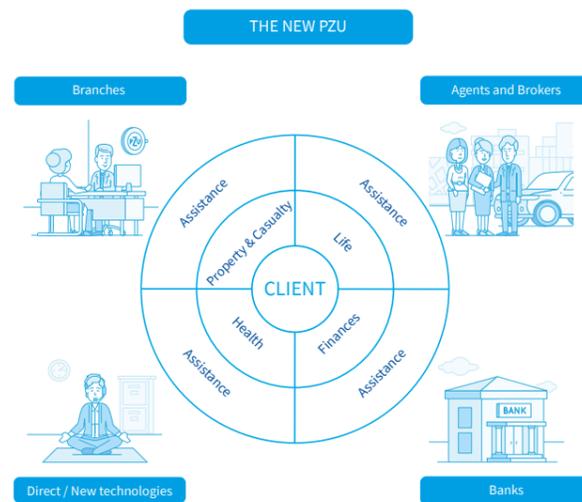
The PZU Group enjoys the trust of more than 22 million clients in 5 countries in Europe.

The PZU Group's insurance and financial offer is the most extensive and most comprehensive 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 SECTION 4 PZU 2020 – MORE THAN INSURANCE is client-centered. Our mission is helping clients take care of their future. This means that our client relationships and our knowledge of our clients are becoming the Group's overriding value, while our chief product is our acumen in addressing client need 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 effectively helps clients solve their problems in many areas and during every stage of their life. PZU's philosophy of thinking about clients constitutes a departure from the classic

#newPZU – we are becoming a lifetime partner



model of an insurer's client relations rooted solely in sales and aftersales service. PZU wants to establish and maintain long-term relations with clients and deliver products that best fit their needs. Everything in the right place and at the right time, adequate to their requirements and financial capabilities This approach has defined the philosophy of PZU Group's operating model.

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

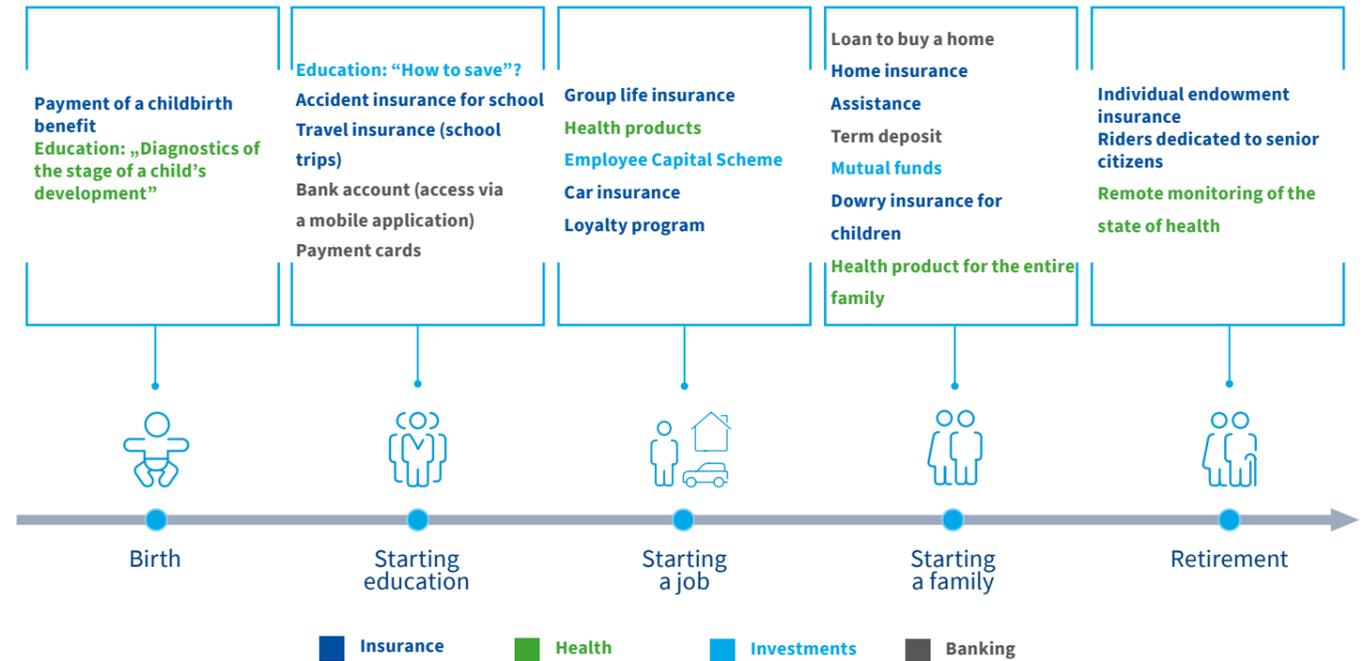
The PZU Group proposes abandoning "product centrality" in favor of an ecosystem whose overriding objective is to manage client relations skillfully. This means offering solutions in all available places. Accurately anticipating the future, understanding client needs and (inventing) creating ever better reasons for becoming part of their daily lives are the key assumptions of 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.

We use new risk assessment methods and simplify processes, including client processors, thanks to:

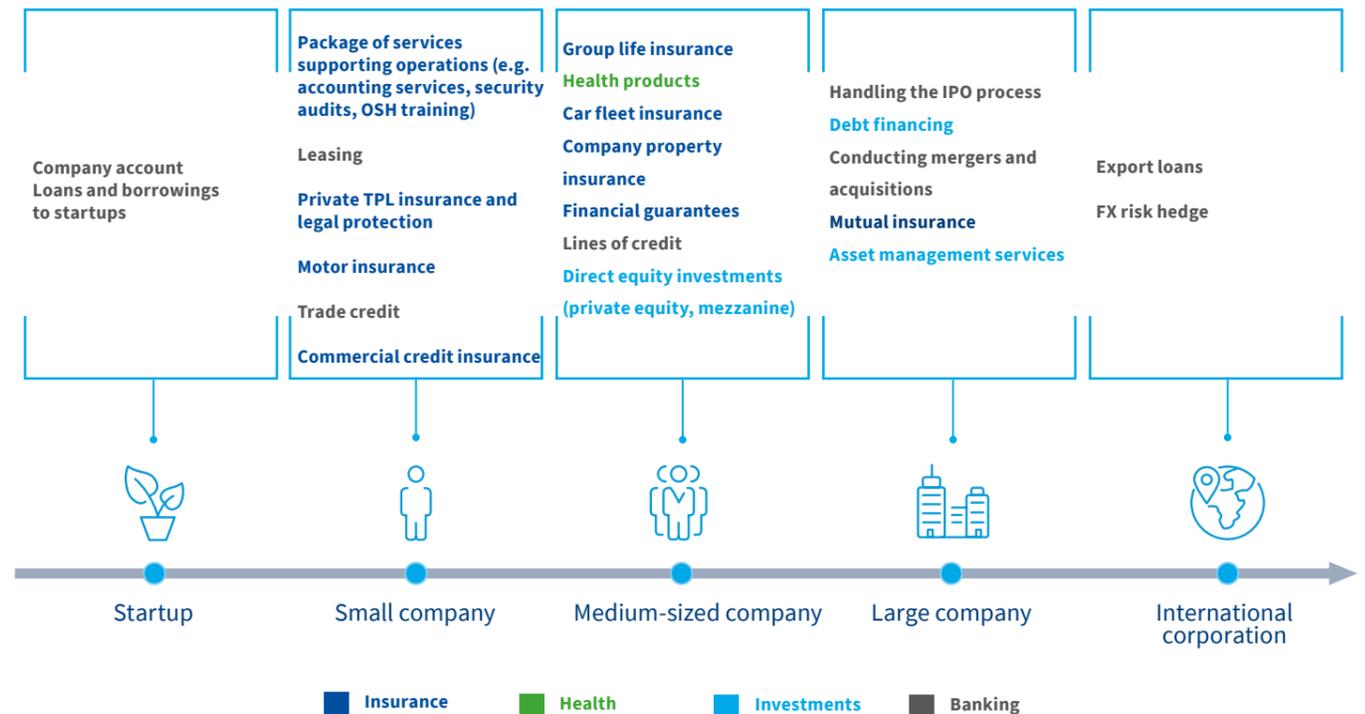
- utilizing our Big Data files better,
- digitalizing processes,
- using artificial intelligence and new technologies associated with the development of fintechs and insurtechs.

The beneficiaries of the change include the sales, claims handling and medical diagnostics areas.

We are a long-term partner for our clients



We help companies grow by offering them products supporting their growth



All services in one place

Our clients can handle numerous matters under the same roof.

At the mojePZU portal they can:

- buy a home or travel policy,
- make an appointment with a physician,
- collect a referral for examination or an e-prescription,
- check their medical records,
- invest savings,
- report a claim..

Launching the mojePZU 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 policy coverage at any time, manage their medical coverage and appointments and 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 mobile app. At the end of 2020, the mojePZU portal was used by 1.6million users.

MojePZU is the most comprehensible platform available on the insurance, financial and health markets. It is continuously developed and upgraded with new functions. In 2020, we expanded it by, among others, the possibility of verifying the identity using mojeID (myID) and mObywatel (mCitizen), which significantly expedited the portal registration process. In addition, we made it possible to set up a portal account through an activation link. Since 2020 an account can be opened also by persons who report a claim from the perpetrator's TPL policy but are not PZU Group's clients. Other functionalities introduced in 2020 included, among others, proposals of automatic renewals for clients who have a PZU Auto TPL policy 15 days before the end of the insurance, handling of reimbursement of incurred costs in PZU Zdrowie.

MojePZU also includes initiatives aimed at improving safety. From November 2020 the users of the mojePZU mobile app receive information about the launch in Poland of the lost child search procedure under the international Child Alert system.

MojePZU comprises also the PZU Pomocni Club. It is a loyalty program through which clients obtain attractive discounts and rebates. The club gives them bonuses, for example for leading a healthy lifestyle.

In 2020, the mojePZU portal was awarded the "Simple Polish Language Certificate" by the Institute of Simple Polish at the University of Wrocław.

5.2 Insurance



Insurance remains the core business of PZU Group's activity. The business model utilizes 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

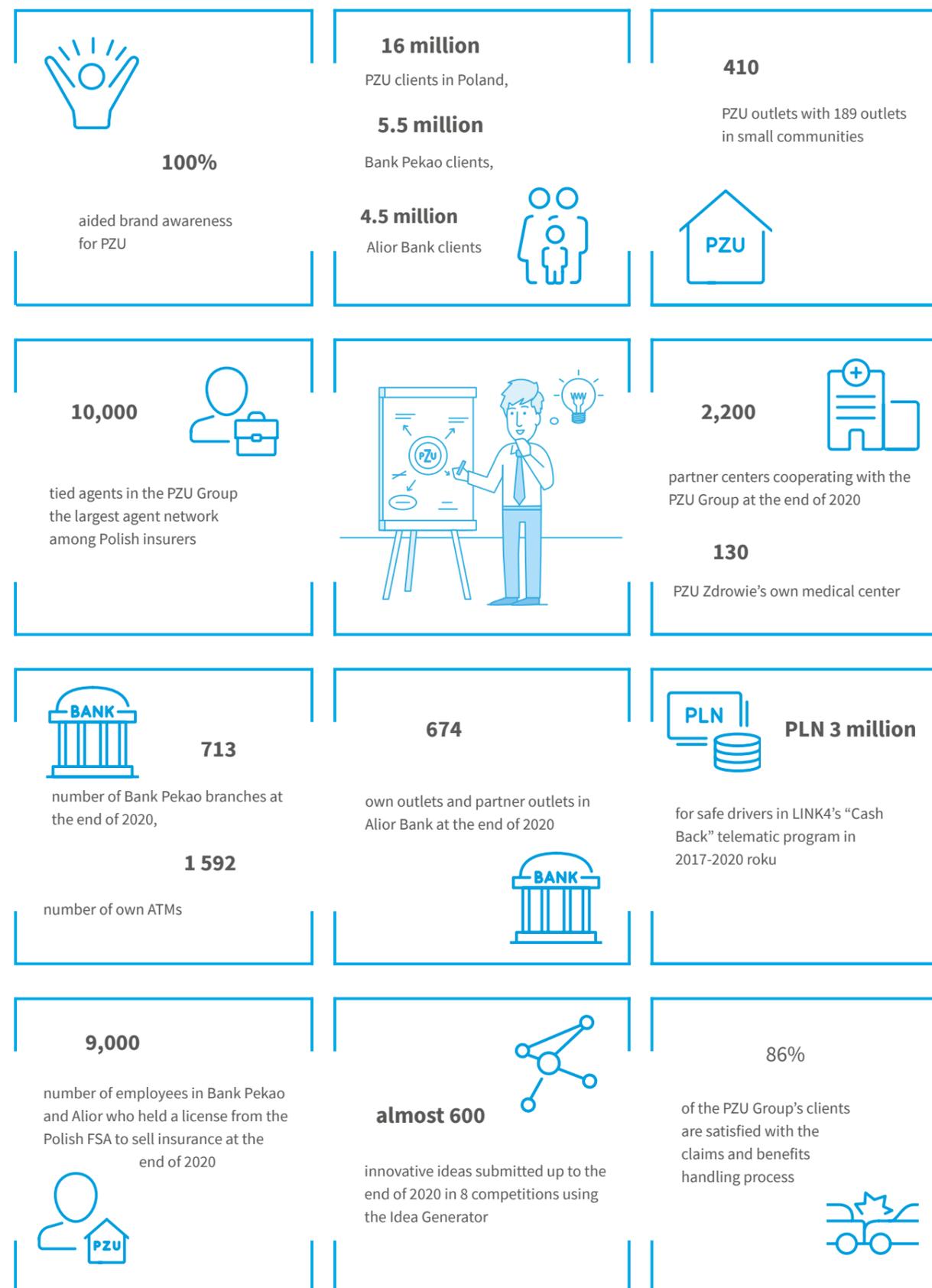
In Poland the PZU Group has a comprehensive product offer of life and non-life insurance for 16 million clients. They are retail clients, sole proprietors, small and medium enterprises and large corporates. The PZU Group enjoys the trust of 1.2 million clients in the Baltic States and Ukraine.



Przetłącz się na online Konto w serwisie moje.pzu.pl to:

- Dostęp do polis online
- Zgłoszenie i status szkody
- Umówienie i odwołanie wizyt lekarskich
- Benefity w Klubie PZU Pomocni

Pobierz również aplikację mobilną: **mojePZU**



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, i.e. the mutual insurance company SECTION 3.2 NON-LIFE INSURANCE

Life insurance is sold in Poland under the PZU brand SECTION 3.3 LIFE INSURANCE

In the Baltic States the PZU Group conducts insurance activity under the brand of Lietuvos Draudimas in Lithuania, under the Balta brand in Latvia and under the PZU brand in Estonia. In the Ukrainian market insurance is sold under the PZU brand. SECTION 3.6 INTERNATIONAL OPERATIONS.

Distribution network

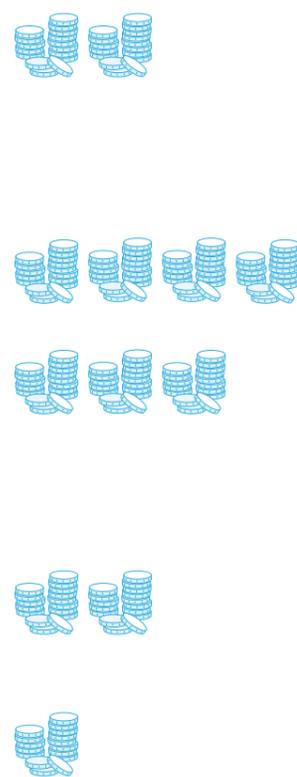
Percentage of the PZU Group's gross written premium



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

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 across the country with 189 in small communities and tied agents, multiagencies, insurance brokers and electronic distribution channels.



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 2020, the PZU Group's distribution network included the following:

- tied agents – in Poland the PZU's own agency network consisted of 10 thousand tied agents and agencies. We conduct sales through the agency channel predominantly in the mass client segment, particularly of motor and non-life insurance as well as individual insurance (life insurance). Link4 cooperated with 250 agents not tied to any aggregator. In the Baltic States the Group's agency network comprised over 700 agents, while in Ukraine there were approx. 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. Link4 cooperated with 50 multiagencies, while in the Baltic States Group companies cooperated with 18 multiagencies and in Ukraine with 20 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 400 brokers and in Ukraine with nearly 40 brokers;
- bancassurance and strategic partnership programs – in the area of protective insurance, in 2020 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. Link4 cooperated with 5 banks in different sales models – traditional, online and call center. In the Baltic States, PZU cooperated with 7 banks and 42 strategic partners, in Ukraine with 9 banks and 2 strategic partners;
- the direct channel – non-life insurance sales through this channel is conducted in particular by LINK4 and comprises cooperation with price comparison engines, website and call center. This channel comprises also the mojePZU portal.

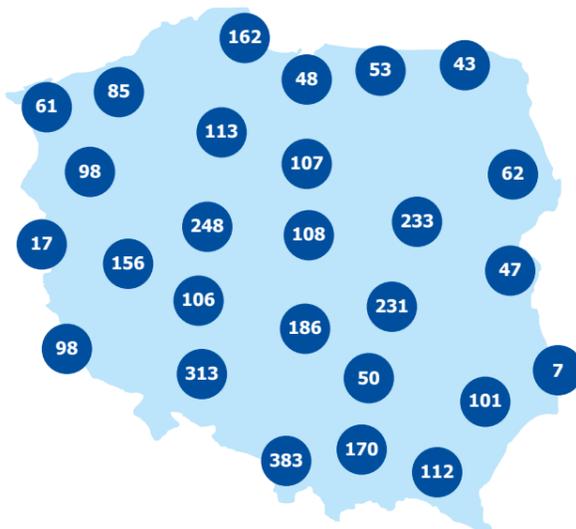


Bulk of PZU's clients prefer direct service by the agent and in the agent's office, therefore PZU focuses on developing a professional agency sales network.

The tied agent network undergoes constant transformation in order to improve the professionalism and constantly improve the quality of client service. Most agents running offices offer advice regarding the clients' property, life and health insurance. They provide clients with comprehensive service as part of the product offering of the entire PZU Group. The support constantly provided to agents by PZU (attractive equipment and marketing signage of the offices, agent onboarding and training on service quality standards, substantive support for the sales teams, financial support) increases their physical recognition in the field. Many of the efforts focus on locations where there are not many agent offices or their presence is not very strongly marked.

In 2020, due to the COVID-19 pandemic, agents received from PZU additional support which ensured safety both to agents and to their clients. PZU equipped their offices with Plexiglas screens, 7 thousand liters of disinfectant, 55 thousand facemasks and 168 thousand disposable gloves. Thanks to intensive promotion of the mojePZU portal, agents were well prepared for effective sales using this tool, which was particularly important in the initial phase of the pandemic.

Branches and agencies



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	Companies with 3 to 30 employees	Companies above 30 employees
<ul style="list-style-type: none"> > PZU Mój Zdrowy Biznes [My Healthy Business] > PZU Zdrowy Biznes [Healthy Business] > PZU Mój Biznes [My Business] 	<ul style="list-style-type: none"> > PZU Ochrona i Zdrowie [PZU Cover and Health] > PZU Ochrona Plus [PZU Cover Plus] > PZU u Lekarza [PZU at the Doctor's] 	<ul style="list-style-type: none"> > PZU P Plus > PZU W Razie Wypadku [In Case of Accident] > PZU u Lekarza [PZU at the Doctor's] > 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	Non-Life	Third party liability	Agribusiness
<ul style="list-style-type: none"> > PZU Auto TPL > PZU Auto MOD > Cargo in transit insurance 	<ul style="list-style-type: none"> > All risk property insurance > Property insurance against fire and other natural elements > Insurance of construction and installation risks 	<ul style="list-style-type: none"> > General TPL insurance > Professional TPL > TPL for the company's management 	<ul style="list-style-type: none"> > 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	Financial insurance and guarantees	Pension plans
<ul style="list-style-type: none"> > PZU FIO Ochrony Majątku [PZU FIO Wealth Protection] > PZU Oszczędnościowy [PZU Savings] > PZU SEJF+ 	<ul style="list-style-type: none"> > Contractual guarantees > Environment guarantee > Deposit guarantee 	<ul style="list-style-type: none"> > Employee Pension Plan (EPP) > Employee Capital Scheme (ECS) > Group Pension Plan

PZU develops and promotes the agents' online presence. We set up their websites, which we then put up on the www.agentpzu.pl site and prepare their Google "business cards". From 2020, PZU has also been offering Facebook profiles, co-managed by PZU. The visit statistics and information from agents confirm that these efforts help them reach a broader group of clients.

At the end of 2020, the number of the PZU's tied agent offices throughout Poland was 1,500, i.e. the same as the year before.

Cooperation with the banks within the PZU Group (Alior Bank and Bank Pekao) SECTION 5.5 BANKING AND STRATEGIC PARTNERSHIPS opened an additional platform for PZU to build lasting client relations. At the end of 2020, more than 9 thousand banking advisors (5.3 thousand in Bank Pekao and 4.1 thousand in Alior Bank) received the KNF license and became qualified to sell PZU's insurance products.

Claims and benefits handling

Claims handling is for the client the moment when they check the quality of their product. Satisfying client expectations

How to report a claim?

	Poland	Baltic States	Ukraine
Internet form	✓ zgloszenie.pzu.pl/	✓	
mojePZU platform / application	✓ moje.pzu.pl		
video chat	✓ 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, by letter, by fax	✓ e-mail kontakt@pzu.pl	✓	✓

during the claim handling or case handling process is the key to building PZU's client relationships.

The online service for reporting claims and benefits zgloszenie.pzu.pl/ makes it possible to automatically calculate the claim amount and report a claim for foreign partners.

The service upholds 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 place of the 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 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 connection with the COVID-19 pandemic, in 2020 we launched remote work for most claims handling staff, which secured the continuity of the claims and benefits handling.

PZU has a **Relationship Manager** who stays in contact with the injured party for the duration of the claims or benefits handling process. That person's assignment is not only to collect the documents needed to take care of the case, but also to convey information to the client about the stage of handling.

PZU develops methods for determining the **extent of the loss to expedite the calculation of the indemnity amount**. In non-life insurance, 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),
- video inspection (using an app to determine the amount of the loss).

PZU supports handling the **entire claims handling process with the use of a smartphone**. Using a smartphone, the injured party may:

- report a claim,
- 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.

PZU deals only with the final stage in the claims handling process, i.e. determining the amount of the indemnity and disbursement.

In addition, PZU has a **self-service claims handling** solution. In the case of ADD claims and benefits, the client personally marks the nature of their injuries on an intuitive human figure, which makes it possible 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 assess on his or her own 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 reduces 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. Since 2019, automatic death benefits payments are made. The payments are approved by automated processes, which considerably speeds up the handling process of those cases.

In first half of 2020, PZU implemented the **ADD video assessment**, in which medical examinations are carried out using a video call. The organization of the process is based fully

Business model

on PZU Group's resources. The examination takes place in the place where the client stays, without having to leave home. The service is intuitive and very convenient – all the client needs is a device with Internet access. The solution worked perfectly well especially when outpatient clinics were closed due to the COVID-19 pandemic. Despite closed clinics, clients had access to medical examinations. In addition, PZU limited the scope of documents required from clients. This is another initiative which made it possible to continue our services during the pandemic and, additionally, had positive impact on client satisfaction.

In connection with the COVID-19 pandemic, remote inspections were the preferred form of determining the indemnification amount. If the client could not use the video inspection service the claim was handled on the basis of photographs sent by the client.

In addition, PZU introduced robotics elements at the stage of summarizing the claims notification, sending out correspondence, making the claims decision and downloading police memos in order to speed up the indemnification payout. We also use robotics in specific claim types, e.g.: motor claims, mass claims caused by weather phenomena, and handling of medical claims

The Repair Network workshops apply an innovative technology using **artificial intelligence algorithms** and allows for analyzing the photographs documenting the loss. It can also determine the scope of the damage and classify the given part for repair or replacement. The algorithms can detect more anomalies more quickly and accurately, and confirm that all repairs are carried out in compliance with the procedures and standards adopted by PZU. In 2020, artificial intelligence analyzed over 160 thousand claims worth over PLN 1.5 billion.

In Q4 2020, PZU Życie introduced robotic handling of medical benefits. The optical character recognition (OCR) tool reads the data from the medical documentation and transmits it to a resource operated by a robot. Then, on the basis of a learnt script, the robot automatically transfers the read data to the product system (hospitalization period and diagnosed conditions), and verifies whether the data on the information sheet from the hospital pertain to the insured. The automation of the process supports Relationship Managers in their daily work, limiting the manual operations in the system. It also facilitates retrieval of data from unstructured documents,

which shortens the benefit processing time and eliminates mistakes which could occur during manual data input.



In 2020, LINK4 implemented an analytical claim segmentation engine. Using machine learning algorithms, the engine chooses the claims handling path which will be optimal for the client. 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. In the claims handling process, the customer experience depends also largely on the loss adjusters, whose work in Link4 is supported by technology. A specially-designed application allows them to calculate the claims amount more precisely based on the customer data. The solution enables the analysis of information obtained in conversations with the clients, which allows it to propose the most suitable cooperation scenarios. Analytical claim segmentation also enables early detection of total losses, which can speed up the claims handling process significantly in such cases.

LINK4 has increasing numbers of robots, whose functionalities have significant influence on work efficiency. This reduces the claims handling time and supports introduction of additional activities satisfying the client. Robots support, among others:

- automatic registration of motor, property and casualty claims,
- update of the provision 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,
- review of vehicles with MOD insurance,
- availability of loss files.

Advanced data analysis is used also in the anti-fraud tool implemented in LINK4. Combination of the scoring engine and

the prediction model business rules allows for quick detection and analysis of suspicious cases and identification of links between loss participants.

PZU was the pioneer in **DCH (Direct Claims Handling)** on the Polish insurance market. Currently, DCH is executed in two forms: at an individual level or under the agreement worked out by PIU. DCH is offered by entities accounting for nearly 70% of the motor TPL insurance market, as measured by gross written premium. The said agreement, which is based on a lump-sum approach, has dramatically simplified the settlement of claim payments between insurers. Thanks to DCH the claim handling following an accident is carried out by the insurer from whom the TPL policy has been purchased. It subsequently makes a settlement with the perpetrator's insurer, without the client's participation. 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. In 2020, Link4 joined the Direct Claims Handling system.

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 and roadside assistance. Moreover, since 2015, Lietuvos Draudimas as the only insurer in Lithuania has been arranging such services for clients who have purchased its TPL insurance.

The year 2020 with its pandemic has forced us to adapt our service processes and partner cooperation rules in such a way as to ensure safety of both the clients and the service providers. We made sure that vehicles, including replacement cars, are properly disinfected (and ozonized). On-site services were performed in such a way as to limit the direct contact and risk of coronavirus contagion.

The automation efforts initiated in 2019 were continued in 2020. The average roadside assistance arrival time was reduced by a few minutes. Work on changing the supplier of the dynamic map was started – new GPS transmitters were installed for a larger group of service providers, and

the processes were planned in such a way as to reduce the impact of the changes in the transition periods. Launch of new products made it possible to develop services associated with tire failure – a network of tire repair workshops and towers with a comprehensive service was expanded. Cooperation with caresharing providers developed and brought an increased number of orders, as well as launch of new caresharing points in new cities, including in Szczecin, Rzeszów and Opole. A client entitled to a replacement vehicle may use a voucher to use a vehicle from these operators. As a result, the client has access to a replacement vehicle only when it is really needed. There were changes not only in roadside assistance, but also in medical products – the service of a new rider Treatment Abroad was launched. The product ensures comprehensive organization of foreign medical services using cooperation with the Spanish provider – Further.

2020 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 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. In connection with the COVID-19 pandemic PZU launched a new service standard in the Repair Network – “door to door” service, i.e. collection and delivery of the vehicle to the client. Also Link4 provided the “door to door” service to its clients. Thanks to this solution the client could have their vehicle repaired without leaving home. Additionally, PZU introduced an obligation to disinfect the vehicle after the repair by the Repair Network shops.

Caring for the financial liquidity of the business partners, service providers and repair shop network, PZU implemented a solution which provides for reimbursement of the repair costs specified in the invoice up to three days.

PZU constantly improves its communication with clients. Traditional communication is being replaced with electronic communication and telephone contacts. To make sure the information is clear and comprehensible, letters, e-mails and text messages for clients are adapted to the principles of a simple language.

Visualizing distinct case handling stages in the mojePZU portal is a great convenience to clients. Logging into moje.pzu.pl and quoting the claim or case number, the client may find out about the case status and the steps that have already been completed.

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 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 experts who visit injured persons in their homes. The relationship managers 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 and 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.

Since 2018 PZU has been developing the pre-claims handling process. The process involves PZU making initial contact with an injured party, even before that party reports a claim. After the occurrence of random event (such as fire, gas explosion, whirlwind), we attempt to identify the client based on information obtained from publicly available sources (including the Internet, radio, e-mail and emergency phone number). If the identification is successful, we establish contact with them to provide help in the difficult situation. PZU proves the required support, starts the claim handling process and arranges for assistance, including rental of a replacement home, clearing up of the property.

PZU has had the PZU GO solution in place for two years. The main aim of this modern solution is to help on life threatening situations and monitoring driver and passenger safety when driving. 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. Then a Center employee contacts the client to check if they need help. If it is not possible to establish telephone contact, emergency services are called to the scene (ambulance, fire brigade, police). The PZU hotline may be also contacted by pressing a 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 employees remain in constant contact with the client at each stage of recovery and repair of material damages. Remote Client Service Center consultants support clients and agents in operating the app, installation or replacement of the device. They can also order a device on the client's or agent's request or following a sale in the direct channel, and register the PZU GO device following a sale in the direct channel.

PZU uses the remote sensing method during crop claims handling following poor overwintering. Remote sensing makes it possible to remotely obtain information concerning facilities or areas from a distance, 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 is objective and makes it possible to source the data required to calculate the indemnity quickly for a large geographical area. As PZU can see a broad application of remote sensing in claims handling 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 keeps improving the solutions that curtail the payment of undue benefits, prevent clients from counterfeiting documentation filed during the submission of a claim or statements regarding their health status. In 2018 we extended support to identify undue payments of claims and benefits by incorporating a Fraud Management System (FMS) when examining non-life insurance claims. In the crime prevention division (covering insurance crime) there are three teams whose employees perform clarification activities and prepare recommendations for the decision issued in the case, and participate in preparation and issuing opinions on business decisions for individual product groups and procedures. PZU signed contracts to procure services involving the audit of electronic registers of post-accident vehicle traction and sourcing documents and information from international entities.

PZU also tries to build the processes and improve client service based on the employees' experience. By the end of 2018 we appointed an Inspiration Council comprised of employees with outstanding knowledge, competences, creativity and engagement. The Council has over 400 members. The Council is a place where employees put forward solutions facilitating their daily work and improving client service processes. Ideas are analyzed, improved and, to the extent possible, implemented.

Innovations in insurance



Laboratorium Innowacji

Innovations, digitalization and development of new technologies 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 understands how much new technologies are changing the insurance industry therefore it implements 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. We are creating modern solutions both internally and in cooperation with the best start-up companies in the respective fields. Annually, over 1,000 solutions are analyzed and 10-15 pilot projects are run. Projects implemented with the support of the Innovation Laboratory are awarded in local and international competitions (in 2020 the awards included, the Celent Model Insurer award for AI in claims handling, the ICAN Institute and MIT Sloan Management Review Polska award – AI Innovation Transformation Champion in claims handling, the Innovation Eagle award for the COVID-19 Band of Life).

We collect innovative solutions internally using the Idea Generator, a portal to administer competitions and share inspirations among employees. From the beginning of the Generator, in eight competitions, nearly 600 ideas for internal improvements and innovative projects in PZU were submitted.

In November 2020, the third 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:

- utilizing Big Data,
- digitalization,
- new client interactions.

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 2020 they made it possible to vet the ideas and prepare the following implementations:

- **COVID-19 Band of Life.** PZU adapted the Bands of Life to the needs that appeared in the health care system in the times of the COVID-19 pandemic. The COVID-19 Band of Life reduces the risk of infecting the medical staff in hospitals, because it remotely measures the patient's oxygen saturation of blood, pulse and body temperature in real time. The device alarms when the measured parameters are significantly exceeded and when the patient's fall is detected. The unique application of this medically certified solution enables doctors to supervise the patients' health without physical contact. In addition, the solution offers high accuracy of measurements and easy reconfiguration to adapt the device to the conditions and needs in different hospital wards. The band works for three days on a single charge and is easy to disinfect;



- **AI in claims handling,** PZU handles over 500 thousand motor claims per year. Bulk of them are handled by repair shops. Most claims comprise mass photographic and technical documentation which often requires additional in-depth analysis. Analyses may be carried out only by

trained and highly qualified experts. The implemented artificial intelligence (AI) solution has improved their daily work. Before using AI most cases handled by repair shops had to be analyzed manually. Thanks to implementation of a solution using artificial intelligence algorithms, experts receive for analysis only selected cases while the remaining ones, which do not raise any doubts, are approved automatically or semi-automatically. The implementation translates into significant financial savings and improvement of client satisfaction. Work is under way to implement artificial intelligence in the remaining motor claims handling processes;

- **Cyber SME.** It is an online platform which automatically scans the websites of small and medium-sized companies and verifies their cyber attack safeguards. A company using this service receives a free report on cyber threats, assessment the susceptibility their website cyber attacks and recommendations allowing it to mitigate the risk and prevent losses;
- **Car Expert.** The service supports clients in purchase of a car and is an element of a comprehensive ecosystem of services for drivers in PZU. The offer comprises: verification of car sale commercials, verification of the technical condition of the car, insurance product "Mobility cover" ensuring support in case of failure of the verified vehicle for 90 days from the purchase, and a loan for the purchase of the car. Non Stop Assistance brand experts verify the technical condition of the car before the purchase.



Raport
Oceny Ryzyka
Cybernetycznego

In 2020, PZU continued collaboration with two startup accelerators: MIT Enterprise Forum CEE and RBL_Start (Alior Bank's accelerator). In the first one, solutions were searched associated with three key areas: big data, digitalization, and new client interactions. In the second one, PZU together with Alior Bank undertook a Special Initiative #COVID-19, which dealt with innovative solutions aimed at combating the coronavirus pandemic and its effects. The initiative attracted huge interest. From among several hundred submissions, experts decided to implement one of them as a pilot project. The solutions put forward under these programs enjoyed interest from selected business areas – in both programs five pilot projects were launched in the two programs.



LINK4 is known for its innovative approach to 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. The challenges associated with the COVID-19 pandemic pointed to the weight and importance of these technological solutions.

One of the technologies which gained importance in 2020 is RPA (Robotic Process Automation). Robots imitating human work can perform simple activities and take over comprehensive processes. In the times when replaceability of employees and their presence can be strongly limited due to COVID-19, this technology makes it possible ensure the company's business continuity. In 2020, robots operated over 50 processes in LINK4. Additionally, where automation of the entire process was not possible, they supported employees in

preparation of parts of the process. Thanks to RPA it was also possible to create document repositories, which significantly facilitated documentation access and management, especially in the remote work formula.

In 2020, LINK4 also implemented the Voice Bot. The tests of the technology have shown that the bot is often more efficient than a consultant, and at the same time scores positive opinions from clients. In the first place the Voice Bot was introduced in the Premium Handling area, where during the conversation with the client the bot reminds them about the necessity and method of notification of the sale of the car, delay in payment of the insurance premium, or a prepared offer in connection with expiry of the policy. Work is under way on analyzing the potential of the technology in other areas.

To facilitate the insurance purchase process for clients, LINK4 introduced a new tool which supports inspection of the car by the client during purchasing the MOD insurance. The solution makes it possible to save the time required for the inspector's visit and reduces the risk of coronavirus infection thanks to limiting physical contact. To use it, one needs a smartphone with Internet access. The process is simple and intuitive. The client receives a personalized link to a browser app in which, after accepting the rules and regulations, he/she is required to take 8 pictures. What is important, the photos need to be done in real time, which reduces the risk of fraud. They are also verified by artificial intelligence for correctness, among others, against the policy data.

LINK4 as the first insurance company in the Polish market created a repository of public documents secured with the blockchain technology. Thanks to that, it satisfies the requirements of the so-called "durable media" and LINK4 may provide its clients with documents in the electronic version with a guarantee that they cannot be modified and removed over time. All document modifications are visible, because the unique document number, the so-called hash, changes; it is stored and may be verified also on the website of a "Trusted Third Party" (KIR), which guarantees the authenticity of the document. This significantly streamlines the communication and reduces the necessity to send hardcopy documentation.

In 2020, LINK4 continued the transformation program in Data Driven Company started the year before. The Data and Advanced Analyses Center executed a number of innovative



Business model

projects which made it possible to generate measurable business benefits. The Company made a milestone in terms of using the data processing and analysis capabilities. A modern Data Lake was built, which allows for efficient creation of Machine Learning models and business analysis. In addition, technologies were implemented to make it possible to process huge volumes of unstructured data which so far were not available for broader analyses. The data were used to better understand the client needs and address them in the form of an appropriate scope of insurance and price.

In the second half of 2020 the company implemented the **Microsoft PowerBI** tool which changed the way in which data are analyzed in Link4. Simple tables were replaced by manager dashboards, which support multidimensional analysis. At the end of 2020 there were 20 dashboards which were daily used to analyze and monitor business processes.

The **Data Driven Transformation** also involved strengthening employee competences. In 2020, LINK4 continued the Analyst Academy program (2nd semester) started in 2019 to improve the analytical skills of the persons employed on three advancement levels. In addition employee knowledge in the technical and business area was developed.

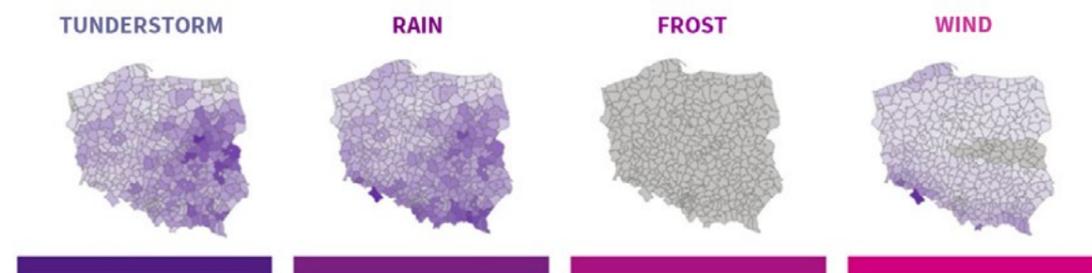
Other initiatives and tools implemented by LINK4 in 2020 in the IT area comprised:

- modern online premium rate calculator, which allows for advanced analytics and Machine Learning to optimize the price. Price optimization made it possible to execute the company's business objectives and maintain portfolio profitability;
- the new, simplified and intuitive calculator in the direct channel, which significantly reduces the offer calculation time;

- completely remote sales process in the agency channel, which turned out indispensable during the COVID-19 pandemic and was very well received by agents;
- the Omnichannel program, aimed at ensuring a consistent offer for the client in all communication channels, was launched. Thanks to using new online rate calculation solutions and identification algorithms it will be possible to present a personalized offer to the client in real time;
- a hybrid architecture was prepared, combining Microsoft Azure with Link4's ICT environment, on which the first cloud services will operate in 2021: the new TPL/MOD calculator and an app for processing and analyzing the data from the calculation.

Weather alerts, i.e. text messages with information about extreme weather conditions (such as gales, tornadoes, torrential rains, storms, snow storms) are very popular among Link4's clients. LINK4 sends them to clients who have real property insurance or motor insurance. 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 such events. In 2020, LINK4's clients received over 1.6 million such alerts, three times more than the year before. In the case of mass phenomena, the tool makes it possible to identify groups of clients who might have suffered a potential loss. As a result, it is possible to establish contact with the client, assess his/her situation and needs, and accept the claim report still before the client contacts LINK4.

Areas to which alerts were most frequently directed in 2020 broken down by weather phenomena



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 delivers innovative solutions and supports corporate clients in optimizing risk in their business.

PZU LAB engineers cooperate with clients at all stages of operations of their enterprises and offer a broad range of solutions and consulting and training services and services using innovative technologies. 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 400 clients to mitigate risks associated with their business. They implemented, among others, solutions using artificial intelligence and such projects as Self-learning Company, Enterprise Safety Tool (ESTools) and PZU LAB Academy.

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. The system supports ongoing control of insurance audit orders.

In 2020, as part of PZU's prevention fund, PZU LAB launched the proprietary ESTools RzykoPro program in 20 Polish businesses and provided 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 innovations. They make it possible to detect irregularities in the operation of machines, going back as much as tens of hours earlier than the existing systems. This has paramount importance especially for complicated industrial installations

(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, thus increasing the competences of the safety services in the daily risk 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 in the Academy 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. In the 2020/2021 semester, the second online edition of the studies was launched with the Kozminski University in Warsaw. 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 improving industrial safety. Lectures and case studies are presented by experts 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 2020, PZU LAB developed an innovative system for safety certification of the Polish industry and preparation of guidelines for industries of strategic importance for the PZU Group, including the timber, power, municipal waste, chemical and petrochemical industries. PZU LAB engineers developed a consistent system for assessment of the level of safety and efficiency of devices that are key to safeguarding against emergencies. The system combines many years of experience

Business model

of the engineers with the latest research and technological solutions. Satisfaction of the criteria by installation producers and users is confirmed by the PZU LAB Approved certificate. The “PZU LAB Approved” logo, as a sign of quality and safety of the solutions used, will be visible on sensors, fire doors, extinguishers and other fire system elements subject to certification. The PZU LAB SA system stands out with its comprehensive certification procedure. Certification covers the entire installation with the full life cycle, i.e. production, distribution, design, installation and maintenance. This approach is key as engineers observe the irregular mandatory servicing of the systems and equipment, aggressive price competition and cost cutting at different stages, which adversely affects the quality and effectiveness of operation of the safety systems.

PZU LAB organizes regular safety forums. This way it 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. Due to the COVID-19 pandemic, in 2020 only one safety forum for the maritime industry was organized, attended by approx. 250 representatives of entities and institutions from the maritime sector.

PZU LAB also organizes industry training in the form of workshops. In 2020 training was delivered on claims under third party liability, motor claims and machinery property claims in the power industry for Polskie Sieci Energetyczne. Due to the pandemic, the training courses were organized online.

PZU LAB took part in the Scale-Up acceleration program funded by the Polish Agency for Enterprise Development (PARP). Its aim is to get together young technological companies with big firms which need innovative solutions for business. As a result of the work under the project and acceleration, in 2020 the BlueMind start-up was established; it developed a tool for parameterization of the risk of corporate clients. Another company, 3DV Risk, which was commissioned by PZU LAB to develop the first in Poland prevention portal, is preparing realistic 3D animations presenting loss events from the initial cause to the final outcome. 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 made in the production process.



5.3 Investments



PZU Group’s insurance offer in Poland is supplemented by a broad range of investment products:

- open- and closed-end mutual funds, and pension products:
- open-end pension fund,
- individual retirement security accounts with a voluntary pension fund,
- employee pension schemes (EPS),
- individual retirement accounts (IRA),
- individual retirement security accounts (IRSA),
- employee capital schemes (ECS).

These products are offered under the PZU brand.

The Group offers investment solutions customized to the needs of all clients. The online platform, inPZU, launched in 2018, makes it possible for clients to independently invest in the first fully proprietary passive funds in Poland. The platform is available 24/7 on any mobile device, and since 2020 also an English language version has been available. On the inPZU platform you can compare funds, define investment objectives and personalize them. inPZU makes it possible to instantly search funds and ready model portfolios as well as to pay for orders online. The platform is available to both individual and institutional clients. This is an attractive tool both for advanced investors and persons who are just starting to invest their savings.

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 Akcje Amerykańskich Dużych Spółek and inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących. 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 listed on the stock exchanges from the Eastern European region, from Croatia, Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary.

In November 2020, IRSA and IRA pension products were introduced in the inPZU platform.

Both products are available online. You can decide if you want pay into one of them or both of them simultaneously, which allows you to use up the total limit of payments and attain maximum tax benefits. On the inPZU platform you can yourself build your IRA and IRSA portfolio, choosing from 14 funds – 9 index funds, available already before, and 5 new lifecycle funds, among which you can find the fund that is suitable to your retirement age.

At the end of 2020 the service was used by over 22,500 active users, and the clients’ assets invested in inPZU passive funds, in 2020 for the first time reached PLN 200 million.

5.4 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 2020, the Group had 2.8 million in-force health contracts. Despite the COVID-19 pandemic, the value of revenues in the health business approached the figure of PLN 1 billion, reaching PLN 949 million.

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

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

Additionally, in the period of the COVID-19 pandemic, telemedicine significantly developed. Provision of services in this model enabled PZU Zdrowie clients constant access to medical consultations.

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** (non-life health 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 insurance in the form of individual continuation or rider to life insurance;
- **Non-insurance products** – PZU Zdrowie as a medical operator offers subscription and fee for service (FFS) products, and products in the area of health prophylactics for commercial clients. In mid-2020, it launched the PCR test process (COVID-19 test) for travel agents. It also provided health services to retail clients using the company’s proprietary medical centers.

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	Daily medical care	Employee health
<p>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.</p> <ul style="list-style-type: none"> > 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] 	<p>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.</p> <ul style="list-style-type: none"> > Medical care in the case of an accident, illness and for everyday needs > Prophylactics for everyone > PZU Plan na Zdrowie [PZU Plan for Health] 	<p>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.</p> <ul style="list-style-type: none"> > 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)				✓

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, including the corporate and agency network of PZU and PZU Życie. The PZU Zdrowie sales network launched in January 2020 is developing dynamically. The COVID-19 pandemic expedited also the sales in the digital channel – the mojePZU portal. Through this portal you can purchase single medical consultations both in the remote format and in the medical centers.

Medical infrastructure

PZU Zdrowie cooperates with approx. 2,200 partner centers in nearly 600 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, Wrocław, Kraków, 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.

Medical centers



Contact channels

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

- self-service website mojePZU [myPZU] with access to the calendar of appointments of each center,
- PZU mobile app,
- 24/7 hotline.

Development of the scale of operations of PZU Zdrowie



Contact channels



self-service portal mojePZU



24/7 infoline 801 405 905



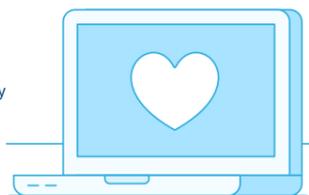
mobile application



chat with consultant

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).
- > We offer our patients the possibility of using our services throughout Poland – our partner network covers nearly 600 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 they can discuss their ailments, test results and receive prescriptions for medicines taken permanently and referrals to examinations;
- > We make available the patient's path – on the platform we conduct an interview with the patient, which is very similar to when an interview with a physician and then present the most probable solutions and define 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 an e-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 subscription or insurance outside of our network



Innovations

In 2020 PZU Zdrowie started or continued the development of IT projects aimed at improvement of the service:

- **mojePZU [myPZU]** – The self-service website of the PZU Group makes it possible to:
 - make or cancel an appointment over the Internet,
 - check which centers cooperate with PZU,
 - see the list of past and upcoming appointments,
 - verify if a specific medical service is covered by the insurance held,
 - obtain advice on how to prepare for an examination,
 - attach documents (e.g. test results) to the appointments made in proprietary medical centers,
 - collect orders, referrals and results of laboratory tests from physician appointments from PZU Zdrowie centers,

- purchase additional services which are not included in the health product or purchase a prophylactic package,
- carry out a medical interview for patients suspecting a COVID-19 infection,
- **Olimp [Olympus]** – PZU Zdrowie's website assisting employers in handling various matters related to occupational medicine services, makes it possible to:
 - monitor expiration dates of employees' medical examinations,
 - generate a referral to examination with a single click,
 - initiate the PZU Hotline to contact the employee with sufficient advance notice to remind him/her about an upcoming examination,
 - verify, by the PZU Hotline employee, the referral form, which facilitates the conversation with the employee and schedule his/her examinations,
 - create a list of things to do related to ongoing handling of occupational medicine services and sending reminders by e-mail,
 - handle 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** – the project deploys medical documentation in own centers.
- **Voice Bot** – virtual assistant who makes and cancels patient appointments by phone.
- **Remote PZU Zdrowie COVID Care** – program for PZU patients suspecting infection with, or suffering from, COVID-19. In the program the patient receives a pulse oximeter and remote psychological and internist care.

