

# 2021

Management Board's report on the activity  
of the PZU Group and PZU SA  
for the accounting year ended  
31 December 2021





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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 2021.

In the last reporting period, we functioned in highly volatile surroundings. The subsequent waves of the COVID-19 pandemic, the clear recovery in the activity of commercial undertakings and consumers, rising inflation and the suitable shift in monetary policy in the latter half of last year and the economic repercussions of the mounting geopolitical crisis in the last quarter were among the factors contributing to that. In the face of uncertainty shaped by a number of new risk factors, the PZU Group once again demonstrated its capacity to grow its business constantly and steadfastly on all of its critical markets and generate above-average benefits for its shareholders while simultaneously providing clients with an attractive and modern offer and the best service.

### Record-breaking gross written premium and earnings

In 2021 the PZU Group grew its gross written premium by PLN 1.2 billion year on year to the record-breaking watermark of PLN 25.1 billion. This means that it has the leading position in the entire Central and Eastern European (CEE) region. From the time PZU went public on the Warsaw Stock Exchange in 2010, annual sales of insurance have risen by more than PLN 10 billion, which proves that having the largest market share and holding a dominant position in many market segments do not pose an obstacle for PZU to continue its growth, which it achieves responsibly and sustainably.

We also delivered the highest net profit in 12 years, namely from the time when PZU first appeared on the Warsaw Stock Exchange. The profit attributable to holders of the parent company shot up in 2021 by 74.5% year on year to PLN 3.34 billion, implying an ROE of 18.6%, i.e. 1.2 p.p. above its strategic

ambitions and 7.7 p.p. above last year's level. We generated excellent profitability in insurance activity – the combined operating ratio was at a low robust level of 89.2% and in investment activity – the return in the main portfolio was 5.4% whereby it exceeded the risk-free rate by 4.8 p.p. The rising contribution of banking activity to the net result supported the good results generated on insurance and investment activity. It stood at PLN 604 million versus a loss of PLN 1.2 billion in 2020. This was possible thanks to the improvement in the prospects for lending activity and the positive outcomes of building synergy between the PZU Group's insurance and banking pillars.

The generated results form a good prognostic for maintaining the payout of dividends. In 2021 PZU's shareholders received more than PLN 3 billion in dividends, the highest amount paid by any of the companies listed on the Warsaw Stock Exchange. The total rate of return on PZU shares was 20.1%, i.e. more than 3 p.p. above WIG20 TR, the main income index. With the caveat that future payouts hinge on the development of circumstances in the economy and the regulator's recommendations, we can declare that we are poised to stick to our commitment given to the market in terms of the level of availability of capital and safety expressed by the Solvency II ratio being above 200%.

### Efficient strategy execution

At the end of March 2021, we presented the new PZU Group Strategy in 2021-2024 called Potential and Growth. We have already effectively implemented many of the actions announced in that document in a short period of time thanks to the engagement of the management boards, all of our departments, employees at every level in the organization and the sales networks and partners cooperating with us.

Our strategic ambition is to turn the PZU Group into a supplier of overall solutions that will help our clients protect and grow their wealth, properly take care of their health and financial security and of their loved ones, align our business smoothly to operate in a sustainable fashion taking into account ESG factors and cultivate engaged and effective business relations with employees. In 2021 we intensively expanded our product and service ecosystems to achieve that vision. Among other things we launched the PZU Benefits platform, PZU Sport subscriptions for sports and recreational activity, we introduced a new flexible offer of individual life insurance based on the open group model, subscription and prepaid medical and preventive packages in PZU Zdrowie for individual

clients, we expanded the inPZU offer to include new index funds, we rolled out the innovative Risk PRO program for clients in the industrial sector and the comprehensive vehicle fleet management system under the name iFleet. We made subscription payments available to clients for many non-life insurance products. PZU set new market standards with many of these newly-implemented solutions.

By pursuing our ESG strategy to turn the PZU Group into a leader, promotor and guide to others in the climate and energy transition process: we invested major funds to underwrite the construction and expansion of wind farms, we also created exceptional insurance products earmarked for individual and corporate owners of installations generating renewable energy.

The preparation of an offer and the large growth in the sales of insurance in bancassurance and through external partnerships deserve emphasis. We would like to utilize to the fullest extent possible the competitive edge afforded to the PZU Group by the diversity of its member companies, their business segments and business profiles. We are developing synergies in the PZU Group with great consistency and visible effects, especially in bancassurance and assurbanking in collaboration with Bank Pekao and Alior Bank.