At the same time, **innovative solution pilot projects** were launched in patient service in PZU Zdrowie medical centers:

- AccuVein vein illuminator,

- StethoMe electronic stethoscope,
- USG Lumify portable heads,
- electronic consents with biometric signature,
- monitors in surgeries with medical model visualizations,
- artificial intelligence as support in stroke diagnostics in computer tomography examinations,
- tele-rehabilitation.

The above efforts are described in SECTION 3.7 MEDICAL SERVICES (HEALTH)

5.5 Banking and strategic partnerships



Distribution of insurance via the banking channel is an important element of the PZU Group's business model. Cooperation with the banking segment forms an additional plane for PZU to build lasting client relations at every stage of their personal and professional development.

PZU's activity is based mainly on the area of bancassurance, assurbanking and cost synergies in cooperation with banks from the PZU Group: Alior Bank (in PZU Group since 2015) and Bank Pekao (in PZU Group since 2017) and distribution of bancassurance insurance products through banks outside the Group.

The overriding objective of the cooperation is to reach the largest number of clients using multiple distribution channels and provide insurance cover to bank clients.

In 2020, the PZU Group attained its strategic objective for 2017-2020 by recording PLN 1 billion of premium from the cooperation with Bank Pekao and Alior Bank. Due to the uniqueness of the banking distribution channel and the COVID-19 pandemic, 2020 entailed dynamic development of remote sales channels.

Cooperation with the Bank Pekao and Alior Bank

In bancassurance:

- with Bank Pekao:
 - cooperation in offering insurance for mortgage loans and cash loans. To secure the borrowers taking express loans (PEX) and insure real properties in 2020, remote

sales channels were launched. Thanks to that, clients could enter into an insurance contract without leaving home. This also make it possible to reduce the negative effects of partial closure of branches due to the COVID-19 pandemic;

- in Alior Bank:
 - sales of life insurance for cash borrowers and for mortgage loan borrowers,
 - direct sale of "Pomoc w podróży" travel insurance in Alior Bank's Exchange Office;
 - sale of voluntary protection insurance as a supplement of the banking product offer for the business client – 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,
 - introduction, in 2020, of new unemployment insurance securing cash loan borrowers in Alior Bank.

In assurbanking:

- as part of end-to-end sales, in the remote channel, we successively launch new banking products – currently these are Przekorzystne Konto and Bank Pekao Przekorzystne Konto Biznes accounts;
- all PZU's own branches launched a joint campaign entitled "Car plus account" (TPL 10% + ROR PLN 200), supporting the sale of motor TPL insurance and the Bank Pekao Konto Przekorzystne account. The Konto Przekorzystne promotional offer is available also in the sale of PZU Dom and School ADD products. In addition, in 2020 a pilot project was launched, in which the offer was extended to include PZU partner branches. PZU is one of the largest partners of Bank Pekao in the sales of transaction accounts (ROR) via the bank's Pekao360 app;
- in connection with the COVID-19 pandemic, the possibility of opening the Bank Pekao's Konto Przekorzystne account by PZU branch staff was introduced. Due to the travel restrictions, the work associated with the combined Konto Przekorzystne and PZU Voyager offer on the mojePZU website was suspended;
- together with Alior Bank, an innovative loan platform with a unique product offering for the employees of the Cash Portal was being developed. In 2020 the portal was made



available to further work establishments. Currently the portal is already available to several tens of thousands of employee of different size companies. The Cash Portal is a good example of synergy and leveraging the strengths of the two companies in the PZU Group, and implementation of an innovative business model and following the market trends – in this case the trends pertaining to financial wellbeing. The Cash Portal also follows the development of remote channels, making it possible to use financial products 100% online, which is particularly important in the face of the COVID-19 pandemic.

In addition:

- Insurance programs for the banks’ employees and special offers on bank products for the employees of PZU Group companies;
- Cost synergies in the area of IT, administration, real estate and security, the annualized cost synergies as at the end of 2020 reached PLN 181.3million;
- Initiatives promoting Poland and Polish economy in Europe and globally. During the 2020 and 2019 World Economic Forum in Davos PZU together with Bank Pekao organized, the Polish House (Dom Polski) – a place devoted to promotion of Poland, its economy and the entire Tri-Sea Region.

Bank Pekao



Bank Pekao is one of the largest financial institutions in Central and Eastern Europe and one of biggest universal banks in Poland. Thanks to the second largest branch network, the bank serves approx. 5.5 million retail clients. As the country’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

Strength of the Polish Bison

In accordance with the strategy for 2018-2020“Strength of the Polish Bison”, the bank’s priorities are: smart growth, digital and operational transformation, and building long-term relationships with clients based on an integrated service

model and professional operation designed to strengthen the position as one of the biggest and most recognizable banks in Poland.

As of the beginning of 2021 Bank Pekao acquired, pursuant to an administrative decision, the enterprise and the liabilities of Idea Bank, with exclusions specified in the decision. The acquisition meant that Pekao increased the scale of business and the Micro and SME client base, which are the strategic segments for Bank Pekao’s development.

Clients and products

Bank Pekao is a universal bank offering financial services to individual and institutional clients. A broad product offering, innovative solutions and individual approach provide clients with comprehensive financial service. An integrated service model, in turn, guarantees the highest quality of 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 micro businesses. Private banking clients are offered investment advice in private banking centers and remote channels, and all retail clients and micro businesses 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** – providing 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.

Distribution channels

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

As at 31 December 2020, the bank had 713 own branches and 1,592 own ATMs. The bank maintained 6,531.0 thousand current accounts in PLN, 401.3 thousand mortgage loan accounts and 674.6 thousand Express Loan accounts.

Online and mobile banking

In 2020, Bank Pekao consistently executed the digital transformation process, comprising 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. In the face of the dynamically accelerating changes in the area of client behaviors and needs triggered by the COVID-19 pandemic, a number of projects in the digitization area were accelerated to secure the continuity of cooperation with client in the sanitary regime environment. In Q2 2020, the bank deployed a new **PeoPay** mobile banking app. Its modern graphic design improves navigation and ease of use. The interface developed on the basis of the experience and research with clients provides very convenient access to accounts and products and facilitates daily mobile banking. In the new PeoPay users may check their account balance even before logging in. After entering the app they gain access to all their products and other services offered by the bank. The PeoPay app supports opening an “account with a selfie” both to retail and corporate clients. Thanks to it, clients may easily and conveniently order a transfer to any account, make all other payments, top up their phone, pay contactless with

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



Business model

their phone and open a deposit. The app offers a number of innovative solutions such as, for example:

- obtaining a loan in the “one click” process without leaving home – 30 seconds after an agreement is accepted;
- approving transfers and payments using finger or face biometrics;
- broad range of payment methods: Google Pay, Apple Pay, BLIK, PeoPay payments, Garmin Pay, Fitbit Pay;
- payment for online shopping in the phone without the need to log into online banking;
- scanning account numbers from invoices, without the need to key in the account numbers into the app.

In June 2020, the bank released the PeoPay KIDS app developed specifically for children aged between 6 and 13. The app lets children learn in an easy and accessible manner how to save up and manage their money. Children may also obtain their own **PeoPay KIDS** payment card to let them make purchases in stores and withdraw cash – the transaction limit on the card is set by the parent. The app also enables the user to perform simple operations, such as transfers from the Mega Beneficial Account or top-ups of pre-paid phone cards. PeoPay KIDS is linked to the parent panel in the PeoPay app and Pekao24 online banking. All transactions require a parent’s authorization

Since mid-April 2020, the new Pekao24 platform has been available to the bank’s clients. The new platform features not only a modern and accessible graphical presentation of the interface, but also improves user experience and enables optimized and simplified processes that respond to the needs of the user community, in particular by enabling them to manage their finances without leaving home. The new functionalities in the platform were made available both to retail clients and to micro clients and small businesses using Pekao24.

Bank Pekao launched authentication of clients who have the digital banking identity **PekaoID** using the mojeID service (PekaoID) and the Trusted Profile using the so-called eIDAS National Junction, i.e. an administrative HUB, to which already over 100 authorities, including state administration bodies, are connected. Thanks to it, the utilization of the commercial mojeID (PekaoID) service in public administration was expanded. Using a single tool the bank’s clients may authenticate their ID in the platforms of both commercial and

public entities. In 2020, the number of clients using Pekao exceeded 230 thousand.

In addition, the bank launched the **Autopay** service thanks to which selected motorway sections can be paid for automatically, without the need to wait in the lines at the toll gates. The service can be activated from the PeoPay app and the Pekao24 online banking platform.

In December 2020, the bank made the **open banking** functionality available in the Pekao24 platform and in the PeoPay app. Thanks to the service, after logging into the PeoPay service or the PeoPay app, the account holders in different banks may check the balances and transaction history on PLN, FX and savings accounts, and the credit card accounts and order local and foreign transfers.

In mid-2020 Bank Pekao launched new sales processes in the new Pekao24 service and the PeoPay mobile application, with new functionalities for the clients. The bank launched a new process “**Halo**” supporting remote sale of cash loans, overdraft limits and credit cards remotely during a phone call, both by a Pekao Direct consultant and a relationship manager in a branch, with acceptance of the documents and the loan agreement in the Pekao24 transaction service or the PeoPay app. The new solutions provide clients with a personalized tool allowing them to finance their needs without the need to visit a branch.

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. 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

More than a bank

The business objectives of Alior Bank’s strategy include, among others, facilitating everyday activities for clients, thanks to integration of banking and non-banking services, delivered both by Alior Bank and by the bank’s partners.

The banking world is changing rapidly. Digital banking accompanies Alior Bank’s clients on a daily basis and the services offered go beyond managing home or company finances. They include purchase of insurance, selection of health care, keeping books of account, easy payments “in the background”. Clients’ trust, listening to their expectations combined with Alior Bank’s technological potential yields unprecedented convenience, new possibilities and tailoring to individual needs – at a much higher level than in traditional banks. Further expansion of Alior Bank’s technological potential, new business solutions and maintaining stable, long-term relations with clients are the bank’s development foundations.

Clients and products

The bank’s operations are conducted by various divisions that offer specific products and services earmarked for specific market segments. The Bank does business in three segments:

- **Individual client (retail segment)**

As at 31 December 2020, Alior Bank catered to 4.2 million retail clients.

In the first half of 2020 the bank implemented modern behavioral segmentation, grouping and describing the portfolio of retail clients actively using banking services. In the second half of the year the bank also implemented segmentation of retail clients who, in cooperation with Alior Bank, finance their installment purchases, whereas Alior Bank is not the bank of their first choice.

Both segmentations are based on multiple dimensions of the data in the bank’s possession, associated with the clients’ products, lifecycle, banking method, level of wealth

and modernity. Additionally, based on an analysis of the transaction rates and purchase baskets, the segmentation was supplemented by the clients’ interests and the so-called „life style” criteria. The segmentations provide information about the clients’ values, expectations, attitudes and service and product needs.

There are six segments of clients actively cooperating (banking) with the bank, and six segments of consumer finance (installment purchase) clients.

The segmentations make it possible to adapt the communication, contact channels, product packages and personalized value added services, which supplement the traditional functionalities of the products and services offered by the bank. The segmentation dedicated to consumer finance clients makes it possible to improve the quality and effectiveness of sales communication, in which the bank offers to installment clients also other, professional banking products.

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 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 can be seen also in the structure of the sales network which comprises specialized sales units – universal, premium 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 2020, the bank serviced nearly 240 thousand business clients, and the total credit exposure reached PLN 19.7 billion. The number of sold business payment cards in 2020 exceeded 38 thousand. In 2020 the business client segment generated revenues of PLN 1.15 billion.

At the end of 2020 the bank catered to over 200 thousand micro businesses. Despite the restrictions associated with the COVID-19 pandemic, the bank actively acquired new clients, using online sales channels, while continuing full service in the bank outlets. In 2020, 25,9 micro businesses opened accounts in Alior Bank.

Treasury activity Alior Bank conducts its treasury activity, among others, in the following areas:

- spot foreign exchange (FX) and FX risk hedging transactions,
- interest rate instrument transactions, stabilizing the clients' costs of funding through mitigation of the interest rate risk,
- transactions hedging commodity price fluctuations,
- liquidity management – through sale of products for investing surplus cash and through hedged repo and BSB (buy/sell/back) transactions,
- hedging liquidity risk within established regulatory limits and measures,
- FX and interest rate risk management through transactions on the interbank market,
- commodity price risk management through transactions on commodity markets,
- FX option portfolio risk management, within the established limits, through concluding hedging transactions and option transactions on the interbank market,
- trading activity on the treasury bond portfolio through purchase and sale of treasury bonds and bonds guaranteed by the State Treasury,
- hedge accounting, i.e. hedging of interest rate risk resulting from banking activity through concluding interest flow swap transactions (interest rate swap - IRS, overnight indexed swap - OIS) in PLN and foreign currencies.

Distribution network

At the end of 2020, Alior Bank had 674 outlets (180 traditional branches, 7 private banking branches, 13 corporate centers and 474 partner centers). The bank's products were also offered in the chain of 10 mortgage centers and a network of roughly 3 thousand intermediaries.

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. 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, Dom Kredytowy Notus, Fines and others, whose offering focuses mainly on mortgage loans and cash loans.

Alior Bank also uses distribution channels based on a modern IT platform incorporating: online banking, mobile banking, call centers and the DRONN technology. Using the Internet, the bank makes it possible 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.

Online and mobile banking

In accordance with the strategic priorities, Alior Bank focuses on optimization of the existing and introduction of new solutions in online and mobile banking.

In 2020, the bank focused on solutions which provided clients with online access to products and services, without the need

to visit branches. Among the projects, the solutions supporting **remote verification of identity** were of key importance. This is an area that was being developed as a priority, to provide clients with convenient, fast and safe access to Alior Bank's offering, at any time and in any place, also in the unique conditions created by the COVID-19 pandemic.

The first big project in 2020 of this category was the investment in the **Autenti fintech**. Alior Bank with BNP Paribas and PKO Bank Polski jointly invested in a Polish fintech offering a platform for electronic signing of agreements and digital document circulation. The project enables clients to use the latest solutions available in the market.

Remote client service is a priority not only in the bank's strategy but also in the new reality created by the COVID-19 pandemic. In Q1 2020, Alior Bank implemented a new client identity verification method, without the need to visit a branch. **FOTO ID** is a technology which opens new sales opportunities in remote channels. Thanks to it, the identity verification process was significantly accelerated – the whole process takes no more than 5 minutes. At the same time, the solution is intuitive and does not require advanced digital skills.

The next effort focused on remote client identification was the cooperation with Polska Wytwórnia Papierów Wartościowych. One of the areas of cooperation is the use of an e-ID, which supports client identity verification without visiting a branch. Thanks to the **eDo App**, with an e-ID clients can confirm their personal data and may freely use Alior Bank's products and services. The possibilities offered by this app already today are revolutionary in the market. Safe, remote identity confirmation or signing have become available to all Alior Bank clients. Thanks to the eDo App it is possible to prevent the practice of criminals using stolen or forged identity cards.

In 2020 the **Alior Mobile** app and the **Alior Online** platform went through a number of changes in terms of their appearance and handling of deposit and credit products, and received new functionalities.

In the Alior Mobile app, the login screen was modified, providing easier access to key functions, such as BLIK, fast connection with the hotline, the Ticket service and car parking, and launch of the fingerprint reader. An option was added supporting the purchase of electronic public transport tickets and payment for car parking in a number of Polish cities. Clients can buy tickets for busses, trams, metro or train for themselves and for their travel companions. Thinking about motorized clients, the bank introduced the Motorways functionality. The service supports automatic opening of a toll gate without stopping and is available in 3 language versions (Polish, English and Russian).

As part of optimization of online banking, among others, Alior Online added new items in the account details and expanded the functionality of adding a trusted browser through online banking. Thinking about clients with special needs, the possibility of ordering documents in the form of an audio recording or visual content, printout in the Braille alphabet or a document with a font size easy to read by persons with impaired vision was introduced.

In digital banking, the **Open Banking** was introduced, thanks to which clients may use Alior Online and Alior Mobile to order transfers from other banks. The solution is based on the Payment Initiation Service (PIS). As part of the AIS (Account Information Service) consent given, Alior Online was expanded by a section which enables the client to view his/her accounts in other banks and institutions.

RBL_ Innovation by Alior Bank

In 2019, Alior Bank built an internal structure – RBL_ Innovation by Alior Bank, whose task is to develop the bank's innovation potential. It is composed of:

- An Innovation Laboratory, responsible for prototyping, UX tests and service design;
- The Open Banking team and the Blockchain Competence Center, grouped together in the Design Department and RBL_ Innovation;
- Fintech Partnership Team, which supports the development of the bank's external innovation ecosystem.

Alior Bank operates the RBL_ START program, in which fintechs start cooperation with the bank on the project path. Thanks to that, they have an opportunity to participate not

only in workshops but also at the stages associated with building partnerships in the corporation, i.e. tests with clients, preparation of the business plan or security analysis. The program is prepared in such a way as to not only support start-ups at the early stage of development but also develop new ideas of existing companies and support foreign entities which are just starting operations in the Polish market.

By the end of May 2020, a new edition of the RBL_START program “More than a banking app” was launched to support the implementation of Alior Bank’s business strategy. In the form of a challenge, new solutions and added services were sought to be offered to Alior Bank’s retail clients via the Alior Mobile app.

Strategic partnerships

The PZU Group strives to create an ecosystem in which the overriding objective is to manage client relations skillfully by offering clients solutions in all venues accessible to clients. This will contribute to intensifying activities in strategic partnerships with companies operating on the Polish market, among others, telecommunication operators, power utilities, retail chains and airlines, regarding joint offering of non-life and life insurance to the clients of such institutions.

In 2020, PZU continued to develop and strengthen cooperation with strategic partners: PLL LOT and Allegro.pl, while working on expanding and diversifying the product offering for clients.

In addition, within the framework of its strategic partnerships, PZU offers a number of insurance agreements to the business partners’ clients:

- 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 more than 60 days;

- assistance insurance for power consumers, customers of Enea (corporate clients) and Energa-Obrót, guaranteeing services of professionals, e.g. 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;
- insurance offering services of professionals, e.g. electrician, locksmith for power consumers – retail clients of Innogy – member of the Innogy Benefit Club;
- insurance for photovoltaic installations for Tauron Group clients.

5.6 Management of the PZU Group’s brands

PZU is the most recognizable brand in Poland. According to spontaneous brand recognition studies, awareness of the PZU brand reaches 90%, 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.

¹ Study conducted by the GfK Polonia institute, 2020

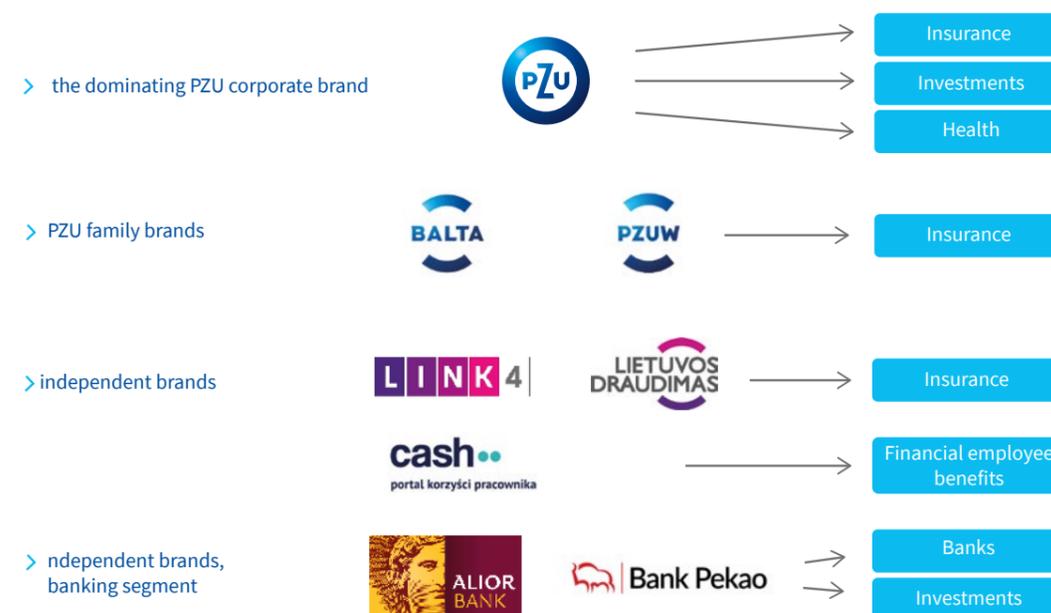
The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and Link4. Prompted awareness of the Link4 brand in the Polish market is 96%¹. In 2019, the brand of Lietuvos Draudimas had equally high prompted awareness – 96% in the Lithuanian market.

In 2020, in addition the Cash brand joined the PZU Group’s architecture. It denotes a company under the name PZU Cash managing the website offering financial employee benefits.

The independent brands that joined the PZU Group in 2015 and 2017 are Alior and Pekao, respectively. 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 2020, the prompted awareness of the Pekao brand was 93%².

² “Bank brand tracking”, GfK for Bank Pekao, 2020

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





Negative means “positive”. The pandemic has also affected our language. The word “positive” conveying something good and beneficial now also has negative associations when we say positive as in a positive result to a coronavirus test. In this report, however, the word “positive” has a conservative meaning. It refers to good results, trends and our rating.

6. Financial results

The PZU Group’s financial results for 2020 were affected by the unfavorable effects of the COVID-19 pandemic, in particular in the banking business. Net of the banking business, profit attributable to the parent company’s shareholders increased 11.7% year on year. Gross written premium reached 98.7% of the amount collected in the previous year.

In this sections:

1. Major factors contributing to the consolidated financial result
2. PZU Group’s income
3. PZU Group’s claims paid and technical provisions
4. PZU Group’s acquisition and administrative expenses
5. Drivers and atypical events affecting the results
6. PZU Group’s asset and liability structure
7. Contribution made by industry segments to the consolidated result
8. Issuer’s financial results – PZU (PAS)
9. Impact of the COVID-19 pandemic on the PZU Group’s results and the Issuer’s results

6.1 Major factors contributing to the consolidated financial result

In 2020, the net profit attributable to PZU Group's parent company shareholders was PLN 1,912 million, compared to PLN 3,295 million in 2019 (down 42.0%). Net profit reached PLN 2,530 million, i.e. PLN 2,655 million less than in 2019, and profit before tax stood at PLN 4,058 million, compared to PLN 7,080 million in the previous year.

The net result declined 23.6% compared to last year, net of non-recurring events¹.

Operating profit in 2020 was PLN 4,058 million, down PLN 42.7 million compared to the result in 2019.

Operating profit was driven in particular by the following:

- higher profitability of the mass insurance segment resulting from the lower loss ratio in motor insurance (due to the lower frequency of claims);
- gross written premium down 1.3% y/y – in the case of life insurance, its level was determined by the growing sales of unit-linked products offered in cooperation with banks and development of the portfolio of group health products, and in the case of non-life, the lower motor insurance premium was related to the persisting COVID-19 pandemic;
- slightly lower operating result in the corporate insurance segment as the outcome of an increase in the loss ratio on the portfolio of general TPL insurance and various financial risks coupled with the concurrent dip in sales, chiefly of motor insurance;
- lower result in individual insurance due to the further development of protection products in the banking channel and of term products sold in own chain, the decrease in income from investments allocated according to transfer prices, the lower result on expiring portfolio of the annuity product and the decrease in acquisition expenses for unit-linked products;

¹ Non-recurring events included the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million (after adjustment for the impact exerted by deferred income tax and minority shareholdings the impact exerted on the net result attributable to the parent company's shareholders was PLN 42 million) and the conversion effect of changing long-term contracts into annual renewable contracts in type P group insurance

- lower profitability in group and individually continued insurance with the concurrent growth in health insurance related to the growth in death-related benefit disbursements in Q4 2020;
- higher result on listed equities, mainly due to the increase in valuation of the logistics company;
- poorer performance of the banking business caused by: non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million, the higher costs of risk stemming from the establishment of additional loan provisions due to the COVID-19 pandemic, the decrease in interest rates that contributed to the decline in net interest income, and the increase in Q4 of provisions for legal risk related to the portfolio of foreign currency mortgage loans in Swiss francs in Bank Pekao.

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

- decrease in gross written premium by 1.3% to PLN 23,866 million. This was related mainly to motor insurance, both in the corporate insurance segment and in the mass insurance segment, and was driven by the lower number of insurance policies and a simultaneous fall in the average price. It was partly offset by higher premiums in the life insurance segments in unit-linked products offered in cooperation with the banks and the growth of the group health product portfolio. Moreover, the written premium in ADD and other insurance in the mass insurance segment increased, primarily as a result of the growing sales of insurance offered in cooperation with the Group's banks, and providing insurance cover to physicians and medical personnel against a COVID-19 infection. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 23,024 million and was 0.3% lower than in 2019;
- 19.8% decrease in investment income which, after factoring in interest expenses², amounted to PLN 7,352 million, as compared to PLN 9,169 million in 2019.

² including: interest income calculated using the effective interest rate- other net investment income- discontinuation income recognition of financial instruments and investments- change in write-offs to expected credit losses and impairment losses on financial instruments- net change in the fair value of assets and liabilities measured at fair value- interest expense

The decrease related to investment income in the banking business. It was triggered by the higher costs of risk due to the establishment of additional loan provisions for the anticipated deterioration in the quality of Pekao and Alior Bank's loan portfolios, the decrease in interest rates that led to the decline in net interest income, and the increase of Bank Pekao's provisions for legal risk related to the portfolio of foreign currency mortgage loans in Swiss francs. Alior Bank's net interest income was driven down by the ruling of the Court of Justice of the European Union (CJEU) on the refund of part of the commission in the event of an early repayment of consumer loans. Investment income, excluding banking activity³, increased primarily thanks to a higher result earned on listed equities, in particular the higher valuation of the logistics company. The positive effect was partially offset by the poorer performance of the variable coupon debt portfolios (as a result of the lower interest rates), as well as the lower net investment results on the portfolio of assets held to cover the investment products. The investment result in the portfolio of assets to cover the investment products does not affect the PZU Group's overall net result because it is balanced by the movement in net insurance claims and benefits;

- the lower level of claims and benefits paid, which amounted to PLN 15,580 million, i.e. 0.7% less than in 2019. The decrease – in spite of the higher average payout – was observed primarily in motor insurance. It was the effect of the lower frequency of claims resulting from restrictions on domestic and international traffic imposed in connection with the COVID-19 pandemic. The increase in claims and benefits was reported in the group and individually continued insurance segment in connection with the rise in insureds' and co-insureds' death benefits in Q4 2020;
- acquisition expenses lower by 1.4% as they dropped from PLN 3,363 million in 2019 to PLN 3,317 million. This decline was the outcome of lower commission costs on motor insurance (driven by lower sales due to the slowdown on the lease market, price pressure and limitations on accessibility to agents and branches caused by the pandemic), as well as the decrease of indirect costs;

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

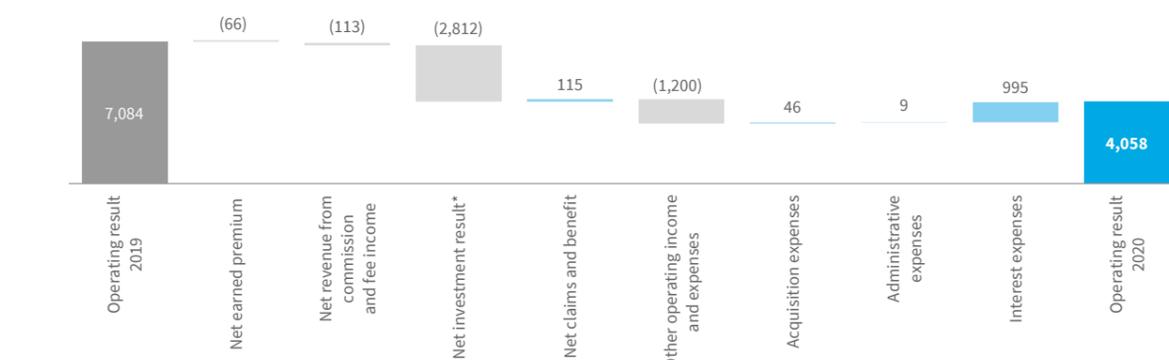
- decline in administrative expenses by 0.1%, to PLN 6,597 million, compared to PLN 6,606 million in 2019. Administrative expenses in the banking business (net of adjustments on account of the valuation of assets and liabilities to fair value) dropped by PLN 68 million, while in the insurance segment in Poland they increased by PLN 36 million, due among others to the growth of personnel costs in connection with the wage pressure and introduction in the sales segment of aid packages in connection with the COVID-19 pandemic;
- the growth of negative balance of other operating income and expenses to PLN 3,990 million, compared to PLN 2,790 million in 2019. This was caused primarily by the one-off impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million, and the increase of the burden related to the levy on financial institutions from PLN 1,134 million in 2019 to PLN 1,203 million in 2020 (the outcome of the growth of value of assets subject to the levy, and not of the rate). At the same time, the Bank Guarantee Fund (BFG) fees decreased from PLN 611 million in 2019 to PLN 541 million in 2020.

Key data from the consolidated profit and loss account	2016	2017	2018	2019	2020
	in PLN m				
Gross written premiums	20,219	22,847	23,470	24,191	23,866
Net earned premium	18,625	21,354	22,350	23,090	23,024
Net revenues from commissions and fees	740	2,312	3,355	3,279	3,166
Net investment result ¹	3,312	7,893	9,931	11,298	8,486
Net insurance claims and benefits	(12,732)	(14,941)	(14,563)	(15,695)	(15,580)
Acquisition expenses	(2,613)	(2,901)	(3,130)	(3,363)	(3,317)
Administrative expenses	(2,923)	(5,357)	(6,609)	(6,606)	(6,597)
Interest expenses	(697)	(1,350)	(2,046)	(2,129)	(1,134)
Other operating income and expenses	(721)	(1,552)	(2,201)	(2,790)	(3,990)
Operating profit (loss)	2,991	5,458	7,087	7,084	4,058
Share in net profit (loss) of entities measured by the equity method	(3)	16	(1)	(4)	-
Profit (loss) before tax	2,988	5,474	7,086	7,080	4,058
Income tax	(614)	(1,289)	(1,718)	(1,895)	(1,528)
Net profit (loss)	2,374	4,185	5,368	5,185	2,530
Net profit (loss) attributable to equity holders of the parent company	1,935	2,895	3,213	3,295	1,914

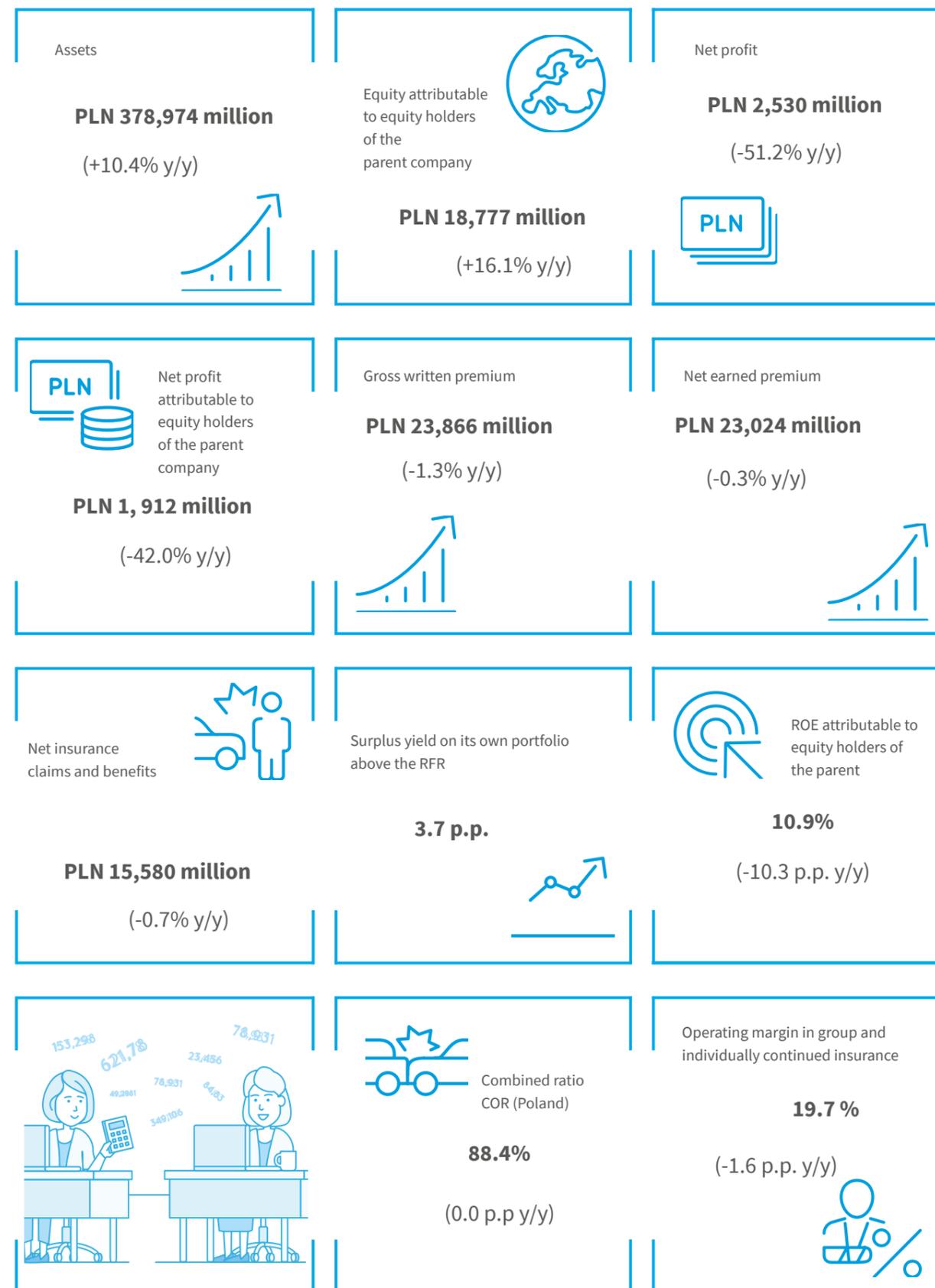
restated data for 2016-2019

¹ Including: interest income calculated using the effective interest rate, other net investment income, discontinuation income recognition of financial instruments and investments, change in write-offs to expected credit losses and impairment losses on financial instruments, net change in the fair value of assets and liabilities measured at fair value

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



* net of interest expenses



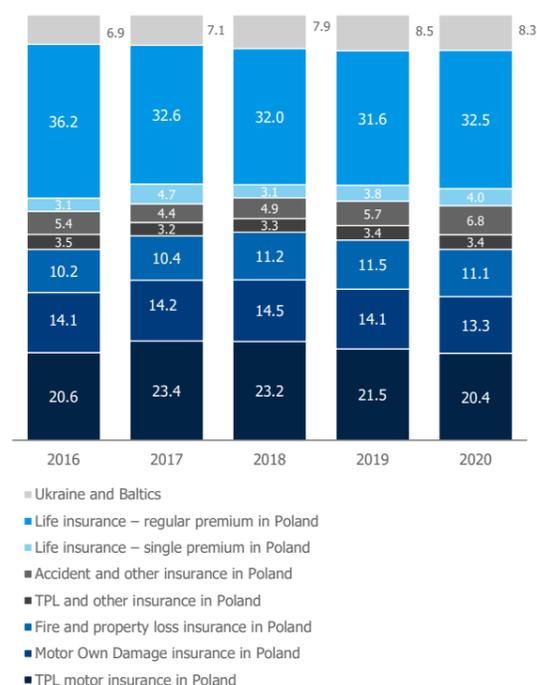
6.2 PZU Group's income

Premiums

In 2020, the PZU Group collected gross premiums of PLN 23,866 million, i.e. 1.3% less (PLN 325 million) than in 2019. The change in gross written premium (net of inter-segment premiums) was affected chiefly by:

- increase by PLN 131 million (+8.3% y/y, to PLN 1,712 million) of the written premium in the individual insurance segment, driven mainly by growing sales of unit-linked products offered in collaboration with the banks and the persisting upward trend in written premium in equity and term protection products offered in the Group's own channels;
- increase by PLN 41 million (+0.6% y/y, to PLN 7,007 million) of sales of the group and individually continued insurance, in particular the health insurance in group or continued form and active up-selling of other insurance riders in individually continued products;
- decline by PLN 132 million (-1.3% y/y, to PLN 10,200 million) of sales in the mass client segment in Poland - this was reported mostly in the motor insurance segment, and was partly counterweighed by an increase in written premium in ADD and other insurance, primarily as a result of the growing sales of insurance offered in cooperation with the Group's banks, and providing insurance cover to physicians and medical personnel against a COVID-19 infection;
- decrease by PLN 302 million (-9.3%, to PLN 2,962 million) of the written premium in the corporate client segment, primarily in motor insurance offered to both lease firms and in fleet insurance; this was caused by the lower number of insurance contracts coupled with a drop in the average price resulting not only from the impact of the COVID-19 pandemic, but also from the persisting market price pressure;
- decline by PLN 63 million (-3.1% y/y, to PLN 1,985 million) of sales of the foreign companies driven mainly by the poorer sales of motor and tourist insurance policies both in the Baltic States and in Ukraine due to the restrictions imposed in connection with the COVID-19 pandemic.

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



Net revenues from commissions and fees

In 2020, net revenues from commissions and fees amounted to PLN 3,166 million, i.e. PLN 113 million or 3.4% less than in the previous year. This was due mainly to higher commission costs in the banking segment.

The revenues included primarily:

- net revenues from commissions and fees in the banking business of PLN 2,522 million, i.e. PLN 81 million (3.1%) less than in the previous year, consisting mainly of brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, as well as fees charged for intermediation in insurance sales;
- income on OFE asset management - in the amount of PLN 130 million were PLN 13 million (9.1%) lower than in the previous year; the decline was caused by the absence of income on the reserve account and lower income on the management fees;
- revenues and fees received from funds and mutual fund management companies in the amount of PLN 509 million, or PLN 19 million (i.e. 3.6%) less than in 2019.

Insurance segments (PLN million), local GAAP i	Gross written premium (external)				
	2016	2017	2018	2019	2020
TOTAL	20,219	22,847	23,470	24,191	23,866
Total non-life insurance - Poland (external gross written premium)	10,878	12,702	13,384	13,596	13,162
Mass insurance - Poland	8,742	10,029	10,325	10,332	10,200
Motor TPL	3,635	4,606	4,610	4,383	4,205
Motor MOD	2,147	2,406	2,524	2,573	2,513
Other products	2,960	3,017	3,191	3,376	3,482
Corporate insurance - Poland	2,136	2,673	3,059	3,264	2,962
Motor TPL	532	735	845	814	677
Motor MOD	712	848	878	827	669
Other products	892	1,090	1,336	1,623	1,616
Total life insurance - Poland	7,949	8,519	8,237	8,546	8,719
Group and individually continued insurance - Poland	6,775	6,855	6,891	6,966	7,007
Individual insurance - Poland	1,174	1,664	1,346	1,581	1,712
Total non-life insurance - Ukraine and Baltic States	1,304	1,527	1,729	1,897	1,827
Non-life insurance - Ukraine	173	181	202	256	214
Non-life insurance - Baltic States	1,131	1,346	1,527	1,641	1,613
Total life insurance - Ukraine and Baltic States	88	100	120	151	158
Ukraine - life insurance	37	42	55	79	77
Baltic States - life insurance	51	58	65	72	81

Net investment result and interest expenses

In 2020, the net investment result including interest expenses, excluding Bank Pekao and Alior Bank, was PLN 2,044 million, i.e. increased by PLN 49 million (or 2.5%) in comparison to the previous year. This was driven mainly by the following:

- higher result on listed equities, mainly due to the increase in valuation of the logistics company;
- sale of a portion of the Polish fixed-coupon bonds held in the portfolio of assets measured at fair value through other comprehensive income and transfer to the results of valuation disclosed so far in equity;
- positive foreign exchange differences on portfolios measured in EUR and covering insurance liabilities, the valuation of which is shown by the movement in net insurance claims and benefits.

The increases were partially offset by the poorer performance of the variable coupon debt portfolios resulting from the declines in interest rates and prepayments, as well as the lower net investment results on the portfolio of assets covering the investment products. The investment result of the portfolio of assets held to cover the investment products alone does not affect the PZU Group's overall net result because it is offset by the movement in net insurance claims and benefits.

Result on other operating income and expenses

In 2020, the balance of other operating income and expenses was negative and stood at PLN 3,990 million.

In 2019, this balance was also negative and amounted to PLN 2,790 million. This was caused by the following:

- non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank in the amount of PLN 746 million and Bank Pekao in the amount of PLN 555 million;
- non-recurring impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million;
- lower amount of BFG fees – decline from PLN 611 million in 2019 to PLN 541 million in 2020 due to the lower premium on bank restructuring fund;
- higher levy on financial institutions, which in the case of PZU Group (insurance and banking activity) increased from PLN 1,134 million in 2019 to PLN 1,203 million in 2020 owing

to the higher burden to banking activity resulting from the increase in value of assets forming the taxable base (the rate of the levy did not change);

- reversal of the 2019 provision of PLN 89 million in connection with the reduction of tax risk of PZU Finance AB;
- decrease by PLN 60 million of the costs of amortization of intangible assets acquired in company acquisition transactions;
- reversal of the PLN 57 million provision for the fine imposed on PZU by the President of the Office of Competition and Consumer Protection (UOKiK) on 30 December 2011.

6.3 PZU Group's claims paid and technical provisions

In 2020, net claims and benefits (including the movement in technical provisions) reached PLN 15,580 million, i.e. 0.7% less than in the previous year. This change was driven primarily by:

- lower value of claims and benefits in motor insurance in both non-life insurance segments in Poland, where in spite of the increase of the average payout, the value of claims and benefits was lower because of the restrictions on traffic caused by the COVID-19 pandemic;
- rise in insureds' and co-insureds' death benefits in the group and individually continued insurance segment – as it follows from Statistics Poland's data, this was consistent with a higher mortality in the whole population, especially in Q4 2020;
- increase of the loss ratio in general TPL and various financial risk insurance in the corporate insurance segment, resulting from the higher loss ratio in insurance of medical centers;
- above-average number of losses in non-motor insurance, including insurance against fire and other damage, caused by atmospheric phenomena, especially at the turn of Q2 and Q3 of 2020.

6.4 PZU Group's acquisition and administrative expenses

In 2020, acquisition expenses decreased by PLN 46 million, or 1.4%, as compared to the previous year, and amounted to PLN 3,317 million. The decline was the outcome of lower commission costs in motor insurance driven by lower sales due to the slowdown on the lease market, price pressure, and limitations on accessibility to agents and branches caused by the COVID-19 pandemic. The decrease of indirect costs was another factor.

In 2020, PZU Group's administrative expenses were PLN 6,597 million compared to PLN 6,606 million in the previous year, i.e. down PLN 9 million. The banking segment's expenses (net of adjustments on account of the valuation of assets and liabilities to fair value) dropped by PLN 68 million in connection with the cost discipline in Bank Pekao and Alior Bank. The expenses of the insurance segment in Poland increased by PLN 36 million, due among others to the persisting wage pressure and introduction of aid packages in the sales area in connection with the COVID-19 pandemic.

6.5 Drivers and atypical events affecting the results

The 2020 result of PZU Group was burdened with the non-recurring impairment loss on goodwill following from the acquisition of Alior Bank and Bank Pekao. For Alior Bank, the impairment loss was PLN 746 million, and for Pekao – PLN 555 million. The result was also determined by a one-off impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million.

The conversion costs of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event decreased from PLN 14 million in 2019 to PLN 12 million in 2020.

In the case of continued and group insurance, the technical rate applied for the calculation of provisions in life insurance was reduced to 1.5% in June 2020. Previously, it was between 1.5% and 3%, depending on the date of execution or modification of the policy.

Moreover, the PZU Group updated the assumptions about the behavior of the portfolio in connection with the mortality of the insured and the probability of the insured having co-insureds to prevent the growing mismatch between it and the previously adopted assumptions. It also modified its method of calculating provisions for the group insurance portfolio by adopting an individual approach instead of the hypothetical portfolio structure.

6.6 PZU Group's asset and liability structure

As at 31 December 2020, the PZU Group's total assets were PLN 378,974 million, up PLN 35,589 million compared to the end of 2019.

Assets

52.1% of the Group's assets (versus 56.7% at the end of 2019) were loans receivable from clients. Their balance reached PLN 197,288 million. It increased compared to the end of 2019 by PLN 2,420 million mainly due to the growing loans (particularly mortgage loans) for retail clients and despite the drop in sales to business clients.

39.5% of assets (versus 33.9% at the end of 2019) were investments: investment financial assets, investment properties and FDIs. They totaled PLN 149,754 million and were up PLN 33,250 million versus the end of last year. The increase in the value of investments was associated particularly with Bank Pekao and was related to the higher value of the portfolio of government debt securities. Net of the banking business, the growth in the value of the investment portfolio resulted from the inflow of premiums due to business growth and investment performance.

2.7% of assets (versus 3.3% at the end of 2019) were non-current assets – in the form of intangible assets, goodwill and property, plant and equipment. They amounted to PLN 10,170 million and were down PLN 1,250 million versus the end of 2019. The decrease resulted, among others, from the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (PLN 161 million).



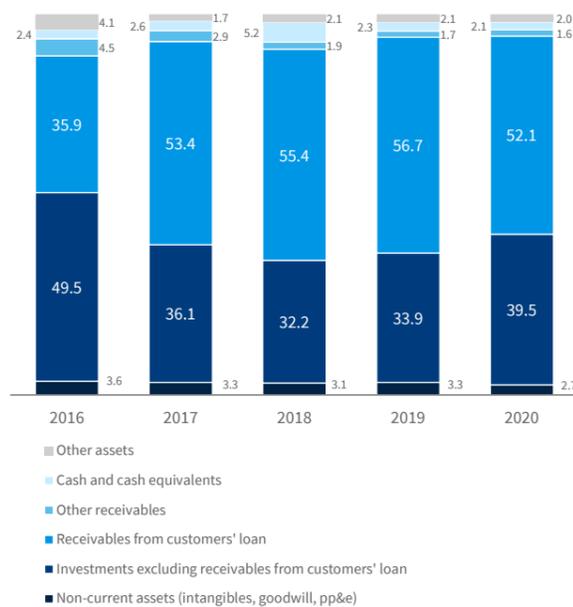
Financial results

2.1% of assets (versus 2.3% at the end of 2019) were cash and cash equivalents. Their value was PLN 7,939 million and was PLN 151 million higher than one year before. This resulted from the increased balance of cash accumulated by Bank Pekao.