We invariably strive to maintain our position as one of the leaders in the technological revolution in the financial industry, which is fostered by having the appropriate corporate culture and structured procedures for sourcing, testing and implementing innovative ideas from inside the organization and from the marketplace. We are also successively enhancing the level of digitalization in our offer, sales channels and service channels. The number of users of our flagship self-service platform called myPZU has surpassed 2.5 million clients.

### Poised to face new challenges

The decisions and actions taken in 2021 enabled us to respond effectively to the noticeable growth in insurance awareness among Poles and consequently the higher demand for insurance. Despite these challenging circumstances, we developed our business in all of its most important areas, and in the case of some products and services, we entered market segments that were new to PZU.

This means that the PZU Group is emerging from the pandemic-related turbulence in good shape and will enter 2022 with potential enabling it to face new challenges effectively, such as

the war between Russia and Ukraine and the largest political and humanitarian crisis in Europe since 1945 along with its economic implications, the further development of the current inflationary environment on global energy and food markets and the mega trends embodied by demographic and climate change.

I am confident that with the backing of the Supervisory Board, the engagement of all of our employees and partners and the trust of our shareholders and clients we will capably address these new challenges and we will continue to fulfill consistently our strategic ambitions and objectives.

Respectfully,

Beata Kozłowska-Chyła, Ph.D. Hab.

President of the PZU Management Board

# Chairman of the Supervisory Board Statement



**Paweł Mucha**  
Chairman of the PZU Supervisory Board

Dear Stakeholders,

Last year was a period of strong recovery for the global economy, which was triggered by the improving pandemic situation. Progress in rolling out universal vaccination programs translated into lifting more restrictions applicable to various areas of business activity, and this was of significant importance in rebuilding global supply chains and improving the financial condition of many businesses. In 2021 Poland's GDP climbed 5.7% year on year, household consumption grew 6.2% y/y and investments moved up 7.9% y/y. Economic growth was underpinned by the strong growth in domestic demand supported by government programs and higher household spending. Households accumulated savings during

these health-related restrictions. Consumption was supported by the labor market, which rapidly returned to the level seen prior to the pandemic and robust wage growth. The driver of investments was linked to the solid prospects of economic recovery and the high level of manufacturing capacity utilization.

The improvement in market conditions combined with the very successful adaptation of PZU's business to operating during the pandemic over the last two years contributed to the PZU Group's performance. The record-breaking gross written premium and the highest net result since PZU SA's floatation on the Warsaw Stock Exchange confirm the Group's

high operational efficiency and its resilience to economic turmoil, even to the most difficult and least predictable of circumstances. These results are also the outcome of the ongoing diversification of the Group's business model and sustaining a high level of trust in relations with clients. New digital channels of distribution, products aptly aligned to clients' evolving needs, extensive utilization of automation and roboticization of processes and hybrid work solutions – all this has become a lasting part of the PZU Group's corporate culture and enabled it to employ its capital even more effectively in 2021.

The PZU Group is a financial conglomerate operating in various market segments: insurance, banking, investments and health care. The fact that the PZU Group's products are present in most Polish households and businesses and that in total it has approximately 22 million clients means that it has an enormous capacity to influence its environment and bears equally enormous responsibility ensuing from that position. During the pandemic, thanks to the financing and insurance cover the PZU Group provided to clients' businesses and investments, Polish companies were able to survive the various lockdowns with greater ease and emerge more quickly from this turbulence. In 2021 they were able to redouble their efforts in terms of their operations and international expansion.

At present, the pandemic threat appears to be softening and shift into an endemic phase, though one cannot preclude the materialization of scenarios that would alter that picture in a more dynamic fashion. However, the social, economic and political consequences of Russia's aggression against Ukraine will constitute a huge challenge in 2022 – globally and for Poland, which is the country that is the most engaged in providing assistance to Ukrainian nationals displaced by the war. In these circumstances it will be necessary for the PZU Group to maintain flexibility, the ability to adapt and decision-making efficiency, which it has amply demonstrated over the last two years.