1.6% of assets (versus 1.7% at the end of 2019) represented the PZU Group's receivables, including receivables under insurance contracts and the current income tax. They amounted to PLN 6,246 million and were higher by PLN 509 million compared to the year before. The increase arose primarily from the higher value of outstanding transactions involving financial instruments and margins. It was partly offset by the drop in receivables from policyholders.

0.2% of assets (with respect to the corresponding share at the end of 2019) were the assets and groups of assets held for sale. Their balance grew by PLN 10 million, to PLN 590 million, over a year. It concerned mainly the properties held by real estate sector mutual funds as held for sale, since the expected investment horizon has been reached.

PZU Group's asset structure (in %)



Equity and liabilities

At yearend 2020, the PZU Group's consolidated equity soared to PLN 43,403 million, which was up PLN 4,115 million versus the year before.

The value of the non-controlling interests increased by PLN 1,507 million, to PLN 24,626 million. This was driven by the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the result generated by Alior Bank and Bank Pekao attributable to non-controlling owners of PLN 618 million.

Equity attributable to the parent company's shareholders rose by PLN 2,608 million, to PLN 18,777 million. This was driven by the net profit attributable to the parent company's shareholders generated in 2020 totaling PLN 1,912 million, the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income.

63.9% of the Group's equity and liabilities at yearend 2020 were liabilities to clients under deposits. They amounted to PLN 241,975 million and were higher by PLN 23,387 million than one year before. This resulted from the increase in current deposits of Bank Pekao and Alior Bank by PLN 58,795 million, which was partly offset by a decrease in term deposits.

On 31 December 2021, the PZU Group had liabilities arising from own debt securities totaling PLN 7,532 million, including:

- PLN 4,597 million on bonds issued by Bank Pekao i Alior Bank;
- PLN 1 611 million certificates of deposit issued by Bank Pekao and Alior Bank
- PLN 1,324 million on covered bonds issued by Bank Pekao.

PZU Group's subordinated liabilities at the end of 2020 soared to PLN 6,679 million, which was similar to the value as at yearend 2019. SECTION 8.7 DEBT FINANCING OF PZU, BANK PEKAO AND ALIOR BANK

12.8% of equity and liabilities at yearend 2020 was the value of technical provisions. It amounted to PLN 48,471 million and

was PLN 1,142 million higher than one year before. This was affected by:

- increase in the provision for outstanding claims and benefits in non-life insurance related to the higher level of claims provisions in motor insurance (both segments) and the occurrence of several high value events in non-motor insurance;
- higher provisions in life insurance as an effect of enhancing cooperation with banks as regards protection and investment products and as a result of the development of pension products: Employee Capital Schemes (ECS) and Individual Retirement Accounts (IRA), for which the contribution balance exceeded the disbursement level;
- decrease in provisions in the case of the structured product in life insurance which was withdrawn from the offering;
- decrease in the provision for unearned premiums arising from sales slowdown as a consequence of the restrictions imposed in connection with the COVID-19 pandemic, which resulted in limitations in clients' access to the sales network and from the lower share of long-term agreements with a high unit value in the non-life insurance portfolio in the corporate segment;
- increase in the provision for the capitalized value of annuities due to higher provisions for motor TPL insurance

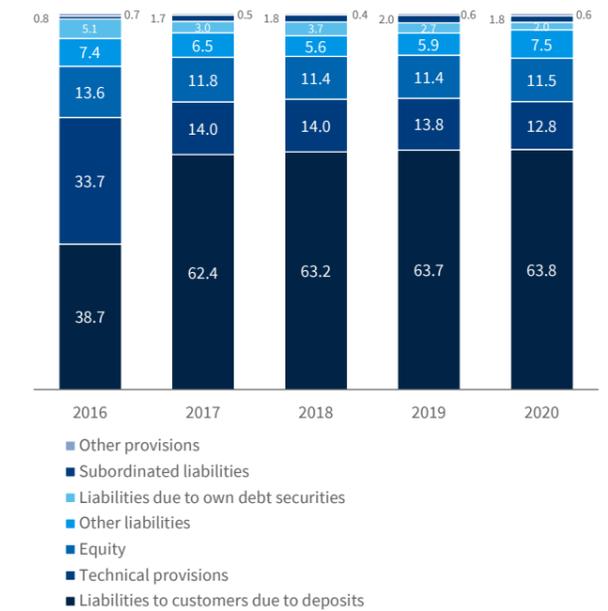
The revision of provisions in life insurance (SECTION 6.5 DRIVERS AND ATYPICAL EVENTS AFFECTING THE RESULTS) included:

- reduction of the technical rate for the continued and group insurance portfolio – the effect was the increase in the provisions by PLN 2,512 million;
- introduction of an individual provision calculation method for the group insurance portfolio – increase in the provisions by PLN 34 million;
- changed assumptions on mortality and probabilities of the insured having co-insureds – decrease in the provisions by PLN 2,552 million.

A provision for unexpired risk in the amount of PLN 51 million was established for the group insurance portfolio being annual renewable insurance products as of 31 December 2020. Its aim is to cover the deficit on future contributions with respect to the expected benefits and other outflows (costs and commissions) arising from increased mortality due to the COVID-19 pandemic.

3.3% of equity and liabilities at yearend 2020 was other liabilities in the amount of PLN 12,434 million. They were higher by PLN 1,835 million than one year before. The balance changed primarily due to liabilities on borrowed securities (short sale), repurchase transactions and trade

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



Cash flow statement

At the end of 2020, net cash flow was negative and amounted to up PLN 9,263 million versus the previous year. This growth was recorded in particular in flows from operating activities

Material off-balance sheet line items

The value of contingent liabilities at the end of 2020 was PLN 65,785 million, that is PLN 6,348 million more year on year. This was caused predominantly by:

- PLN 11,324 million in contingent liabilities for renewable limits in settlement accounts and credit cards,
- PLN 33,239 million in liabilities from loans in tranches,
- PLN 9,826 million in liabilities in the form of awarded guarantees and sureties,
- PLN 4,339 million in the form of guarantees for the issue of securities.

6.7 Contribution to the consolidated result made by industry segments

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

- corporate insurance (non-life insurance) – a broad scope of property insurance products, liability and motor insurance customized to a client’s needs entailing individual underwriting offered by PZU and TUV PZUW;
- mass insurance (non-life insurance) – property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and LINK4;
- life insurance: group and individually continued insurance – protection, investment (which are not investment contracts) and health insurance; PZU Życie offers it to employee groups and other formal groups, e.g. to trade unions, and persons under a legal relationship with the policyholder (e.g. employer or trade union) enroll in the insurance agreement; individually continued insurance covers persons who acquired the right to individual continuation during the group phase;
- individual life insurance: protection, investment (which are not investment contracts) and health insurance; PZU Życie provides it to individual clients and the insurance agreement applies to a specific insured who is subject to individual underwriting;
- investments – the segment reporting according to the Polish Accounting Standards comprises investments of the PZU Group’s own funds, understood as the surplus of investments over technical provisions in PZU, LINK4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income over the income allocated at transfer prices to insurance segments; the segment includes also income from other free funds in the PZU Group, including consolidated mutual funds;
- pension insurance – the segment includes income and expenses of PZU OFE pension funds;

- banking – a broad range of banking products offered to corporate and retail clients by Pekao and Alior Bank;
- Baltic States – non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- Ukraine – non-life insurance and life insurance products provided in the territory of Ukraine;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract; these are some of the products with a guaranteed rate of return and in unit-linked form;
- other – consolidated companies that are not classified in any of the enumerated segments.

Corporate insurance



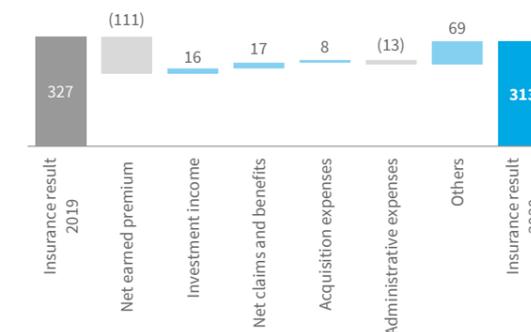
The operating result in the corporate insurance segment in 2020 was PLN 313 million, meaning it was down by 4.3% compared to 2019.

The result was affected mainly by:

- net earned premium lower by PLN 111 million (-4.5% y/y) combined with a decrease in gross written premium by PLN 290 million (-8.7% y/y) relative to 2019. The growth rate of the gross written premium was determined by:
 - lower written premium on motor insurance (-18.0% y/y) offered to both lease firms and in fleet insurance; was primarily a consequence of a lower number of insurance contracts due to slower sales of new vehicles (the drop in the registration of new passenger cars was as much as 23% y/y) and a downturn in the leasing market as well as the decrease in the average premium as a result of the continuing price pressure; the slowdown in the automotive market is first of all the result of the prolonged COVID-19 pandemic and high uncertainty related to its economic effects,
 - lower written premium from insurance against fire and other damage to property (-11.4% y/y) as a consequence of the execution of a high-value long-term contract in 2019,
 - retention of the general TPL insurance portfolio at a flat level (-0.3% y/y),

- increased sales of assistance products resulting from the development of strategic partnerships in TUV PZUW and a higher premium of casco insurance of aircraft as an effect of concluding several high-value contracts,
- development of the insurance portfolio containing various financial risks, in particular loss of profit insurance;
- drop in the net value of claims and benefits by PLN 17 million (-1.1% y/y), which, combined with the net earned premium lower by 4.5%, resulted in deterioration of the loss ratio by 2.3 p.p., to the level of 67.4%. The increase in the total loss ratio in the corporate insurance segment was driven by the following factors:
 - drop in the loss ratio in the motor insurance group resulting from lower frequency of claims but partly offset by the growth in average disbursement (particularly in motor TPL insurance),
 - higher loss ratio in the insurance portfolio general TPL and various financial risk insurance, in particular in medical entity insurance;
 - income from investments allocated to the segment according to transfer prices increased by PLN 16 million (+16.0% y/y) as a result of the appreciation of the euro against the Polish zloty. At the level of the PZU Group’s overall net result, this effect was partly offset by the increased level of net insurance claims and benefits covered by foreign currency assets;
 - decline by PLN 12 million (-2.5% y/y) in acquisition expenses (including reinsurance commissions), which, along with a 4.5% y/y decrease in net earned premium, translated into a deterioration of the acquisition expense ratio by 0.4 p.p. The increase in the acquisition expense ratio was driven chiefly by changes in the portfolio structure, in particular by the higher share of non-motor insurance;
 - administrative expenses higher by PLN 13 million (+9.9% y/y), to PLN 144 million, mainly as an effect of higher personnel costs resulting from salary pressure and higher intervention expenses in connection with the COVID-19 pandemic.

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



Mass insurance



In 2020, the operating result in the mass insurance segment reached PLN 1,671 million, which is 15.3% more than in the previous year.

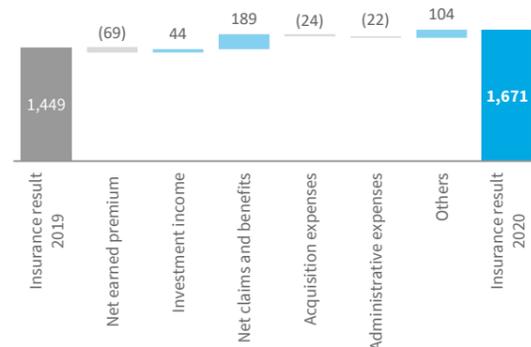
This was caused by the following:

- decrease in net earned premium by PLN 69 million (-0.7% y/y) combined with a decrease in gross written premium by PLN 159 million (-1.5% y/y). The PZU Group posted the following under sales:
 - decrease in gross written premium in motor insurance as the outcome of the lower number of insurance contracts with a simultaneous decline in the average price – slowdown in sales, chiefly in the branches, the Group’s own network and dealership network, was a consequence of their limited availability due to the restrictions imposed in connection with the COVID-19 pandemic. An additional driver was the decrease in the average policy price as a result of the slowdown in the sales of new vehicles and the continuing price pressure,
 - drop in sales of insurance against fire and other damage to property, chiefly in agricultural insurance – it was a result of high competitiveness of the market and the natural erosion of the portfolio in the context of a limited pool of government subsidies; this effect was partly offset by maintaining high growth rate of sales in residential insurance and small and medium-sized enterprise insurance,



- higher gross written premium in other TPL insurance (+0.7% y/y) and ADD and other insurance (+12.1% y/y), mainly accident insurance – it was a result of the growing sales of insurance offered in cooperation with the Group's banks for mortgage loans and cash loans and providing insurance cover to physicians and medical personnel against a COVID-19 infection; the effect was partly offset by the decrease in the travel insurance premium in connection with the restrictions on domestic and international traffic imposed during the Covid-19 pandemic;
- lower net insurance claims and benefits by PLN 189 million (-2.9% y/y), which, when coupled with net earned premium being down 0.7%, translated into the loss ratio improving by 1.4 p.p. relative to 2019. This change was driven mainly by:
 - lower loss ratio in the motor insurance as a consequence of a lower frequency of claims resulting from traffic restrictions in connection with the COVID-19 pandemic and increase in the average disbursement,
 - growth of the loss ratio in non-motor insurance, including against fire and other damage to property, as a result of above-average number of losses caused by atmospheric phenomena, including rainfall and hail (at the turn of Q3 2020);
- income from investments allocated to the segment according to transfer prices increased by PLN 44 million (+9.1% y/y), to PLN 525 million, primarily as a result of the appreciation of the euro against the Polish zloty. This effect was partly offset at the level of the PZU Group's overall net result by the increased level of net insurance claims and benefits covered by foreign currency assets;
- rise in acquisition expenses (including reinsurance commissions) by PLN 27 million (+1.4%), to PLN 2,010 million, which, when coupled with the net earned premium being down 0.7%, caused growth in the acquisition expense ratio by 0.4 p.p. This was driven, among others, by a higher level of direct acquisition expenses resulting from a change in the product mix (lower share of the motor TPL insurance premium carrying lower commission rates);
- administrative expenses higher by PLN 22 million (+3.4% y/y), to PLN 673 million. It resulted primarily from the growth in personnel costs as an outcome of salary pressure and introduction of aid packages in the sales area due to the COVID-19 pandemic.

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



Group and individually continued insurance



In 2020, the operating result in the group and individually continued insurance segment amounted to PLN 1,391 million, which is 7.1% less than in the previous year.

The growth in death-related benefit disbursements in Q4 2020, which was negative for the result, was offset by the increasing portfolio of profitable health contracts.

Factors affecting this segment's performance and its movements in 2020:

- rise in gross written premium by PLN 41 million (+0.6% y/y) driven by:
 - attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product) – at the end of 2020, PZU Życie had more than 2.2 million in force contracts of this type,
 - up-selling of other insurance riders as part of individually continued products, including in the insurance rider against permanent bodily injury or bone fractures introduced in Q3 2019,
 - reduced revenues from group protection products due to the increased attrition of groups of insureds (work establishments),

- increase in the loss ratio control by reducing the pressure on the average premium growth rate in group protection products;
- decrease in the net earned premium by PLN 9 million (-0.1%) in connection with the establishment of the provision for unexpired risk in the amount of PLN 51 million for the purpose of covering the deficit, if any, of future premiums as an effect of higher mortality due to the COVID-19 pandemic;
- income from investment activity higher by PLN 7 million (+1.0% y/y), composed of income allocated according to transfer prices and income from investment products. It was driven by the improved performance of unit-linked products, in particular EPS and reduced income allocated to protection products as a result of a drop in market rates;
- higher insurance claims and benefits along with the movement in other technical provisions by PLN 133 million (+2.6% y/y), to PLN 5,190 million. They resulted in particular from:
 - rise in insureds' and co-insureds' death benefits in Q4 2020, corresponding, as follows from Statistics Poland's data, with a higher mortality in the whole population in the period,
 - an increase in technical provisions in EPS (a third pillar retirement security product), which was influenced by higher investment performance than in 2019 coupled with a stable level of contributions and a lower level of withdrawals from insurance accounts of unit-linked funds by clients.

The negative factors were partly offset by:

- lower benefit payments due to critical illnesses and hospitalization as well as related to permanent dismemberment, which resulted from decreased activity of the insured after the introduction of lockdown, as well as postponement of medical treatments due to reduced access to health care during the COVID-19 pandemic,
- slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance. As a result, in 2020 provisions were released for PLN 12 million, i.e. PLN 2 million less than in 2019;
- acquisition expenses in the segment of group and individually continued insurance lower by PLN 7 million (-1.8% y/y). This was determined by the lower fees for insurance intermediaries in group protection insurance related to the decreased sales;
- administrative expenses lower by PLN 8 million (-1.3% y/y), among others, due to the restriction of business activities, which resulted from the restrictions introduced due to the pandemic. This effect was partly offset by the increase in costs of remunerations and intervention expenses related to COVID-19.

Individual insurance



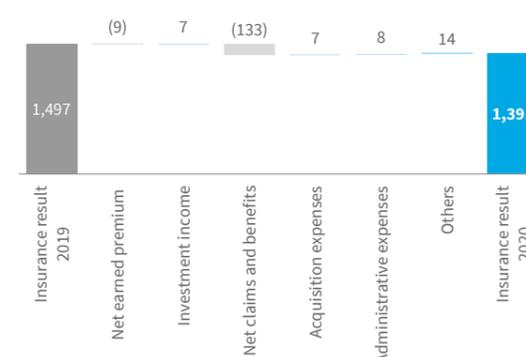
The operating result in the individual insurance segment in 2020 was PLN 244 million, meaning it was down by PLN 27 million, i.e. 10% year-on-year.

This is an outcome of the further development of protection products in the banking channel and of term products sold in own chain, the decrease in income from investments allocated according to transfer prices, the lower result on expiring portfolio of the annuity product and the decrease in acquisition expenses for unit-linked products.

Factors affecting this segment's performance and its movements in 2020:

- gross written premium higher by PLN 131 million (+8.3% y/y), to PLN 1,712 million as a result of:
 - increase in the portfolio of protection products in the bancassurance channel, in particular sold in cooperation with Alior Bank, where the second product was introduced to the offering in June 2020 – individual insurance for mortgage loans,

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



Financial results

- growth in premium generated in investment insurance in the bancassurance channel, on products offered in collaboration with Alior Bank and other banks alike,
- constantly rising level of premiums in the case of protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation under the agreements in the portfolio exceeds the value of lapses;
- income from investment activity lower by PLN 83 million (-15.1% y/y), composed of income allocated according to transfer prices and income from investment products. This was predominantly a consequence of the poorer performance of investment products caused by the downturn in the financial markets in connection with the COVID-19 pandemic. At the same time income from investment products does not affect the result of the individual insurance segment because it is offset by the movement in the technical provisions. Income allocated in protection products fell slightly as a consequence of the market interest rate drop;
- higher insurance claims and benefits along with the movement in other technical provisions by PLN 30 million (+1.8% y/y). Some of the causes were the development of the protection business in cooperation with banks, where in connection with single premiums there are high initial costs of establishment of provisions, as well as the lower decrease in provisions in annuity products relative to the previous year. The higher increase in technical provisions

- in investment products compared to the previous year was brought about by higher contributions to the unit-linked accounts. From the point of view of the operating result, the latter factor was not of significance – it was offset by a higher level of gross written premium. What partly compensated for the above effects was a decrease in provisions in the structured product, whose sale was suspended at the end of 2019;
- acquisition expenses higher by PLN 36 million (+25.9% y/y), to PLN 175 million. The increase in fees paid to intermediaries for sales of protection products mainly in the bancassurance channel and the additional expenses incurred on sales support in the Group's own network were partly offset by the lower commissions on sales of unit-linked products in the bancassurance channel;
- administrative expenses higher by PLN 9 million (+12.5% y/y). This is an effect above all of the growing personnel costs and costs related to the aid package for the sales area introduced due to the COVID-19 pandemic.

Investments



The operating income of the investment segment (based exclusively on external transactions) in 2020 was lower by PLN 10 million (-3.0% y/y) than in the last year, primarily due to the greater volatility on the markets due to the COVID-19 pandemic.

Banking segment / banking activity



The operating profit in the banking segment (without amortization of intangible assets acquired as part of the bank acquisition transactions), composed of the Bank Pekao and Alior Bank groups, amounted to PLN 194 million in 2020 and was lower by PLN 3,304 million, i.e. 94.5%, than in 2019.

The decisive impact on the result was exerted by the COVID-19 pandemic. It considerably increased the costs of risk, the consequence of which was establishment of additional loan provisions for the forecast deterioration in the loan portfolio quality. The interest rate cuts (by approx. 140 bps in total) in 2020 also contributed to the decline in net interest income generated by the banks.

Bank Pekao's contribution to PZU Group's operating profit in the banking segment (net of the amortization of intangible assets acquired as part of the acquisition transaction) was PLN 1,725 million, while Alior Bank's contribution was negative: PLN (228) million. The segment's performance was affected by Alior Bank's goodwill impairment of PLN 746 million and Bank Pekao's goodwill impairment of PLN 555 million.

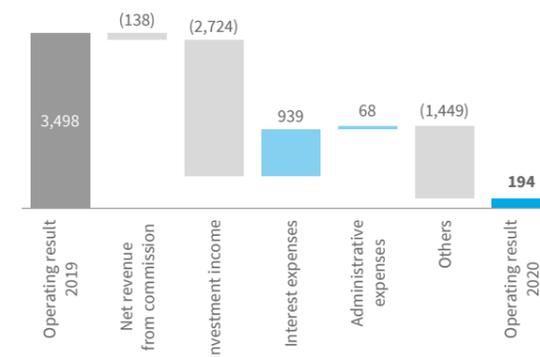
Investment income, being the key component of the banking segment's revenue, decreased to PLN 6,248 million (-30.4% y/y). It consists of interest and dividend income, trading result and result on impairment losses. The decline in investment income was primarily due to the lower net interest income and the higher costs of risk stemming from the establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio and of provisions for legal risk related to the portfolio of foreign currency mortgage loans in Swiss francs in Bank Pekao.

The total portfolio of loan receivables in both banks increased by PLN 2.1 billion (+1.1% y/y) in 2020 compared to 2019.

The value of allowances for expected credit losses and for impairment of financial instruments in Bank Pekao amounted to PLN 1,581 million, of which PLN 830 million was estimated as the result of the COVID-19 pandemic.

In Alior Bank, the value of credit allowances amounted to PLN 1,736 million, including PLN 418 million related to COVID-19, of which PLN 270 million was related to changes in model parameters and PLN 149 million was related to allowances.

Operating result in the banking segment (in PLN m)



Alior Bank's net interest income was driven down also by the impact of the CJEU judgment on the refund of part of the commission in the event of an early repayment of consumer loans. The impact of the judgment was estimated at PLN 344 million, of which PLN 210 million involved current returns charged to net interest income, while PLN 134 million was an additional provision for loans repaid before 11 September 2019, charged to other operating expenses.

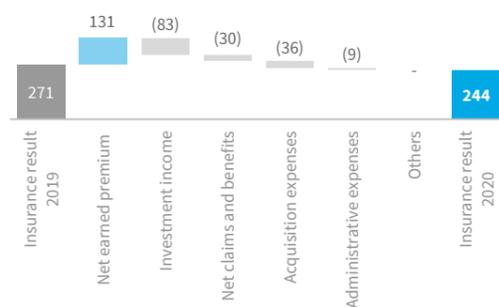
Despite the COVID-19 pandemic, loan product receivables grew in both banks – by 1.2% compared to 2019. The increase in loans for individual clients, in particular mortgage loans, was successfully maintained. The sales of loans to business clients dropped, which resulted, among others, from their withholding investments and public support for enterprises in connection with the COVID-19 pandemic, which reduced the demand for bank loans.

The profitability measured by the net interest margin was 2.45% for Bank Pekao and was lower by 42 bps relative to 2019, while 3.91% for Alior Bank, i.e. 61 bps less than the year before. The difference in the net interest margin level between Bank Pekao and Alior Bank results in particular from the structure of the loan receivables portfolio. Interest margin decreased in both banks due to the interest rate cuts that took place in March, April and May and the quicker increase in deposits than in loans.

The net fee and commission income in the banking segment dropped by 4.4% relative to the previous year – to PLN 3,008 million. The main cause of the lower commission income was the lower activity of the clients during the pandemic and higher cards related commission costs, who used bank cards, loans or mutual funds less frequently.

The segment's administrative expenses dropped to PLN 4,782 million, so they were lower by 1.4% than in 2019. In the case of Bank Pekao they amounted to PLN 3,273 million and of Alior Bank – PLN 1,509 million. The decrease resulted, among others, from maintenance of a strong cost discipline by Bank Pekao despite expenses on investments in operating transformation and digitization, additional costs incurred in connection with the COVID-19 pandemic and dissolution of a part of the provision for deferred remuneration components in Alior Bank.

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



Financial results

In addition, other contributors to the operating result included other operating income and expenses, above all the Bank Guarantee Fund fees (PLN 541 million) and the levy on other financial institutions (PLN 881 million). Alior Bank's result was decreased additionally by: goodwill impairment as a result of the acquisition of Meritum Bank ICB SA in the amount of PLN 104 million and redemption of non-financial assets related to the T-Mobile Banking Services project being closed in the amount of PLN 48 million.

The Cost/Income ratio⁴ was 43% for both banks (43% for Bank Pekao and 44% for Alior Bank), i.e. 2.4 p.p. more than the year before, which resulted from lower income, including net interest income in connection with interest rate cuts in Q2 2020.

Pension insurance



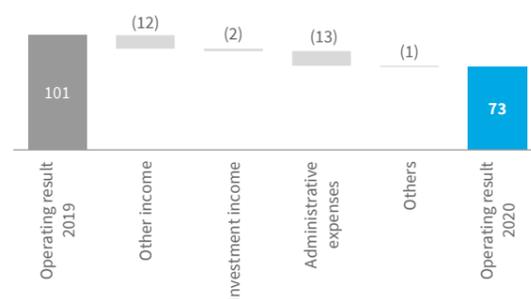
The operating profit in the pension insurance segment amounted to PLN 73 million in 2020, i.e. 27.7% less than in 2019.

Factors affecting the operating result and its movement:

- other revenue lower by PLN 12 million (8.5% y/y), to PLN 130 million. It was an effect of the lack of revenue from the reserve account and of the lower revenue from management fee;

³ Cost/Income ratio, C/I ratio (banking sector) – quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments; a decrease in the value of this indicator signifies an improvement in efficiency

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



- administrative expenses higher by PLN 13 million (+30.2% y/y), to PLN 56 million. It was caused by the increased operating expenses of funds due to higher additional contributions to the Insurance Guarantee Fund;
- other items higher by PLN 1 million (+25% y/y), to PLN 5 million, due to higher acquisition expenses and costs of service.

Baltic States



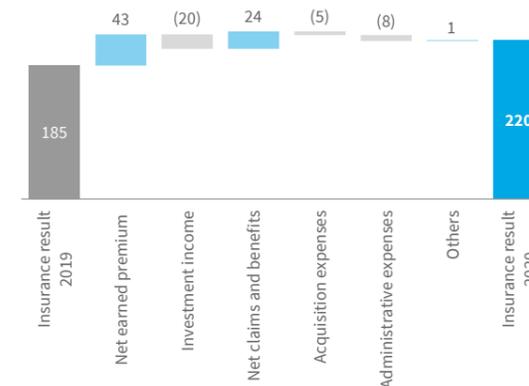
The operating result on the activity in the Baltic States in 2020 was PLN 220 million, which means an increase in PLN 35 million, i.e. 18.9%, compared to 2019 (after eliminating the impact of the EUR exchange rate the increase would be PLN 27 million).

Factors affecting the result:

- net earned premium higher by PLN 43 million (+2.7% y/y) combined with a decrease in gross written premium. The gross written premium was PLN 1,694 million compared to PLN 1,713 million in the previous year (-1.1% y/y). The premium accumulated in non-life insurance decreased by PLN 28 million (-1.7% y/y, and in the functional currency: -5.5% y/y). The highest drops were recorded in TPL and MOD motor insurance (-9.1% y/y in the functional currency), which resulted, among others, from the ban on movement introduced due to the COVID-19 pandemic. This effect was exacerbated by the decrease in insurance rates caused by a strong price pressure in the region, and by the slowdown of sales of new vehicles. An increase was recorded in financial insurance (+24.1% y/y in the functional currency) and health insurance (+6.5% y/y in the functional currency). Premiums in life insurance increased by PLN 9 million (+12.5% y/y);
- investment income lower by PLN 20 million (-52.6% y/y), to PLN 18 million. The cause was above all drops on stock markets;
- net claims and benefits lower by PLN 24 million (-2.4% y/y, and in the functional currency: -6.1% y/y), to PLN 965 million. The restrictions caused by the COVID-19 pandemic contributed to a lower frequency of losses in motor insurance and to a lower frequency of benefits paid in respect of health insurance. The loss ratio in non-life insurance fell 2.5 p.p. to 57.8% relative to the previous year. In life insurance, the value of benefits stood at PLN 61 million and was 10.3% lower than in 2019 (-12.5% y/y in the functional currency);

- increase in acquisition expenses to PLN 340 million (+1.5% y/y). In the functional currency, though, acquisition expenses recorded a drop by 2.6% y/y. The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.2 p.p. and stood at 20.7%;
- Increase in administrative expenses to PLN 141 million (+6% y/y). In the functional currency, they increased by 3.2% as a result of the project activity and additional expenses related to the adaptation of the activity to work in the conditions of restrictions related to the COVID-19 pandemic.

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



Ukraine



The Ukraine segment closed 2020 with an increase in the operating result by PLN 15 million (after eliminating the impact of change in the UAH exchange rate the increase would be PLN 17 million), reaching PLN 54 million compared to PLN 39 million in 2019.

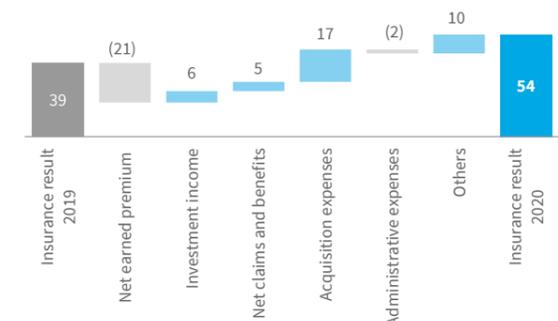
Factors affecting this segment's performance:

- decrease in net earned premium by PLN 21 million (-9.7% y/y) combined with a decrease in gross written premium. The gross written premium was PLN 291 million and decreased by PLN 44 million (-13.1% y/y, and in the functional currency: -9.4% y/y) relative to the previous year. Due to the restrictions in movement introduced during the COVID-19 pandemic, the largest drop, by 47.1%, was recorded in travel insurance and other TPL insurance jointly (which is obligatory when filing an application for a visa for entering Poland), and in Green Card insurance (-39.3% y/y). The premium in life insurance dropped by PLN 2 million,

but in the functional currency an increase by 2.7% was recorded;

- investment income higher by PLN 6 million (+18.2% y/y), to PLN 39 million;
- decrease in net claims and benefits to PLN 76 million (-6.2% y/y, and in the functional currency: -2.6% y/y). The restrictions in movement introduced due to the COVID-19 pandemic considerably contributed to the lower frequency of losses in TPL and MOD motor insurance, and also the frequency of losses in health insurance decreased. In life insurance the value of benefits paid increased by PLN 8 million (+29.6% y/y, and in the functional currency: +34.8%) compared to the previous year. The loss ratio calculated on the basis of the net earned premium in non-life insurance was 33.6%, down 4.4 p.p. compared to 2019;
- decrease in acquisition expenses to PLN 101 million from PLN 118 million (-14.4% y/y) in the previous year. As a result, the acquisition expense ratio dropped by 2.8 p.p. and achieved the value of 51.5%;
- administrative expenses higher by PLN 2 million (+6.5% y/y and in the functional currency: +11.7%) – to PLN 33 million. The administrative expense ratio calculated on the basis of the net earned premium increased 2.6 p.p. and stood at 16.8%. The increase was caused, among others, by the higher personnel costs as a result of the payroll pressure and the increase in expenses related to the project activity.

Operating result in the Ukraine segment (in PLN m)



Investment contracts



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

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

Gross written premium generated on investment contracts in 2020 decreased by PLN 2 million (-5.7% y/y) compared to 2019 and reached PLN 33 million. The changes resulted primarily from the decrease in the payments to IRSA accounts, after the product was withdrawn from the offering.

The investment result in the segment of investment contracts decreased by PLN 3 million (-18.8% y/y) relative to the previous year, chiefly due to the lower rate of return on IRSAs.

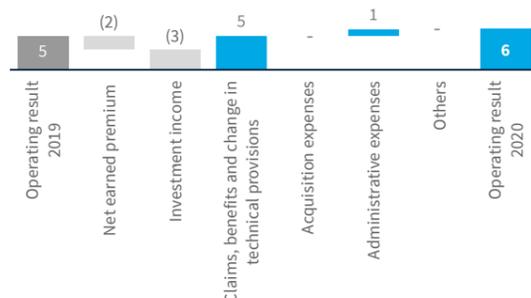
The cost of insurance claims and benefits together with the movement in other net technical provisions decreased by PLN 5 million (-11.9% y/y) to PLN 37 million, mostly due to the aforementioned difference in investment income in unit-linked products and the resulting lower payments to the accounts.

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

Administrative expenses decreased to PLN 3 million (-25.0% y/y) as a consequence of the decreasing portfolio of contracts in this segment.

The segment's operating result grew to PLN 6 million (+20% y/y), which resulted from a decrease in costs as a consequence of the shrinking size of business in this segment.

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



Alternative Performance Measures

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

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

Profitability indicators

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

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

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

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

Return on equity attributable to equity holders of the parent (PZU) for 2020 was 10.9%. At the same time, it was 10.3 p.p. lower than that achieved in the previous year, which resulted from non-recurring events, i.e. the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million (after adjustment for the impact exerted by deferred income tax and minority shareholdings the impact exerted on the net result attributable to the parent company's shareholders was PLN 42 million). The lower return on equity in 2020 resulted also from the retention of the whole profit for 2019 in the Company, hence from the lack of payment of dividends. Such a profit distribution was consistent with the standpoint expressed by the Polish Financial Supervision Authority on 26 March 2020 in the letter to insurance and reinsurance companies.

Return on assets (ROA) of the PZU Group for 2020 was 0.7%, i.e. 0.8 p.p. lower than in 2019. The primary cause was the decrease in the result on banking activity, including:

- non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao;
- impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients), higher costs of risk stemming from the establishment of additional loan provisions due to the COVID-19 pandemic;
- increase in provisions for legal risk in Q4 pertaining to the portfolio of FX mortgage loans in Swiss francs in Bank Pekao.

Operational efficiency ratios

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

One of the fundamental measures of operational efficiency and performance of an insurance company is COR (Combined Ratio) calculated, due to its specific nature, for the non-life insurance sector (Section II). This is the ratio of insurance expenses related to insurance administration and payment of claims (e.g. claims paid, acquisition and administrative expenses) to the net earned premium for a given period.

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

Basic performance indicators of the PZU Group	2016	2017	2018	2019	2020
Return on equity (ROE) attributable to equity holders of the parent (annualized net profit/average equity) x 100%	14.9%	21.0%	22.1%	21.2%	10.9%
Return on equity (ROE) consolidated (annualized net profit/average equity) x 100%	14.7	15.3%	14.6%	13.5%	6.1%
Return on assets (ROA) (annualized net profit/average assets) x 100%	2.1%	1.9%	1.7%	1.5%	0.7%

In 2020, COR was 88.2% and was 0.3 p.p. lower than in 2019, due primarily to a lower loss ratio in motor insurance. It was an outcome of a lower frequency of claims due to the traffic restrictions introduced at the time of the COVID-19 pandemic, and an increase of the average disbursement.

Operating profit margin in life insurance is also an important indicator, i.e. the profitability of life insurance segments calculated as the ratio of the result on operating activity to gross written premium. In 2020, the indicator reached 18.6%, and its fall by 1.9 p.p. in comparison to 2019 was in particular due to a higher loss ratio in the group and individually continued insurance. It was attributable to higher mortality resulting from the COVID-19 pandemic.

As regards banking activities, efficiency is measured by the cost to income ratio, i.e. the quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments. In 2020, the cost to income ratio for banking activity in the PZU Group reached 43.2%, and was higher than in 2019 by 2.4 p.p. It is attributable to lower income, including net interest income, resulting from the fall of interest rates in Q2 2020. The operational efficiency ratios, by segment, are given in CHAPTER 11. Glossary of Terms and Alternative Performance Measures

Operational efficiency ratios	2016	2017	2018	2019	2020
1. Gross claims and benefits ratio (simple) (gross claims and benefits/gross written premium) x 100%	63.7%	67.3%	63.8%	66.5%	67.5%
2. Claims and benefits ratio on own share (net claims and benefits / earned premium on own share) x 100%	68.4%	70.0%	65.2%	68.0%	67.7%
3. Insurance segment activity expense ratio (insurance activity expenses/earned premium on own share) x 100%	22.5%	21.1%	21.4%	22.3%	22.6%
4. Insurance segment acquisition expense ratio (acquisition expenses/premium earned on own share) x 100%	14.3%	14.0%	14.5%	15.1%	15.3%
5. Administrative expense ratio in the insurance segments (administrative expenses/premium earned on own share) x 100%	8.3%	7.2%	6.9%	7.2%	7.4%
6. Combined ratio in non-life insurance (net claims and benefits + insurance activity expenses) / net premium earned on own share) x 100%	94.9%	89.6%	87.1%	88.5%	88.2%
7. Operating profit margin in life insurance (operating profit /gross written premium) x 100%	25.3%	19.3%	21.3%	20.5%	18.6%
8. Cost/Income ratio – banking operations	44.4%	48.0%	42.3%	40.8%	43.2%

6.8 Issuer's financial results – PZU (PAS)

In 2020, the issuer (PZU) recorded a technical result of PLN 1,533 million, compared to PLN 1,405 million in 2019, a growth of 9.1%. Net profit was PLN 1,919 million and fell by 27.6% relative to PLN 2,651 million achieved in the previous year. Disregarding the dividends received from PZU Życie, PZU's net profit was PLN 588 million, and was by PLN 731 million, i.e. 55.4%, lower compared to 2019.

As regards the individual net result items, PZU recorded:

- decrease in gross written premium down to PLN 12,537 million, i.e. by 3.9% relative to the previous year. It was a result of lower sales of motor insurance (due to the much lower new vehicle sales and a slowdown in the leasing market), as well as of the increased premiums on accident, sickness and various financial losses insurance. After the reinsurers' share and movement in the provision for unearned premiums, net earned premium was PLN 12,061 million and was 2.0% lower than in 2019;
- lower level of claims and benefits - amounting to PLN 7,523 million, which means a fall by 3.1% compared to 2019. The major change, i.e. the drop in the motor insurance and assistance, was partly set off by a higher loss ratio in insurance against fire and other damage to property and general third party liability insurance;
- a fall of the net investment result⁵ down to PLN 1,103 million (by 50.4% in comparison to 2019), as a result of lower results of subsidiaries;
- lower acquisition expenses, including the reinsurance commission, by PLN 19 million, i.e. 0.8%, in comparison to 2019, resulting from lower premiums on motor third party liability insurance, which are characterized by lower commission rates and a high share of the multiagency channel with higher commissions;
- increase of administrative expenses by 3% - from PLN 704 million in 2019 up to PLN 725 million in 2020. It resulted primarily from the introduction in sales of an COVID-19

⁵ Investing activities include investment income, unrealized gains from investments, costs of investment activities, unrealized losses on investments, and share in net profits (losses) of subordinated entities valued through equity method

pandemic aid package and increase of personnel costs due to payroll pressure.

In 2020, PZU collected gross written premium of PLN 12,537 million, i.e. 3.9% less than in 2019. The premium comprised mainly:

- TPL motor insurance premiums, accounting for 38.3% of PZU's insurance portfolio (39.2% in the prior year). The lower share in the portfolio, by 0.9 p.p., was attributable to a lower number of policies combined with a drop in the average price. The slowdown in sales, chiefly in the branches as well as in the Group's own network and dealership network, was a consequence of the restrictions imposed in connection with the COVID-19 pandemic and the resulting limited availability of services to customers. The negative effect was further amplified by: a fall in the average price due to changes in sales channel mix (slowdown of new vehicle sales in dealerships and leasing), and the continuing price pressure;
- premium on motor MOD insurance, with a 23.8% share of PZU's total gross written premium (i.e. 0.9 p.p. less than in the previous year). Alike for the TPL motor insurance portfolio, a strong impact was felt of the slowdown in the leasing financing sector and lower sales of new vehicles (primarily in dealerships);
- premiums on insurance against fire and property damage, accounting for 20.2% of PZU's premium portfolio. In comparison to 2019, their share in the insurance portfolio fell by 0.5 p.p., and by 5.9% in terms of value. It is a result of the conclusion in 2019 of a long-term agreement of high standalone value and lower premium on crop insurance (due to the high competitiveness of the market and the natural erosion of the portfolio in the context of a limited pool of government subsidies);
- premiums on ADD and other insurance, whose share in the portfolio reached 11.5%, i.e. up 2.0 p.p. higher than in 2019. Premium value increased mainly in accident and sickness insurance. It is a result of higher sales, offered in cooperation with PZU Group banks, cash loan insurance and mortgage loans. Another factor of this increase is insurance cover extended to doctors and medical personnel against COVID-19 infection. The effect was further augmented by the higher premium written from aircraft casco insurance, following conclusion of a few high value agreements, as well as from various financial risks insurance (predominantly loss of profit).

A fall in 2020 of the net investment result down to PLN 1,103 million (by 50.4% in comparison to 2019) was primarily an outcome of lower results of the banking sector subsidiaries portfolio. It was also related to a non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank, in the amount of PLN -781 million, out of which PLN-747 million was recognized through the income statement, and Bank Pekao, in the amount of PLN - 374 million, out of which PLN - 51 million was recognized through the income statement. The other impairment losses have been charged to the revaluation reserve.

In 2020, net claims and benefits and the incremental growth in PZU's provisions totaled PLN 7,523 million, i.e. 3.1% less than in 2019.

The following factors contributed to the change in the net value of claims and benefits:

- lower claims and benefits in motor TPL and MOD insurance. It was a result of a lower frequency of claims due to the traffic restrictions introduced at the time of the COVID-19 pandemic. The negative factors were partly offset by increased value of average disbursement;
- higher level of losses caused by natural forces and other property damage, including events of high standalone value and claims under crop insurance policies. The number of losses caused by weather phenomena, such as rain and hail, increased disproportionately at the turn of Q2 and Q3 2020;
- increased claims and benefits in third party liability insurance. It is mainly a result of a higher movement in provisions for outstanding claims and benefits, primarily in third party liability insurance of medical entities;
- higher loss ratio in accident and sickness insurance, predominantly group ADD insurance.

In 2020, acquisition expenses (including reinsurance commissions) amounted to PLN 2,423 million, and declined by 0.8% in comparison to 2019, which along with a 2% decrease in net earned premium y/y translated into a deterioration of the acquisition expense ratio by 0.2 p.p. The growth rate of the acquisition expense ratio was influenced, among others, by a change in the product and sales channels - lower growth rate of motor TPL insurance, which are characterized by lower commission rates and high share of the multi-agent channel.

In 2020, administrative expenses reached PLN 725 million, i.e. 3% higher than in the previous year, which alongside the drop in net earned premium by 2% y/y translates into a worse administrative expense ratio, by 0.3 p.p. The increase in administrative expenses is attributable mainly to higher intervention expenses incurred in connection with the COVID-19 pandemic and higher personnel costs responding to a continuous payroll pressure. The growth has been partly curbed by cost discipline in non-personnel items.

The balance of other technical income and expenses in 2020 was negative and stood at PLN 251 million. The improvement by 1.4% in comparison to 2019 is an outcome of a higher allowance to prevention fund and an impairment charge on receivables, as well as higher interest income for untimely premium payments.

The balance of other operating income and expenses was also negative. It amounted to PLN 148 million, whereas in the previous year - when it was also negative - it was PLN 387 million. In 2019, 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 and repaid on 28 June 2019. In 2019, revenues on account of foreign exchange differences on the loan received from PZU Finance AB (publ.) amounted to PLN 38 million, while the costs of interest on the loans received amounted to PLN 29.7 million. Furthermore, the level of other operating expenses in 2019 was significantly influenced by adding a provision for taxation risk related to different interpretations of the provisions of the Swedish tax law pertaining to taxation on foreign exchange differences realized on repayment of loans granted in a currency other than the functional currency of the company granting the loan, in the amount of PLN 79 million - the provision was released in 2020.

As at the end of 2020, the total balance sheet value of PZU was PLN 44,665 million and was 7.4% higher compared to the previous year.

The main component of PZU's assets were investments of the total value of PLN 40,207 million (up 9.7% compared to the end of 2019), which accounted for 90% of PZU's total balance sheet value, compared to 88.1% as at the end of the previous year. Investments, excluding investments in related parties, increased in connection with the achieved investment

performance and the inflow of premiums driven by business growth.

As at the end of 2020, PZU's receivables stood at PLN 1,689 million, and accounted for 3.8% of assets, whereas in the previous year they amounted to PLN 2,085 million (5.0% of PZU's assets). The biggest drops were noted in the value of receivables on direct insurance (PLN -352 million y/y) and other receivables, including from related parties (PLN -80 million y/y), where the fall was attributable to the lower receivables from the service of acting as emergency adjuster to Group companies.

Non-current assets, in the form of intangible assets, goodwill and property, plant and equipment, were disclosed in the balance sheet at PLN 424 million (PLN -18 million y/y). They accounted for 0.9% of assets.

As at the end of 2020, PZU held cash of PLN 124 million (0.3% of assets). The year before, the corresponding value was PLN 126 million.

At the end of 2020, technical provisions were the main component of PZU's equity and liabilities. They reached the value of PLN 21,707 million (net), which accounted for 48.6% of equity and liabilities. Their share in the balance sheet decreased by 3.3 p.p. compared to 2019, while in terms of value they rose by PLN 134 million, in particular due to a higher provisions for outstanding claims and benefits, mainly in the group of motor TPL insurance and general third party liability insurance. It was partly offset by: a lower provision for unearned premiums and release of the equalization provision.

As at the end of 2020, equity reached the value of PLN 17,689 million and accounted for 39.6% of equity and liabilities, up 3.6 p.p. compared to the end of 2019.

Contingent receivables amounted to PLN 3,976 million, i.e. were lower by PLN 281 million (-6.6% y/y) in comparison to the previous year. They comprised among others: guarantees and sureties received, bills of exchange issued on account of granted insurance guarantees and other contingent receivables comprising mainly securities obtained in the form of a transfer of the debtor's assets, mortgage on the debtor's assets and other contingent receivables.

The balance of contingent liabilities was PLN 1,201 million, which represents a growth by PLN 52 million (+4.5% y/y) in comparison to 2019. It is primarily a result of the higher, by PLN 87 million, level of liabilities under guarantees and sureties granted as well as disputed claims not recognized by the insurer.