Focusing on the current and near-term challenges, one cannot forget about the global challenges that are still of importance and continue to affect us greatly. The PZU Group is playing an ever more important role in actions related to mitigating the unfavorable repercussions of climate change. The PZU Group Strategy adopted in 2021 contains more than just ambitious goals associated with striving to achieve climate neutrality; it also dwells on supporting energy transition. In this field I

simultaneously see the PZU Group's great responsibility and potential to play a crucial role in advancing and backing the Polish economy's sustainable development.

I wish the management teams of the companies belonging to the PZU Group and all of their employees good luck in cultivating strong and trust-filled relations with clients, achieving all of the intended business and social objectives and generating exceptional rates of return for shareholders.

Respectfully,

Paweł Mucha

PZU Supervisory Board Chairman



**#1**

largest insurance and banking group in CEE\*

**22 mln**

clients in five countries

**99%**

most recognizable brand in Poland\*\*

**A- / stable\*\*\***

stable business model based on strong foundations

**PLN 30.5 bl**

market capitalization

**STABLE BALANCE SHEET**

Solvency II ratio is above average for insurance groups in Europe\*\*\*\*

## Market position of PZU Group companies



**76.0%**

**INSURANCE**

investment and pension products



**19.2%**

**BANKING**



**4.4%**

**INSURANCE**



**0.3%**

**INSURANCE**



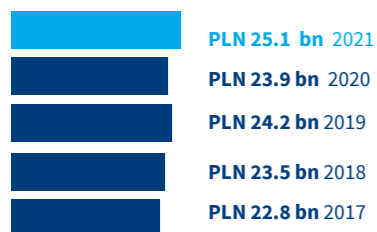
Percentage share in the operating result (adjusted for PZU's shares in banks in 2021)