In 2020, PZU generated a return on equity (ROE) of 11.8%, up 6.6 p.p. compared to 2019. In 2016-2020, the average return on equity (ROE) was 16.4%.

Operational efficiency ratios	2016	2017	2018	2019	2020
Gross claims and benefits ratio (simple) (gross claims and benefits/gross written premium) x 100%	58.8%	60.9%	60.5%	61.7%	63.2%
Claims and benefits on own share ratio (net claims and benefits/premium earned on own share) x 100%	66.7%	64.1%	62.2%	63.1%	62.4%
Insurance activity expense ratio (insurance activity expenses/premium earned on own share) x 100%	27.9%	25.2%	24.8%	25.6%	26.1%
Acquisition expense ratio* (acquisition expenses/premium earned on own share) x 100%	20.1%	19.0%	19.3%	19.9%	20.1%
Administrative expense ratio (administrative expenses/premium earned on own share) x 100%	7.9%	6.2%	5.4%	5.7%	6.0%
Combined ratio (COR) (net claims and benefits + insurance activity expenses) / premium earned on own share) x 100%	94.7%	89.3%	87.0%	88.7%	88.5%

* having accounted for reinsurance commissions received

Basic profitability ratios of PZU	2016	2017*	2018	2019	2020
Return on equity (ROE) (annualized net profit/average equity) x 100%	12.8%	19.2%	19.7%	18.4%	11.8%
Return on assets (ROA) (annualized net profit/average assets) x 100%	4.3%	6.2%	6.3%	6.2%	4.4%

* restated data

6.9 Impact of the COVID-19 pandemic on the PZU Group's results and the Issuer's results

Impact on the PZU Group's results

Considering the comprehensive range of financial products offered (insurance, banks, investments, health-related products), the COVID-19 pandemic has had an impact on many aspects of PZU Group's operation and its financial performance. The total effect of the factors that were material for the 2020 results amounted to PLN 1.93 billion.

The banks experienced the strongest adverse impact of the pandemic, in particular as a result of the deterioration of economic conditions. Consequently, the negative effects on performance were the most prominent in this area of PZU Group's operations. The pandemic considerably increased the cost of risk, which resulted in establishment of additional loan provisions for the forecast deterioration of the loan portfolio quality. The value of allowances for expected credit losses and for impairment of financial instruments in Bank Pekao amounted to PLN 1,620 million, of which PLN 830 million was estimated as the result of the COVID-19 pandemic. In Alior Bank, the value of credit allowances amounted to PLN 1,736 million, including PLN 418 million related to COVID-19, of which PLN 270 million pertained to changes of parameters in the models, and PLN 148 million to allowances. The total effect on the Group's net result attributable to equity holders of the parent company was PLN -242 million.

The lowering of interest rates three times (in March, April and May 2020), by a total of 140 basis points, brought the basic rate down to 0.1%. It in turn translated into lower interest income for banks. This impact has been partly offset by a limit on interest rates applicable to interest liabilities of banks and increased lending activity (receivables from loans increased by 1.1% y/y), however the impact on PZU Group result attributable to equity holders of the parent company over the entire 2020 was PLN -205million.

Falling interest rates and increased credit risk led to shortfalls in the impairment test of PZU Group banks, which required impairment losses to be recognized through the Group's profit and loss account. A non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao

- pursuant to IAS, the impairment charge for Alior Bank was PLN 746 million, and for Bank Pekao - PLN 555 million. Furthermore, a non-recurring impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients), in the amount of PLN 161 million, was charged through the income statement, which after accounting for the deferred income tax and minority interest had an impact on the result attributable to equity holders of the parent company in the amount of PLN 42 million. The total effect of the impairment losses recognized in the results for 2020 is PLN -1343 million.

Materialization of the above mentioned factors: lowering of interest rates, increase of credit risk and - consequently - impairment loss charges for bank-related assets, reduced the Group's net result attributable to equity holders of the parent company by PLN 1.79 billion.

The pandemic did not have any major impact on financial results from insurance and investment activities or in the area of health.

In life insurance, the Group recorded - mainly in Q4 2020, a rise in insureds' and co-insureds' death benefits, which could be a result of, among others, COVID-19-related complications. It was partly set off by smaller benefit disbursements for critical illness and hospital treatment, as well as for permanent impairment of health, which resulted from decreased activity of the insured in lockdown, as well as postponement of medical treatments resulting from reduced access to health care during the COVID-19 pandemic. The effect on the result attributable to equity holders of the parent company in 2020 was estimated at PLN -101 million..

In non-life insurance, the Group noted lower loss ratio in motor insurance. It was an outcome of a lower frequency of claims due to the traffic restrictions at the time of the COVID-19 pandemic, and an increase of the average disbursement. The effect was partly offset by a lower premium written from motor insurance, which was a result of the prolonged pandemic. Sales of new vehicles in the dealership channel declined (the drop in the registration of new passenger cars was 23% y/y), as did the leasing market, combined with continuing price pressure. Furthermore, personnel costs increased as a result of payroll pressure and introduction of aid packages due to the COVID-19 pandemic in the sales area.

Impact of the pandemic on the PZU Group's net result attributable to equity holders of the parent company (PLN million)

Area of operation	Factor	Net profit attributable to equity holders of the parent company (PLN million)
Banks	Additional credit allowances	(242)
	Lower interest rates – impact on net interest income	(205)
	Impairment of goodwill and other intangibles associated with acquisition of banks	(1 343)
Cumulative		(1 790)
Insurance and other activities	Rise in loss ratio in life insurance	(101)
	Lower interest rates – impact on investment result	(44)
Cumulative		(145)
Banks and insurance		(1 935)

Thanks to the fact that the PZU Group's investment portfolio had already been poised for an expected economic slowdown, its impact on the investment result was minor and limited in particular to lower interest income from variable coupon debt portfolio by an estimated PLN -44 million, whereby the effect was limited by the distribution over time of interest rates reductions in 2020.

Impact on the Issuer's result - PZU (PAS)

The impact of the pandemic was also visible in the results of the Issuer - PZU. The most critical factor was the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao, which was the effect of deteriorated performance and bank development prospects, as well as no dividend payout by Bank Pekao, which is an important element of the Issuer's investment result. After the onset of the pandemic in

Poland, in March 2020 KNF recommended to banks to retain the entire profit achieved in the previous years and refrain from dividend payouts in 2020. As a result of an impairment test, an impairment loss was made on goodwill arising from the acquisition of Alior

Bank - in the amount of PLN -781 million, out of which PLN -747 million was charged through the income statement, and Bank Pekao - in the amount of PLN -374 million, out of which PLN -51 million was charged through the income statement. The other impairment losses have been charged to the revaluation reserve. The total effect on PZU's net result was PLN -797 million.

Assuming that Bank Pekao would pay out 75% of the profit achieved in 2019, the dividend income in 2020 would have been PLN 336 million.

Impact on the Issuer's net result - PZU (PAS)

Factor	Impact on net profit (PLN million)
Impairment losses on interests in banks	(797)
No dividend from Bank Pekao	(336)
	(1 133)



The positive aspects of negative results. The record-breaking number of several thousand PZU employees who took part in the Plain Language Department's annual conference and other events that took place on an online basis on account of the pandemic. We have infected them with the idea of plain Polish.

7.

Risk management

We put a lot of effort to continue developing sophisticated risk management procedures. They are of fundamental significance to us. It is important for us that our clients have peace of mind and feel safe with us and the Group's results remain predictable.

In this section:

1. Objective of risk management
2. Risk management system
3. Risk appetite
4. Risk management process
5. PZU Group's risk profile
6. Risk vulnerability
7. Reinsurance operations
8. Capital management

Risk management

7.1 Objective of risk management

Risk management in the PZU Group aims to build value for all stakeholders. It involves active and deliberate management of the quantum of risk accepted. The essence of this process also involves preventing the acceptance of risk at a level that could pose a threat to the financial stability of the PZU Group or the PZU Financial Conglomerate.

Risk management in the PZU Group consists in analyzing risk in all processes and units and therefore is an integral part of the management process.

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

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

Entities from the financial market sectors are additionally obligated to apply the appropriate standards for the respective sector. Their internal regulations pertain to, 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 entire PZU Group's risk management system on the basis of mutual cooperation agreements entered into with the subsidiaries and the information provided thereunder. PZU manages risk at the Group level on an aggregate basis, especially with respect to capital requirements.

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

monitoring and reporting of significant risk concentration and making managerial decisions.

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

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

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

7.2 Risk management system

The risk management system in the PZU Group consists in the following:

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

The consistent split of duties and tasks in the PZU Group and in individual financial sector subsidiaries covers four decision-making levels.

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

The first three are:

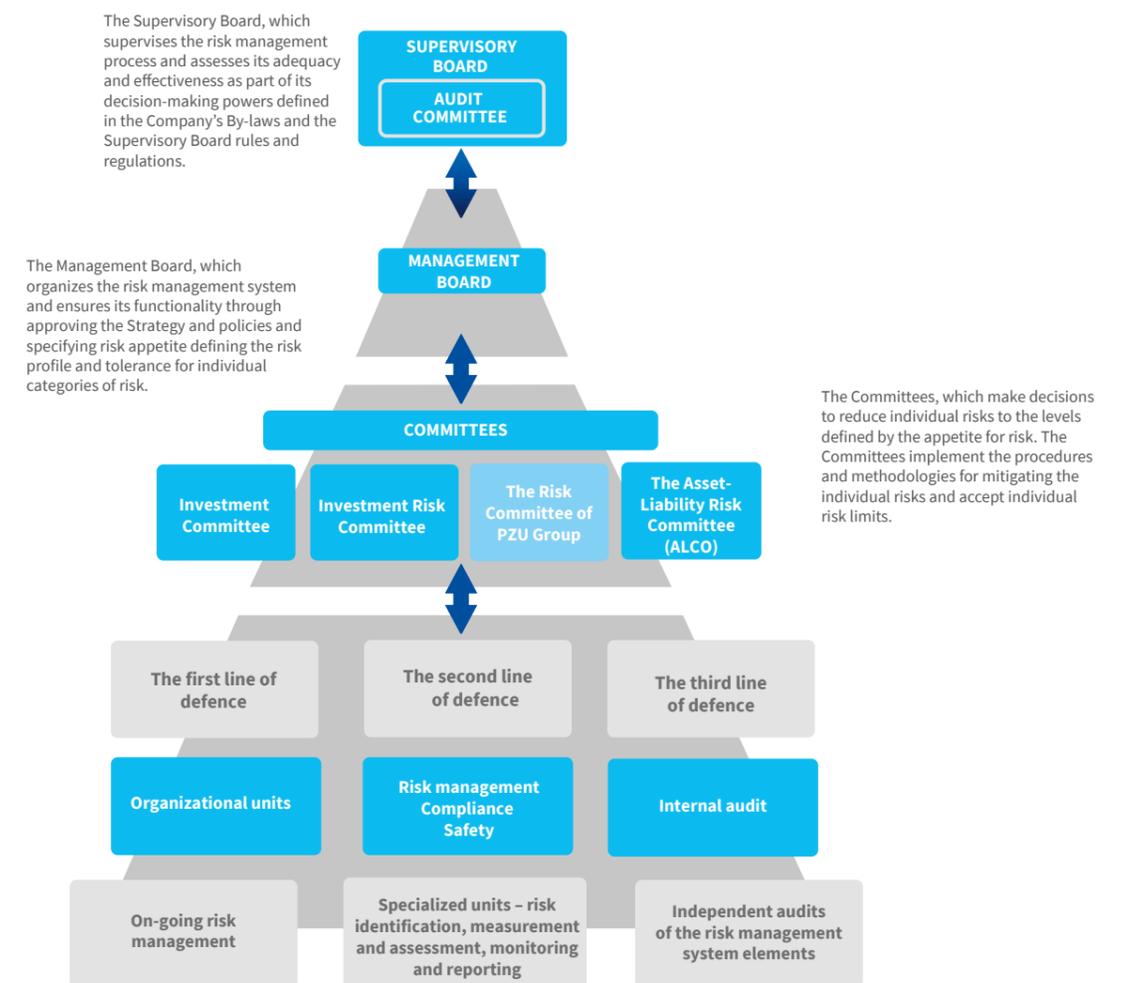
- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness; performs duties as part of its decision-making powers defined in a given entity's Articles of Association and the Supervisory Board bylaws, as well as through the Audit Committee;
- The 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 committees, which decide about limiting the levels of individual risks to fit the risk appetite framework they have defined, adopt procedures and methodologies for

mitigating the individual risks and accept the limits for individual risk types.

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

- the first line of defense – entails ongoing risk management at the entities' business unit and organizational unit level and decision-making as part of the risk management process, taking into account the limits for individual risks;
- the second line of defense – risk management by specialized units responsible for risk identification, measurement, monitoring and reporting, as well as for limits control;
- the third line of defense – internal audit which conducts independent audits of the individual elements of the risk management system, as well as of control procedures.

Chart of the organizational structure for the risk management system



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 permissible risk level while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion

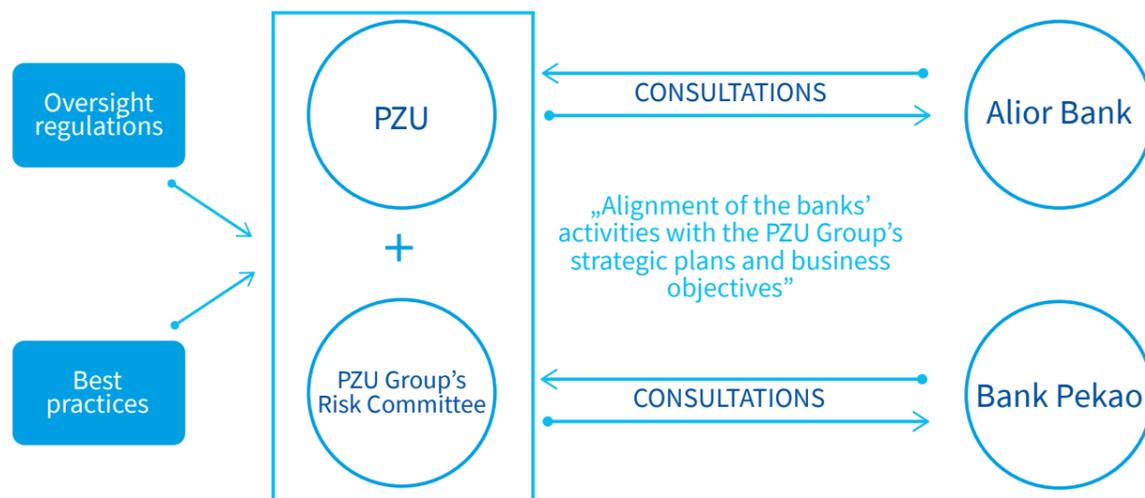
The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance entities in the PZU Group. The management board of each entity determines the risk appetite, risk profile and risk tolerance reflecting its financial plans, business strategy and the objectives of the entire PZU Group. This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial

stability of individual entities or the entire PZU Group. The determination of the appropriate level of risk in each entity is the Management Board's responsibility, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk. All these measures are coordinated at the PZU Group level.

The risk appetite is set at least once a year also by the two banks from the PZU Group. They do it in accordance with the supervisory regulations (including those following from recovery plans) and the best practices.

However this process is personalized to reflect the business strategy and capital structure of each entity. Risk appetite in these companies is consulted with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee. The aim is to ensure consistency between the activities carried out by the banks and the strategic plans and business objectives of the PZU Group as a whole and maintain an acceptable level of risk at the entire Group level. Once agreed, the level of risk appetite is then approved by the banks' Supervisory Boards.

Process of determining the risk appetite in the PZU Group



<p>Risk management prevents the acceptance of risk at a level that could pose a threat to the PZU Group's financial stability</p>	<p>Risk management process stages: identification, measurement and assessment, monitoring and control, and management activities</p>	<p>The risk management structure in the PZU Group comprises 4 decisionmaking levels: (i) Supervisory Board, (ii) Management Board, (iii) Committees, (iv) three lines of defense as part of operations</p>
<p>Key risks in the PZU Group: actuarial, market, credit, concentration, liquidity, operational, model and compliance</p>	<p>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</p>	<p>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</p>
<p>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</p>	<p>The Group's capital management (including excess capital) is conducted at the level of the PZU Group as the parent company</p>	<p>Reinsurance providing security against negative impact of catastrophic events on the results of the PZU Group's insurance activity</p>
<p>As at the end of Q3 2020, the Solvency II ratio 257%* above the average ratio reported by insurance groups in Europe</p>	<p>The credit rating of reinsurers is assessed on the basis of market data, data obtained from external sources, e.g. from S&P Global Ratings, as well as on the basis of the model</p>	<p>The credit rating of reinsurers is assessed on the basis of market data, data obtained from external sources, e.g. from S&P Global Ratings, as well as on the basis of the model</p>

* the data unaudited

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 its subsidiaries with support in the implementation of a risk management system.

Risk management on the Group level includes the introduction of compatible mechanisms, standards and organization of an efficient internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area)

and the security management system in the PZU Group. It also involves their ongoing monitoring. The PZU Group's designated personnel cooperates with the Management Boards of entities and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of mutual cooperation agreements.

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

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

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

Reporting

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

Management actions

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

regulated entities. It also makes it possible to assess the impact of the concentrations on financial stability.

- **II - ENTITY LEVEL – monitoring of limits and risks specific to the entity**

Risk management at this level is supposed to ensure that individual PZU Group entities attain their business objectives in a safe manner appropriate to fit the scale of the risk incurred. This is supported by:

- monitoring of the limits and unique risk categories existing in the given entity,
- implementation of effective mechanisms and standards
- organization of an efficient internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system in the PZU Group.



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 35% of the PZU Group's total risk (Q3 2020), while the largest contribution is in credit risk.

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

In 2020, initiatives were undertaken to improve the identification, measurement, assessment and monitoring of the risks associated with sustainable development, in particular with climate changes. The main risks in this area - transformation risk and physical risk, are managed as part of individual risk categories specified below in this Report.

Physical risk is risk to the company that arise from the physical effects of climate change and include: acute physical risk (e.g. storms, fires) and chronic physical risk (e.g. rising sea level). Transition risk is risk that arise from the transition to a low-carbon and climate-resilient economy on climate change and covers policy risk, legal, technological, market and reputational.

Actuarial risk

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

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

- an analysis of the general terms and conditions of insurance with respect to the accepted risk and compliance with the existing laws;

7.5 PZU Group's risk profile

Major risks in the PZU Group



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

Risk management

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

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

The measurement of actuarial risk is performed using:

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

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

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

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

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

Moreover, mitigation of the actuarial risk inherent in current operations is supported by:

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

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

Market risk, including liquidity risk

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

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

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

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



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

Market risk identification consists in the identification of actual and potential sources of this type of risk. For assets, the identification of risk begins with the decision to commence transactions in a given type of financial instrument. Units that make a decision to start entering into such transactions draw up a description of the instrument containing, in particular, a description of the risk factors. They convey this description to the unit responsible for risk that identifies and assesses market risk on that basis.

The identification of market risk associated with insurance liabilities commences with the process of developing an insurance product. It involves identification of the relationship between the cash flows generated by that product and the relevant market risk factors. The identified market risks are subject to assessment using the criterion of materiality, specifying whether the materialization of risk entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures

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

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

Market risk measurement is divided into stages, in particular:

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

The risk measurement is performed:

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

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

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

Management actions in respect to market risk involve in particular:

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

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



In connection with the COVID-19 pandemic, the banking sector in Poland recorded a significant decrease in net interest income. This affected



Risk management

also the banks from the PZU Group. The reduction of the NBP reference interest rate in total by 140 bp in the first half of 2020 brought down the net interest margin (NIM) in the sector.



In connection with recognizing additional provisions in PZU Życie in Q2 2020 and taking into account the current interest rate levels in the business processes, in the short term the risk associated with low interest rates in the PZU Group's insurance segment is not perceived as significant. The risk is monitored and analyzed on an ongoing basis to ensure proper adaptation of the investment portfolio structure.

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the PZU Group's liabilities to its clients or business partners. The liquidity risk management system aims to maintain the capacity of fulfilling the entity's liabilities on an ongoing basis. Liquidity risk is managed separately for the insurance part and the 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 involve estimation of the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:

- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;
- potential shortage of financial funds (medium-term financial liquidity risk) – through analysis of historical and expected cash flows from the operating activity;
- stress tests (medium-term financial liquidity risk) – by estimating the possibility of selling the portfolio of

financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;

- current statements of estimates (short-term financial liquidity risk) – by monitoring demand for cash reported by business units of an insurance undertaking in the PZU Group by the date defined in regulations which are in force in that entity.



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

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

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

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

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

In connection with the COVID-19 pandemic, banks in Poland, including the banks from the PZU Group, experienced overliquidity in 2020. The pandemic caused a major disruption of the existing simple model involving transfer of funds from bank deposits to finance the economy. In the banks' balance sheets, the inflow of deposits remains undisrupted but the outflow is not routed mainly to finance the economy but to purchase of securities issued and guaranteed by the State Treasury. This results in an increase of debt securities and, consequently, increase of liquidity, in the banks' balance sheets. Reduction of the lending activity results from the

banks' restrictive lending policy and, at the same time, clients' aversion to incurring debt in unpredictable conditions.

The banks' liquidity was additionally strengthened by the reduction of the NBP reserve requirement from 3.5% to 0.5% as of the end of April 2020.



The impact of the COVID-19 pandemic on the liquidity of the PZU Group's insurance segment in 2020 should be classified as low. An increase in the number of deaths (mortality rate) was observed, which could result from, among other

things, the hindered access to health care and COVID-19 related complications. However the situation did not significantly impact PZU Group's liquidity risk. In 2020 there were no grounds to take extraordinary management actions regarding liquidity risk in connection with the COVID-19 pandemic. As part of routine management actions regarding liquidity risk in 2020, the PZU Group constantly monitored the level of available liquid funds and the current utilization of liquidity limits.

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

The following measures aim to reduce financial liquidity risk:

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

Credit risk and concentration risk

Credit risk is understood as the risk of a loss or an adverse change in the financial situation resulting from fluctuations in the reliability and creditworthiness of issuers of securities, counterparties and all debtors. It materializes in the form of a counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:

- spread risk,
- counterparty default risk,
- credit risk in financial insurance.

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

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

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

The measurement of credit risk is performed using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure),
- capital requirement calculated using the standard formula.

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

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



Risk management

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

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

The monitoring pertains to:

- exposures to financial insurance,
- exposures to reinsurance,
- exposure limits and VaR limits,
- loan exposures (in the case of banking entities).

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

Management actions in respect of credit risk and concentration risk involve in particular:

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

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

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

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.



In the PZU Group insurance segment, in the credit risk area, the impact of the COVID-19 pandemic was low; just like in 2019, no indications of impairment were identified in the portfolio, hence no exposure was

classified to basket 3 (instruments for which impairment has been recognized). During 2020 the structure of the financial instruments held changed significantly; the share of corporate exposures, which in principle are characterized by higher risk parameters (PD, LGD), was reduced in favor of purchase of Polish treasury bonds or bonds guaranteed by the State Treasury. The value of the impairment losses in the portfolio in 2020 dropped relative to 2019 due to the change of the portfolio structure to a safer one, shift of the

rating structure associated with the overall improvement of the financial results of the entities, and improvement of internal macroeconomic forecasts for Poland relative to the negative scenarios associated with the COVID-19 pandemic from Q1. Reduction of the impairment losses in the portfolio resulted from a decrease of the losses in basket 1, partly balanced by an increase of the losses in basket 2 (instruments with identified significant increase in credit risk according to IFRS 9). As a result of the increase of the portfolio value and decrease of cumulative impairment losses, the coverage with impairment losses, understood as the ratio of cumulative credit risk impairment losses to the gross carrying amount of all PZU Group assets exposed to credit risk subject to the IFRS9 regime, decreased.

From April 2020, no impact of COVID-19 on the increase of the loss ratio in the insurance guarantee portfolio was confirmed. The standing of individual clients is monitored on an ongoing basis.

Operational risk

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

Operational risk is identified in particular by:

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

Operational risk is assessed and measured by:

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



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

Monitoring and control of operational risk is supported mainly by an established system of operational risk indicators and limits enabling assessment of changes in the level of

operational risk over time and assessment of factors that affect the level of this risk in the business.

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

Management actions involving reactions to any identified and assessed operational risks involve primarily:

- taking actions aimed at minimizing risks, for instance by strengthening the internal control system;
- risk transfer – in particular, by entering into insurance agreements;
- risk avoidance by refraining from undertaking or withdrawing from a particular type of business in cases where too high 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.

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



On 25 February 2020, a Crisis Management Team was appointed in PZU and PZU Życie to ensure business continuity of the companies while observing the safety measures and restrictions resulting from, among others, the

Council of Ministers' Regulation imposing specific restrictions, prohibitions and orders in connection with the state of pandemic. A crisis situation was declared at PZU and PZU Życie on this day.

From 5 to 31 March, the Crisis Management Team met daily and, from 1 to 20 April, two times a week or as needed, and after 21 April, once a week. Between 24 July and 20 October, additional meetings were held if necessary.

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

Risk management

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

Remote work was introduced already in March 2020. The necessary technical and organizational measures were ensured to enable as many employees as possible to work remotely or work in a rotation system.

Insurance branches and agencies remained open, adapting to all legal limitations and sanitary restrictions associated with the spread of COVID-19.

The sales, contract administration and claims handling processes were adapted in a similar manner to ensure business continuity and, at the same time, safe customer service.

At each meeting of the Crisis Management Team, the Security Department presented reports on the number of infections among employees and in Poland, work organization in PZU Group companies, availability of the branches and the agency network, execution of orders for personal protective equipment and disinfectants, and expenditures incurred from the Crisis Management Team budget.

Some of the decisions made by the Crisis Management Team were forwarded as recommendations to PZU Group subsidiaries.

The Business Continuity Plans launched in connection with the pandemic in the remaining PZU Group companies operated

in accordance with the internal regulations and procedures in place in such companies.

Despite the crisis situation, there were no major disruptions in any PZU Group companies associated with continuity of operation or client service.

Model risk

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



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

The model risk management process involves:

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



In the entities from the banking sector, given the high significance of model risk, the management of this risk has already been implemented for some years in the course of adaptation to the requirements

of Recommendation W issued by the KNF. Both PZU Group banks have defined standards for the model risk management process, including the rules for developing models and

evaluating the quality of their operation, ensuring at the same time appropriate corporate governance solutions.

Compliance risk

Compliance risk is the risk that PZU Group entities or persons related to PZU Group entities may fail to adhere to the applicable provisions of law, internal regulations or standards of conduct, including ethical standards, adopted by PZU Group entities, and the risk of violating these provisions of law, regulations and standards. This results or may result in:

- legal sanctions incurred by the PZU Group or persons acting on its behalf,
- financial losses,
- loss of reputation or credibility.

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

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

The provision of full information on compliance risk in Group companies is the responsibility of their compliance units. They are required to assess and measure compliance risk and take appropriate remedial actions aimed at mitigating the likelihood of realization of this risk.

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

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

Compliance risk includes, in particular, the risk that the operations performed by PZU Group entities will be out of line with the changing legal environment. This risk may materialize as a result of delayed implementation or absence of clear

and unambiguous laws, or what is known as a legal gap. This may cause irregularities in the PZU Group's business and, as a result, lead to higher costs (for instance, administrative penalties, other financial penalties) and a heightened level of loss of reputation risk.

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

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

Compliance risk is assessed and measured by calculating the effects of risk materialization of the following types:

- financial risks, resulting among others from administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages,
- intangible risks pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored through:

- systemic analysis of the regular reports received from the heads of organizational units and cells;
- monitoring of regulatory requirements and adaptation of the business to the changing legal environment of PZU Group entities;
- participation in the legislative work on amendments to generally prevailing provisions of law;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- monitoring of implementation of recommendations issued following internal audits;
- coordination of the fulfillment of reporting duties imposed by the stock exchange (in respect of PZU) and by statute;
- popularization of knowledge on competition law and consumer protection among PZU Group employees, according the area of their activities;

Risk management

- monitoring of anti-monopoly jurisprudence and proceedings conducted by the President of UOKiK;
- reviews of the implementation of recommendations issued by the PZU Group's compliance unit;
- ensuring uniform standards and consistent implementation of the compliance function within the PZU Group;

Management actions in response to compliance risk include in particular:

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

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:

- continuous implementation of an effective compliance function as a key management function;
- participation in consultations with legislative and regulatory authorities (supervised entities within the PZU Group) at the stage of development of the regulations (social consultations);
- delegating representatives of the PZU Group's supervised entities to participate in the work of various commissions of regulatory authorities;
- participation in implementation projects for new regulations;
- training of staff on new regulations, 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;

- analyses and ongoing monitoring of the application of "Chinese wall" rules – in connection with the additional investor commitments made by PZU in connection with the proceedings under the notification on the intent to purchase Bank Pekao's shares;
- ongoing monitoring of changes in the legal and regulatory environment in order to identify gaps or areas requiring action to ensure compliance.

The actions in 2020 in the compliance area were also associated with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence applying 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. The compliance area was involved in the work to align the Company to the requirements ensuing from this act, as well as to the requirements stemming chiefly from the following legal acts:

- 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 1 March 2018 on Combating Money Laundering and Financing of Terrorism;
- Act of 16 October 2019 on amending the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and some other acts;
- International Financial Reporting Standard 17 "Insurance Contracts" (IFRS 17);
- draft Act Amending the Mandatory Insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau Act and the Insurance and Reinsurance Activity Act;
- draft act amending the Commercial Company Code and certain other acts;
- Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law;
- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, entered into force;
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088;

- Act of 16 April 2020 on Special Support Instruments in Connection with the Spread of the SARS-CoV-2 Virus (the so-called Anti-crisis Shield 2.0).

Risk concentration

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

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

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

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

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

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

- concentration per counterparty or group of counterparties,

- concentration per currency,
- concentration per sector of economy,
- concentration per country,
- concentration per asset type.

7.6 Risk vulnerability

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 exchange risk include the PZU Group's investment financial assets and financial derivatives denominated in foreign currencies.

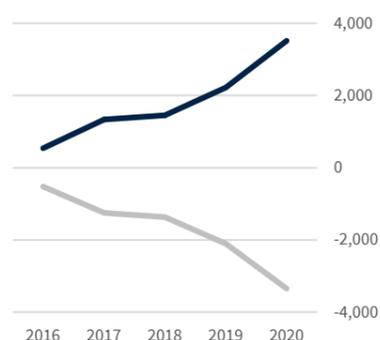
Interest rate risk – the possibility of incurring a loss as a result of changes in the value of financial instruments or assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of market rates or in the volatility of risk-free market 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.

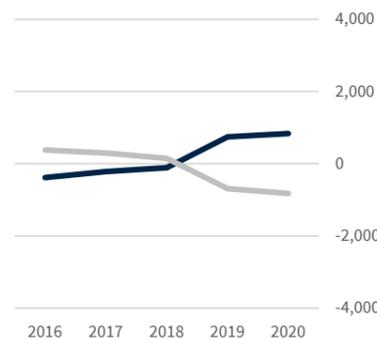
Sensitivity of the asset portfolio (in PLN m)	Change of the risk factor	31 December 2019	31 December 2020
		Change in portfolio value	Change in portfolio value
Interest rate risk	decrease by 100 bp	2,224	3,515
	increase by 100 bp	(2,101)	(3,348)
Foreign exchange risk	increase by 20%	747	838
	decrease by 20%	(694)	(819)
Equity instruments price risk	increase by 20%	112	122
	decrease by 20%	(112)	(122)

Interest rate risk



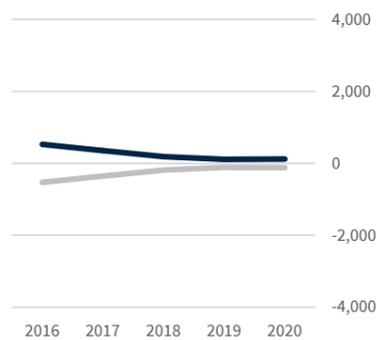
— decrease by 100 bp
— increase by 100 bp

Currency risk



— increase by 20%
— decrease by 20%

The risk of capital instruments prices



— increase by 20%
— decrease by 20%

The differences in asset portfolio sensitivity between 2020 and 2019 ensue from the execution of the adopted investment strategy and the adjustment of the investment portfolio to it.

The table below presents the contractual level of sensitivity of net interest income (NII) to a 100 bp change in interest rates and sensitivity of the economic value of equity (EVE) of PZU Group's banks to a 200 bps change in interest rates.

	Sensitivity in %	31 December 2019		31 December 2020	
		decrease	increase	decrease	increase
Pekao Group	NII	(7.0)%	4.1%	(6.3)%	2.0%
	EVE	1.6%	(3.0)%	2.8%	(7.1)%
Alior Bank Group	NII	(9.3)%	3.1%	(13.1)%	1.8%
	EVE	(1.7)%	(1.4)%	(0.1)%	(1.0)%

Risk pertaining to technical rates and mortality

The table below 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.

Impact of the change in assumptions regarding the provision for the capitalized value of annuities in non-life insurance on the net financial result and equity	31 December 2019		31 December 2020	
	gross	net	gross	net
Technical rate - increase by 0.5 p.p.	441	416	457	427
Technical rate - decrease by 1.0 p.p.	(1,141)	(1,080)	(1,180)	(1,104)
Mortality at 110% of the assumed rate	134	128	134	129
Mortality at 90% of the assumed rate	(149)	(143)	(151)	(143)

Impact of the change in assumptions in annuity life insurance on the net financial result and equity

	31 December 2019	31 December 2020
Technical rate - decrease by 1.0 p.p.	(22)	(20)
Mortality at 90% of the assumed rate	(10)	(9)

Impact of the change in assumptions in life insurance, excluding provisions in annuity products, on the net financial result and equity

	31 December 2019	31 December 2020
Technical rate - decrease by 1.0 p.p.	(1 976)	(2 491)
Mortality at 110% of the assumed rate	(850)	(896)
Morbidity and accident rate - 110% of the assumed rate	(138)	(205)

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.

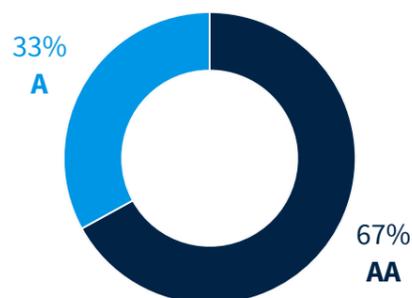
This task is performed through obligatory reinsurance contracts supplemented by facultative reinsurance.

Reinsurance treaties in PZU

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

On the base of the reinsurance treaties it has entered into PZU limits its risk related to catastrophic losses among others through a catastrophic non-proportional excess of loss treaty. The risk related to the consequences of large single losses, in turn, is mitigated under non-proportional reinsurance treaties

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



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

to protect its portfolios of property, technical, marine, air, third party liability and third party liability motor insurance.

PZU's risk is also mitigated by proportional and non-proportional reinsurance of the financial insurance portfolio (e.g. guarantees, commercial credit). PZU's reinsurance partners have high S&P ratings. 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. As a result of the exposure to protect Baltic companies, Link4 and TUV PZUW, 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.

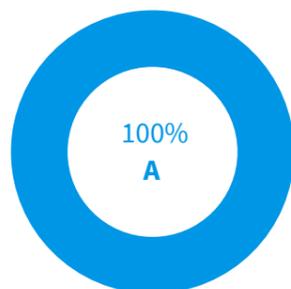
Reinsurance treaties in PZU Życie

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

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

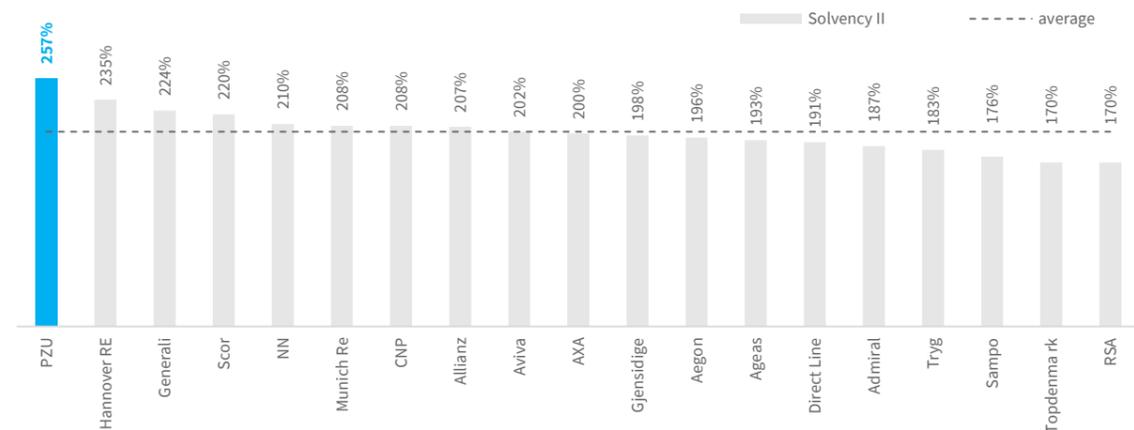
The PZU Group's other insurance companies, i.e. Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUV PZUW have reinsurance cover aligned to the profile of their operations and their financial

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



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

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



Source: PZU - the data after Q3 2020 (unaudited), in the case of the other insurers - data at the end of 2020

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.

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)..

7.8 Capital management

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, while 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, in particular, 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),
- ensure funds for growth and acquisitions in the coming years,
- PZU will not issue any new shares for the duration of this policy.

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

Capital adequacy ratio	2019	3 Q 2020*
SCR		
PZU Group	245%	257%
PZU*	267%	284%
PZU Życie*	463%	381%
MCR		
PZU Group	421%	469%
PZU*	968%	992%
PZU Życie*	1,030%	846%
CRR		
		2019
		2020
Pekao Group - total capital adequacy ratio	17.1%	18.7%
Tier 1	15.0%	16.7%
Alior Bank Group - total capital adequacy ratio	16.2%	15.9%
Tier 1	13.5%	13.6%

*Q3 has not been audited or reviewed by statutory auditor



We are talented! Our employees have created new versions of PZU's plain language hymn:

Begone!
Paltry e-mail, lacking finesse and spunk.
Begone!
Weak on content, half a day squandered,
What a bunch of junk!

This proposal inspired by Perfect's hit comes from Krystian Bohaczuk of the Opole Operations Center

8.

The PZU Group on the capital and debt markets

The shares of PZU, Bank Pekao and Alior Bank accounted for 12.4% of the trading volume on the Warsaw Stock Exchange in 2020 totaling PLN 36.8 billion. Their total market capitalization at year end was PLN 46.2 billion.

In this section:

1. Equity and bond market
2. PZU's share price
3. Banking sector on the Warsaw Stock Exchange
4. PZU's investor relations
5. Analysts' recommendations regarding PZU stock
6. PZU Group's Capital and Dividend Policy
7. Debt financing of PZU, Pekao and Alior Bank
8. Rating
9. Calendar of PZU's major corporate events in 2021

8.1 Equity and bond market

2020 was a period of extreme volatility reflecting the market's reaction to the outbreak of the COVID-19 pandemic. According to the World Health Organization¹ (WHO), the origins of the pandemic have been traced to the city of Wuhan in the Hubei province of central China, where the first cases of this disease were diagnosed on 17 November 2019. The fear of disruptions to international supply chains and of the resulting global recession has translated into a more restrictive approach to risk by global investors. As a result, in 2020, a sell-off wave passed through all key equity markets, which changed direction only at the end of the year.

In early 2020, global equity markets continued their robust gains generated in 2019. Stock market indices kept breaking new all-time peaks, chiefly due to the surge in optimism regarding high-tech companies. Another contributing factor was the improvement in trade relations between the United States and China. However, the outbreak of the COVID pandemic sent a major shock-wave across the financial markets at the beginning of March 2020. On 10 March, an enormously rapid sell-off was triggered on stock exchanges in the United States. The S&P 500, Dow Jones and Nasdaq indices lost more than 7% at the close of the day's session. Almost all major global stock exchanges were also experiencing declines. In Q1 2020, The aggregate weekly losses reached a whopping 20-30%.

A rebound and strong upward corrections took place already in Q2 2020, triggered largely by stimulation measures taken by governments and central banks. The world's largest stimulus package worth USD 2 trillion was adopted in the United States (approx. 10% of GDP). The value of aid programs for individual countries in Europe was also impressive. It ranged from several dozen to several hundred billion euros. The largest chunk of activities in this area was focused on the protection of jobs, the provision of support to micro, small and medium-sized enterprises and to self-employed individuals.

The beginning of Q4 2020 brought another sharp spike in COVID-19 cases, which translated into uneasy moods associated with the extent of another upcoming lockdown³. Controversies were also growing around the presidential election in the United States, which lasted until November, when the victory of Joe Biden was announced. Subsequently, a growth trend returned to the markets, additionally supported by new information about the high effectiveness of several vaccines against the coronavirus causing COVID-19. In 2020, the MSCI ACWI – All Country World Index⁴ grew 14.3% y/y, even though cumulative decreases in Q1 2020 reached as much as 30%.

Additional interest rate cuts served as another key element intended to stimulate economies across the world. The first central bank to take such a step as early as in 2019 was the central bank of China – the country where the pandemic began. However, global investors set their eyes chiefly on the measures adopted by the Fed², which already in Q1 2020 cut its interest rates twice, bringing them down almost to zero.

The development of the pandemic also affected emerging markets. Similarly to the behavior of equities across the world, emerging markets rebounded strongly following their steep decline in Q1 2020 and reached levels that were much higher than those attained before the sell-off wave. The MSCI EM⁵ index improved 15.8% y/y in 2020. In particular, the jump from the lowest level, recorded on 23 March 2020 (758 points), to the 31 December 2020 listing (1,291 points) was above 70%. These increases were not reflected in the values attained by the WIG20 index, which had historically demonstrated a strong correlation with the MSCI EM index. In 2020, WIG20

The stimulus measures provided a significant degree of support to the financial markets. In parallel, a number of steps were taken with a view to reducing the rate of dissemination of the infections, which coincided with the earliest reports on the progress of work on the vaccine. Consequently, at the end of Q1 2020, this favorable event prompted investors to take long positions in equities. After the rapid sell-off in mid-March, the rebound took over and continued in the months to follow. In Q3 2020, the S&P 500 and the Nasdaq Composite set new all-time peaks. SECTION 2.3. SITUATION ON THE FINANCIAL MARKETS

³ Lockdown – the term applied to describe the restrictions imposed in connection with the announcement of the COVID-19 pandemic in 2020. It involves a prohibition of unconstrained movement of people and an order to stay at home (with certain exceptions). It also refers to restrictions on the operation of the economy.

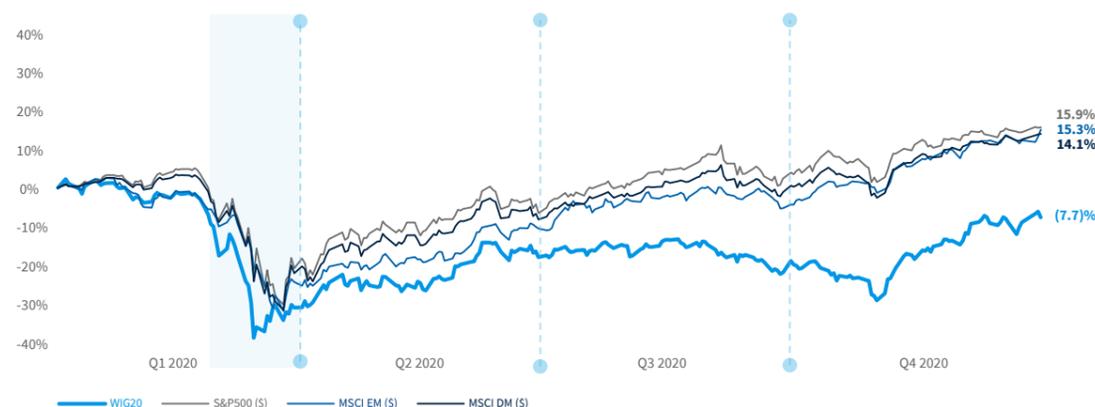
⁴ As at the end of December 2020, the index was composed of stocks from 50 countries, 23 of which were classified as developed markets and the remaining 27 were classified as emerging markets.

⁵ Index of emerging markets – that is markets in countries with rapid economic growth and high levels of investment. For this reason, they are becoming an attractive place for investing capital, especially on securities markets, usually offering potentially higher rates of return than the markets of highly developed nations. This group of countries includes Poland, but also Turkey and the BRIC countries: Brazil, Russia, India, China.

² The Fed – the Federal Reserve System – acts as the central bank of the United States

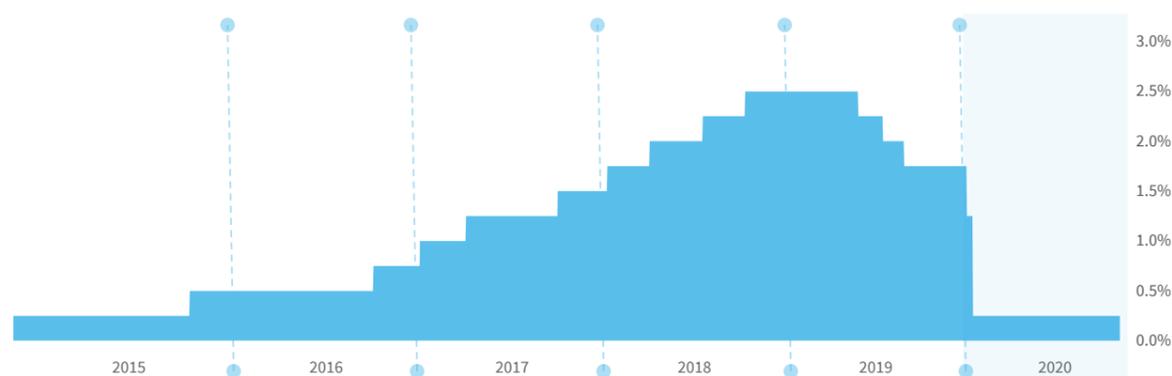
¹ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

WIG20, MSCI EM, MSCI DM and S&P500 indices



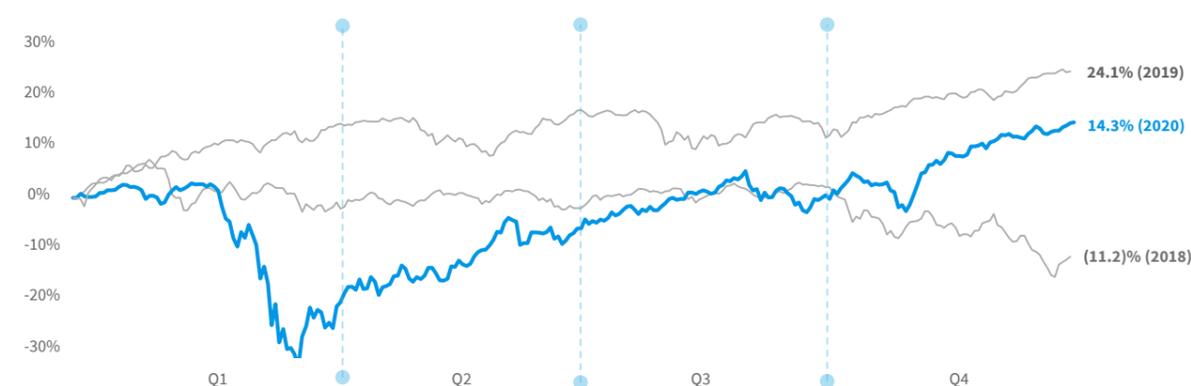
Source: www.infostrefa.com, www.msci.com

US fed funds rate (upper limit)



Source: <https://fred.stlouisfed.org/>

MSCI ACWI (\$) 2018-2020



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

WIG20 vis-à-vis MSCI EM



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

lost 7.7% y/y. According to analysts, this was caused, among other factors, by lingering risks in the banking and fuel sectors. In 2020, these two sectoral indices generated over PLN 86 billion in revenue, accounting for more than a third of revenue generated by all WIG20 companies. This divergence may have also been a result of Poland's declining share in MSCI EM (being overtaken by China). At the end of 2020, this share stood at 0.6%, whereas 5 years ago it was approximately 1.5%.