\*\*\*S&P rating, confirmed on November 3, 2021  
\*\*\*\* Source: PZU



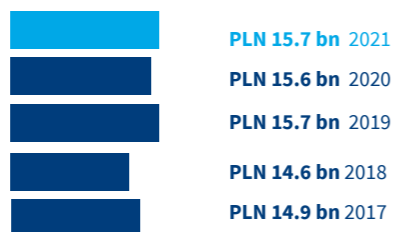
## Gross written premium

**PLN 25.1 bn**



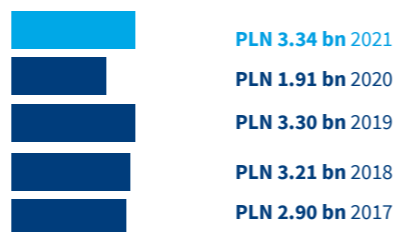
## Net insurance claims and benefits

**PLN 15.7 bn**



## Net profit (attributable to holders of the parent company)

**PLN 3.34 bn**



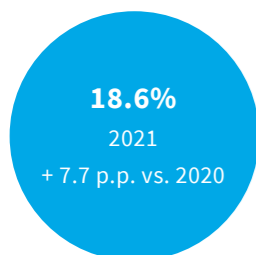
## Ambitions for 2024

### We care about the most important things in life

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

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

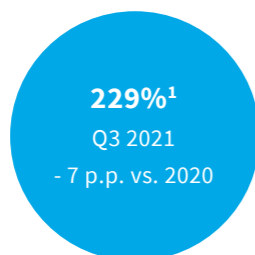
### ROE



17.4%

2024 target

### Solvency II



≥200%

2024 target

### Dividend



Dividend Payout Ratio  
50% - 100%

2024 target

### Climate neutrality



Achieving net zero target  
in own operations  
(Scope 1 i 2)<sup>2</sup>

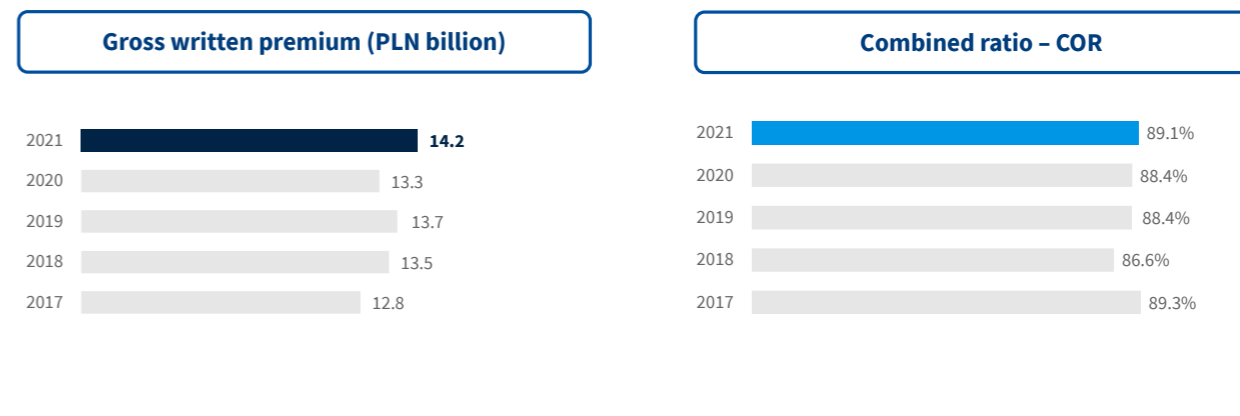
2024 target

<sup>1</sup> Data not audited or reviewed by a statutory auditor

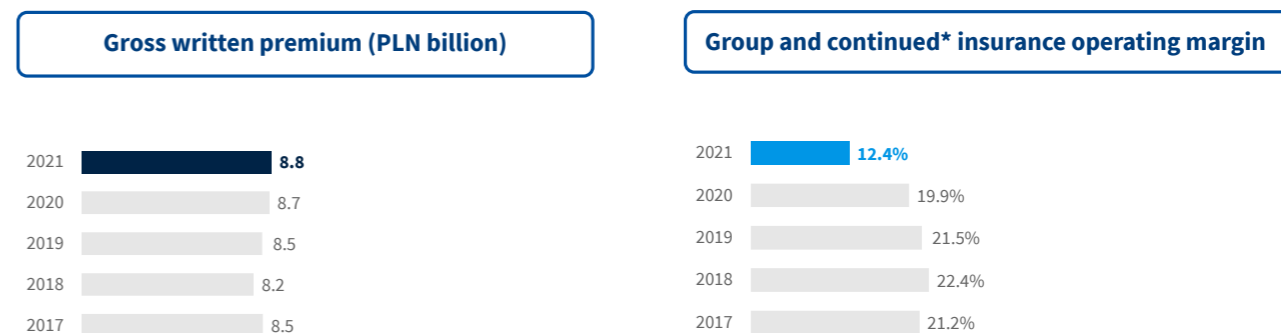
<sup>2</sup> Achieving net zero target in own operations (Scope 1 and 2) thanks to reduction of emissions, purchase of green energysigned direct electricity supply agreements) and offset of CO2 emissions