2020 was a very successful year for investors active on the debt market. Due to concerns about the consequences of the COVID-19 pandemic, a large chunk of capital was shifted towards 'safe havens', in particular treasury bonds. Growth in bond prices was largely driven by the expansionary policies

pursued by the world's most influential central banks. Poland also took steps to increase its money supply by cutting down interest rates. As a result of the most recent such cut, which took place on 29 May 2020, the reference rate dropped to 0.1%.

The yields on 10-year treasury bonds slumped from 2.1% to 1.2% in 2020. The Polish treasury bond index TBSP, which serves as a reference point for most debt funds, went up 6.4% y/y⁶. SECTION 2.3. SITUATION ON THE FINANCIAL MARKETS

⁶ The BSP Index is an income-based index that takes into account changes in bond prices, the value of accrued interest and the revenue from reinvested coupons. The index portfolio includes zero-coupon and fixed-interest rate bonds denominated in Polish zloty.

Treasury bonds (10-year)



Source: www.infostrefa.com, www.stooq.com

<p>PLN</p> <p>Earnings per share was</p> <p>PLN 2.2</p> <p>Book value per share</p> <p>PLN 21.7</p>	<p>The P/E ratio (price / earnings) for PZU's stock at the end of 2019 was</p> <p>14.6x</p> <p>PLN</p> <p>P/BV (price / book value)</p> <p>1.5x</p> <p>PLN</p>
<p>Average daily turnover of PZU's stock was</p> <p>PLN 69.8 million</p> <p>while the average number of trades per session was</p> <p>6,045</p>	<p>The percentage of foreign investors in PZU's shareholder structure at the end of 2020</p> <p>33.3%</p> <p>with North American investors holding</p> <p>13.2%</p>
<p>The number of conferences for institutional investors:</p> <p>37</p>	<p>Number of recommendations issued for PZU shares in 2020</p> <p>25</p> <p>highest target price at the end of December 2020:</p> <p>PLN 39.3</p> <p>average target price at the end of December 2020:</p> <p>PLN 34.7</p>
<p>Financial strength rating and credit rating for PZU and PZU Życie awarded by S&P Global Ratings:</p> <p>A- (stable)</p>	<p>PZU's market value at the end of 2020 was</p> <p>PLN 27.9 bn</p> <p>Bank Pekao PLN 16.0 bn</p> <p>Alior Bank PLN 2.2 bn</p>
<p>Percentage of PZU held by open-end pension funds (OFE) was</p> <p>17.0%</p> <p>while the percentage held by mutual fund management companies (TFI) was</p> <p>4.7%</p>	<p>The percentage of retail investors in PZU's shareholder structure at the end of 2020 was</p> <p>8.5%</p>

The PZU Group on the capital and debt markets

8.2 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation, it has been included in its most important index, namely WIG20⁷, calculated on the basis of the portfolio value of the 20 largest and most heavily traded companies on WSE's main market. PZU also belongs to the following Polish indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, WIG.MS-FIN, CEEplus and WIG ESG (sustainable development index) and the following international indices: MSCI Poland (emerging markets), Stoxx Europe 600 (developed markets) and FTSE Russel mid-cap index (developed markets).

Warsaw Stock Exchange indices

In 2020, the Polish blue chip index (WIG20) oscillated in the broad range between 1,306 and 2,200 points. The variance between the extreme points of this range, which reached 894 points, was 527 points greater than that observed in the corresponding period of 2019 (367 points). In 2020, WIG20 declined by 7.7% y/y or, taking dividends into account, by 7.2% (WIG20 TR). The broad-market WIG index lost 1.4% y/y. The small-company sWIG index performed much better in this period (up 33.6%), having recorded a double-digit rate of return for the second consecutive year.

PZU's share price

In 2020, PZU's shares remained among the most liquid companies traded on the WSE. With a market capitalization of

⁷ WIG20 is a price index, meaning that it is calculated by using only the prices of the transactions related to it, without incorporating dividend income.

over PLN 27.9 billion at the end of 2020, PZU ranked as the fifth largest domestic company by market cap on the WSE. PZU's share in WSE's total trading volume was 5.9% (6th place).

The maximum price per share of PZU stock in 2020 was PLN 41.80 (at closing prices) and the minimum price was PLN 20.55 – the lowest level in the history of PZU's listing (without taking historical dividends into account). In 2019, these prices were PLN 45.39 and PLN 35.79, respectively.

Taking dividend distributions⁸ into account, the drop in the share price was much less severe. The price trough of PLN 20.55 hit on 28 October 2020 was comparable to the bottom price of January 2016. In fact, its value was 23.5% greater than the historically recorded minimum price on PZU stock. Since PZU's IPO in 2010, the cumulative value of dividend distributions per share has been PLN 26.1. As at the end of 2020, the total rate of return (calculated in accordance with this methodology) was 75.7%.

At the beginning of Q1 2020, the PZU stock prices went hand in hand with the main indices of the Warsaw Stock Exchange. The situation changed dramatically at the beginning of March, when the first individual in Poland was diagnosed with COVID-19. On the day following the announcement of a pandemic by the World Health Organization (WHO) on 11 March, the WIG and WIG20 indices tumbled 12.7% and 13.3%, respectively, while PZU dwindled 11.3%, thus recording the

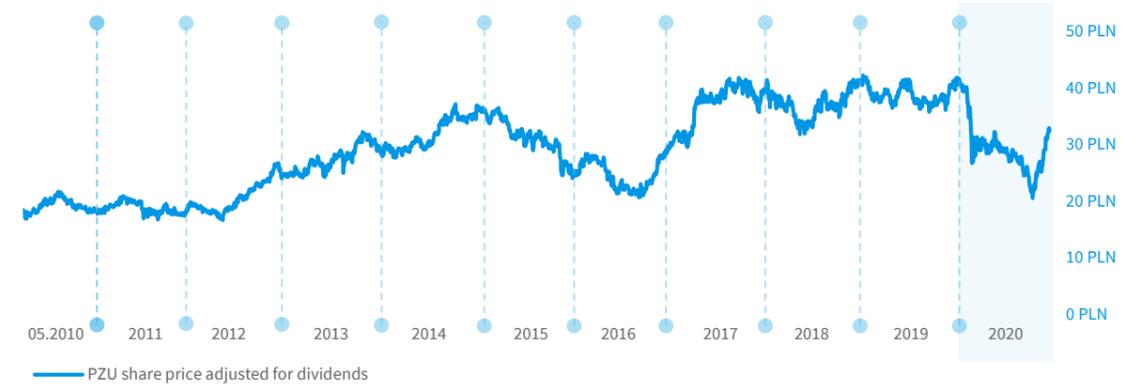
⁸ In accordance with the methodology applied by Stooq (<http://stooq.pl/pomoc/?q=9&s=pzu>).

PZU's min/max share price at session closing from May 2010 to 2020



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

PZU's share price adjusted for dividends paid from May 2010 to 2020



Source: www.stooq.pl

largest single-day drops in their history. From 5 to 12 March 2020, the accumulated decline in the price of PZU stock was 30%.

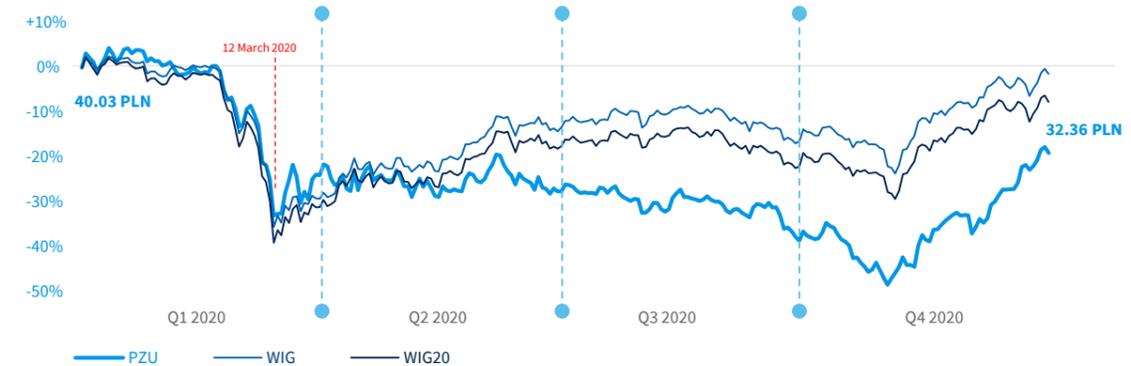
The situation started to improve after 12 March. As was the case in global markets, local indices recovered most of their dips in Q2 2020. However, already in Q2 2020, the price of PZU's stock began to underperform the benchmark WIG20 index. Among the factors that affected this outcome was the deterioration of macroeconomic conditions for the banking business. From March to May 2020, the NBP cut down its interest rates three times, bringing them down to almost 0%.

Moreover, on 26 March 2020, the Polish Financial Supervision Authority (KNF) issued a decision prohibiting the disbursement

of dividends in 2020 by insurance companies and banks from their 2019 profits. This decision was triggered by the state of epidemic announced in Poland and its potential adverse impact on the country's economy as well as the expected consequences for the banking and insurance sectors.

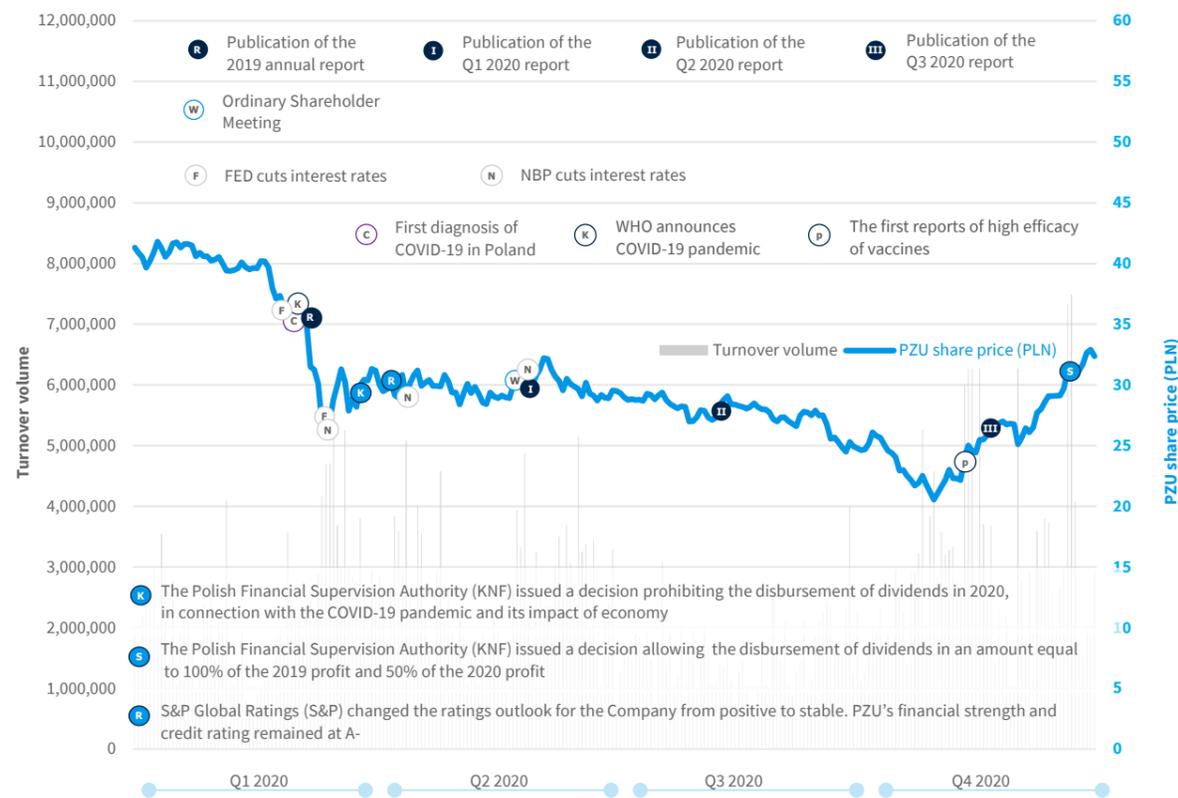
The situation changed very rapidly in Q4 2020. On 9 November 2020, news spread around the world that the US-based pharmaceutical company Pfizer, in collaboration with the German biotechnology company BioNTech SE, confirmed the more than 90% efficacy of their proprietary vaccine against the SARS-CoV-2 coronavirus. Global indices reacted to the news favorably. By the end of 2020, the price of PZU's stock increased 57.5% compared to its annual low of PLN 20.55. During the last stock exchange session held in 2020, the price per PZU share was PLN 32.36.

PZU stock price versus WIG and WIG20



Source: www.gpwinfostrefa.pl

Factors affecting PZU's stock price in 2020



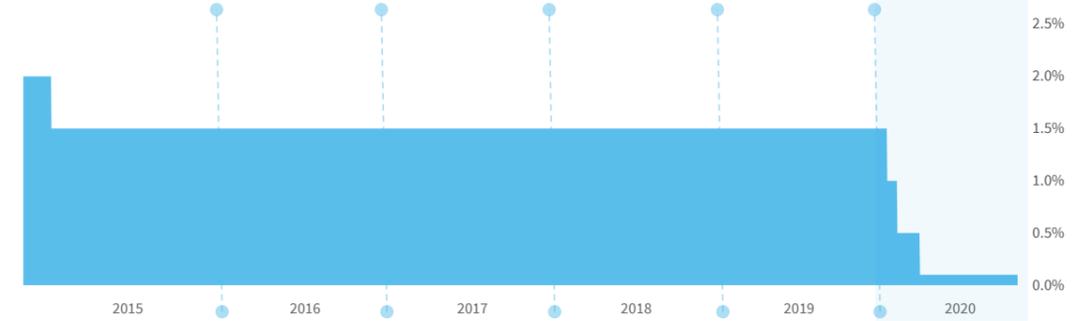
Source: www.gpwinfostrefa.pl

QR codes (video links)

- R** Publication of the 2019 annual report
- I** Publication of the Q1 2020 report
- II** Publication of the Q2 2020 report
- III** Publication of the Q3 2020 report



NBP reference rate



Source: https://www.nbp.pl/home.aspx?f=/dzienne/stopy_archiwum.htm

Liquidity

In 2020, PZU's shares were highly liquid. The average daily spread of PZU's stock was 9 bps compared to the average spread of 22 bps for the 20 most liquid companies. The average daily trading volume of PZU's stock in 2020 was 2.4 million shares (up 43.2% y/y). The total annual trading value was in excess of PLN 17.6 billion.

The largest daily trading volume was recorded during the bullish sessions of 17 December (7.3 million shares, up 4.8%) and 18 December 2020 (7.5 million shares, up 0.5%). These large trading volumes were likely driven by KNF's publication of a stance on the lifting of the ban on dividend distributions by insurers. Following the 16 December 2020 session, KNF announced that insurers will be permitted to disburse

dividends in an amount equal to 100% of the 2019 profit and 50% of the 2020 profit, provided that certain quality and capital criteria have been fulfilled.

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) was 0.99 in 2020 (0.86 in 2019). The annualized standard deviation (calculated on daily changes) in the PZU share price increased by 18.7 percentage points to 38.7%. The corresponding values for WIG and WIG20 also swelled significantly – by 17.1 percentage points to 29.8% and by 15.7 percentage points to 32.7%, respectively. The decline in capitalization which was not accompanied by a corresponding decline in liquidity translated into a material increase in the trading volume.

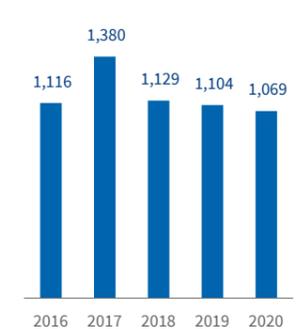
PZU's trading volume / Number of transactions



PZU's capitalization / Trading volume



WSE's capitalization



Source: www.gpwinfostrefa.pl/company

Statistics concerning the PZU share price adjusted for dividends paid

	2016	2017	2018	2019	2020
Closing price on the last trading session of the year (PLN)	52.59	62.94	67.18	66.11	58.44
Capitalization at the end of the period (PLN m)	45 416	54 354	58 015	57 091	50 468

Źródło: www.gpwinfostrefa.pl, sompany

PZU's stock-related statistics

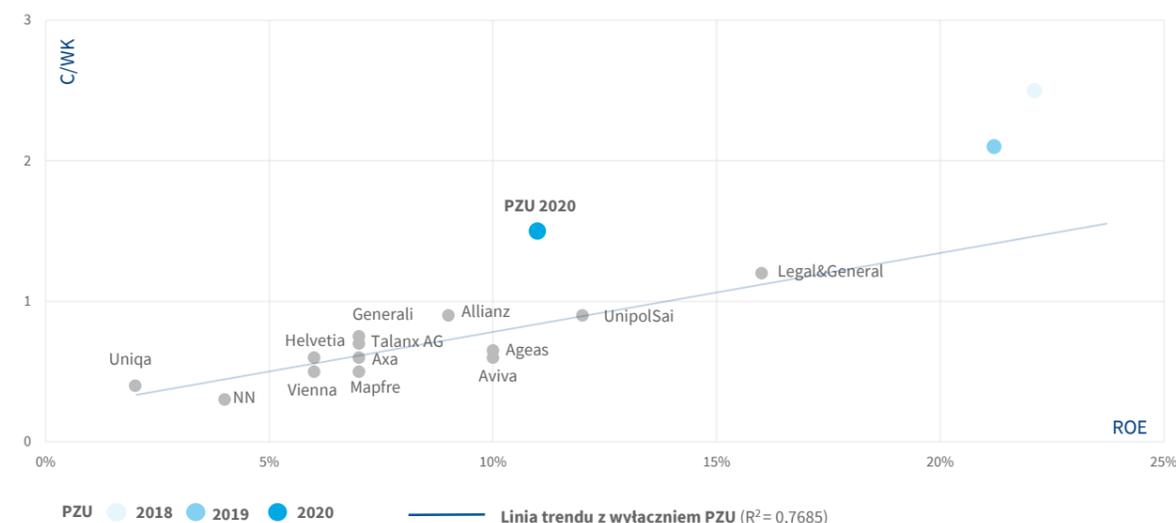
PZU's stock-related statistics	2016	2017	2018	2019	2020
Maximum price (PLN)	36.30	49.06	47.34	45.39	41.80
Minimum price (PLN)	24.38	32.82	36.31	35.79	20.55
Closing price on the last trading session of the year (PLN)	33.21	42.16	43.90	40.03	32.36
Average session price (PLN)	30.76	42.53	41.48	40.61	30.06
Trading volume (PLN m)	16,755	18,902	17,183	16,620	17,588
Average turnover per session (PLN m)	66.8	75.6	69.6	67.0	69.8
Number of transactions (units)	1,046,398	985,515	926,486	928,493	1,523,449
Average number of trades per session	4,169	3,942	3,751	3,744	6,045
Trading volume (units)	558,496,833	448,832,864	415,380,500	408,999,167	595,296,291
Average trading volume per session (shares)	2,225,087	1,795,331	1,681,702	1,649,190	2,362,287
Capitalization at the end of the period (PLN m)	28,677	36,406	37,908	34,567	27,944

Source: www.gpwinfostrefa.pl

PZU's stock*	2016	2017	2018	2019	2020
P/BV Share price / book value per share	2.2x	2.6x	2.5x	2.1x	1.5x
BVPS (PLN) Book value per share	15.0	16.3	17.3	18.7	21.7
P/E Share price / net earnings per share	14.8x	12.6x	11.8x	10.5x	14.6x
EPS (PLN) Net profit (loss) / number of shares	2.2	3.4	3.7	3.8	2.2

* 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

PZU's valuation versus its peer group (P/BV and ROE) 2020



Source: PZU (2018, 2019, 2020) - reported data; other companies - 2020 annual forecasts (Bloomberg); PZU share prices at year-end 2020

8.3 Banking sector on the Warsaw Stock Exchange

Context in the banking sector



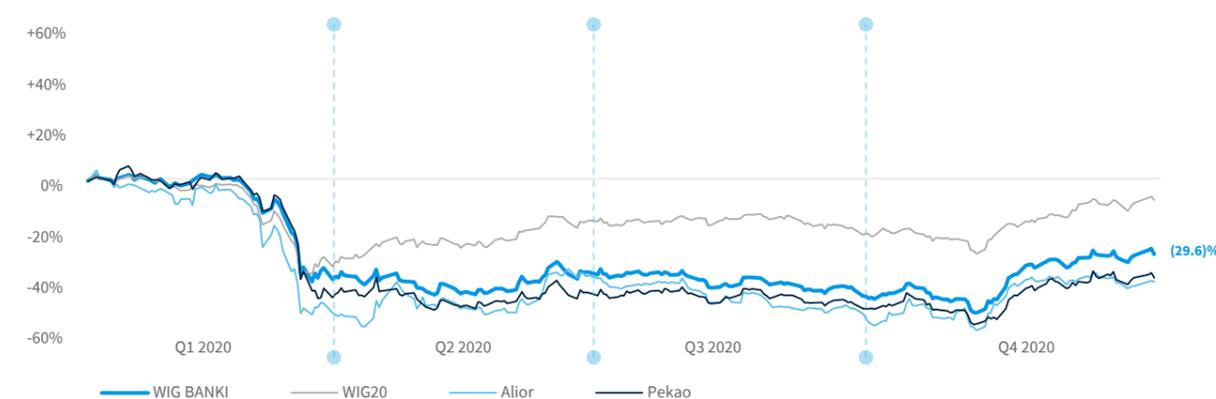
In 2020, the WIG Banks index⁹ contracted by 29.6% y/y. The correlation between the WIG Banks index and the WIG20 index decreased to 80% (-10 p.p. y/y). The beta coefficient (in relation to WIG20) increased to 1.13, or by 0.15

⁹ 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.

y/y. The significant change in these indicators resulted from the relative weakness of the WIG Banks index compared to the main WIG20 index. It was also the weakest performance compared to other sectoral indices.

These declines were largely caused by the panic triggered by the COVID-19 pandemic. Investors were concerned about the deterioration of business conditions, which would have been of great consequence for the banking sector. The three consecutive interest rate cuts by the NBP to a level close to 0 were a significant environmental factor of a fundamental nature.

WSE-listed banks in 2020



Source: www.gpwinfostrefa.pl

The PZU Group on the capital and debt markets

According to NBP data¹⁰, after the first 11 months of 2020, the interest income of the banking sector decreased by PLN 8.3 billion y/y, or 15.9%, compared to the corresponding period of 2019. In the same period, provisions increased by PLN 4 billion. Moreover, in 2020, the banks were more severely affected by the levy on the assets of financial institutions, which is a non-tax-deductible expense. The banking sector's net profit plummeted by 45.5% y/y to PLN 7.9 billion after the first 11 months of the year. Moreover, by a recommendation issued at the end of March 2020, KNF imposed an effective ban on the distribution of dividends by banks due to the spread of the COVID-19 pandemic. As a result, the low profits and undistributed capital from 2019 contributed to a decrease in the return on equity (ROE) reported by banks after the first 11 months of 2020 to a level of approx. 3%.

8.4 PZU's investor relations

Striving to achieve the greatest possible transparency of the PZU Group's business, the Management Board of PZU takes various investor relations activities aimed at ensuring equal access to information.



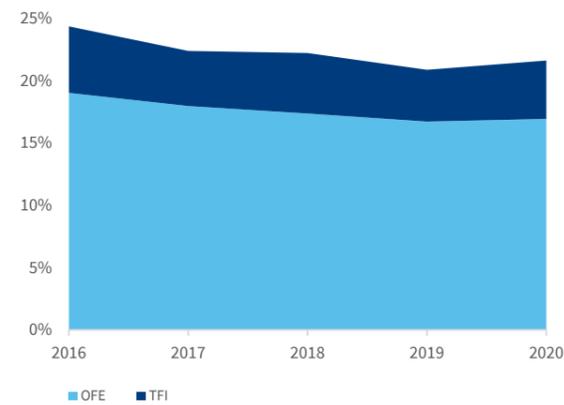
PZU's shareholder structure

According to current reports regarding the percentage of share capital and votes held by shareholders at the Shareholder Meeting, as at 31 December 2020, the State Treasury of the Republic of Poland held a 34.2% stake in the share capital and votes, and funds managed by Nationale-Nederlanden PTE held a 5.1% stake (Current Report No. 38/2020 of 30 December 2020). The remaining 60.7% stake was held by shareholders below the 5% threshold each. SECTION 9.6 PZU'S SHARE CAPITAL AND SHAREHOLDERS

According to a survey carried out among shareholders at the end of 2020, the shareholder structure in terms of stakes and geographies remained stable. The total stake held by domestic investors increased by 2.1 p.p. y/y, at the expense of foreign investors. This was likely partly related to the development of Employee Capital Schemes. The exposure of retail investors also increased, to 8.5%, or by 1.1 p.p. y/y.

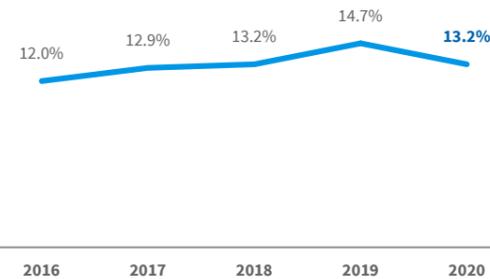
¹⁰ https://www.nbp.pl/home.aspx?f=/statystyka/pieniezna_i_bankowa/naloznosci.html

Open-end pension funds and fund management companies in PZU's shareholder composition



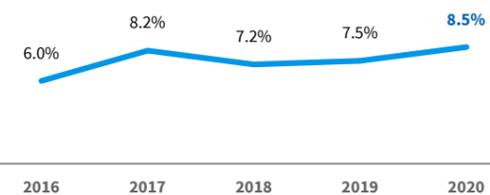
Source: company

North American investors 2015-2020



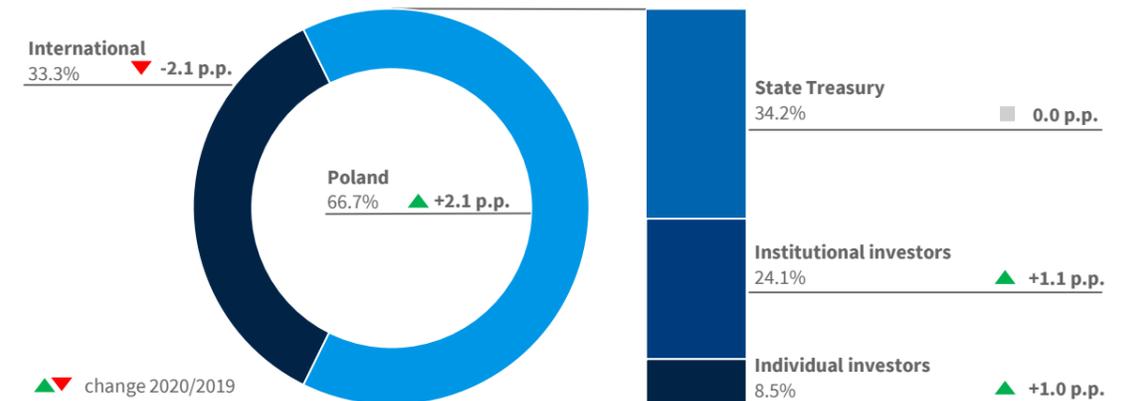
Source: company

Retail investors



Source: company

PZU shareholder structure - main investor groups

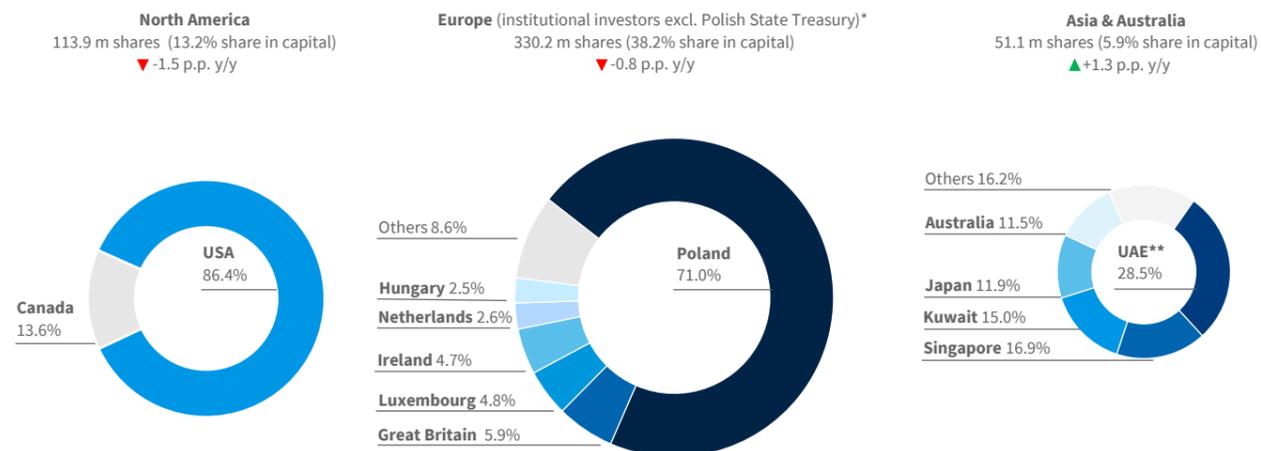


Source: company

The share of open-end pension funds and mutual fund management companies remained at similar levels to those in the corresponding period of 2019: it stood at 16.9% and 4.7%, respectively.

In terms of geographic mix, the exposure of Asian investors increased by 1.3 p.p. to 5.9%. At the same time, the exposure of investors from North America and Europe (excluding Poland) declined by 1.5 p.p. y/y to 13.2% and 2 p.p. y/y to 14.2%, respectively.

Composition of PZU's shareholders by geography

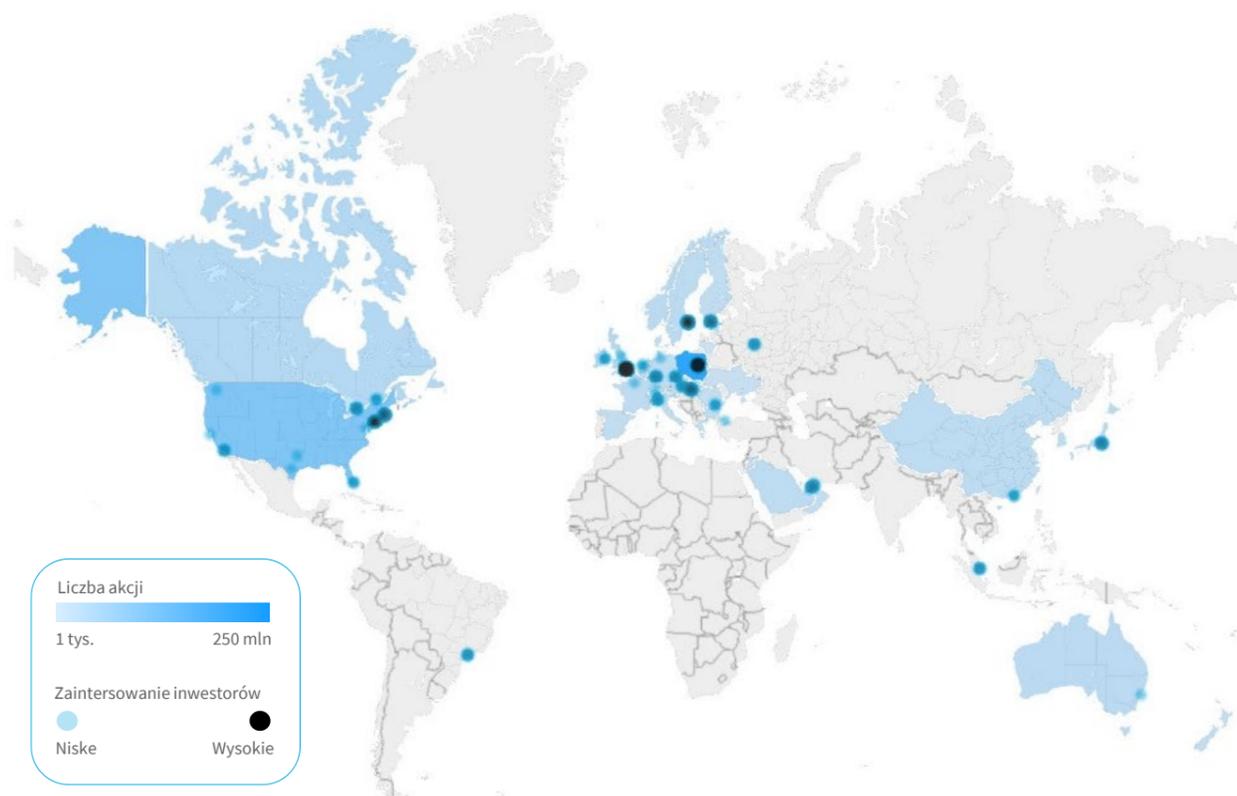


▲▼ change 2020/2019

* Polish State Treasury - 295.2 m shares (34.2% share in capital)

**United Arab Emirates

Interest of institutional investors vs. the PZU shareholding structure *



* Investors' interest was marked on the basis of the number of investor meetings in 2020 and the country of origin of the investors; shareholding structure (excluding the State Treasury) at the end of 2020
Source: PZU own study

Communication with capital market players using digital tools

In 2020, all corporate events held with capital market participants in mind were broadcast in the form of a webcast (with simultaneous translation into English). Quarterly financial performance was presented and discussed by the PZU Group's CFO (and other PZU Management Board Members) at online conferences, during which their participants had the opportunity to ask questions. Recordings of these meetings are available on PZU's website in the "Investor relations" section at <https://www.pzu.pl/en/investor-relations/downloads>.

The most important events, achievements and plans were presented once again in the form of an online Annual Report at raportroczny2019.pzu.pl/en. Users have been provided with tools enabling a multi-directional analysis of corporate and

macroeconomic events as well as financial results. The report includes interactive infographics, animations and video clips, which offer a succinct presentation of the PZU Group's activity in 2019.



Activities targeting institutional investors

The COVID-19 pandemic has affected the way in which we communicate with institutional investors in particular. From February to the end of 2020, all meetings with such investors were held remotely via audiovisual messaging applications.

PZU's representatives participated in 14 conferences held online (except for three in January) by global investment banks and brokerage houses in Poland (in 2019, 16 such conferences were held) and in 23 virtual events (in 2019, 40 such events were held). They gathered a total of 224 managers and analysts representing mutual funds, pension funds and other asset management firms.

Activities addressed to retail investors

In the interests of retail investors, PZU provided them in 2020 with reliable and up-to-date information on the Company's business and financial results as well as on the insurance and banking industries.

Such information was provided in the form of online reports, newsletters, factsheets and other studies distributed by e-mail, and during direct meetings with investors, which enabled them to ask questions to PZU's representatives. The latter included in particular:

- 24th WallStreet 24 Conference, the largest meeting of retail investors in Poland held by the Polish Association of Individual Investors. Due to the pandemic, it was held online for the first time ever. The participants of the event had the opportunity to talk via an online chat application with the PZU Management Board Member in charge of the Finance Division and the Director for Investor Relations. PZU participated in the WallStreet 24 conference for the tenth time;
- chats with retail investors, organized after each publication of quarterly financial results, hosted by the Member of the PZU Management Board in charge of the Finance Division.

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. This was confirmed by the awards and distinctions awarded in 2020, including in the Best Annual Report 2019 contest organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków):

- special award "The Best of the Best" (for the second time);
- special prize for the best on-line annual report in the Banks and Financial Institutions category;
- special prize for the best integrated annual report in the Banks and Financial Institutions category.

IR strategy for 2021

The main objectives of PZU's investor relations function in 2021 (continuation):

- 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 new strategy among investors and analysts;
- secure a deep and broad market for PZU's shares by continuing 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;
- ensure sell-side research coverage, in particular among international investment banks;
- provide the PZU Management Board with regular feedback concerning the perception of PZU among capital market players and broad knowledge of current and potential shareholders of the company;
- monitor investor sentiment towards PZU shares and changes in the shareholder structure in order to select the most adequate investor relations measures and tools;
- develop digital tools to address investor needs better, including by implementing new solutions in the online annual report and enhancing the functionality of the investor relations service.

The main objectives of PZU's investor relations function in 2021 (new initiatives):

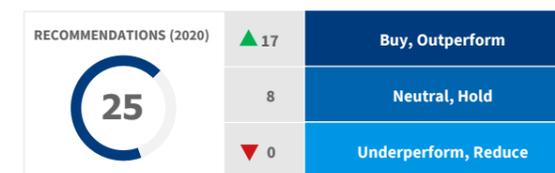
- increase the scope and frequency of remote meetings with investors;
- extend the scope of non-financial reporting with elements related to climate change;
- increase the degree of integration in the online report;
- launch a pilot loyalty program for retail investors.

8.5 Analysts' recommendations regarding PZU's shares

In 2020, fundamental valuations in global and local equity markets differed significantly from market valuations. The hard-to-estimate consequences of the COVID-19 pandemic prompted a significant group of investors to downsize their positions or exit the market completely. The situation normalized only in the last quarter of 2020, as more reports on the efficacy of vaccines were published.

In 2020, PZU stock recommendations were issued by 11 domestic and international financial institutions. In total, sell side analysts published 25 recommendations

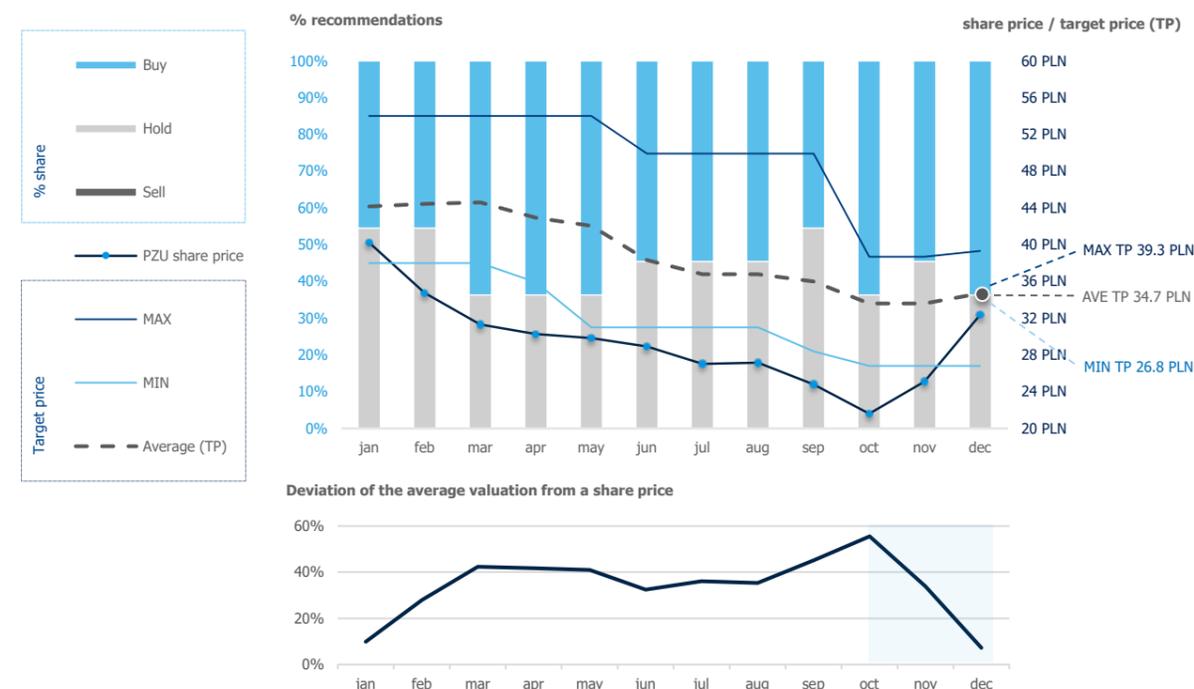
Statistics related to the recommendations published in 2020



Source: analysts' recommendations; company

In 2020, all recommendations for PZU's shares were positive or neutral. However, for most of the year, the actual price of the Company's stock was lower than the minimum price set by analysts. The difference between the target prices according to analysts' recommendations and the PZU share price was 34% on average. It was growing from the beginning of the year and reached 55.6% in October.

Analysts' expectations concerning PZU's share price in 2021 based on recommendations in effect at the end of December 2020



Source: analytical recommendations, company

Statistics on target prices according to recommendations

	31 December 2019	31 December 2020	Change	Price variance between the recommendations and the share price at the end of 2020 (PLN 32.36)
Highest target price	53.0	39.3	(25.8)%	21.5%
Average of the target prices	44.1	34.7	(21.3)%	7.2%
Median of the target prices	43.4	36.1	(20.0)%	11.6%
Lowest target price	38.0	26.8	(29.5)%	(17.2)%

Source: analysts' recommendations; company

In the middle of Q4 2020, in line with improved sentiments on global and local markets, the PZU share price rebounded strongly. At the end of the year, the difference between the recommendation prices and the actual share price shrank to just 7.2%, from 9.8% at the beginning of the year. During the

last December session of 2020, the PZU share price stood at PLN 32.36. The minimum and maximum target prices for PZU's stock in analysts' forecasts active at the end of December 2020 (7 "buy" and 4 "hold" recommendations) were PLN 26.8 and PLN 39.3, respectively. The average target price was PLN 34.7.

Institutions issuing recommendations for PZU's stock (as at 31 December 2020)

Institution	Analyst	Contact details
Citi	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Haitong	Marta Czajkowska-Bałdyga	+48 22 347 40 48 marta.czajkowska-baldyga@haitongib.com
HSBC	Thomas Fossard	+33 1 56 52 43 40 thomas.fossard@hsbc.com
Ipopema	Łukasz Jańczak	+48 22 236 92 30 lukasz.janczak@ipopema.pl
JP Morgan	Samuel Goodacre	+44 207 134 6720 samuel.goodacre@jpmorgan.com
mBank	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
PKO BP	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
Raiffeisen Centrobank	Oliver Simkovic	+43 1 71707 3858 oliver.simkovic@rbinternational.com
Trigon	Maciej Marcinowski	+48 22 4338 375 maciej.marcinowski@trigon.pl
UBS	Michał Potyra	+27 11 322 7320 michal.potyra@ubs.com
Wood & Company	Marta Jezewska-Wasilewska	+48 22 222 15 48 marta.jezewska-wasilewska@wood.com

8.6 PZU Group's Capital and Dividend Policy

The 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, and contains the following rules:

- 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 and paid out by the PZU Management Board for the 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;

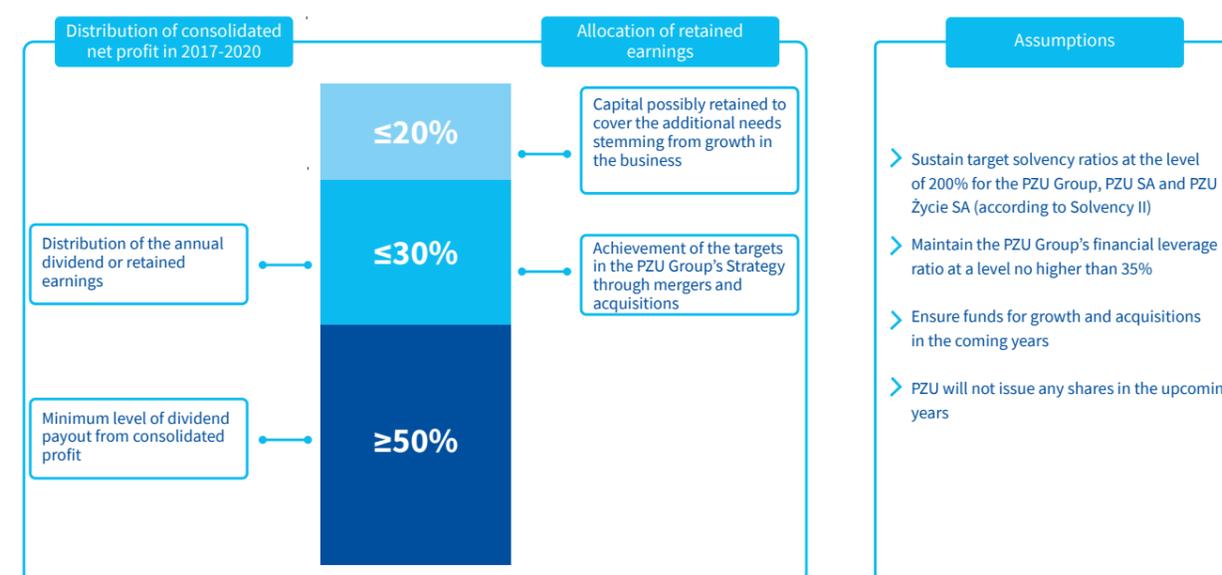
with a reservation that:

- according to the Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of PZU and the Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the PZU Capital and Dividend Policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

Distribution of the 2019 profit

Due to the expectation expressed by the Polish Financial Supervision Authority (KNF) in a letter dated 26 March 2020 addressed to the management boards of insurance undertakings, regarding the retention of all profit generated in previous years, the PZU Shareholder Meeting (in compliance with the Management Board's recommendation and a positive opinion issued by the Supervisory Board) adopted a resolution to refrain from the disbursement of a dividend from the 2019 profit.

PZU Group's Dividend and Capital Policy



Source: PZU

The PZU Group on the capital and debt markets

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

According to KNF’s recommendation, dividends should be paid out 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]¹¹ for 2018. At the same time, the dividend payout should be limited to no more than 75% of the profit earned in 2019, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%.

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

According to KNF’s recommendation, those undertakings that satisfy the above criteria, when deciding on the level of dividends, should take into account their additional capital needs within the period of 12 months from the approval date of the 2019 financial statements, which may result, among others, from changes in the market and legal environment.

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

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

By doing so, the Authority changed its position presented in KNF’s Communication of 3 December 2019 concerning the regulatory authority’s position on the objectives for the dividend policy of commercial banks, cooperative banks and

¹¹ The BION assessment is a thorough process involving the utilization of all available information in the regulator’s possession regarding an insurance/reinsurance undertaking, including information obtained from licensing activities, desktop research and on-site inspection-related activities in an insurance/reinsurance undertaking as well as inquiries/questionnaires addressed to an insurance/reinsurance undertaking

affiliation banks and insurance and reinsurance undertakings in 2020, according to which the possibility of dividend payment up to the entire profit earned depended on the BION assessment, the solvency level in 2019 and the capital needs within 12 months from the moment of approving the financial statements for 2019, while the solvency requirements were set at the same values as in previous years.

Moreover, on 2 April 2020, the European Insurance and Occupational Pensions Authority (EIOPA) recommended a temporary suspension of dividend disbursements by European insurance undertakings.

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

The PZU Management Board issued a recommendation to distribute the 2019 profit in compliance with the recommendations received from the regulatory authority. On 28 April 2020, the PZU Supervisory Board issued a favorable opinion on the PZU Management Board’s motion.

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

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

KNF’s recommendation on paying dividends from the profits generated in 2020

On 16 December 2020, KNF took a stance on the dividend policy of insurance and reinsurance undertakings.

The document permits insurance undertakings to:

- disburse a dividend of up to 100% of the profit generated in 2019,
- disburse a dividend of up to 50% of the profit generated in 2020, provided that the criteria set by KNF have been fulfilled.

These criteria include a Regulatory Review and Evaluation (BION) assessment (i.e. risk assessment) and the coverage of a specific capital requirement on a standalone (unconsolidated) basis. Moreover, a company intending to disburse a dividend must not have experienced a situation involving a shortage of own funds to cover the capital requirement in any quarter and

must not be covered by a short-term financial plan or remedial plan.

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

of uncertainty about the future evolution of the coronavirus pandemic, as it may bring new adverse consequences for insurance, reinsurance and insurance-and-reinsurance undertakings.

Up until the date of this Report, the PZU Management Board has not adopted a resolution concerning the distribution of profit for 2020. A report containing audited information on PZU’s solvency ratios and financial standing on a standalone basis will be published Q2 2021.

Dividends paid by PZU from its earnings in the 2016-2020 financial years

	2016	2017	2018	2019	2020
Consolidated profit attributable to the parent company (in PLN m)	1,935	2,895	3,213	3,295	1,912
PZU’s standalone profit (in PLN m)	1,573	2,459	2,712	2,651	1,950
Dividend paid for the year (in PLN m)	1,209	2,159	2,418	**	***
Dividend per share for the year (PLN)	1.40	2.50	2.80	**	***
Dividend per share on the date of record (PLN)	2.08	1.40	2.50	2.80	**
Ratio of dividend payout to consolidated profit attributable to the parent company	62.5%	74.2%	75.3%	**	***
(a) Movement in the share price y/y	(2.4)%	26.9%	4.1%	(8.8)%	(19.2)%
(b) Dividend yield during the year (%) *	6.1%	4.2%	5.9%	6.4%	**
(a+b) Total Shareholder Return (TSR)	3.7%	31.2%	10.1%	(2.4)%	(19.2)%

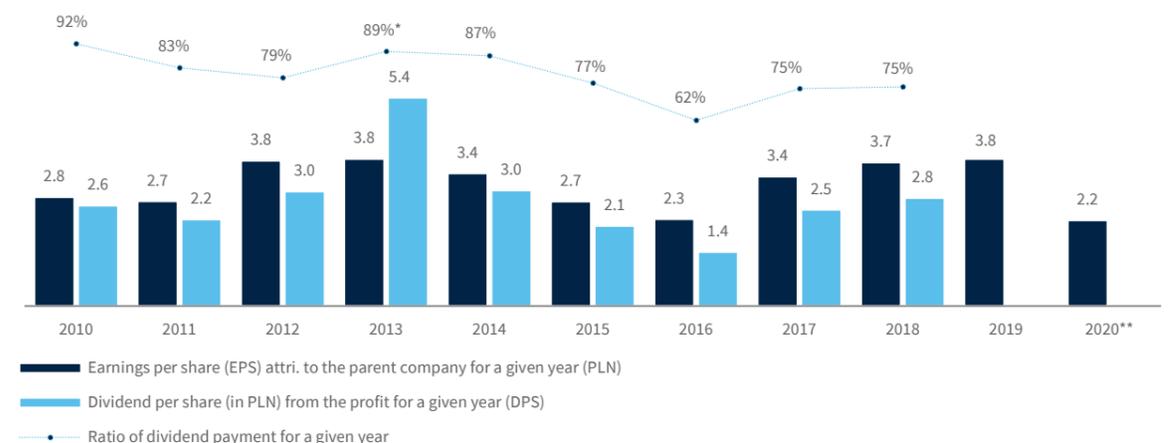
* Yield calculated as the dividend (as at the dividend record date) in relation to the share price at the end of the previous reporting year

** The Ordinary Shareholder Meeting allocated no portion of the profit to the disbursement of a dividend (in accordance with KNF’s recommendation of 26 March 2020)

*** Up to the date of preparing this report on the activities of the PZU Group, the PZU Management Board has not adopted a resolution concerning the proposed distribution of profit for 2020

Source: PZU’s data

PZU’s earnings and dividend per share in 2010-2020



* The payout ratio net of the dividend payout from excess capital (PLN 2 per share)

** Up to the date of preparing this report, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2019 and 2020
Source: PZU

Dividend distributions and PZU's total shareholder return (TSR) (2010-2020)



Source: PZU

PZU's book value per share and gross accumulated dividends per share in PLN (2010-2020)



* in 2013 a dividend was paid from excess capital (PLN 2 per share)

Source: PZU

8.7 Debt financing of PZU, Bank Pekao and Alior Bank

PZU

PLPZU0000037 bonds 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. At the same time, it was the first issue in Poland complying with Solvency II requirements. The bonds with a nominal value of PLN 2.25 billion bear interest at WIBOR6M GLOSSARY + 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.

Alior Bank

Bond issues and redemptions in 2020

In 2020, in respect of its own bonds, Alior Bank did not conduct any issue or early redemption operations. On 11 August 2020, Alior Bank redeemed PLN 250 million worth of its series J bonds at their final maturity date.

Approval of the base prospectus for a bond offering program of up to PLN 1.5 billion

On 4 May 2020, KNF approved Alior Bank's base prospectus prepared in connection with:

- the program, to be offered in Poland, of unsecured bearer bonds (with a par value of at least PLN 100 each, up to a total maximum par value of PLN 1.5 billion), established by Alior Bank within the framework of its Multi-Annual Bond Issue Program, up to a total maximum par value of PLN 5 billion,
- its intention to apply for admission and floating of each series of bonds on a regulated market (main or parallel market) for debt securities operated by the Warsaw Stock Exchange or a regulated market for debt securities operated by BondSpot SA.

In accordance with the prospectus, Alior Bank may conduct public offerings of unsubordinated or subordinated bonds constituting Tier II equity instruments.

Bank Securities – approval of the base prospectus for the 2nd Issue Program of Bank Securities for up to PLN 5 billion

On 31 December 2020, KNF approved Alior Bank's base prospectus prepared in connection with:

- the opening of the 2nd Issue Program, to be offered in the Republic of Poland, of unsecured bearer bank securities with a par value of at least PLN 100 each and up to a total maximum par value of PLN 5 billion, and
- its intention to apply for admission and floating of selected series of bank securities on a regulated market (main or parallel market) for securities operated by the Warsaw Stock Exchange.

In accordance with the prospectus, Alior Bank may conduct public offerings of interest-bearing or non-interest-bearing bank securities.

Bank Pekao

Covered bonds

Under the covered bonds program established in 2019, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue is uncapped in value. 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 liabilities of Pekao Bank Hipoteczny by virtue of covered bonds as at 31 December 2020 was PLN 1.47 billion. The liabilities by virtue of covered bonds with a maturity of up to 1 year account for 41%, from 1 to 3 years for 26% and from 3 to 5 years for 33% of the total par value.

Subordinated bonds

The Bank did not conduct any subordinated bond issues in 2020.

Other unsecured bonds

The Pekao Group's various entities conduct 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 2020, Pekao Bank Hipoteczny held 6 bond issues under the bond issue program of up to PLN 1 billion for a total amount of PLN 710 million with maturities from 4 months to 2 years.

Regularly renewed securities with maturities of up to 1 year are the most prevalent among the issues conducted by Pekao Leasing (issue program of PLN 3 billion) and Pekao Faktoring (issue program of PLN 5 billion). The total liabilities under these two entities' issues as at 31 December 2020 were PLN 6.24 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 financial data, competitive position, management and corporate strategy of both companies as well as the sovereign rating. It also includes a ratings outlook, or an assessment of the Company's future position in the event that specific circumstances occur.

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

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

Sovereign rating

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

S&P pointed to the diversified economy, qualified workforce, manageable levels of public and private debt, the robust position of the external balance sheet, the cautiously pursued monetary policy with a stable banking system and the relatively deep domestic market as the bases for retaining its rating.

In S&P's opinion, the pandemic will exert an adverse impact on the Polish economy, resulting in a 3.4% decline in real GDP in 2020. At the same time, S&P analysts indicated that this decline will be the lowest across the EU. It will be achieved owing to the relatively diversified and competitive export base, dependent to a lesser degree on the automotive sector and tourism, and also the usage of substantial funds under the extraordinary policy pursued to soften the adverse effects of the COVID-19 pandemic.

According to the agency, the fiscal means employed to respond to the crisis, as some of the highest in Central and Eastern Europe, combined with the measures taken at the EU level and the standard transfers of EU funds supported by domestic demand and the resurgence in the eurozone, may contribute to further economic growth in Poland, which S&P forecasts to be 4.5% in 2021 and 3.6% in 2022.¹²

¹² <https://www.gov.pl/web/finanse/sp-potwierdza-dotychczasowy-rating-polski4>

Poland's rating

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

Source: S&P Global Ratings

Rating PZU

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

Źródło: S&P Global Ratings

Bank Pekao's financial creditworthiness ratings

Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service.

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

On 14 April 2020, Fitch Ratings announced that, as a consequence of the COVID-19 pandemic, the Bank's ratings

outlooks in the form of "long-term IDR" and "domestic long-term rating" changed from stable to negative. At the same time, the agency upheld all ratings for Pekao at their previous levels.

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

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

Bank Pekao's Rating

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

Rating (S&P Global Ratings)	Bank Pekao	Poland
Long-Term Foreign Currency Rating	BBB+	A-
Long-Term Domestic Currency Rating	BBB+	A
Short-Term Foreign Currency Rating	A-2	A-2
Short-Term Domestic Currency Rating	A-2	A-1
Standalone rating	bbb+	-
Outlook	Stable	Stable

S&P GLOBAL RATINGS (COUNTERPARTY RATING IN THE EVENT OF FORCED RESTRUCTURING)	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 INVESTOR SERVICE LTD. (RATINGS NOT PROCURED BY THE BANK)	Bank Pekao	Poland
Long-term deposit rating in foreign currencies	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa2	-
Long-term Counterparty Credit Risk Rating	A2(cr)	-
Short-term Counterparty Credit Risk Rating	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating	A2	-
Short-term Counterparty Risk Rating	Prime-1	-

Alior Bank's rating

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

On 27 April 2020, S&P Global Ratings lowered Alior Bank's ratings outlook from stable to negative. On 21 January 2021, the agency confirmed the ratings it had granted previously.

Alior Bank'S Rating

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

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

8.9 Calendar of PZU's major corporate events in 2021

Investor contact:



Magdalena Komaracka
IR Director
tel.: +48 (22) 582 22 93



Piotr Wiśniewski
IR Manager
tel.: +48 (22) 582 26 23

PZU
al. Jana Pawła II 24,
00-133 Warszawa
ir@pzu.pl

 **MARCH**
annual report for 2020

 **MAY**
quarterly report for Q1 2021

 **AUGUST**
Raport półroczny za I półrocze 2021 roku

 **NOVEMBER**
quarterly report for Q3 2021





Turn it into a hymn! Plain language now even has its own hymn in PZU. Its wording is humorous, though it does convey a serious message. It is entitled “Official style, begone!” and it is performed by Jasin Rammal-Rykala, a bass-baritone opera singer at the Grand National Opera Theater in Warsaw. “Another ASAP, mix-up, backup, damn corporate jargon” he sings to the majestic music in Beethoven’s Ninth Symphony. And he goes on to implore: “Let’s stop dabbling in all those cases - we **can certainly understand one other without all that!**”

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:

1. Application of corporate governance rules
2. System of control applied during the preparation of the financial statements
3. Audit firm auditing the financial statements
4. Share capital and shareholders of PZU; stock held by members of its governing bodies
5. Rules for amending the Company’s Articles of Association
6. Shareholder Meeting and shareholder rights
7. Supervisory Board and Management Board
8. Remuneration paid to members of supervisory and management bodies
9. Diversity policy

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 is 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. The document is available both on the KNF website (https://www.knf.gov.pl/dla_rynku/regulacje_i_praktyka/zasady_ladu_korporacyjnego) and the PZU website (<https://www.pzu.pl/grupa-pzu/spolki/pzu-sa/zasady-ladu-korporacyjnego>).



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 (WSE) on 13 October 2015. This is a collection of corporate governance rules and rules of conduct that affect how public companies interact with their market environment. The document is available both on the Warsaw Stock Exchange website (www.gpw.pl/dobre-praktyki) and the PZU website (<https://www.pzu.pl/grupa-pzu/o-nas/kultura-compliance-pzu/dobre-praktyki-pzu>).

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, PZU conducts regular efforts to develop insurance awareness in the public at large.

PZU has also developed its own code defining the principal ethical standards governing the Company's behavior in relations with its stakeholders. The PZU Group's Best Practices are a set of standards followed by all members of the PZU Group. The values and principles laid down therein must be followed by all employees.

Application of Corporate Governance Rules for Regulated Institutions

The PZU Management Board and Supervisory Board have declared in their resolutions the Company's readiness to apply the standards defined by KNF to the broadest possible extent while giving consideration to the rule of proportionality and the rule "comply or explain" stemming from the wording of the Corporate Governance Rules for Regulated Institutions.

Information on the application of the Rules was presented by the PZU Management Board and Supervisory Board during the PZU Ordinary Shareholder Meeting (PZU OSM) held on 30 June 2015. The PZU OSM declared that, acting within its powers, it will be guided by the Corporate Governance Rules in the wording adopted by the Polish Financial Supervision Authority on 22 July 2014, except for certain specific rules waived by the PZU OSM.

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. of 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 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 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.

In accordance with the resolution of 30 June 2015, the PZU OSM 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." – according to the substantiation presented by the shareholder along with the draft resolution of the OSM, 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." – according to the substantiation presented by the shareholder along with the draft resolution of the OSM, 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." – according to the substantiation presented by the shareholder along with the draft resolution, 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 2020, PZU complied with all recommendations and principles set forth in the 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.

PZU shareholders may follow the broadcast of the Shareholder Meeting, although the Company has refrained from adopting the so-called e-Shareholder Meeting, that is the option to cast electronic votes. According to PZU, this is due to the existence of a number of 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.

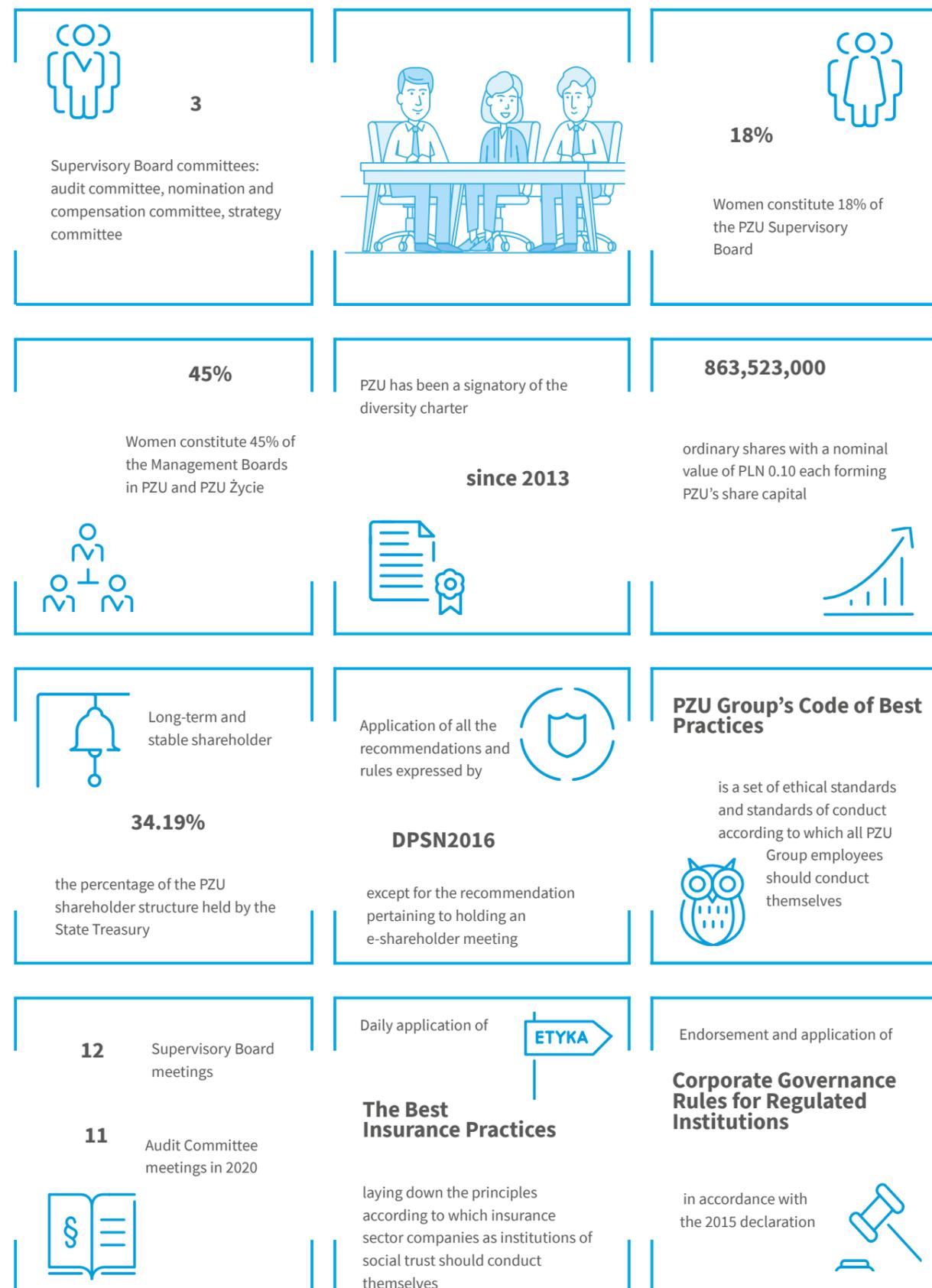
Furthermore, the following rules are not applicable to PZU:

- 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.

Detailed information on the status of PZU's application of the recommendations and rules laid down in the Best Practices of WSE Listed Companies 2016 is available on the Company's website in the Investor Relations section at: <https://www.pzu.pl/relacje-inwestorskie/o-grupie/lad-korporacyjny>.

PZU constantly monitors the degree and manner of compliance with the recommendations and principles laid down in the Best Practices of WSE Listed Companies 2016 and, if necessary, takes steps on an as-needed basis to ensure compliance with the Best Practices to the fullest extent and in an unquestionable manner. In particular:

- On its website, the Company publishes, in two language versions, all information and documents referred to in rule I.Z.1. The scope and accessibility of information posted on the website are monitored on an ongoing basis, and in the event of detecting any technical problems posing an impediment to documents, efforts are promptly taken to reinstate the website's full functionality.
- The Company regularly contacts investors and analysts, enabling them to ask questions and obtain clarification on matters of interest to them, in consideration of the prohibitions arising from the applicable laws. Such contacts take place either using modern electronic communication channels or take the form of direct meetings or telephone conversations.



- Members of the PZU Management Board and Supervisory Board strive to apply the recommendations and rules applicable to them to the fullest possible extent:
 - the Company's website presents an internal allocation of responsibilities across all business areas among the Management Board Members,
 - in 2020, discharging the function in the PZU Management Board was the main area of professional activity for the PZU Management Board Members,
 - Members of the PZU Supervisory Board put in the time necessary to perform their duties,
 - the required number of Supervisory Board Members fulfills the independence criteria set forth in rule II.Z.4.,
 - the Supervisory Board prepared and presented to the Ordinary Shareholder Meeting its assessments and reports provided for in rule II.Z.10.;
- PZU's organizational structure is commensurate with the scale and nature of its business; separate business units have been established in the Company to perform tasks in the systems and functions set forth in rule III.Z.1., and the efficiency of such systems and functions is properly monitored and evaluated;
- PZU makes every effort to ensure that the Company's Shareholder Meetings are held in compliance with the requirements set forth in Chapter IV of the Best Practices of WSE Listed Companies, except for recommendation IV.R.2 (as previously described);
- PZU has internal regulations in place that guarantee compliance with the recommendations and rules contained in Chapter V of the Best Practices of WSE Listed Companies regarding conflicts of interest and transactions with related parties.
- PZU adheres to the recommendations and rules of the Best Practices of WSE Listed Companies in the employee compensation area; information on the employee compensation policy, including the elements specified in rule VI.Z.4., is presented in the PZU Management Board's activity report for the respective year.

9.2 System of control in the process of preparing financial statements

Internal control system

PZU has an internal control system (ICS) in place, adjusted to the scale of its operations and its organizational structure, the purpose of which is to ensure the effectiveness and efficiency of operations within the organization, reliability of financial

reporting and compliance of the Company's operations with the applicable laws and internal regulations.

The ICS comprises supervision, overall administrative and accounting procedures, organizational structures, reporting systems, solutions implemented in IT systems, the compliance function and other control mechanisms contributing to the security and stability of the Company's operations by ensuring:

- efficiency and effectiveness of the operating activity;
- reliability of information communicated inside and outside the Company and assurance of availability and reliability of such information, in particular in respect of financial statements;
- adequacy and effectiveness of risk controls (control operations should be commensurate with the level of risk involved in the operations and processes under control);
- responsible and transparent management of the Company;
- compliance of the Company's activity with internal regulations and the standards of conduct adopted by the Company.

The following elements are distinguished within the ICS:

- control function aiming at ensuring compliance with control mechanisms concerning, in particular, risk management in the Company;
- independent compliance cell (Compliance Department – BCM) whose purpose is to execute the compliance function and to ensure systemic solutions with regard to efficiency and effectiveness of the ICS;
- independent internal audit cell (Internal Audit Department – BAW) whose purpose is to carry out independent and objective assessment and evaluation of adequacy and effectiveness of the internal control system and other elements of the system of governance.

The ICS is built on the basis of the said elements and is based on a model of three independent and complementary levels, i.e. three lines of defense, where:

- the first line of defense is comprised of activities of business processes owners, encompassing the operational management of risk associated with the Company's operations and processes carried out as part of those operations;
- the second line of defense is comprised of activities of the Compliance Department and risk management by other specialized business units specified in internal regulations on risk management and dealing with risk identification,

measurement, monitoring and reporting and controlling the limits;

- the third line of defense is provided by activities of the Internal Audit Department.
- Supervision over the internal control system within the Company is exercised by:
- oversight exercised by the Supervisory Board;
 - activities of the Management Board, including the establishment of an adequate and effective internal control system and periodic assessment of the functioning of the ICS;
 - oversight exercised by the managers of functional divisions, specialist units and organizational cells in their subordinated organizational units/cells;
 - oversight exercised by the Compliance Department in the area of system solutions aimed at ensuring adequacy and effectiveness of risk control in the business processes covered by the ICS.

The head of the respective organizational division/unit/cell is responsible for the deployment of an effective Internal Control System in the supervised area of the Companies' activity, in particular for designing and ensuring efficient operation of control actions as integral components of operating processes.

An element of the ICS adopted by PZU is the compliance function supervised by the Director of the Compliance Department. The appointment and dismissal of the Director of the Compliance Department must be consulted with the Audit Committee. The Director of the Compliance Department has direct access to the Company's Management Board Members and Supervisory Board Members, and representatives of the Compliance Department participate in meetings of selected committees established within the Company's structure.

The PZU Group's internal control system has been developed at the leading entity (i.e. PZU) level and is applicable to all members of the Group, in consideration of their distinct nature, proportionality and adequacy. With regard to regulated entities existing within banking groups, the internal control system has been designed at the level of each of these groups, taking into account the applicable sectoral regulations.

Within the framework of the exchange of information and cooperation with subsidiaries, uniform standards and key methodological solutions are implemented in such entities. In particular, the following areas of cooperation and information exchange exist in relationships with these companies:

- exchange of information regarding the organization of the internal control system, the implementation of internal controls and evaluation of the internal control system,
- exchange of information on major changes in the legal environment affecting the operations of banking group subsidiaries;
- exchange of information on significant correspondence with the regulatory authority;
- exchange of information about the identification and assessment of compliance risk;
- periodic reporting on the foregoing areas.

Control mechanisms applied during the preparation of the financial statements

Financial statements are prepared in the Finance Division and central units operating based on the applicable regulations. The Finance Division is supervised by a Management Board Member, and the financial statements require approval by the Management Board.

The process is conducted in compliance with:

- accounting principles (accounting policy) adopted by the Management Board;
- chart of accounts with a commentary;
- 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 the calculation of the financial result;
- method of keeping the accounting ledgers;
- 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.

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.

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 consolidated financial reporting process is governed by a number of internal acts defining 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.

In the case of consolidation packages forwarded by banks, they are also reconciled with their published stock exchange disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Internal audit

The internal audit function is run in a manner ensuring its unbiased nature and independence from operational functions, and its purpose is to add value and enhance the PZU Group's operational performance. The activity of the audit

function involves a regular and orderly assessment of the adequacy and effectiveness of the internal control system and other components of the management system. The internal audit function supports the PZU Group in the pursuit of its objectives by providing – also through consulting – certainty as to the effectiveness of these processes.

The duties of the internal audit function comprise in particular:

- establishment, implementation and maintenance of an audit plan, which defines the scope of audit work to be undertaken in subsequent years, with regard to all types of activity and the Company's overall system of management;
- making recommendations on the basis of the findings collected in the course of work according to the audit plan;
- checks of execution of the corrective measures following from the recommendations made.

The audit plan is prepared on the basis of an annual risk identification and assessment conducted across all areas of PZU's business. A draft plan is presented for evaluation by the Audit Committee and then approval by the Management Board.

The timely implementation of audit recommendations by the business units is overseen by the responsible member of the Management Board or PZU Group Director. The Internal Audit Department monitors the progress of implementing the recommendations based on information obtained from the respective business units. After an analysis, it decides whether to consider them completed.

The following adopted principles guarantee the independence and impartiality of internal audit:

- the Internal Audit Department reports to the Audit Committee;
- the appointment and dismissal of the Managing Director on Audit, who manages the Internal Audit Department, requires an opinion of the Audit Committee;
- The Managing Director on Audit participates in meetings of the Audit Committee and meetings of the Management Board, and representatives of the Internal Audit Department take part in meetings of selected committees operating within PZU's structure;
- PZU's internal auditors demonstrate outstanding professional and ethical qualifications and possess the proper knowledge and skills, including the knowledge of issues necessary to conduct audits. They have access to the

necessary information, explanations, documents and data, allowing for the timely and correct performance of their tasks;

- the scope of audit activities performed during each audit and the resulting evaluations are autonomous decisions of internal audit. The tasks are allocated in such a manner so as to prevent potential and actual conflicts of interest. Each employee is required to notify their superior if a such a conflict occurs. Information on potential conflicts of interests is also collected and, where necessary, tasks assigned to members of the internal audit team are reallocated. Furthermore, no auditor is permitted, before the expiry of one year, to audit any activities they have themselves performed or managed, and no auditor may accept responsibility for any operating activity subject to assessment by internal audit.

PZU has implemented the Internal Auditor's Code of Ethics, based on guidelines issued by the Institute of Internal Auditors (IIA). The purpose of the Code is to promote best practices and models for ethical behavior, and to motivate the need for continuous professional improvement and development of the proper image of internal auditors.

The Internal Audit Department provides the Company's Management Board and Audit Committee with periodic management information from its subordinate area, including, in particular:

- information on the progress in implementing the audit plan;
- information on the findings of internal audits;
- information on recommendation monitoring results.

In order to ensure the proper quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted. A third-party assessment of the internal audit function at PZU conducted by PwC Advisory in 2020 and an analysis of coordination of the Group's internal audit run by the Internal Audit Department demonstrated general compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics developed by the IIA.

Audit Committee

The appointment of the Audit Committee has served the purpose of increasing the effectiveness of supervisory activities performed by the Supervisory Board with regard to the monitoring of financial reporting processes. Its composition, procedure of appointment, powers and tasks are described in SECTION 9.7 "Supervisory Board and Management Board"

The Committee's tasks associated with monitoring the financial reporting process and the provision of advisory and evaluation services include, in particular:

- tentative evaluation of the Management Board's report on the activity of the Company and the Company's annual financial statements;
- tentative evaluation of the Management Board's report on the activity of the Company's group and the annual consolidated financial statements of the Company's group;
- tentative evaluation of all financial documents submitted to the Supervisory Board, in particular, an annual financial plan prepared by the Management Board and a report on its implementation;
- issuing opinions on the core principles of the financial reporting and accounting system in place in the Company, including the criteria for consolidation of results of individual entities from the Company's group;
- providing the Supervisory Board with conclusions and recommendations concerning the rationale for any modification of the financial reporting system in place in the Company and the Company group and informing the Supervisory Board about significant irregularities in such system or risks associated with its organization and operation, known to the Committee.

The Audit Committee presents recommendations regarding the selection of an audit firm to perform the audit and review of the financial statements to the Supervisory Board.

A statutory auditor appointed by the PZU Supervisory Board, based on a recommendation of the Audit Committee, reviews interim standalone and consolidated financial statements, audits annual standalone and consolidated financial statements and audits annual solvency and financial standing reports required by the Solvency II Directive (for PZU and the PZU Group).



9.3 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.

The Act of 31 March 2020 Amending the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them and Certain Other Acts (known as the Special Act) repealed the provision of the Act on Statutory Auditors according to which "the maximum permissible uninterrupted duration of the statutory audit engagements referred to in Article 17(1) second paragraph of Regulation No 537/2014, performed by the same audit firm or an audit firm associated

with this audit firm or any member of a network operating in the European Union states of which these firms are members may not exceed 5 years." The Special Act introduced similar amendments to the Accounting Act.

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

On this basis, the Supervisory Board decided to renew, for 2021-2022, with an option to extend until 2023, the orders for KPMG Audyt to review and audit the standalone financial statements of PZU and the consolidated financial statements of the PZU Group. The recommendation on the selection of an audit firm to conduct the audit satisfied the applicable terms.

In 2020, the audit firm auditing the financial statements rendered permitted non-audit services to PZU, which was approved, following an assessment of the company's independence, by the Audit Committee.

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

Fee payable to the audit firm auditing PZU's financial statements (PLN 000s)

	1 January – 31 December 2019	1 January – 31 December 2020
compulsory audit of the annual financial statements / consolidated financial statements	828	945
other assurance services, including a review of financial statements/consolidated financial statements	878	939
tax advisory services	-	-
other services	-	-
Total	1,706	1,884

Fee charged by the entity authorized to audit the PZU Group's financial statements (PLN 000s)

	1 January – 31 December 2019	1 January – 31 December 2020
audit of financial statements	8,371	8,698
other assurance services	5,148	4,901
Total	13,519	13,599

Main assumptions underlying the policy for selecting the audit firm

The following are among the main assumptions underlying PZU's policy for selecting the audit firm:

- ensuring that the process of selecting the audit firm is done correctly and determining the responsibility and the duties of the participants in this process,
- analyzing when selecting the audit firm the recommendations given by the Audit Committee,
- giving consideration to the rule of rotating the audit firm and the key statutory auditor in the embraced time horizon.

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

- ensuring correctness in the process of procuring permitted services;
- determining the responsibility and the duties of the participants in this process,
- defining the catalogue of permitted services,
- establishing the procedure for procuring permitted services.

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

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10 and did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

On 24 November 2015 the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date for splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

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

As at 31 December 2020 and as at the date of publication of this report, PZU shareholders holding significant equity stakes were:

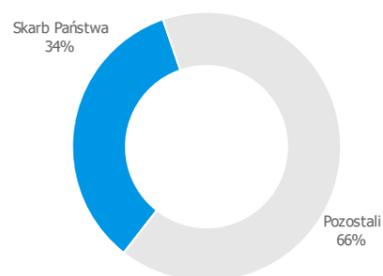
- State Treasury of the Republic of Poland, which holds 295,217,300 shares representing 34.19% of PZU's share capital giving the right to 295,217,300 votes at the Shareholder Meeting;
- Funds managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne SA: Nationale-Nederlanden Otwarty Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2025, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2030, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2035, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2040, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2045, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2050, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2055, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2060, which hold a total of 44,260,638 shares representing 5.13% of PZU's share capital giving the right to 44,260,638 votes at the Shareholder Meeting, of which Nationale-Nederlanden Otwarty Fundusz Emerytalny holds 43,670,336 shares representing 5.06% of PZU's share capital giving the right to 43,670,336 votes at the Shareholder Meeting.

The data on the equity stakes held by funds managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. were provided in its notification received by PZU on 28 December 2020.

According to this notification, the said funds increased their shareholding in PZU as a result of a transaction executed on 16 December 2020, whereby they exceeded the 5% threshold of votes at the PZU Shareholder Meeting.

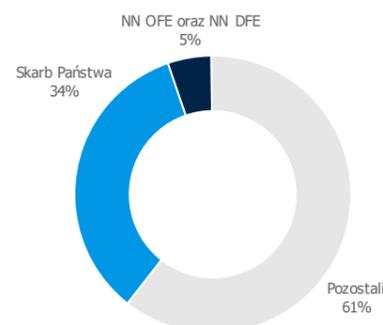
Moreover, according to the same notification, as a result of the transaction executed on 17 December 2020, Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded the 5% threshold of votes at the PZU Shareholder Meeting.

PZU's shareholder structure as at 31 December 2019



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

PZU's shareholder structure as at 31 December 2020



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

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

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

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

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

- in accordance with § 20 sec. 5 of the Articles of Association, half of Supervisory Board Members appointed by the Shareholder Meeting are elected from among persons proposed by the shareholder specified in § 37 sec. 2 of the Articles of Association, that is the shareholder who, on the date of adoption of the Shareholder Meeting resolution introducing this right holds the largest stake in the Company's share capital; this right is vested in the shareholder until its stake in the Company's share capital drops below 20%; in accordance with § 37 sec. 4 of the Articles of Association, upon expiration of the shareholder's right referred to in § 37 sec. 2 of the Articles of Association, this right is shifted to another shareholder then holding the largest stake in the Company's share capital, provided that this shareholder holds at least 20% of the share capital;
- in accordance with § 20 sec. 7 of the Articles of Association, the State Treasury has the right, in line with Article 354 § 1 of the Commercial Company Code, to appoint and dismiss one Supervisory Board Member by way of a written statement submitted to the Company's Management Board; such appointment or dismissal is effective upon delivery of the pertinent statement to the Company's Management Board and does not require a resolution of the Shareholder Meeting; this right of the State Treasury expires when the State Treasury ceases to be a shareholder of the Company; in accordance with § 20 sec. 12 sentence 2 of the Articles of Association, in the event of expiration of the mandate of at least one Supervisory Board Member elected by group voting, the State Treasury regains the individual right referred to in § 20 sec. 7.

Moreover, according to § 16 sec. 5 of the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist.

The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;

- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of doubt, the provisions regarding the restriction on voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code.

Pursuant to PZU's Articles of Association, these voting restrictions will expire starting from the moment when the equity stake held by the shareholder who held shares giving the right to more than 10% of the total number of votes in PZU when the Shareholder Meeting adopted the resolution drops below 5% of the Company's share capital.

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

As at the date of publication of this Activity Report, only Tomasz Kulik, Member of the PZU Management Board held PZU shares numbering 2,847, which the Company reported in current report 23/2018. No changes transpired from the date of conveying the 2019 consolidated financial statements (i.e. 12 March 2020) with respect to Members of the Management Board and Supervisory Board or Group Directors holding PZU shares or rights to shares.

Limitations on transferring the title to the issuer's securities

The PZU Articles of Association contain no provisions restricting the transfer of the title to the issuer's securities. Nor are there any other known limitations arising from documents other than the Articles of Association that would be applicable in this context, except for limitations resulting from generally applicable laws in precisely defined situations, in particular

- limitations resulting from the provisions of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies (Journal of Laws of 2020, item 2080), namely:
 - from Article 75(4) – shares encumbered with a pledge, until the date of its expiration, may not be traded, except in a situation where the acquisition of such shares

takes place in the performance of an agreement on the establishment of financial security within the meaning of the Act of 2 April 2004 on Certain Forms of Financial Security,

- from Article 77(4) – temporary limitations on the acquisition or disposal of shares in the period between the notification of the intention to announce a public tender offer and the end of the public tender offer, applicable to the entities and to the extent specified therein,
- from Article 88a – temporary limitations on the direct or indirect acquisition of or subscription for shares in a public company by an entity required to perform the obligations specified in Article 73(2) and (3) of the Act or Article 74(2) and (5) of the Act, which in the company in question exceeded the threshold of the total number of votes specified in these regulations – until the date of fulfillment of such obligations;
- limitations arising from Article 362 of the Commercial Companies Code, regarding the prohibition of the acquisition of treasury shares by the issuer, except for the cases specified therein and limitations on the acquisition of the parent company's treasury shares by a subsidiary company or a subsidiary cooperative and persons acting on their behalf;
- limitations pertaining to the closed period referred to in Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) and insider dealing within the meaning of the provisions of MAR;
- possible objection by the regulatory authority, in the form of a decision, to the acquisition of or subscription for shares or rights attaching to shares in a domestic insurance undertaking in a quantity ensuring the achievement or exceeding of, as the case may be, one-tenth, one-fifth, one-third, one-second of the total number of votes at the Shareholder Meeting or of a stake in share capital – in accordance with Article 90(1) of the Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2020, item 895, as amended), if:
 - the entity submitting the notification referred to in Article 82(1) failed to remove the deficiencies in its notification or in the documents or information attached to the notification within the prescribed time limit,

- the entity submitting the notification referred to in Article 82(1) failed to provide additional information or documents required by the regulatory authority within the prescribed time limit,
- it is justified by the need of prudent and stable management of the domestic insurance undertaking due to a possible impact of the entity submitting the notification referred to in Article 82(1) on the domestic insurance undertaking or due to the assessment of the financial standing of the entity submitting the notification;
- possible setting of a time limit for the acquisition of or subscription for shares or rights attaching to shares, by the regulatory authority, in accordance with Article 90(4) and (5) of the Act referred to in item 4, in a decision declaring the absence of grounds for filing an objection;
- possible issuance, by the regulatory authority, in accordance with Article 98(5) of the Act referred to in item 4, of a decision requiring the disposal of shares within the prescribed time limit in the event that the authority issues a decision prohibiting the exercise of voting rights attaching to shares in a domestic insurance undertaking for the reasons specified in Article 98(1) of this Act;
- prohibition to sell shares or rights attaching to shares held by the State Treasury under Article 13(1)(27) of the Act of 16 December 2016 on Rules for Managing State Property (consolidated text: Journal of Laws of 2020, item 735, as amended); which prohibition, pursuant to Article 13(2)(2) of this Act, does not apply to the case referred to in Article 73(2)(2) of the Act referred to in item 1 (disposal of shares in a quantity resulting in the achievement of no more than 33% of the total number of votes).

9.5 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 and Reinsurance Activity Act and the amendments are entered in the National Court Register. The Supervisory Board has the powers to approve the consolidated amended text.

Amendments to PZU's Articles of Association in 2020

The PZU Ordinary Shareholder Meeting held on 26 May 2020 made certain amendments to the Company's Articles of

Association. On 26 August 2020, these amendments were entered in the register of commercial undertakings of the National Court Register by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register.

The amendments to the Articles of Association concerned:

- PZU's line of business – by extending the provision pertaining to the Company's line of business by adding intermediation on behalf of or for the benefit of financial institutions, as referred to in the Employee Capital Scheme Act of 4 October 2018, other than insurance undertakings, when entering into Employee Capital Scheme management contracts,
- powers of the Supervisory Board and the Shareholder Meeting – by adding to the powers of the Supervisory Board an item regarding the granting of consent to:
 - subscription for or acquisition of shares or ownership interests in another company, with the value exceeding:
 - PLN 100,000,000, 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 or ownership interests in another company, with the market value exceeding:
 - PLN 100,000,000, 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 non-current assets within the meaning of the Accounting Act of 29 September 1994 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,
 - purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
 - PLN 100,000,000, 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;

- calculation of the value of agreements to provide legal, marketing, public relations and public communication services and management consulting services.

Moreover, the Articles of Association were amended in line with the requirements of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and the recent amendments to the Commercial Company Code.

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;
- issuing an opinion on the report on compensation for Management Board Members and Supervisory Board Members, pursuant to the Act on Public Offerings and

the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies of 29 July 2005;

- 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 Supervisory Board Members, subject to the personal right granted to the State Treasury to appoint and dismiss one Supervisory Board Member;
- establishing the rules for remunerating Supervisory Board Members;
- acquisition or disposal by the Issuer of real property, perpetual usufruct or share in a real property or perpetual usufruct with a value exceeding the equivalent of the gross amount of EUR 30,000,000.

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 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 a written motion submitted by the Supervisory Board, a shareholder or shareholders representing at least 1/20th 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 26 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. The person convening the Shareholder Meeting may decide on participation in the Shareholder Meeting using means of electronic communication.

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 16 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. A legal 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.

In accordance with the Articles of Association, the shareholders' voting right shall be restricted in a way that no shareholder may exercise at the Shareholder Meeting more than 10% of the overall number of votes existing in the Company on the date of the Shareholder Meeting, except that, for the purposes of determining the obligations of the buyers of large blocks of shares according to 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 Reinsurance Activity Act of 11 September 2015, such restriction of the voting right will be

deemed 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.

Activity in 2020

In 2020, only an Ordinary Shareholder Meeting was held. In addition to the matters provided for in Article 395 § 2 and 5 of the Commercial Company Code (that is examination and approval of the Management Board's report on the company's activity and financial statements for the previous financial year, adoption of a resolution on the distribution of profit, granting of a discharge to members of the Company's corporate bodies on the performance of their duties, review and approval of the group's financial statements), the agenda of the Ordinary Shareholder Meeting concerned changes in the composition of the Supervisory Board and the Articles of Association and the adoption by PZU of the "Compensation policy for PZU SA Management Board and Supervisory Board Members".

By adopting the "Compensation policy for PZU SA Management Board and Supervisory Board Members", PZU fulfilled the obligation arising from Article 36 of the Act of 16 October 2019 Amending the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and Certain Other Acts.

9.7 Supervisory Board and Management Board

Composition of the Supervisory Board

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 Supervisory Board Member must hold qualifications in accounting or auditing financial statements within the meaning of the Act on Statutory Auditors, Audit Firms and Public Supervision. At least two Supervisory Board Members must meet the independence criteria set forth in the Best Practices of WSE Listed Companies adopted by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). Independent members of the Supervisory Board submit a written representation to the Company on meeting all the independence criteria and an obligation to notify the Company immediately about ceasing to meet such criteria.

The Articles of Association give the State Treasury the right to appoint and dismiss one Supervisory Board Member 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;
- meets the requirements for a member of a supervising body as laid down in separate regulations.

The Supervisory Board elects the Supervisory Board Chairperson and Supervisory Board Deputy Chairperson from among its Members. The Supervisory Board may elect the Supervisory Board Secretary from among its Members. The Supervisory Board Secretary supports the Supervisory Board Chairperson in discharging his/her duties specified in the Supervisory Board Rules and Regulations, in particular by:

- organizing the work of the Supervisory Board;
- supervising over the organizational and technical support for Supervisory Board meetings;
- ensuring that minutes of meetings of the Supervisory Board are kept;
- presenting draft reports prepared by the Supervisory Board as required by Company's Articles of Association.

The mandate of a Supervisory Board Member expires at the end of his or her term of office or as a result of his or her demise, resignation or dismissal from the Supervisory Board.

Changes to the PZU Supervisory Board in 2020

As at 1 January 2020, 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
- 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

On 21 April 2020, Mr. Alojzy Nowak tendered his resignation from serving in the capacity of PZU Supervisory Board Member.

Accordingly, from 22 April 2020 the Supervisory Board's composition was as follows:

- Maciej Łopiński - Supervisory Board Chairman
- Paweł Górecki - Supervisory Board Deputy Chairman
- 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

During the meeting held on 28 April 2020, the Supervisory Board elected Robert Śnitko as Secretary of the Supervisory Board.

On 26 May 2020, the PZU Ordinary Shareholder Meeting appointed Józef Wierzbowski to the Supervisory Board. Accordingly, from 26 May 2020 the Supervisory Board's composition was as follows:

- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Robert Śnitko – 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;
- Józef Wierzbowski – 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 was 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 served in their capacity, i.e. for 2022.

Maciej Łopiński, Robert Śnitko, Robert Jastrzębski, Tomasz Kuczur, Elżbieta Mączyńska-Ziemacka, Krzysztof Opolski, Józef Wierzbowski and Maciej Zaborowski submitted representations that they meet the independence criteria set forth in the Best Practices of WSE Listed Companies adopted by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

PZU's Supervisory Board composition as at 31 December 2020

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)
Robert Śnitko	Supervisory Board Secretary since 28 April 2020 (in the Supervisory Board since 12 April 2017)
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
Józef Wierzbowski	Supervisory Board Member since 26 May 2020
Maciej Zaborowski	Supervisory Board Member since 7 January 2016



Maciej Łopiński

Supervisory Board Chairman

On the Supervisory Board since 8 January 2018.

Graduate of the University of Gdańsk. In 1999 he passed the examination for candidates to become supervisory board members in companies in which the State Treasury holds an equity stake. Editor-in-Chief of Tygodnik Gdański, a journalist of Głos Wybrzeża and Tygodnik Czas, among others. A member of parliament in its 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 gained during his work in supervisory bodies in commercial law companies, including KGHM Polska Miedź SA, PZU Asset Management SA and Telewizja Polska SA..



Paweł Górecki

Supervisory Board Deputy Chairman

On the Supervisory Board since 8 February 2017.

Doctor of juridical science and attorney-at-law. Graduate of the Faculty of Law, Administration and Economics at the University of Wrocław. He attended numerous training courses and workshops in the 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. He specializes in corporate law, the capital market and the application of court and administrative procedures. Member of supervisory boards of several capital companies. Currently, Vice-President of the KDPW S.A. Management Board and Supervisory Board Deputy Chairman of ARP Leasing Sp. z o.o..



Robert Śnitko

Supervisory Board Secretary

In the Supervisory Board since 12 April 2017.

Graduate of the London School of Economics and Political Science, University of London, School of Oriental and African Studies, University of London, Faculty of Economics at the Radom Technical University. Holder of a Scholarship awarded by the Minister of National Education (Minister of Science and Higher Education), the United Kingdom's Ministry of Foreign Affairs and non-governmental organizations from the United Kingdom and the United States. Ph.D. in economics obtained from the Warsaw School of Economics. Academic teacher, deputy department director at the Ministry of Finance. Member of the International Institute for Strategic Studies.



Marcin Chludziński

Supervisory Board Member

On the Supervisory Board since 7 January 2016.

Graduate of the Social Policy Institute at the University of Warsaw. Completed MBA studies at the Institute of Economics of the Polish Academy of Sciences. He worked for the University of Warsaw, Collegium Civitas and the Łazarski University as a lecturer. President of the Management Board of KGHM Polska Miedź S.A. since June 2018. Previously, from January 2016 to June 2018 he served as the President of the Management Board of Agencja Rozwoju Przemysłu S.A. 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 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.