## INSURANCE

### Non-life insurance in Poland

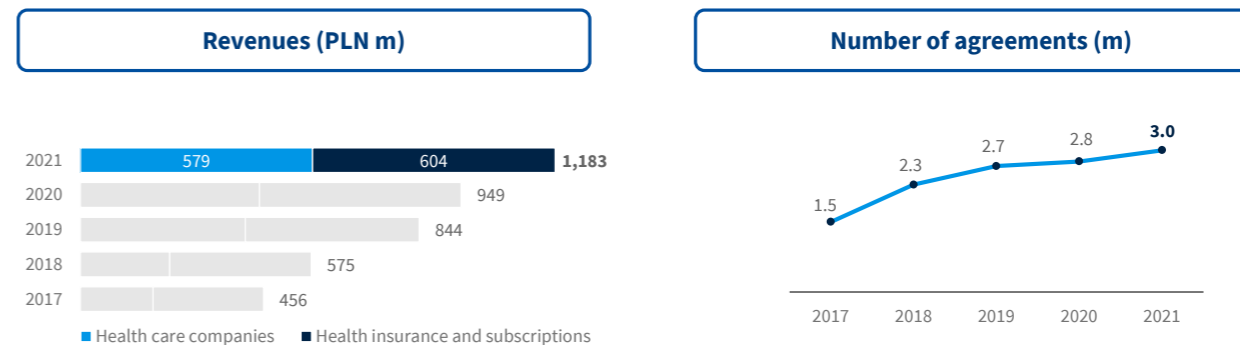


### Life insurance in Poland



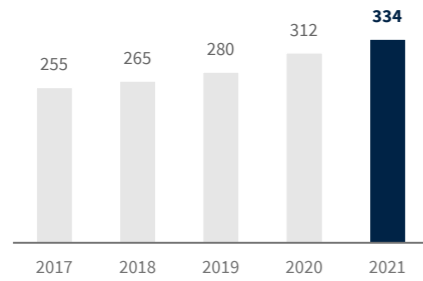
\* Individually continued insurance

## HEALTH

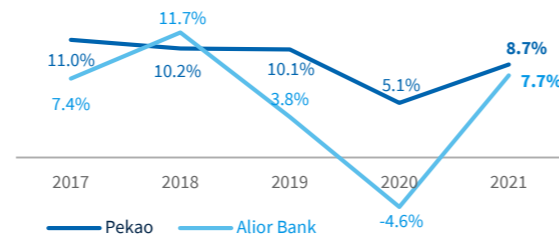


## BANKING

Banking assets in the PZU Group (PLN bn)

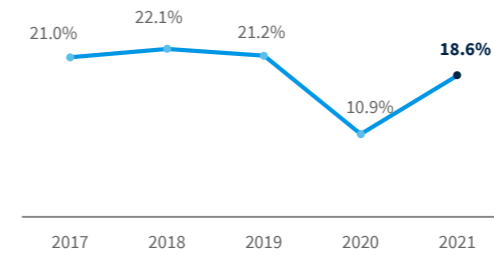


ROE (return on equity)



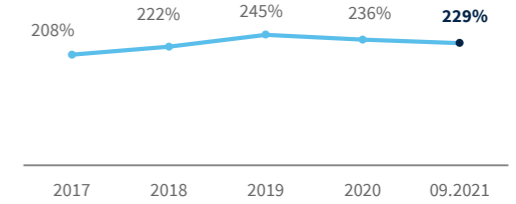
## SELECTED RATIOS

ROE (Return on equity)\*



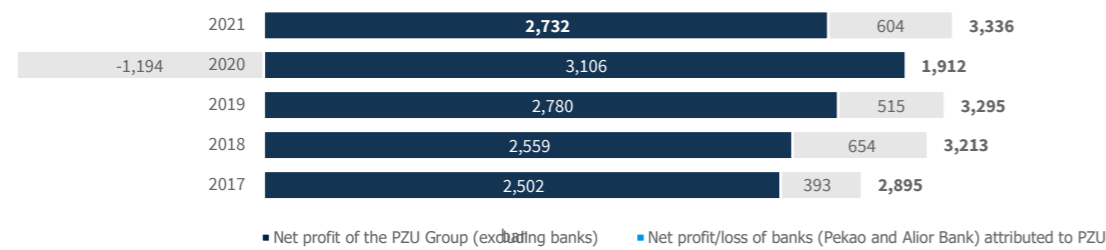
\*ROE attributed for the parent company

Solvency II\*\*



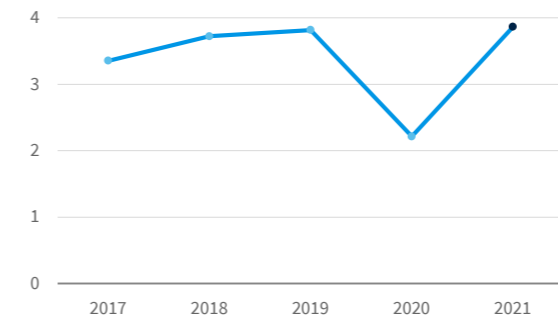
\*\* Data as of 09.2021 are not subject to audit or review by the auditor