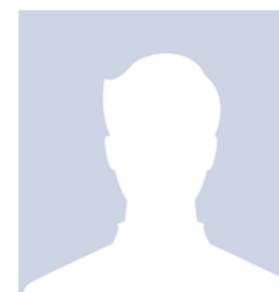


Agata Górnicka

Supervisory Board Member

On the Supervisory Board since 8 February 2017.

Master's degree in political science from the Faculty of Journalism and Political Science at the University of Warsaw. Graduate of a post-graduate study program in media management from the Kozminski University. She acquired her professional experience as follows: Telewizja Polska S.A. (2006-2012), Project Coordinator in the Bank Zachodni WBK S.A. Foundation (2012-2013) and then as the CEO's Assistant in Bank Zachodni WBK S.A. (2013-2014) and later as the Manager of the Management Board and Supervisory Board Office in Bank Zachodni WBK S.A. (2014-2015). Director of the Political Office in the Ministry of Development in 2015-2017 and chief advisor in the Office of the Prime Minister in 2017-2018. Since April 2018 Director of the External Relations Office in PKN ORLEN S.A. and Chairwoman of the ORLEN Foundation's Supervisory Board. In October 2019 she started to serve as a member of the Supervisory Board of ORLEN Deutschland GmbH.



Robert Jastrzębski

Supervisory Board Member

On the Supervisory Board since 9 March 2018.

Graduate of the Faculty of Law and Administration at the University of Warsaw. In 2001 he was granted a doctorate in juridical science degree and in 2009 a habilitated Ph.D. degree. Affiliated with the Department of Law and Administration at the University of Warsaw since 2001. He became a professor at the university in 2019. Authored about 100 academic publications. Recipients of awards and distinctions, including Awards from the Department of Law and Administration at the University of Warsaw for outstanding scholarly achievements and the Team Award granted by the Rector of the Warsaw School of Economics. Since 2015, Head of the Laboratory of Polish 20th Century Law and since 2019 Head of the History of Administration 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.

Graduate of the Faculty of Law and Administration of the University of Warmia and Mazury and the Bydgoszcz Academy (currently, the Kazimierz Wielki University in Bydgoszcz). In 2011 he received a doctoral degree in juridical science from the Faculty of Law and Administration at the University of Warmia and Mazury while in 2013 he received a Ph.D. Hab. degree from the University of Wrocław in social science with a specialization 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. In 2013-2019 Supervisory Board Chairman of Bydgoski Fundusz Poręczeń Kredytowych. Supervisory Board member of Port Lotniczy Bydgoszcz S.A. since March 2019.



Elżbieta Mączyńska-Ziemacka

Supervisory Board Member

Graduate of the Faculty of Economics at the University of Warsaw. Professor of economic science. Author of econometric models for predicting bankruptcies in enterprises and of a concept of early warning systems pinpointing threats to business activity. Head of the postgraduate course: Real Estate Valuation held by the Institute of Corporate and Investment Finance at the Business Administration College of the Warsaw School of Economics. A 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 since 2005. In 1996-1998 member of the Supervisory Board of Polski Bank Rozwoju S.A. and in 2005-2007 member of the Supervisory Board of BGŻ S.A. From June 2013 until August 2020 member of the Supervisory Board of PKO BP S.A. In 1994-2005 she acted as the scientific secretary and member of the Executive of the Socio-Economic Strategy Council of the Council of Ministers. She was a member of the National Development Council formed in 2010 by the President of the Republic of Poland.



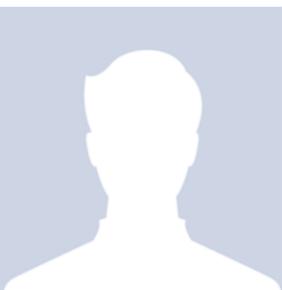


Krzysztof Opolski

Supervisory Board Member

On the Supervisory Board since 24 May 2019.

Graduate of the Faculty of Psychology and Pedagogy at the University of Warsaw. Professor Ordinarius of Economics. Head of the Department of Banking, Finance and Accounting at the Faculty of Economics of the University of Warsaw. Founder and long-term editor-in-chief of the journal *Ekonomia. Rynek, gospodarka, społeczeństwo*. Head of the Ph.D. studies program “Economy and the Market. Financial Institutions and Corporate Business Strategies” held by the Faculty of Economics at the University of Warsaw. The concept author and head of the post-graduate studies “Strategic audit in public and private institutions”. Head of the Editorial Board of the journal *MAZOWSZE – Studia Regionalne* and a member of the Editorial Board of the journal *Bezpieczny Bank*. Head of the Academic Councils of the Central European Economic Journal and the journal *E-Finanse*. 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.



Józef Wierzbowski

Supervisory Board Member

On the Supervisory Board since 26 May 2020.

Graduate of the Maria Grzegorzewska Academy of Special Education. He completed an MBA at the Apsley Business School of London and Warsaw Management University. He has 30 years of experience in managerial positions in national and local government administration and in companies in which the State Treasury is a shareholder. He served as an advisor to the Management Board and as Deputy Director of the Audit Department in PZU SA in 2007 and 2008. He has many years of experience in supervisory boards. He sat in the Supervisory Board of BondSpot S.A. in 2016-2017 and he currently sits in the Supervisory Board of GPW Benchmark S.A. and in the Supervisory Board of System Gazociągów Tranzytowych “Europol Gaz” S.A. He is the Director of the Corporate Management Division in PGNiG Termika S.A.



Maciej Zaborowski

Supervisory Board Member

On the Supervisory Board since 7 January 2016.

Graduate of the Law and Administration Department at the University of Warsaw. Completed post-graduate studies in intellectual property law and postgraduate studies in evidentiary law. He also graduated from the Harvard Law School (ALP), Center for American Law Studies and the Leadership Academy for Poland. Advocate, Ministry of Justice expert and standing mediator at the Court of Arbitration in the General Counsel to the Republic of Poland. Lecturer in the Warsaw Bar Association. He runs his own legal practice and is the Managing Partner in 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 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. The powers of the Supervisory Board include:

The Supervisory Board exercises permanent supervision over the Company’s operations in all areas of its activity. 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;
- preparing an annual report on compensation for Management Board Members and Supervisory Board Members on the rules laid down in Article 90g section 1-5 of the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies of 29 July 2005;
- 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;
- giving consent to the acquisition, subscription for or disposal of ownership interests 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 an approval from the Supervisory Board, except that the following require approval of the Supervisory Board:

- subscription for or acquisition of shares or ownership interests in another company, with the value exceeding:
 - PLN 100,000,000, 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 or ownership interests in another company, with the market value exceeding:
 - PLN 100,000,000, 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;
- seconding Supervisory Board Members to perform temporarily the functions of Management Board Members who have been dismissed, resigned or are unable to perform their functions for other reasons;
- accepting instructions on how the Company’s representatives should vote at Shareholder Meetings of PZU Życie SA in matters on increasing or decreasing the share capital, issuing bonds, selling or leasing PZU Życie SA’s enterprise or establishing a usufruct right on the enterprise, dividing PZU Życie SA, merging PZU Życie SA with another company, liquidating or dissolving PZU Życie SA;
- 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;
- performing tasks resulting from the guidelines or recommendations of regulatory authorities, in particular the Polish Financial Supervision Authority, adopted in the Company;
- examining and consulting matters submitted by the Management Board for deliberation at the Shareholder Meeting.



Moreover, one of the Supervisory Board's powers is to give consent to the following:

- acquisition or disposal of real property, perpetual usufruct or share in a real property or perpetual usufruct with a value exceeding the equivalent of EUR 3,000,000;
- execution, by the Company and a related party, of a material transaction of the kind referred to in Article 90i(3) of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies, taking into account the exclusions and specific regulations in this respect laid down in Chapter 4b of this Act;
- consent for the Issuer to enter into 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 under this agreement or other agreements executed with the same entity is greater than PLN 500,000 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 500,000 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 20,000 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 50,000 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;
- subject to § 18 item 11 of the Articles of Association, the disposal of non-current assets within the meaning of the Accounting Act of 29 September 1994 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:

- 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,
- subject to § 18 item 11, the acquisition of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
 - PLN 100,000,000, 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.

Supervisory Board's method of operation

The Supervisory Board adopts the Rules and Regulations of the Supervisory Board which define its organization and manner of acting. The current Rules and Regulations, adopted by a Supervisory Board resolution of 9 September 2020, define the composition and manner of appointing members to the Supervisory Board, the tasks and scope of its operations and the procedure for convening and conducting meetings.

The Supervisory Board is required to meet at least once every quarter. Supervisory Board Members may participate in

the Supervisory Board meeting using means of direct remote communication. 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 Supervisory Board Member 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 Supervisory Board Member.

The Supervisory Board adopts its resolutions in an open ballot. A secret ballot should be held at the request of even a single Supervisory Board Member.

The Supervisory Board elects from among its members the Chairperson and Deputy Chairperson and may also elect the Secretary from among its Members.

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, Supervisory Board Members, 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.

To properly perform its supervisory function, the Supervisory Board may establish permanent advisory and consultative committees whose competencies, composition and manner of operation will be laid down in the rules and regulations of the committee in question adopted by the Supervisory Board. The Supervisory Board and its committees may use the services of experts and consulting firms.

Currently, the following committees operate within the Supervisory Board:

- Audit Committee;
- Nomination and Compensation Committee,
- Strategy Committee.

Supervisory Board's activity in 2020

The Supervisory Board held 12 meetings in 2020 at which it adopted 113 resolutions. It also adopted 27 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, KNF's recommendations, corporate governance rules and the ones described in PZU's Articles of Association and the Supervisory Board Rules and Regulations.

At its meetings held in 2020, the Supervisory Board regularly reviewed and evaluated the performance of both the PZU Group and its distinct business divisions in relation to 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.

The Supervisory Board was also informed about the actions implemented by the Company in connection with the COVID-19 pandemic.

Due to the pandemic Supervisory Board meetings in 2020 were held in the hybrid form – some Supervisory Board Members participated in the meetings on site and some remotely.

During regular meetings held in 2020 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.



Attendance of Members in Supervisory Board meetings in 2020

	Attendance at meetings	Number of meetings over the time of performing the mandate
Maciej Łopiński	12	12
Paweł Górecki	11	12
Robert Śnitko	12	12
Marcin Chłudziński	9	12
Agata Górnicka	12	12
Robert Jastrzębski	12	12
Tomasz Kuczur	12	12
Elżbieta Mączyńska-Ziemacka	11	12
Alojzy Nowak (złożył rezygnację 21 kwietnia 2020 roku)	3	3
Krzysztof Opolski	12	12
Józef Wierzbowski (od 26 maja 2020 roku)	6	7
Maciej Zaborowski	10	12

Audit Committee

The Audit Committee was appointed by a Supervisory Board resolution of 3 June 2008.

The Audit Committee includes 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 the chairperson, 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 terms and conditions of 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 for members of the Committee.

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. 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 scope of the Audit Committee's activities comprises:

- monitoring the Company's financial reporting process,
- monitoring the effectiveness of internal control, internal audit and risk management systems, including as regards financial reporting;

- monitoring the performance of financial audit activities in the Company, in particular conducting the audit by the audit firm, taking into account the findings and conclusions of the Polish Audit Supervision Agency following from an inspection carried out in the audit firm;
- assessing the independence of the statutory auditor and the audit firm;
- presenting a recommendation regarding the selection of an audit firm to perform the audit and review of the financial statements to the Supervisory Board;
- controlling and monitoring the independence of the statutory auditor and the audit firm, including giving consent to the audit firm conducting the audit, its related entities and by a member of the audit firm's network to provide permitted services in the Company or entities from the Company group, upon assessing the threats and safeguards of the independence of the statutory auditor and the audit firm and verification of the compensation limit for the provided services;
- informing the Supervisory Board of the results of the audit and review and explaining how the audit has contributed to reliability of the financial reporting in the Company and the Company group, and the role of the Committee in the audit process;
- developing a policy for the selection of an audit firm to perform the audit;
- developing a policy for provision of permitted services by the audit firm conducting the audit, its related entities and by a member of the audit firm's network;
- defining a procedure for the selection of an audit firm;
- providing advice and issuing opinions within the scope of the Supervisory Board's powers relating to the areas of the Company's operation set forth in items 1-4 and to the extent permitted by the prevailing provisions of law and the Company's internal regulations;
- submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company;
- supervising the compliance function;
- monitoring introduction of changes in the Company in connection with the recommendations issued by the key statutory auditor, Internal Audit Department (with regard to preparation of financial statements), Supervisory Board or the Committee;
- carrying out other tasks following from generally prevailing provisions of law or entrusted by the Supervisory Board.

PZU takes into consideration the "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.

Changes in the composition of the Audit Committee in 2020

The following persons sat on the Audit Committee as at 1 January 2020:

- Alojzy Nowak – Committee Chairperson;
- Marcin Chłudziński – Committee Member;
- Krzysztof Opolski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member

In connection with the resignation of Alojzy Nowak from the Supervisory Board, on 21 April 2020 his membership in the Audit Committee ceased.

On 28 April 2020, the Supervisory Board established the following composition of the Audit Committee

- :
- Krzysztof Opolski – Committee Chairperson;
 - Marcin Chłudziński – Committee Member;
 - Robert Śnitko – Committee Member;
 - Maciej Zaborowski – Committee Member.

As at 31 December 2020 the composition of the Committee did not change.

Knowledge, skills and experience of Audit Committee members including the way in which they were acquired

Krzysztof Opolski, Robert Śnitko and Maciej Zaborowski were designated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision. Marcin Chłudziński, Krzysztof Opolski and Robert Śnitko were designated as members holding qualifications in accounting or auditing financial statements. All Audit Committee members were named as members who have knowledge and skills in the industry in which the Company operates.

Krzysztof Opolski, PZU Supervisory Board Member since 24 May 2019, has the title of professor, Ph.D. Hab., in economic sciences; he is head of the Department of Banking, Finance and Accounting at the Faculty of Economics of the University of Warsaw. In 2009-2010 he was the head of strategic advisors to the president of the National Bank of Poland. He has many

years of experience on managerial and supervisory positions in commercial law companies. He was a Supervisory Board member at Bank Handlowy w Warszawie SA, AXA Polska SA and Centrum Giełdowe SA.

Marcin Chludziński, Member of the PZU Supervisory Board from 7 January 2016, graduated from the Social Policy Institute at the University of Warsaw. Completed MBA studies at the Institute of Economics of the Polish Academy of Sciences. He is the president of the KGHM Polska Miedź SA Management Board. He has many years of experience on managerial and supervisory positions in commercial law companies. In 2016-2018 he was the president of the Management Board of Agencja Rozwoju Przemysłu SA, where he was responsible for restructuring processes, and mergers and acquisitions.

Robert Śnitko, PZU Supervisory Board Member since 12 April 2017, has the title of PhD in economics at the Warsaw School of Economics, is an university teacher and member of the International Institute for Strategic Studies. Graduate of the London School of Economics and Political Science, University of London, School of Oriental and African Studies, University of London and Faculty of Economics at the Radom Technical University. Discharges the function of director of the Sectoral, Local and Game Taxes at the Ministry of Finance.

Maciej Zaborowski, PZU Supervisory Board Member since 7 January 2016, advocate and judge of the State Tribunal, graduate from the Faculty of Law and Administration at the University of Warsaw, Center for American Law Studies and Leadership Academy for Poland. He is also an expert of the Ministry of Justice, lecturer of advocate training at the Bar Association in Warsaw and permanent mediator of the

Arbitration Court at the State Treasury Solicitors' Office. He has experience on supervisory positions in commercial law companies.

Activity of the Audit Committee in 2020

In 2020, 11 meetings were held.

Key issues addressed by the Audit Committee in 2020:

- discussion of the risk report for Q4 2019 and for Q1-3 2020;
- discussion of the annual report on the Internal Audit Department's activity in 2019;
- discussion of the findings of external inspections conducted in PZU in 2019;
- discussion on the report on the Internal Audit Department's activity in Q4 2019 and Q1-3 2020;
- submission of recommendations to the PZU Supervisory Board on approving the Strategy in the risk management area;
- information on the implementation of the strategy in the risk management area in 2018-2020;
- discussion of the draft audit plan for 2021;
- assessment of PZU's financial statements and the PZU Group's consolidated financial statements for the year ended 31 December 2019, and the Management Board report on the activity of the PZU Group and PZU in 2019, with the report on non-financial information;
- discussion on the results of PZU and the PZU Group for 2019, the H1 2020 and Q1-3 2020;
- assessment of the PZU Management Board's motion to the Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2019;
- discussion of the additional report for the Audit Committee;

- acceptance of the Audit Committee's report on its activity in 2019;
- review the draft PZU Supervisory Board report on its assessment of PZU's financial statements for the year ended 31 December 2019, the consolidated financial statements of the PZU Group for the year ended 31 December 2019, the Management Board report on the activity of the PZU Group and PZU in 2019 and the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2019;
- discussion of the recommendations given by the audit firm (KPMG Audyty sp. z o.o. spółka komandytowa) after the audit of standalone and consolidated financial statements as well as the annual consolidated solvency and financial condition reports (SFCR) for 2019;
- extension of the order for KPMG Audyty sp. z o.o. spółka komandytowa for the review and audit of the standalone financial statements of PZU and the consolidated financial statements of the PZU Group for the years 2021-2022 with an extension option for 2023;
- discussion of the amendment to the Financial Plan of PZU and the PZU Group for 2020;
- issuing recommendations to the Supervisory Board on the assessment of the solvency and financial condition report of PZU for the year ended 31 December 2019;
- issuing recommendations to the Supervisory Board on the assessment of the solvency and financial condition report of the PZU Group for the year ended 31 December 2019.

The Audit Committee adopted resolutions on the acceptance of the permitted services to be provided by PZU's auditor, KPMG Audyty sp. z o.o. sp. k., to PZU, PZU Życie and PZU Group companies. Based on an analysis of representations submitted by representatives of the entity performing the audit - KPMG Audit, the Committee made a positive assessment of the independence of the statutory auditor and the audit firm and confirmed that the auditor and the Company comply with the regulatory requirements concerning the rotation of the key statutory auditor and the audit firm performing audits of the standalone and consolidated financial statements and standalone and consolidated annual consolidated solvency and financial condition reports of PZU and the PZU Group.

Nomination and Compensation Committee

The Nomination and Compensation Committee was appointed by a Supervisory Board resolution of 12 May 2010.

The Supervisory Board determines the number of Committee members and appoints them from among its own members. The Committee includes at least one independent member.

The Nomination and Compensation Committee is not appointed if the Supervisory Board elected by group voting is composed of 5 members. In such case the Committee's tasks are performed by the Supervisory Board in its full composition.

The Nomination and Compensation Committee is an advisory and consultative body to the Supervisory Board. It is appointed to improve the effectiveness of the Supervisory Board's supervision related to the development of the management structure, including organizational solutions, the remuneration principles and the selection of properly qualified staff.

The tasks of the Nomination and Compensation Committee include the following in particular issuing opinions and presenting recommendations to the Supervisory Board with regard to its decisions pertaining to:

- concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation;
- setting the level of compensation, bonuses and additional benefits for the Management Board;
- appointing, suspending and dismissing the President of the Management Board, Management Board Members or the entire Management Board and discontinuing suspension;
- seconding Supervisory Board Members to perform temporarily the functions of Management Board Members who have been dismissed, resigned or cannot perform their functions for other reasons.

Moreover, the scope of the Committee's activities may include other matters entrusted to it by the Supervisory Board.

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.

Attendance of members in Audit Committee meetings in 2020

	Attendance at meetings	Number of meetings over the time of performing the mandate
Alojzy Nowak	5	5
Krzysztof Opolski	10	11
Marcin Chludziński	7	11
Robert Śnitko	11	11
Maciej Zaborowski	9	11



Changes in the composition of the Nomination and Compensation Committee in 2020

As at 1 January 2020, the composition of the Nomination and Compensation Committee was as follows:

- Robert Jastrzębski – Committee Chairperson;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Tomasz Kuczur – Committee Member;
- Maciej Łopiński – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member;
- Alojzy Nowak – Committee Member.

In connection with the resignation of Alojzy Nowak from the Supervisory Board, on 21 April 2020 his membership in the Nomination and Compensation Committee ceased.

As of 22 April 2020, the composition of the Nomination and Compensation Committee was as follows

- Robert Jastrzębski – Przewodniczący Komitetu;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Tomasz Kuczur – Committee Member;
- Maciej Łopiński – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member.

As at 31 December 2020 the composition of the Committee did not change.

Robert Jastrzębski, Tomasz Kuczur, Maciej Łopiński and Elżbieta Mączyńska-Ziemacka submitted representations that they meet the independence criteria set forth in the “Best Practices of WSE Listed Companies” adopted by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange)

Activity of the Nomination and Compensation Committee in 2020

In 2020, 6 meetings were held.

Key issues addressed by the Nomination and Compensation Committee in 2020:

- defining the Management Objectives for the Company’s Management Board Members for 2020;
- conducting a qualification procedure for the position of the new President and Members of the Management Board;
- discussing the “Compensation policy for the PZU SA Management Board and Supervisory Board Members”;
- submitting a recommendation to the PZU Supervisory Board on granting an additional benefits for a Member of the PZU Management Board;
- submitting a recommendation to the PZU Supervisory Board on giving consent to pay Members of the PZU Management Boards the first tranche of deferred variable compensation following from the management services provision agreement for 2018;
- assessing the attainment of Management Objectives for 2019 and variable compensation for Members of the PZU Management Board for 2019 ;

- discussing the “Rules for assessment of suitability of the PZU Supervisory Board and Audit Committee”;
- carrying out an assessment of suitability of PZU Supervisory Board Members and Audit Committee Members (individual and collective assessment);
- discussing the Rules for assessment of suitability of the PZU Management Board;
- assessment of suitability of Members of the PZU Management Board (individual and collective assessment);
- verification of compliance of the provisions of Supervisory Board resolutions on the setting of compensation and management objectives and provisions of management service agreements adopted by the Ordinary Shareholder Meeting with the “Compensation policy for PZU SA Management Board and Supervisory Board Members”.

Strategy Committee

The Strategy Committee was appointed by a Supervisory Board resolution of 29 July 2010.

The Supervisory Board determines the number of Committee Members and appoints them from among its own members.

The Strategy Committee is an advisory and consultative body to the Supervisory Board. It is appointed to increase the efficiency of the Supervisory Board’s supervisory activities as regards issuing opinions on strategic documents submitted by the Management Board (in particular development strategy). Its role is to present recommendations on the planned investments of material influence on the Company’s assets to the Supervisory Board.

The tasks of the Strategy Committee include, in particular, issuing opinions and presenting recommendations to the Supervisory Board with regard to its decisions pertaining to:

- approving PZU’s long-term development plans prepared by the Management Board;
- planned investments in PZU and the PZU Group;
- consent for PZU to conclude an agreement with an underwriter referred to in Article 433 § 3 of the Commercial Company Code;
- rules for purchase, subscription or sale of ownership interests and shares in companies as well as Company’s participation in other entities;
- accepting the Management Board’s motions for purchase, subscription or sale of ownership interests and shares in companies as well as the Company’s participation in other entities;

- consent to transferring an insurance portfolio in its entirety or in part.

Moreover, the scope of the Strategy Committee’s activities may include other matters entrusted to it by the Supervisory Board.

Changes in the composition of the Strategy Committee in 2020

As at 1 January 2020, the composition of the Strategy Committee was as follows:

- Alojzy Nowak – Committee Chairperson;
- Marcin Chłudziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the resignation of Alojzy Nowak from the Supervisory Board, on 21 April 2020 his membership in the Strategy Committee ceased.

On 28 April 2020, the Supervisory Board established the following 5-person composition of the Committee:

- Robert Śnitko – Committee Chairperson;
- Marcin Chłudziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Maciej Zaborowski – Committee Member..

As at 31 December 2020 the composition of the Committee did not change.

Activity of the Strategy Committee in 2020

In 2020, 5 meetings were held.

- Key issues addressed by the Strategy Committee in 2020:
- discussing the quarterly reports on the implementation of the PZU Group Strategy “New PZU”,
 - work on the new PZU Group Strategy for 2021-2024..

Most Committee meetings were attended also by the remaining Supervisory Board Members.

Attendance of Members in Nomination and Compensation Committee meetings in 2020

	Attendance at meetings	number of meetings over the time of performing the mandate
Robert Jastrzębski	6	6
Paweł Górecki	5	6
Agata Górnicka	6	6
Tomasz Kuczur	6	6
Maciej Łopiński	6	6
Elżbieta Mączyńska-Ziemacka	6	6
Alojzy Nowak	2	2

Attendance of members in Strategy Committee meetings in 2020

	Attendance at meetings	number of meetings over the time of performing the mandate
Robert Śnitko	5	5
Alojzy Nowak	1	1
Marcin Chludziński	5	5
Agata Górnicka	5	5
Robert Jastrzębski	5	5
Maciej Zaborowski	4	5

Composition of the Management Board

The Management Board is composed of three to eight Members appointed for a joint term of office spanning three consecutive full financial years. As at 31 December 2020, the Management Board was composed of eight members.

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, consequently, to select the best candidate. 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.

The consent to appointment of two Management Board Members, President and Member responsible for risk management is issued on PZU's motion by the Polish Financial Supervision Authority, unless the appointment applies to a person who obtained such consent in the previous term of office. If the motion pertains to a Management Board Member discharging a mandate, he/she may discharge the mandate in its existing scope until the regulatory authority issues its decision.

A Management Board Member must fulfill all of the following conditions:

- holds a graduate degree received in Poland 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 aforementioned 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.

Changes in the composition of the Management Board in 2020

As of 1 January 2020 the Management Board composition was as follows:

- Paweł Surówka – President of the Management Board;
- Aleksandra Agatowska – Management Board Member;
- Adam Brzozowski – Management Board Member;
- Marcin Eckert – Management Board Member;
- Elżbieta Häuser-Schöneich – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

Aleksandra Agatowska tendered her resignation from the PZU Management Board as of 19 February 2020. Accordingly, as of this date, the Management Board composition was as follows:

- 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.

Paweł Surówka tendered his resignation from the PZU Management Board as of 12 March 2020. Consequently, on the same day the Supervisory Board appointed Beata Kozłowska-Chyła to the position of President of the Management Board subject to obtaining the consent of the Polish Financial Supervision Authority. Until the consent is obtained Beata Kozłowska-Chyła is the acting President of the Management Board. On the same day, the Supervisory Board appointed Małgorzata Kot to the position of Management Board Member, effective as of 1 June 2020.

Accordingly, from 12 March 2020 the Management Board composition was as follows:

- Beata Kozłowska-Chyła – acting 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.

On 15 April 2020, in connection with submission of the representation on withdrawal of consent to sit on the PZU Management Board by Małgorzata Kot, the Supervisory Board repealed the resolution on her appointment. On 15 April 2020, the Supervisory Board appointed Ernest Bejda to the position of Management Board Member, effective as of 4 May 2020.

Accordingly, from 4 May 2020 the Management Board composition was as follows:

- Beata Kozłowska-Chyła – acting President of the Management Board;
- Ernest Bejda – Management Board Member;
- Adam Brzozowski – Management Board Member;
- Marcin Eckert – Management Board Member;
- Elżbieta Häuser-Schöneich – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

On 9 September 2020, Elżbieta Häuser-Schöneich and Adam Brzozowski tendered their resignations. The Supervisory Board appointed Małgorzata Kot and Krzysztof Szypuła to the position of Management Board Members, effective as of 10 September 2020..

Accordingly, from 10 September 2020, the Management Board composition was as follows:

- Beata Kozłowska-Chyła – acting President of the Management Board;
- Ernest Bejda – Management Board Member;
- Marcin Eckert – Management Board Member;
- Małgorzata Kot – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member;
- Krzysztof Szypuła – Management Board Member.

On 2 October 2020, the Polish Financial Supervision Authority gave consent to the appointment of Beata Kozłowska-Chyła to the position of President of the Management Board. Accordingly, from 2 October 2020 the Management Board composition was as follows:

- Beata Kozłowska-Chyła – President of the Management Board;

- Ernest Bejda – Management Board Member;
- Marcin Eckert – Management Board Member;
- Małgorzata Kot – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member
- Krzysztof Szypuła – Management Board Member.

As at 31 December 2020 and up to the date of publication of this report, the Management Board composition did not change.

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.

Group Directors

PZU and PZU Życie have in place a joint management model under which 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 the adopted model, the persons discharging the functions of Management Board Members at PZU Życie are at the same time employed as PZU Group Directors at PZU and are in charge of the same business structures and areas at PZU and PZU Życie. Similarly, Members of the PZU Management Board may be simultaneously employed as PZU Group Directors in PZU Życie.

The following persons served as PZU Group Directors in PZU in 2020:

- Aleksandra Agatowska (from 20 February 2020);
- Małgorzata Kot (from 16 April to 9 September 2020);
- Bartłomiej Litwińczuk;
- Dorota Macieja;
- Roman Pałac (to 12 March 2020).

The following persons served as PZU Group Directors in PZU Życie in 2020:

- Adam Brzozowski (from 9 September 2020);
- Ernest Bejda (from 4 May 2020).

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. On 9 September 2020, the Supervisory Board approved the new Rules and Regulations of the Management Board, adopted on 1 September 2020.

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.

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;

- adoption of a report on the application of best practices, as defined by the Prime Minister pursuant to the Act on Rules for Managing State Property of 16 December 2016, addressed to companies in which the State Treasury holds an equity stake;
- 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.

Meetings of the Management Board are held at least once a fortnight. The Articles of Association provide that meetings may be held using means of direct remote communication.

In 2020 the PZU Management Board held 54 meetings. Due to the COVID-19 pandemic most meetings were held in the mixed format – on-site and using means of direct remote communication. This resulted from the necessity to maintain high safety standards and, as a consequence, stability of the Management Board's work, which played a key role in managing the Company.

The President of the Management Board directs the work of the Management Board. The President's 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 Management Board prepares and presents to the Company's pertinent governing bodies, along with the Management Board's report on the Company's activity:

- report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- report on the application of best practices, as defined by the Prime Minister pursuant to the Act on Rules for Managing State Property, addressed to companies in which the State Treasury holds an equity stake.

The Management Board adopts resolutions 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. With the consent of the President of the Management Board, the Management Board may adopt resolutions by written procedure or using means of direct remote communication, if all the Management Board Members have received the draft resolution with justification and at least half of the Management Board Members took part in the adoption of the resolution.

In 2020 the PZU Management Board adopted 364 resolutions – both at meetings and by written procedure or 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 responsibilities of the Management Board Members in office in 2020.

Name (Management Board composition at the end of 2020)	In the PZU Group	Scope of responsibilities (as at the end of 2020)
Beata Kozłowska-Chyła	President of the PZU Management Board since 2 October 2020 / acting President of the PZU Management Board from 12 March to 1 October 2020	internal audit, compliance, PZU Group strategy, strategic analyses, corporate communication, reinsurance
Aleksandra Agatowska	Member of the PZU Management Board from 24 October 2019 to 19 February 2020 / PZU Group Director at PZU from 25 March 2016 to 23 October 2019, reappointed to the position of a PZU Group Director at PZU from 20 February 2020 / Member of the PZU Życie Management Board from 25 March 2016, acting President of the PZU Życie Management Board since 19 February 2020, President of the PZU Życie Management Board since 15 February 2021	PZU and PZU Życie - marketing, sponsoring, prevention, client relations, health insurance PZU Życie - internal audit, compliance, PZU Group strategy, strategic analyses, corporate communication, reinsurance
Ernest Bejda	Member of the PZU Management Board since 4 May 2020 / PZU Group Director in PZU Życie since 4 May 2020	PZU and PZU Życie - project management, security, procurement, insurance operations, claims handling, assistance, remote client service, process digitalization, analyses and process efficiency PZU - business development in the PZU Group
Marcin Eckert	Member of the PZU Management Board since 28 March 2019 / Member of the PZU Życie Management Board since 1 May 2019	corporate management and corporate governance in the PZU Group, administration, IT, innovations, digital services, mobile application development
Małgorzata Kot	Member of the PZU Management Board since 10 September 2020 / PZU Group Director at PZU from 16 April to 9 September 2020 / Member of the PZU Życie Management Board since 16 April 2020	PZU and PZU Życie - PZU branch network management, retail sales (tied-agent and multi-agent channels), cooperation with brokers in the area of retail sales, retail sales efficiency, insurance portfolio analyses in the sales channels, sales support PZU - retail sales (broker and dealer channels) PZU Życie - agency sales, corporate sales
Tomasz Kulik	Member of the PZU Management Board since 14 October 2016 / Member of the PZU Życie Management Board since 19 October 2016	actuarial, finance and investments
Maciej Rapkiewicz	Member of the PZU Management Board since 22 March 2016 / Member of the PZU Życie Management Board since 25 May 2016	risk

Name (Management Board composition at the end of 2020)	In the PZU Group	Scope of responsibilities (as at the end of 2020)
Małgorzata Sadurska	Member of the PZU Management Board since 13 June 2017 / Member of the PZU Życie Management Board since 19 June 2017	PZU and PZU Życie - supervision over PZU Group's foreign companies, assuring banking, bancassurance, strategic partnership programs, corporate business development and cooperation with brokers in the area of corporate sales PZU: corporate sales PZU Życie - bank protection products, investment products, sales of investment products
Krzysztof Szypuła	Member of the PZU Management Board since 10 September 2020 / Member of the PZU Życie Management Board since 10 September 2020	PZU and PZU Życie - health product management, strategic management of the CRM product offer, remote sales PZU: mass products and insurance program management, tariff actuarial services, product research PZU Życie - group and individual products management, tariff actuarial services, product research
Bartłomiej Litwińczuk	Member of the PZU Życie Management Board / PZU Group Director in PZU from 19 August 2016	HR, advisory services and legal services
Dorota Maciejka	Member of the PZU Życie Management Board since / PZU Group Director in PZU since 15 March 2017	CSR, customer communication, real estate

In 2020, there were the following standing committees with participation of Management Board Members and PZU Group Directors:

PZU Pricing Committee

Purpose	defining the pricing policy in accordance with PZU's strategy
Tasks	<ul style="list-style-type: none"> defining the pricing strategy and tactics through formulation of guidelines for the Head Office organizational units responsible for tariff setting in product groups or insurance products as regards prices and assumptions pertaining to product profitability;w monitoring pricing-related actions undertaken by directors authorized by the Management Board; monitoring the key ratios for key insurance products, including profitability levels and loss ratios; taking a stand on other key issues which influence product profitability and tariff-setting mechanisms.

Data Governance Committee

Purpose	strategic coordination of Data Governance management processes at PZU and PZU Życie
Tasks	<ul style="list-style-type: none"> supervision over implementation of guideline no. 8 indicated in the “Guidelines for managing information technology and the security of the information and telecommunications environment in insurance and reinsurance companies” issued by the Polish Financial Supervision Authority on 16 December 2014; defining the Data Governance strategy; approving the draft Data Governance Policy and recommending its adoption to the Management Board; approving the draft Solvency II Data Quality Management Policy and recommending its adoption to the Management Board; controlling and enforcing the rules laid down in the Data Governance Policy and Solvency II Data Quality Policy; monitoring the data quality level and efficiency of the processes associated with data quality on the basis of annual Data Quality Coordinator’s reports preparing recommendations regarding implementation of key data quality improvement initiatives on the basis of Data Governance Coordinator’s recommendations and prioritizing them and determining the source of their financing; resolving major disputes associated with data quality presented by the Data Governance Coordinator; accepting assignment of the Company’s business units and organizational units to the Data Owner’s role; making decisions on waiving the rules laid down in the Data Governance Policy and Solvency II Data Quality Management Policy.

Innovations Committee

Purpose	coordination and management of overall issues associated with innovations
Tasks	<ul style="list-style-type: none"> reviewing and issuing guidelines regarding the PZU Group’s Innovation Strategy; defining innovation search areas making decisions recognizing purchased items as innovations and giving consent to purchases in accordance with the internal acts in place in the Company; approving the rules and regulations of competitions and resolving competitions associated with innovations.

Investment Committee

Purpose	taking, and issuing opinions on, investment decisions; defining exposure limits
Tasks	<ul style="list-style-type: none"> making investment decisions on: <ul style="list-style-type: none"> individual transactions to the extent defined in the attachment to the “Investment activity rules and regulations”, individual transactions regardless of the amount limits defined in the attachment to the “Investment activity rules and regulations” within their powers, if the opinion of the Risk Department is negative, target value of assets denominated in foreign currencies and FX position in foreign currencies; issuing opinions on investment decisions; issuing opinions, on TFI PZU’s request, on transactions above PLN 50,000,000 executed within the framework TFI PZU funds in which PZU and PZU Życie are the sole participants, issuing opinions on investment decisions on the request of the Management Board Member overseeing the Investment Division; defining exposure limits in individual entities or groups of entities up to PLN 600,000,000 through setting credit limits and concentration limits.

Cost Committee

Purpose	coordination of actions aimed at reducing the Companies’ costs, in particular fixed costs of insurance activity, in accordance with the PZU Group strategy
Tasks	<ul style="list-style-type: none"> identification of the Company’s areas of operation in which it is possible to reduce the costs and obtain savings, in particular with regard to fixed costs; defining the cost strategy through formulation of guidelines for business units and organizational units; monitoring the level of costs in individual areas of the Company’s operation; taking a stand on key issues associated with the Company’s cost reduction; regular monitoring of the effects of implemented cost optimization solutions and evaluation of attainment of the objectives set for the Task Forces; deciding on submission of requests for special bonuses for Task Force members.

PZU Group Risk Committee

Purpose	coordination and supervision of the Company’s and PZU Group’s risk management system and processes
Tasks	<p>excluding the tasks and decisions within the powers of the Company’s governing bodies and other committees operating in the Company’s organizational structures:</p> <ul style="list-style-type: none"> monitoring the solvency of the Company and the PZU Group; supervising the risk management system and processes for the following risks: <ul style="list-style-type: none"> actuarial risk, market risk, credit risk, operational risk, with special focus on IT and security risk compliance risk <p>with regard to their monitoring, assessment and making decisions on their acceptance or mitigation;</p> <ul style="list-style-type: none"> supervision resulting from establishing the PZU Group as a financial conglomerate, in particular over: <ul style="list-style-type: none"> capital adequacy of the financial conglomerate and the strategy to proceed in that regard the material intra-group transaction area, financial conglomerate risk concentration area, risk management area and internal control area; supervision over the reporting preparation process following from implementation of the provisions 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).

Investment Risk Committee

Purpose	decision-making regarding market, credit and concentration risks on: (i) permissible sizes of individual risks; (ii) policies and methodologies for management of individual risks
Tasks	<ul style="list-style-type: none"> issuing opinions on draft internal regulations, rules or decisions presented to the Management Board, including: <ul style="list-style-type: none"> credit and concentration risk management policy, market risk management policy, recommendations to the Management Board regarding the maximum allocation of capital to risks; making pertinent decisions, including: <ul style="list-style-type: none"> defining the division of the maximum capital allocation to individual risks between the Company’s organizational structures and investment management entities; approving documents pertaining to risk management policies and methodologies; approving the investment objectives and guidelines or investment limitations regarding risk limits for the Company’s organizational structures and investment management entities; defining credit and concentration limits in individual entities or groups of entities above PLN 600,000,000; setting exposure limits and limitations for individual types of financial insurance. monitoring the implementation of the Management Board’s decisions.

Sponsorship, Prevention and CSR Committee

Purpose	ensuring correct execution of the Company's sponsorship, prevention and corporate social responsibility (CSR) activity and supervision over these areas and ensuring consistency of actions
Tasks	<ul style="list-style-type: none"> reviewing requests for execution of sponsorship or prevention tasks in accordance with the provisions of PZU's and PZU Życie's sponsorship and prevention rules and regulations; specifying the substantive unit whose budget or limit finances the sponsorship or prevention task; accepting reports from the sponsorship and prevention tasks executed by the Companies in the given year; monitoring the execution of sponsorship and prevention tasks, in particular with the gross value of PLN 1,000,000 or more separately for PZU and PZU Życie; making decisions on waiving the rules laid down in the sponsorship activity rules and regulations and prevention activity rules and regulations; setting detailed rules and guidelines pertaining to execution of prevention tasks; defining the model prevention clause used in the insurance offer and accepting the content of clauses that deviate from the model; supervising the execution of CSR tasks.

Property Sales Committee

Purpose	ensuring correct execution of the sales process for the properties in PZU's and PZU Życie's resources
Tasks	<ul style="list-style-type: none"> issuing recommendations and making decisions pertaining to sale of properties to the extent defined in the "Property sales procedure" adopted by a Management Board resolution; making other decisions associated with the property sales process.

Procurement Committee

Purpose	facilitating the process for selection of suppliers of goods and services and monitoring the cooperation with suppliers in accordance with the PZU Group strategy
Tasks	<ul style="list-style-type: none"> making decisions on fulfilling requisitions or, on the Procurement Department's request, on the final form of the description of the purchased item, if it is not possible to agree on such form between the Procurement Department and the Ordering Unit or Project; ordering additional activities or providing additional information by the Ordering Unit, Project or Procurement Department by a specified deadline, if this is required for the decision on the final form of the requisition specified in item 1; making decisions on initiating the process of renegotiation of the terms or termination of an existing agreement on a substantiated request of the Procurement Department if there is no agreement between the Procurement Department and the business owner in the given case; inspection of selected purchasing procedures executed without participation of the Procurement Department or ordering such inspection from the Procurement Department.

Asset and Liability Committee

Purpose	managing assets and liabilities through influencing the shape of the structure of the balance sheet and off-balance sheet items in a manner supporting optimum financial results
Tasks	<ul style="list-style-type: none"> issuing opinions on the strategic structure of investments to ensure the appropriate level of safety, financial liquidity and profitability and quality of the investment portfolio for PZU and PZU Życie, including issuing opinions on the investment strategy; preparing recommendations for the Management Board of PZU and PZU Życie or the Company's organizational structures, including with regard to: <ul style="list-style-type: none"> investment strategy, levels of technical rates, principles of participation in profits in insurance products, efforts increasing the level of own funds and increasing liquidity; making decisions on: <ul style="list-style-type: none"> rules of management of the Company's financial liquidity, investment objectives and guidelines or investment limitations and benchmarks for the Company's organizational structures and investment management entities in the PZU Group,, matching assets to liabilities and the current asset structure, including: <ul style="list-style-type: none"> approving the model asset allocation for the given year and deviation limits within the investment strategy approved by the Management Board, approving the investment objectives and guidelines or investment limitations and benchmarks for the Company's organizational structures and investment management entities, setting limitations for the decisions made by the Management Board Member overseeing the Investment Division, approving the methodologies, principles or policies pertaining to liquidity management, approving the rules for matching assets to liabilities and the methodologies of matching assets to liabilities.

Crisis Management Team

Purpose	<ul style="list-style-type: none"> oversight over the operation of the business continuity management system in the Company; crisis management in the Company
Tasks	<p>Tasks pertaining to oversight over business continuity management system:</p> <ul style="list-style-type: none"> current oversight over the business continuity management system in the Company and issuing recommendations pertaining to tasks and directions of development in this regard; accepting the tasks and directions of development of the business continuity management system during regular meetings of the Team or by circulation in the form of a written decision or email acceptance by Team members. <p>Tasks pertaining to crisis management:</p> <ul style="list-style-type: none"> assessment, analysis and projection of the effects of occurring events, in particular financial and non-financial losses and impact on the Company's operation; monitoring the Company's internal and external environment, making decisions to manage crisis situations, and overseeing and coordinating the work associated with implementation of these decisions; ensuring means and resources, including funding, for implementation of the developed solutions; cooperation or support in efforts limiting the effect of undesirable events in other PZU Group entities upon prior agreement with their governing bodies; maintaining current communication within the Company, including with its Management Board, other PZU Group entities, and the PZU Group spokesperson regarding external information campaigns.

Initiatives Management Committee

Purpose supervising and setting the directions of the actions as part of Initiatives management in the Company

Tasks	<p>Key tasks:</p> <ul style="list-style-type: none"> • approving the distribution of the budget earmarked for projects to key business areas proposed by the Project Department, in accordance with the project activity rules; • approving the Division of IT Capacity, earmarked for execution of Initiatives for the given financial year for the Company's project activity and current activity, taking into account dedicated areas and procedures for IT Initiatives management; <p>Other tasks:</p> <ul style="list-style-type: none"> • accepting rules for prioritizing the initiatives developed by the Project Department and the IT Design and Efficiency Department; • accepting rules for cooperation between dedicated areas and the Project Department as regards IT Capacity management, prepared by the Project Department and the IT Design and Efficiency Department; • prioritizing the executed projects and making decisions on allocating IT capacity in connection with the priorities; • making directional decisions associated with changes of the IT capacity and division of the IT capacity within the Company's current operations; • making directional decisions associated with changes of the budget earmarked for projects; • making decisions on creation, change and liquidation of dedicated areas together with apportioning IT capacity for them; • making directional decisions on execution of new projects – if their execution influences the adopted division of the IT capacity, initiative execution schedule or adopted division of the budget earmarked for projects; • accepting information about the utilization of the budgets earmarked for projects, prepared by the Project Department on the basis of project activity rules and making directional decisions in this respect; • accepting information on the utilization of the IT capacity earmarked for initiatives in the given financial year, developed by the IT Design and Efficiency Department; • making other decisions on the initiatives, unreserved for the powers of other persons or bodies pursuant to project activity rules or IT initiative management procedure or other internal acts.
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Functions discharged by Management Board Member and PZU Group Directors in standing committees:

Name (Management Board composition at the end of 2020)	Participation in committee works (as at the end of 2020)
Beata Kozłowska-Chyła President of the PZU Management Board	Head of the Crisis Management Team Committee Chairperson: Investment Risk Committee, Asset and Liability Management Committee Committee Deputy Chairperson: PZU Group Risk Committee Committee Member: Initiatives Management Committee, Innovations Committee
Aleksandra Agatowska President of the PZU Życie Management Board / PZU Group Director at PZU	Deputy Head of the Crisis Management Team Committee Chairperson: Innovations Committee Committee Deputy Chairperson: Investment Committee Committee Member: PZU Group Risk Committee, Investment Risk Committee, Procurement Committee, Asset and Liability Management Committee, Initiatives Management Committee

Name (Management Board composition at the end of 2020)	Participation in committee works (as at the end of 2020)
Ernest Bejda Member of the PZU Management Board / PZU Group Director at PZU Życie	Member of the Crisis Management Team for Security Committee Chairperson: Procurement Committee Committee Member: Data Governance Committee, Investment Committee, PZU Group Risk Committee, Investment Risk Committee, Sponsorship, Prevention and CSR Committee, Property Sales Committee, Asset and Liability Management Committee, Initiatives Management Committee
Marcin Eckert Member of the PZU Management Board / Member of the PZU Życie Management Board /	Member of the Crisis Management Team for IT Committee Chairperson: Initiatives Management Committee Deputy Committee Chairperson: Sponsorship, Prevention and CSR Committee Committee Member: Data Governance Committee, Innovations Committee, Investment Committee, PZU Group Risk Committee, Investment Risk Committee, Property Sales Committee, Procurement Committee
Małgorzata Kot Member of the PZU Management Board / Member of the PZU Życie Management Board /	Committee Member: PZU Pricing Committee, Procurement Committee, Initiatives Management Committee
Tomasz Kulik Member of the PZU Management Board / Member of the PZU Życie Management Board /	Member of the Crisis Management Team for Finance Committee Chairperson: Data Governance Committee, Investment Committee, Cost Committee Committee Deputy Chairperson: PZU Pricing Committee, Procurement Committee, Asset and Liability Management Committee Committee Member: Property Sales Committee, PZU Group Risk Committee, Investment Risk Committee, Initiatives Management Committee
Maciej Rapkiewicz Member of the PZU Management Board / Member of the PZU Życie Management Board	Committee Chairperson: PZU Group Risk Committee Committee Deputy Chairperson: Investment Risk Committee Committee Member: Data Governance Committee, Investment Committee, Asset and Liability Management Committee
Małgorzata Sadurska Member of the PZU Management Board / Member of the PZU Życie Management Board	Member of the Crisis Management Team for Contacts with Strategic Partners Committee Member: PZU Pricing Committee, Data Governance Committee, Investment Committee, PZU Group Risk Committee, Investment Risk Committee
Krzysztof Szypuła Member of the PZU Management Board / Member of the PZU Życie Management Board	Committee Chairperson: PZU Pricing Committee Committee Deputy Chairperson: Data Governance Committee Committee Member: Innovations Committee, Asset and Liability Management Committee, Initiatives Management Committee
Bartłomiej Litwińczuk Member of the PZU Życie Management Board / PZU Group Director at PZU	Member of the Crisis Management Team for Legal Matters and HR Committee Member: PZU Group Risk Committee
Dorota Macieja Member of the PZU Życie Management Board / PZU Group Director at PZU	Member of the Crisis Management Team for Real Estate Committee Chairperson: Sponsorship, Prevention and CSR Committee, Property Sales Committee



Beata Kozłowska-Chyła
 President of the PZU Management Board from 2 October 2020 (from 12 March 2020 to 1 October 2020 – acting President of the PZU Management Board). Graduate of the Department of Law and Administration at the University of Warsaw. She received her doctoral degree in juridical science, and subsequently the scientific degree of habilitation. She is a lecturer in the Department of Law and Administration at the University of Warsaw in the Commercial Law Faculty. She practices as an attorney-at-law. She is a recommended arbitrator in the Court of Arbitration in the National Chamber of Commerce in Warsaw. In the past she served as a Supervisory Board member in PZU SA, TFI PZU SA and PTE PZU SA. She has been a member of the PZU SA Management Board twice. She also sat on the Management Board of PZU Życie SA. She worked as the Deputy Director of the Legal and Licensing Department in the Pension Fund Regulatory Authority and she served as the President of the Management Board of Polskie Wydawnictwo Ekonomiczne SA. Presently, she serves as the Chairwoman of the Supervisory Board of Bank Pekao S.A., the Chairwoman of the Supervisory Board of Grupa Lotos S.A., the Chairwoman of the Supervisory Board of PZU Życie SA and a Supervisory Board Member of Anwil S.A. She is a member of the Legislative Council of the Prime Minister and of the Business Council of the President of the Republic of Poland. She is also a member of the Audit Committee in the Polish Insurance Association and a member of the Supervisory Board of the Insurance Guarantee Fund. Author of tens of scientific publications on company law, securities law and insurance law published in reputable Polish and foreign magazines. She has also authored articles for the purpose of popularization.



Ernest Bejda
 PZU Management Board Member since 4 May 2020 and PZU Group Director since 4 May 2020. Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University in Lublin. He completed prosecutor and advocate trainee programs. Prior to his employment in the PZU Group he worked in the General Customs Inspectorate in Warsaw, and then he ran his own advocate practice. He co-founded the Central Anti-Corruption Bureau in which he served as its Deputy Head (2006-2009), and then headed it up (2016-2020). Supervisory Board Chairman of PZU Centrum Operacji S.A., Supervisory Board Deputy Chairman of Alior Bank S.A. and Supervisory Board Member of TFI PZU S.A.



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, Advanced Management Program at the Harvard Business School and the Leadership Academy for Poland. Associated with the PZU Group since 2017, where he previously served as the Managing Director on Corporate Matters. He has practiced as an attorney-at-law since 2001. He specializes in commercial law, tax law and labor law. Prior to his employment in the PZU Group, he was a Senior Associate at Bird & Bird Szepietowski i wspólnicy (leader of the Benefits & Compensation practice). Also previously associated with TGC Tax Advisers sp. z .o.o. (Director of the Tax Department), Mazars & Guerard Audyt Sp. z o.o. (Director of the Law and Tax Department) and Ernst & Young (Senior Manager). Supervisory Board Member of Alior Bank S.A. in 2018-2020 and Supervisory Board Chairman of PZU Zdrowie SA. Presently, he sits on the Supervisory Board of Bank Pekao S.A. and Develia S.A.



Małgorzata Kot
 PZU Management Board Member since 10 September 2020 / PZU Życie Management Board Member since 16 April 2020. Graduate of the Department of Economic Sciences and Management at the Nicholas Copernicus University in Toruń. She completed her post-graduate studies at the Economic University in Poznań in the field of economic insurance and in the Warsaw School of Economics – the Professional Coach Academy. She is a manager with more than twenty years of experience in the insurance industry in the sales of life and non-life insurance. In 2001-2012 she held managerial positions in STU Ergo Hestia, PZU and HDI Asekuracja TU. Since 2012 she has been affiliated with TUIR Allianz Polska SA, where she served in the following functions: Director of the Department for Cooperation with Key Partners, Director of the Department for Cooperation with Multiagencies and Director of the Department for Cooperation with Key Partners and Bancassurance.



Tomasz Kulik
 Member of the PZU Management Board since 14 October 2016 / in the PZU Życie Management Board since 19 October 2016. Graduate of the Warsaw School of Economics. He also completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program. 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 (formerly 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 in 2016-2020 and the capital and dividend policy. Supervisory Board Deputy Chairman of Alior Bank S.A. in 2017-2020. Supervisory Board Chairman of TFI PZU S.A. since 2017.



Maciej Rapkiewicz
 Member of the PZU Management Board since 22 March 2016 / PZU Życie Management Board since 25 May 2016. Graduate of the Faculty of Law and Administration at the University of Łódź and 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 Management Board Member and then Vice-President of the TFI PZU SA 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 sat on the supervisory boards of domestic and foreign companies in the PZU Group. Presently, he serves as the Supervisory Board Chairman of PTE PZU S.A. and Supervisory Board Member of LINK4 TU S.A.



Małgorzata Sadurska
 Member of the PZU Management Board since 13 June 2017 / PZU Życie Management Board 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 studies at the Faculty of Management at the Lublin University of Technology and the Strategic Leadership Academy. From 2002 to 2005, she was a Member of the Puławy County Board. In 2005-2015 she was a member of parliament in the Republic of Poland's Sejm. She was also a member of the National Council of the Judiciary of Poland and Supervisory Board Chairwoman 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. She serves as the Supervisory Board Chairwoman of PZU TUW and Supervisory Board Member of Bank Pekao S.A. and LINK4 TU S.A.



Krzysztof Szypuła

Member of the PZU Management Board since 10 September 2020 / PZU Życie Management Board since 10 September 2020. Graduate of the University of Lodz with a specialization in econometrics and statistics and of the Summer School of Actuarial Science at the University of Warsaw. He has worked in the financial services industry for 29 years. He worked for a long time for the Nationale-Nederlanden (ING) Group where he worked from 1994 to 2010 in Poland, the United States and Australia gaining experience in actuarial matters, financial management, IT projects and operations. Before joining the PZU Group he was associated with the Polish Branch of Prudential plc from the United Kingdom where he was responsible for product development and management and then with Allianz Polska. In the management board of Allianz insurance companies he was initially responsible for life and health products and later for sales management. Before taking up the function of Management Board Member in PZU SA and PZU Życie SA he served in the capacity of Managing Director for Product Strategy.



Dorota Macieja

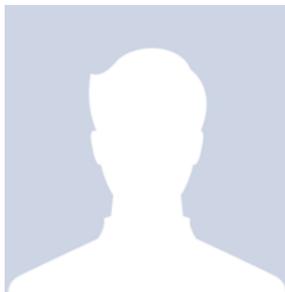
PZU Życie SA Management Board Member and PZU Group Director since 15 March 2017. Graduate of Polish philology at the University of Warsaw. Associated with the PZU Group since 2016. As the director she supervised prevention and sponsoring in PZU SA and PZU Życie SA. In 2010-2016, she coordinated and managed publishing and film production projects. In 2008-2010, she served as deputy director and director of Channel 1 of Telewizja Polska SA. Earlier, in 2007, she headed TVP1's News program. For many years, a journalist working for Tygodnik Solidarność, Wprost and Radio Free Europe. During martial law in Poland, she was associated with the underground publishing house "Wola".



Aleksandra Agatowska

President of the PZU Życie SA from 15 February 2021 (from 19 February 2020 to 14 February 2021 acting President of the PZU Życie SA, before that: 25 March 2016 Member of the PZU Życie Management Board), PZU Group Director since 20 February 2020 (before that: from 24 October 2019 to 19 February 2020 Member of the PZU Management Board and from 25 March 2016 to 23 October 2019 PZU Group Director).

Graduate of the Jagiellonian University majoring in Economic Sociology and Market Research and Executive MBA at the Kozminski University in Warsaw. She also completed the Education Program: Implementing Winning Strategies (Columbia Business School), Managerial Finance (The London School of Economics and Political Science) and Strategic Change Management (Kellogg School of Management). She gained her professional experience working for ING Życie, ING Powszechnie 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 SA on the implementation of distribution channel projects. She also has experience in corporate governance. Currently, she serves as the Supervisory Board Chairwoman of Alior Bank S.A.



Bartłomiej Litwińczuk

PZU Życie SA Management Board Member and PZU Group Director since 19 August 2016. Graduate of the Faculty of Law and Administration at the University of Warsaw. In 2009 he completed his advocate trainee program and passed the professional examination. Advocate in the Warsaw Bar Association. He specializes in civil law. He combines his business knowledge 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. In the past, he also served as an advisor to the Extraordinary Committee of the Sejm for changes in legal codes. He has experience in corporate governance. Moreover, he is a member of the regulatory authorities of commercial law companies.



9.8 Compensation paid to members of supervisory and management bodies

Rules for compensating Supervisory Board Members

The monthly compensation of Supervisory Board Members was set in Resolution No. 5/2017 adopted by PZU's Extraordinary Shareholder Meeting on 8 February 2017 on the rules for setting the compensation of the Supervisory Board Members, as amended by Resolution No. 37/2019 adopted by PZU's Ordinary Shareholder Meeting on 24 May 2019. In accordance with the amending resolution, the monthly compensation of Supervisory Board Members was set as the product of the base amount referred to in Article 1 Section 3 Item 11 of the Act on the Rules for Setting the Compensation of Persons Managing Certain Companies of 9 June 2016 and the following multiplier of 2.75.

The monthly compensation set this way is increased for:

- The Supervisory Board Chairperson by 10%,
- The Supervisory Board Deputy Chairperson by 9%,
- The Supervisory Board Secretary by 8%,
- The Chairpersons of Supervisory Board committees by 9%, przy czym dodatkowe wynagrodzenia nie sumują się.

Rules for compensating Management Board Members

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 on the rules for setting the compensation of the Management Board members (as amended), Resolution No. 36 adopted by PZU's Ordinary Shareholder Meeting on 26 May 2020 on the "Compensation policy for the PZU SA Management Board and Supervisory Board Members" 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 aforementioned 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 Article 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 Article 4 section 3 of the aforementioned act;

- variable compensation – supplementary compensation for a given financial year depending on the extent to which management objectives from the catalog which, in accordance with the aforementioned act, comprises among others, improvement of economic and financial indicators, are attained; 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, 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 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 2020, 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 and the first tranche of the deferred variable compensation.

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. They do not provide for 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 2020, 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.

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 and Supervisory Board and PZU Group Directors.

Compensation and other short-term employee benefits paid by PZU (PLN thous.)	1 January – 31 December 2019		1 January – 31 December 2020	
		including part of variable compensation for 2017 - 2018		including part of variable compensation for 2017 - 2019
Management Board, of which:	10,664	4,412	12,892	3,909
Beata Kozłowska-Chyła	n/a	n/a	776	-
Ernest Bejda	n/a	n/a	617	-
Marcin Eckert	672	-	1,321	391
Małgorzata Kot	n/a	n/a	297	-
Tomasz Kulik	1,482	627	1,567	637
Maciej Rapkiewicz	1,733	879	1,567	637
Małgorzata Sadurska	1,543	689	1,581	651
Krzysztof Szypuła	n/a	n/a	415 ¹	-
Aleksandra Agatowska	611	423	356	282
Adam Brzozowski	532	-	1,395 ²	310
Elżbieta Häuser – Schöneich	532	-	1,395 ³	310
Paweł Surówka	1,799	915	1,605 ⁴	691
Roger Hodgkiss	1,760 ⁵	879	n/a	n/a
High-level managers (PZU Group Directors), including:	3,530	2,034	2,374	741
Aleksandra Agatowska	239	-	384	-
Bartłomiej Litwińczuk	821	482	616	244
Dorota Macieja	754	415	616	244
Małgorzata Kot	n/a	n/a	140	-
Roman Pałac	923	572	618 ⁶	253
Tomasz Karusewicz	793 ⁷	565	n/a	n/a
Management Board, of which:	1,761	-	2,007	-
Maciej Łopiński	184	-	195	-
Paweł Górecki	182	-	193	-
Robert Śnitko	167	-	188	-

¹Including remuneration and bonus for function of Managing Director for Product Strategy discharged from 1 January to 9 September 2020

²Including non-competition fee of PLN 210 thousand and severance pay of PLN 233 thousand

³Including non-competition fee of PLN 210 thousand and severance pay of PLN 233 thousand

⁴Including non-competition fee of PLN 483 thousand and severance pay of PLN 242 thousand

⁵Including non-competition fee of PLN 383 thousand and severance pay of PLN 192 thousand

⁶Including non-competition fee of PLN 193 thousand and severance pay of PLN 97 thousand

⁷Including non-competition fee of PLN 49 thousand and severance pay of PLN 77 thousand

Compensation and other short-term employee benefits paid by PZU (PLN thous.)	1 January – 31 December 2019		1 January – 31 December 2020	
		including part of variable compensation for 2017 - 2018		including part of variable compensation for 2017 - 2019
Marcin Chludziński	167	-	177	-
Agata Górnicka	167	-	177	-
Robert Jastrzębski	176	-	193	-
Tomasz Kuczur	101	-	177	-
Elżbieta Mączyńska-Ziemacka	101	-	177	-
Krzysztof Opolski	101	-	188	-
Józef Wierzbowski	n/a	n/a	106	-
Maciej Zaborowski	167	-	177	-
Alojzy Nowak	182	-	59	-
Katarzyna Lewandowska	66	-	n/a	n/a

Compensation and other short-term employee benefits paid by other PZU Group entities (PLN thous.)	1 January – 31 December 2019		1 January – 31 December 2020	
		including part of variable compensation for 2017 - 2018		including part of variable compensation for 2017 - 2019
Management Board, of which:	1,471	1,012	892	-
Marcin Eckert	48	-	-	-
Małgorzata Kot	n/a	n/a	224	-
Tomasz Kulik	298	298	-	-
Maciej Rapkiewicz	135	135	-	-
Krzysztof Szypuła	n/a	n/a	668 ¹	-
Aleksandra Agatowska	788	377	n/a	n/a
Paweł Surówka	67	67	-	-
Roger Hodgkiss	135	135	n/a	n/a
High-level managers (PZU Group Directors), including:	3,831	1,946	3,573	1,429
Aleksandra Agatowska	n/a	n/a	784	285
Bartłomiej Litwińczuk	979	471	934	377
Dorota Macieja	943	434	934	377
Roman Pałac	1,052	526	921 ²	390
Tomasz Karusewicz	857 ³	515	n/a	n/a

¹Including fixed remuneration and annual bonus for the Managing Director for Product Strategy discharged from 1 January to 9 September 2020

²Including non-competition fee of PLN 280 thousand and severance pay of PLN 140 thousand

³Including non-competition fee of PLN 74 thousand and severance pay of PLN 115 thousand

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2019	1 January – 31 December 2020
Management Board, of which:	2,242	2,626
Beata Kozłowska-Chyła	n/a	118
Ernest Bejda	n/a	58
Marcin Eckert	200	657 ¹
Małgorzata Kot	n/a	90
Tomasz Kulik	649 ²	156
Maciej Rapkiewicz	227	160
Małgorzata Sadurska	259	241
Krzysztof Szypuła	n/a	101
Adam Brzozowski	148	214
Paweł Surówka	331	661 ³
Elżbieta Häuser – Schöneich	119	170
Aleksandra Agatowska	207	n/a
Roger Hodgkiss	102	n/a
High-level managers (PZU Group Directors), including:	768	697
Aleksandra Agatowska	n/a	214
Bartłomiej Litwińczuk	200	235
Dorota Macieja	197	209
Roman Pałac	228	39
Tomasz Karusewicz	143	n/a

¹Including PLN 445 thousand for Advanced Management Program at Harvard Business School

²Including PLN 473 thousand for Advanced Management Program at Harvard Business School

³Including PLN 515 thousand for Advanced Management Program at Harvard Business School

The Company does not have any pension liabilities or similar benefits to former managers and supervisors or former members of its administrative authorities or liabilities taken out in connection with these benefits.



9.9 Diversity policy

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, form of employment – for a specified or unspecified term, on a full-time or part-time basis while simultaneously respecting the right of assembly and the right to strike.

Respecting individuality, equal treatment and prevention of discrimination are supported by the adopted procedures and undertaken initiatives:

- countering mobbing – support is given by the Anti-mobbing Procedure which contemplates 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 report breaches through the intranet platform.

In addition, all employees may use the generally accessible e-learning training entitled “Mobbing – legal and psychological aspects”, which additionally covers issues pertaining to discrimination and equal treatment in employment opportunities. Issues pertaining to the psychological working environment are also covered as part of regular occupational safety and health training offered to employees, including managers.

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.

“PZU Group’s Best Practices”, which are a code of ethics for all employees, promote mutual respect, cooperation and equal

treatment, taking into account diversity of roles, character and personality traits. These are the foundations on which the success of the whole organization is built.

They span all career stages in PZU, starting from the recruitment process, and pertain to employment terms, access to training and development-minded activities, opportunities to be promoted.

PZU confirmed its will to pursue a diversity policy by joining the signers of the international Charter of Diversity in 2013.

Diversity policy pertaining to the management and supervisory staff

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.

As regards qualifications and requirements for those occupying positions in management and supervisory bodies, PZU in particular takes into account the statutory criteria for education and professional experience adequate to the functions discharged on such positions in the entity conducting insurance activity. They are 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.

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 composition of the PZU Management Board and Supervisory Board also addresses the need of age diversification among their Members.

PZU Supervisory Board

	31.12.2018				31.12.2019				31.12.2020			
	number of persons		%		number of persons		%		number of persons		%	
	women	men	women	men	women	men	women	men	women	men	women	men
< 30 years old	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
30 to 50 years old	2	5	22%	56%	1	6	9%	55%	1	6	9%	55%
> 50 years old	0	2	0%	22%	1	3	9%	27%	1	3	9%	27%
Total by gender	2	7	22%	78%	2	9	18%	82%	2	9	18%	82%

PZU Management Board

	31.12.2018				31.12.2019				31.12.2020			
	number of persons		%		number of persons		%		number of persons		%	
	women	men	women	men	women	men	women	men	women	men	women	men
< 30 years old	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
30 to 50 years old	1	3	20%	60%	2	5	25%	63%	3	4	38%	50%
> 50 years old	0	1	0%	20%	1	0	12%	0%	0	1	0%	12%
Total by gender	1	4	20%	80%	3	5	37%	63%	3	5	38%	62%



Shadow of an e-mail. Here is one more sample of the wit and determination of PZU employees in propagating plain Polish. Katarzyna Mitosz of the Łódź Operations Center embellished the hit song of the Łódź-based band Varius Manx:

*I saw a long e-mail,
It terrified me like the wind.
It's not from PZU's world.
I'd love to rewrite it.*

10.
Other

Representation by the Parent Company's Management Board on the preparation of standalone and consolidated financial statements and the activity report

To the best knowledge of the PZU Management Board, the PZU Group and Issuer's annual consolidated financial statements and comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's and the Issuer's assets and financial position as well as their financial result. To the best knowledge of the PZU Management Board, the report on the activities of the PZU Group and PZU SA contains a true picture of the development, achievements and situation of the PZU Group and the Issuer, including a description of basic threats and risks.

Cooperation with international public institutions

Under Solvency II, PZU has the ability to consult 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 2020, Bank Pekao signed an annex to the portfolio guarantee agreement with the European Investment Fund. It extended the ability to use the EFI COSME guarantee under the existing conditions, in the period from 1 January 2021 to 30 June 2021. Alior Bank also provides guarantees to commercial undertakings under the COSME program and the European Fund for Strategic Investments ("EFSI").

In 2020, Pekao Leasing launched two long-term loans in the total amount of EUR 200 million, granted by the European Investment Bank under agreements signed in 2019. This financing is a component of the Pekao Group's long-term strategy of cooperation with small and medium-sized enterprises. Bank Pekao was both the arranger of the transaction and the guarantor of the loan.

As at 31 December 2020, Alior Bank was a party to an agreement entered into with the European Investment Fund (EIF) and the European Investment Bank (EIB) as a counter-guarantor for synthetic securitization of its business loan portfolio up to PLN 1.5 billion.

Information about significant agreements executed between shareholders

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

Information about significant executed agreements

On 4 February 2020, the PZU Management Board adopted a resolution to select an offer in the proceeding to lease premises for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a member of the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU Head Office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office.

On 30 June 2020, the PZU Management Board adopted a resolution on the execution of a lease agreement for the PZU Head Office with the Lessor. On the same date, an agreement was signed to lease office space, commercial and service space, storage space and parking spaces in the Building ("Lease Agreement"). The lease agreement contains clauses contemplating contractual penalties regarding the Lessor's liability for delays in handing over the leased facility, hindrances and impediments to usage of the leased area and violations of the non-compete clause.

The total estimated gross value of the Lease Agreement to lease the Building over the 10 years of its duration is approximately PLN 787 million, while the gross incremental costs related to relocation are approximately PLN 65 million. The amounts stated above may vary as a result of specific arrangements concerning the final layout, the final scope of adaptation work, the costs of fit-out and the date of translating some of the costs and financial incentives between EUR and PLN. The total value of the Lease Agreement as at 30 June 2020 should not change by more than 5% of the specified amount.

In 2020, no other significant contracts were executed in respect of the Issuer's operations.

Related party transactions on terms other than an arm's length basis

In 2020, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on terms other than an arm's length basis.

Purchase of treasury shares in the financial year

As at 31 December 2020, consolidated funds held 173 thousand PZU shares.

PZU did not hold any treasury shares as at 31 December 2020.

Credits and loans extended and taken out

Under their investment activity in 2020 PZU SA, PZU Życie SA and the funds managed by TFI PZU SA executed transactions to extend debt financing in the form of loans and bonds.

Armatura Kraków funds its business using loans totaling PLN 67,6 million. In 2020, its debt was refinanced. The company's only creditor is Alior Bank.

Granted and received guarantees and sureties

In 2020 neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant, with the exception of the question described below.

On 2 November 2020 PZU entered into Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time with Alior Bank. In addition, PZU entered into Annex no. 1 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time defines the rules for PZU to issue insurance guarantees for unfunded credit protection within an exposure limit under instructions from, and in favor of, Alior Bank. The maximum exposure limit for the guarantees issued pursuant to Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is

PLN 4,000 million. The limit is in force for a period of 3 years and is a revolving limit, meaning that the expiry of a guarantee makes the "freed up" amount available within the limit minus any possible disbursements under a guarantee.

The fee for extending the guarantee will depend, among other things, on portfolio amortization and the premium for a counter guarantee. At present, it is not possible to state the amount of the fee for a guarantee since it will depend on the amount of the guaranteed sum and the quality of the portfolio collateralizing the guarantee. The issuance of every guarantee will be preceded by an application from Alior Bank and an evaluation and valuation of the portfolio presented for that guarantee. Alior Bank will present a declaration of voluntary submission to enforcement in the form of a notary deed to collateralize the payment of the fee for a guarantee under the executed Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time.

The maximum term of the guarantees issued under Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is 5 years. Alior Bank's share of the due and payable receivables by virtue of the accounts receivable is 10%.

Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time contemplates contractual penalties that may be due to PZU from Alior Bank if Alior Bank breaches certain obligations stemming from Annex no. 1 to the Agreement. The total maximum amount of contractual penalties cannot exceed PLN 3 million. Annex no. 1 to the Agreement does not rule out the possibility of pursuing damages exceeding the sum total of the contractual penalties.

Annex no. 1 to the Master Agreement to Provide Counter Guarantees from Time to Time defines the rules for the Counterparty to provide counter guarantees under instructions from PZU issued in favor of Alior Bank. The available counter guarantee limit is PLN 2,600 million. The available limit will be reduced each time when each counter-guarantee is extended, by the guaranteed amount specified in the counter-guarantee; the available counter-guarantee limit is renewable, which means that the limit is renewed when a counter-guarantee expires.

No guarantee was issued under this agreement in 2020.



Information regarding the off-balance sheet items as at the end of 2020 is presented in Section 6.6 “Asset and liability structure”.

Rules of preparation

The Rules of preparing the annual consolidated financial statements have been described in the PZU Group’s consolidated financial statements.

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

Assessment of the performance of investment-related intentions

The PZU Group and the Issuer are in very good financial standing and satisfy all the safety criteria imposed by the legal regulations and the Polish Financial Supervision Authority. The Issuer’s stable rating outlook confirms that PZU has a strong business position, has a high level of equity, and is well-poised to achieve its intentions when it comes to investments.

Financial forecasts

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

Disputes

In 2020 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 2020.

As at 31 December 2020, the total value of dispute in all 282,352 cases (as at 31 December 2019: 294,687) cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,825 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,408 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,417 million (as at 31 December 2019: PLN 4,070 million) of accounts receivable of PZU Group companies.

This Report on the Activity of the PZU Group and PZU for 2018 has 275 consecutively numbered pages.

Signatures of PZU Management Board Members

Beata Kozłowska-Chyła – President of the Management Board

Ernest Bejda – Management Board Member

Marcin Eckert – Management Board Member

Małgorzata Kot – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Krzysztof Szypuła – Management Board Member

Warsaw, 24 March 2021



We break the mold without twisting our tongues. We took to the streets with the authors of a youthful satirical YouTube channel “The Maturity Exam is a Scam” to check how well Poles speak Polish. The question we asked them was akin to the English dilemma of “saying ‘accept’ or ‘except’ a proposal”? Half of the persons responded wrongly, like many English speakers confuse “except” with “accept”, amply proving that there is still a lot of work to be done when it comes to speaking well... outside PZU.

11. Appendix: PZU Group’s financial data

Appendix: PZU Group's financial data



Basic amounts of the consolidated profit and loss account (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	20,219	22,847	23,470	24,191	23,866
Net earned premiums	18,625	21,354	22,350	23,090	23,024
Revenue from commissions and fees	740	2,312	3,355	3,279	3,166
Net investment income	3,312	7,893	9,931	11,298	8,486
Net claims and benefits	(12,732)	(14,941)	(14,563)	(15,695)	(15,580)
Acquisition costs	(2,613)	(2,901)	(3,130)	(3,363)	(3,317)
Administrative expenses	(2,923)	(5,357)	(6,609)	(6,606)	(6,597)
Interest expenses	(697)	(1,350)	(2,046)	(2,129)	(1,134)
Other operational revenues and expenses	(721)	(1,552)	(2,201)	(2,790)	(3,990)
Operating profit (loss)	2,991	5,458	7,087	7,084	4,058
Share in net profit (loss) of entities measured using the equity method	(3)	16	(1)	(4)	-
Gross profit (loss)	2,988	5,474	7,086	7,080	4,058
Net profit (loss), including:	2,374	4,185	5,368	5,185	2,530
Shareholders' profit (loss)	1,935	2,895	3,213	3,295	1,912
Minority profit (loss)	439	1,290	2,155	1,890	618
Basic and diluted weighted average number of ordinary shares*	863,510,930	863,519,608	863,347,220	863,285,340	863,332,499
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)	2.24	3.35	3.72	3.82	2.21
Net profit of PZU (Issuer)	1,573	2,459	2,712	2,651	1,919
Basic and diluted Issuer's profit per ordinary share (in PLN)	1.82	2.85	3.14	3.07	2.22

*including shares in consolidated funds
Data as at 31 December 2016-2019 restated

Assets (PLN million)	2016	2017	2018	2019	2020
Intangible assets	1,463	3,443	3,180	3,157	3,206
Goodwill	1,583	3,830	3,871	4,034	2,776
Property, plant and equipment	1,467	3,287	3,184	4,229	4,188
Investment property	1,738	2,355	1,697	1,981	2,493
Entities measured using the equity method	37	20	17	11	72
Loan receivables	44,998	169,457	182,054	194,868	197,288
Derivatives	953	2,351	2,487	3,107	6,339
Financial assets	59,335	110,046	101,665	111,416	140,922
Receivables	5,664	9,096	6,343	5,737	6,246
Reinsurers' share in technical provisions	990	1,250	1,512	1,856	2,101
Deferred tax assets	641	1,590	2,234	2,313	2,511
Deferred acquisition costs	1,407	1,485	1,546	1,574	1,550
Other assets	866	692	562	734	753
Cash and cash equivalents	2,973	8,239	17,055	7,788	7,939
Assets held for sale	1,189	317	1,147	580	590
Total assets	125,304	317,458	328,554	343,385	378,974

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017



Appendix: PZU Group's financial data



Equity (PLN million)	2016	2017	2018	2019	2020
Share capital	86	86	86	86	86
Supplementary capital	10,758	11,824	12,660	13,113	15,848
Revaluation reserve	106	157	(65)	294	891
Actuarial profits and losses related to provisions for employee benefits	3	4	-	1	3
Own shares	(1)	-	(11)	(7)	(9)
Other reserve capital	5	5	18	(324)	295
Exchange differences	(2)	(73)	(36)	(41)	65
Retained profits (losses)	100	(299)	(940)	(248)	(314)
Net profit (loss)	1,935	2,895	3,213	3,295	1,912
Appropriations on net profit during the financial year	-	-	-	-	-
Minority interest	4,067	22,961	22,482	23,119	24,626
Total equity	17,057	37,560	37,407	39,288	43,403

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Liabilities (PLN million)	2016	2017	2018	2019	2020
Technical provisions	42,194	44,558	45,839	47,329	48,471
Unearned premium and unexpired risk reserve	7,076	8,008	8,525	8,885	8,834
Life insurance provisions	15,928	16,060	16,204	16,346	16,309
Outstanding claims provisions	8,272	8,898	9,690	10,298	10,984
Provision for annuities	5,673	5,776	5,981	5,999	6,226
Provisions for bonuses and discounts for the insured	5	14	7	9	8
Other technical provisions	323	287	256	214	190
Unit-linked technical provisions	4,917	5,515	5,176	5,578	5,920
Subordinated liabilities	1,027	5,319	6,061	6,700	6,679
Own debt securities liabilities	6,449	9,610	12,009	9,273	7,532
Liabilities to banks	503	5,323	6,044	6,604	9,751
Liabilities to clients for deposits	48,472	198,163	207,635	218,588	241,975
Derivatives	787	3,474	3,365	3,018	6,281
Other liabilities	7,897	11,960	8,805	10,599	12,434
Other provisions	416	850	854	1,211	1,378
Deferred tax liability provision	469	638	486	746	949
Liabilities directly associated with assets qualified as held for sale	33	3	49	29	121
Total liabilities	108,247	279,898	291,147	304,097	335,571
Total equity and liabilities	125,304	317,458	328,554	343,385	378,974

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

One-off events in PZU Group (PLN million)	2016	2017	2018	2019	2020
Impairment loss on goodwill	-	-	-	-	(1,301)
Impairment loss on intangibles arising from the acquisition of Alior Bank	-	-	-	-	(161)
Conversion effect (IAS)	40	35	17	14	12
Provision for the reimbursement of fees on the premature amortization of consumer loans (CJEU)	-	-	-	(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)	-	-	-
Gain on acquisition of the spun-off part of Bank BPH	465	-	-	-	-
Restructuring reserve in Alor Bank	(268)	-	-	-	-
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	-	-	-	-

Operational efficiency ratios	2016	2017	2018	2019	2020
1. Gross claims and benefits ratio (simple) (gross claims and benefits/gross written premium) x 100%	63.7%	67.3%	63.8%	66.5%	67.5%
2. Claims and benefits ratio on own share (net claims and benefits / earned premium on own share) x 100%	68.4%	70.0%	65.2%	68.0%	67.7%
3. Insurance segment activity expense ratio (insurance activity expenses/earned premium on own share) x 100%	22.5%	21.1%	21.4%	22.3%	22.6%
4. Insurance segment acquisition expense ratio (acquisition expenses/premium earned on own share) x 100%	14.3%	14.0%	14.5%	15.1%	15.3%
5. Administrative expense ratio in the insurance segments (administrative expenses/premium earned on own share) x 100%	8.3%	7.2%	6.9%	7.2%	7.4%
6. Combined ratio in non-life insurance (net claims and benefits + insurance activity expenses) / net premium earned on own share) x 100%	94.9%	89.6%	87.1%	88.5%	88.2%
7. Operating profit margin in life insurance (operating profit / gross written premium) x 100%	25.3%	19.3%	21.3%	20.5%	18.6%
8. Cost/Income ratio – banking operations	44.4%	48.0%	42.3%	40.8%	43.2%

Appendix: PZU Group's financial data



Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	2,174	2,738	3,097	3,316	3,026
Net earned premiums	1,641	2,005	2,326	2,476	2,365
Investment income	115	85	113	100	116
Insurance claims	(1,062)	(1,323)	(1,591)	(1,610)	(1,593)
Acquisition costs	(361)	(425)	(477)	(519)	(511)
Administrative expenses	(125)	(137)	(131)	(131)	(144)
Reinsurance commission and share in profits	21	27	39	43	47
Other	-	(41)	(11)	(32)	33
Insurance profit	229	191	268	327	313
Acquisition costs ratio (including reinsurance commission)*	20.7%	19.9%	18.8%	19.2%	19.6%
Administrative expenses ratio*	7.6%	6.8%	5.6%	5.3%	6.1%
Claims ratio*	64.7%	66.0%	68.4%	65.0%	67.4%
Combined ratio (COR)*	93.1%	92.7%	92.9%	89.5%	93.1%

* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	8,833	10,068	10,401	10,403	10,244
Net earned premiums	7,836	9,513	10,168	10,261	10,192
Investment income	517	482	526	481	525
Insurance claims	(5,275)	(6,069)	(6,171)	(6,410)	(6,221)
Acquisition costs	(1,551)	(1,745)	(1,890)	(1,986)	(2,010)
Administrative expenses	(634)	(608)	(594)	(651)	(673)
Reinsurance commission and share in profits	(14)	(9)	(6)	3	-
Other	(220)	(237)	(308)	(249)	(142)
Insurance profit	659	1,327	1,725	1,449	1,671
Acquisition costs ratio (including reinsurance commission)*	20.0%	18.4%	18.6%	19.3%	19.7%
Administrative expenses ratio*	8.1%	6.4%	5.8%	6.3%	6.6%
Claims ratio*	67.3%	63.8%	60.7%	62.5%	61.0%
Combined ratio (COR)*	95.4%	88.6%	85.2%	88.1%	87.4%

* ratios calculated with net premium earned

Data from the profit and loss account – group and individually continued insurance (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	6,775	6,855	6,891	6,966	7,007
Group insurance	4,829	4,878	4,887	4,940	4,958
Individually continued insurance	1,946	1,977	2,004	2,026	2,049
Net earned premiums	6,776	6,854	6,890	6,965	6,956
Investment income	680	720	581	668	675
Insurance claims and change in other technical provisions net	(4,686)	(5,142)	(4,931)	(5,057)	(5,190)
Acquisition costs	(329)	(332)	(349)	(388)	(381)
Administrative expenses	(585)	(587)	(604)	(640)	(632)
Other	(71)	(63)	(44)	(51)	(37)
Insurance profit	1,785	1,450	1,543	1,497	1,391
Insurance profit excluding conversion effect	1,745	1,415	1,526	1,483	1,379
Insurance profit excluding one-off events	1,529	1,415	1,526	1,483	1,379
Acquisition costs ratio*	4.9%	4.8%	5.1%	5.6%	5.4%
Administrative expenses ratio*	8.6%	8.6%	8.8%	9.2%	9.0%
Insurance profit margin (excl. conversion effect)	25.8%	20.6%	22.1%	21.3%	19.7%
Insurance profit margin**	22.6%	20.6%	22.1%	21.3%	19.7%

* ratios calculated with gross premium written
 ** (excl. one-off events)

Data from the profit and loss account – individual insurance (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	1,174	1,664	1,346	1,581	1,712
Net earned premiums	1,174	1,662	1,344	1,579	1,710
Investment income	288	419	59	548	465
Insurance claims and change in other technical provisions net	(1,043)	(1,672)	(976)	(1,640)	(1,670)
Acquisition costs	(107)	(135)	(126)	(139)	(175)
Administrative expenses	(59)	(61)	(69)	(72)	(81)
Other	(9)	(4)	(5)	(5)	(5)
Insurance profit	244	209	227	271	244
Acquisition costs ratio*	9.1%	8.1%	9.4%	8.8%	10.2%
Administrative expenses ratio*	5.0%	3.7%	5.1%	4.6%	4.7%
Insurance profit margin*	20.8%	12.6%	16.9%	17.1%	14.3%

* ratios calculated with gross premium written

Data from the profit and loss account - investment contracts (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	86	44	40	35	33
Group insurance	3	2	2	1	1
Individual insurance	83	42	38	34	32
Net earned premiums	86	44	40	35	33
Investment income	18	18	(14)	16	13
Insurance claims and change in the balance of other technical provisions net	(89)	(50)	(15)	(42)	(37)
Acquisition costs	(4)	(1)	(1)	-	-
Administrative expenses	(9)	(7)	(5)	(4)	(3)
Other	-	-	(2)	-	-
Operating profit	2	4	3	5	6
Profit margin*	2.3%	9.1%	7.5%	14.3%	18.2%

* ratios calculated with gross premium written

Data from the profit and loss account - banking activity (PLN million)	2016	2017	2018	2019	2020
Revenue from commissions and fees	547	2,133	3,115	3,146	3,008
Investment income	1,920	5,897	8,897	8,972	6,248
Interest costs	(605)	(1,249)	(1,904)	(2,013)	(1,074)
Administrative expenses	(1,290)	(3,743)	(4,989)	(4,850)	(4,782)
Other	76	(599)	(1,083)	(1,757)	(3,206)
Total	648	2,439	4,036	3,498	194

Restated data for 2016-2019

Data from the profit and loss account - pension segment (PLN million)	2016	2017	2018	2019	2020
Investment income	5	6	5	6	4
Other revenues	110	128	149	142	130
Administrative expenses	(41)	(44)	(40)	(43)	(56)
Other	-	(3)	(7)	(4)	(5)
Operating profit (loss)	74	87	107	101	73

Data from the profit and loss account - Ukraine segment (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	210	223	257	335	291
Net earned premiums	109	123	152	217	196
Investment result	23	18	19	33	39
Net insurance claims	(54)	(56)	(59)	(81)	(76)
Acquisition costs	(60)	(69)	(82)	(118)	(101)
Administrative expenses	(24)	(23)	(25)	(31)	(33)
Other	21	18	18	19	29
Insurance profit	15	11	23	39	54
Exchange rate UAH/PLN	0.1542	0.1402	0.1330	0.1502	0.1439
Acquisition costs ratio*	55.0%	56.1%	53.9%	54.4%	51.5%
Administrative expenses ratio*	22.0%	18.7%	16.4%	14.3%	16.8%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data



Data from the profit and loss account – Baltic states segment (PLN million)	2016	2017	2018	2019	2020
Gross written premiums	1,183	1,404	1,592	1,713	1,694
Net earned premiums	1,104	1,248	1,480	1,600	1,643
Investment result	23	20	2	38	18
Net insurance claims	(694)	(773)	(905)	(989)	(965)
Acquisition costs	(251)	(275)	(317)	(335)	(340)
Administrative expenses	(110)	(111)	(125)	(133)	(141)
Other	-	-	3	4	5
Insurance profit	72	109	138	185	220
Exchange rate EUR in PLN	4.3757	4.2447	4.2669	4.3018	4.4742
Acquisition costs ratio*	22.7%	22.0%	21.4%	20.9%	20.7%
Administrative expenses ratio*	10.0%	8.9%	8.4%	8.3%	8.6%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	2016	2017	2018	2019	2020
Total	(515)	88	(390)	333	323

Restated data for 2016-2019

11.

Attachment: Glossary and Alternative Performance Measures

insurance agent – commercial undertaking conducting agency activity pursuant to an agreement executed with an insurance undertaking. The activity of agents focuses on acquiring customers, entering into insurance contracts, participating in the administration and performance of insurance agreements and organizing and supervising agency activity

assurbanking – distribution of banking products by insurance companies

bancassurance – distribution of insurance products by banks

insurance broker – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favor of an entity seeking insurance cover

cross-selling – sales strategy for selling an insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example

P/BV (Price to Book Value) – indicator specifying the ratio of the market price to the book value per share

P/E (Price to Earnings) – indicator specifying the ratio of the company's market price (per share) to earnings per share

DPS (Dividend Per Share) – market multiple specifying the dividend per share

DY (Dividend Yield) – market multiple specifying the ratio of the dividend per share to the market share price

EPS (Earnings Per Share) – market multiple specifying earnings per share

IDD – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

IPO (Initial Public Offering) – public offering of specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded publicly

Civil Code – Act of 23 April 1964 entitled Civil Code

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code

ECSS – Employee Capital Schemes defined by the provisions of the Act of 4 October 2018 on Employee Capital Schemes

PRIIP – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products

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

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

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

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

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

CRR – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential

requirements for credit institutions and investment firms (Capital Requirements Regulation)

Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, item 757)

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

sell side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers

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

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

spread – the difference between the purchase and sale price of a financial instrument

risk-free rate – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments.

sum insured – amount in cash for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability

TSR (Total Shareholder Return) – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year. It is expressed as a percentage on an annualized basis

Unit-linked – Unit-linked insurance fund, a separate fund consisting of assets constituting a provision consisting of insurance premiums invested in the manner specified in the insurance agreement, a constituent part of unit-linked life insurance also referred to as an investment policy

Act on Statutory Auditors – Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, Item 1089, as amended)

UOKiK – Office of Competition and Consumer Protection, the Polish anti-trust authority, acting to ensure the development of competition, protect businesses exposed to monopolistic practices and protect consumer interests, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844), with most regulations in force as of 1 January 2016. This Act introduced Solvency II requirements to the Polish legal system

UX (User Experience) – area related to the experiences of users of the respective tool (or, more broadly, of a process, or interacting with the brand in general). It is associated directly with web usability, which is an empirical field of knowledge dealing with the design and testing of tools (in this case: online tools) in consideration of the needs and preferences of target users. In the context of websites, it involves broadly construed usefulness and effectiveness in attaining specific goals

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

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

prudent person principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk

Selected Alternative Performance Measures (APM) within the meaning of European Securities and Markets Authority Guidelines (ESMA) no. 2015/1415 are presented below. The profitability and operational efficiency indicators presented herein, constituting standard measures applied generally in financial analysis, provide, in the opinion of the Management Board, significant additional information about the PZU Group's financial performance. Their usefulness was analyzed in terms of information, delivered to the investors, regarding the Group's financial standing and financial performance.

Assets of external clients of TFI PZU and PTE PZU (PLN billion) – assets of external clients accumulated in the PZU “Złota Jesień” Open-End Pension Fund and the PZU Voluntary Pension Fund as well as all assets accumulated and managed by TFI PZU, other than those constituting own funds of PZU Group companies. An increase in this indicator means that the inflows of assets into the funds are greater than the outflows from the funds and/or that the funds generated positive rates of return on assets under management.

COR combined operating ratio, calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period; a decrease in the value of this indicator signifies an improvement in efficiency

PZU Zdrowie's EBITDA margin – ratio of the sum of the operating result plus depreciation costs (for non-insurance activities) and the technical result (for insurance products) of PZU Zdrowie to the value of PZU Zdrowie's revenues. PZU Zdrowie's revenues include revenues from medical insurance sold by PZU Życie and other PZU Group companies, revenues from medical services sold by medical centers (including those provided by PZU Zdrowie), revenues from medical subscriptions and PZU Zdrowie's revenues from medical benefits net of the impact of non-recurring transactions; an increase in the value of this indicator signifies an improvement in efficiency

Net interest margin (NIM) – the difference between a bank's net interest income earned on income-generating assets and interest expenses incurred on liabilities. It is the ratio of a bank's earnings generated on interest to average assets net of matured interest on at-risk receivables; an increase in the value of this indicator signifies an improvement in efficiency

Operating margin in life insurance – profitability of life insurance segments, calculated as the ratio of the result on operating activity to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency

Operating margin in group and individually continued insurance – profitability of the segment of group and individually continued insurance, calculated as the ratio of the result on operating activity without the conversion effect to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency

ROA (Return on Assets) – return on assets, calculated as the ratio of the annual net profit to the arithmetic mean of total assets at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency, i.e. a greater ability of the assets to generate profits.

ROE (Return on Equity) attributable to equity holders of the parent – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners (investors).

Consolidated ROE (Return on Equity) – return on equity calculated as the ratio of the annual net profit to the arithmetic mean of consolidated equity at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners

Administrative expense ratio – the quotient of administrative expenses and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of administrative expenses in the premium, and a decrease in its value signifies an improvement in efficiency

Acquisition expense ratio – the quotient of acquisition expenses (net of reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of acquisition expenses in the premium,

and a decrease in its value signifies an improvement in efficiency

Insurance activity expense ratio – the quotient of insurance activity expenses (administrative expenses plus acquisition expenses net of reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of insurance activity expenses in the premium, and a decrease in its value signifies an improvement in efficiency

Gross loss ratio – the quotient of the sum of gross claims and benefits and movement in the provision for outstanding gross claims and benefits and gross written premium; it shows what portion of the premium was allocated to indemnification costs; a decrease in the value of this indicator signifies an improvement in efficiency

Net loss ratio – the quotient of net insurance claims and benefits and net earned premium; it shows what portion of the premium was allocated to indemnification costs; a decrease in the value of this indicator signifies an improvement in efficiency

Cost/Income ratio, C/I ratio (banking sector) – the quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments; a decrease in the value of this indicator signifies an improvement in efficiency

PZU Group's solvency ratio – the level of coverage of the solvency capital requirement with the PZU Group's own funds within the meaning of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended and supplemented with related documents; an increase in the value of this indicator signifies an increase in the capital surplus

Net result on asset management by TFI PZU and PTE PZU – the sum of two values: TFI PZU's result on external distribution (i.e. operating result established as the difference between revenues and direct expenses allocated to external distribution, other than the PZU Group's Assets, and indirect expenses allocated to external distribution based on the

ABC model after deducting CIT at a rate of 19%) and PTE PZU's net result. An increase in this result is usually due to a greater value of assets of external clients that are managed by the companies and/or an increase in the fee rates for asset management or/and a decrease in management expenses, and is considered a favorable occurrence

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.