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

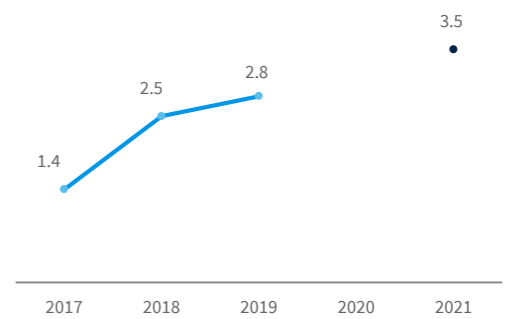


\* excluding consolidation adjustments

EPS (earnings per share) PLN

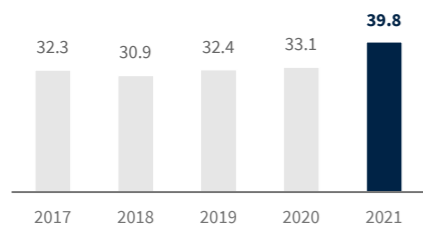


DPS (dividend per share) PLN

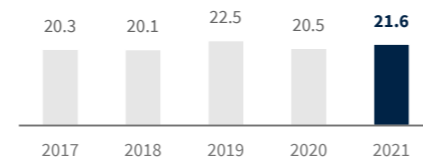


## INVESTMENTS

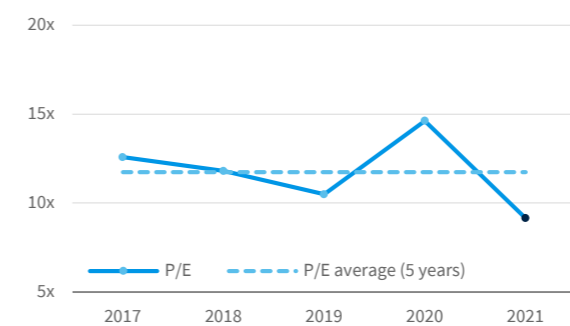
Assets of third party clients of TFI PZU and PTE PZU (PLN bn)



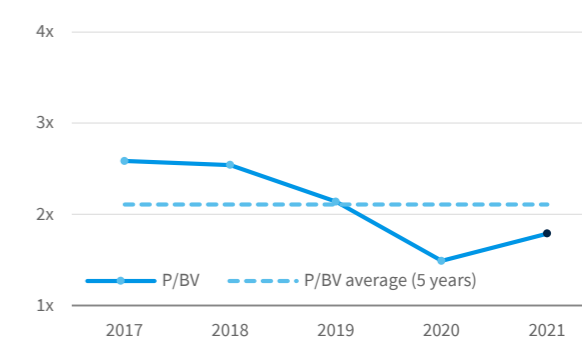
Assets of clients of TFI Pekao and TFI Alior (PLN bn)



P/E (price to earnings per share)



P/BV (price to book value)



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 2017-2021 (in PLN m)

	2017	2018	2019	2020	2021
A) PZU GROUP NET OF ALIOR BANK AND PEKAO					
Gross written premiums	22,847	23,470	24,191	23,866	25,080
Net result on investing activity including interest expenses	1,855	904	1,995	2,044	2,012
Net insurance claims and benefits	(14,941)	(14,563)	(15,695)	(15,580)	(15,731)
Acquisition expenses	(2,901)	(3,130)	(3,363)	(3,317)	(3,572)
Administrative expenses	(1,647)	(1,637)	(1,739)	(1,801)	(1,734)
Operating profit	3,198	3,298	3,606	3,941	3,635
Net profit attributable to equity holders of the parent company	2,502	2,559	2,780	3,106	2,732
B) Goodwill write-off (Alior Bank, Bank Pekao) and Alior Bank's WNIP	-	-	-	(1,343)*	-
C) BANKS: ALIOR AND PEKAO					
Net profit attributable to equity holders of the parent company	393	654	515	149	604
<b>(A+B+C) NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	<b>2,895</b>	<b>3,213</b>	<b>3,295</b>	<b>1,912</b>	<b>3,336</b>
Total assets	317,458	328,554	343,385	378,974	402,129
Equity attributable to the owners of the parent company	14,599	14,925	16,169	18,777	17,080

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

\*\* restated data as at 31 December 2017-2019

The financial results generated by the PZU Group in recent years place it among the most profitable financial institutions in the country. At the same time, they translate into high asset utilization ratios. In 2021 the return on equity was 18.6%, 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- investment grade rating with a stable outlook awarded by the US rating agency S&P Global Ratings.

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

In the most recent update of the rating dated 3 November 2021, S&P affirmed the financial strength and credit strength ratings for PZU and its main subsidiaries at "A-". The rating remained unchanged (stable). In the justification, the analysts pointed to two key aspects: PZU's persistently good financial performance and its stable capital position. They anticipated that the dominating market position of the PZU Group, its brand recognition and diversified structure of the conglomerate would allow it to continue growth on local as well as international markets.

As at the end of Q3 2021, the solvency ratio (calculated according to the standard Solvency II equation) was 229%<sup>1</sup>, a level above the average solvency ratio reported by insurance groups in Europe.

<sup>1</sup> preliminary data, not subject to audit or review by the statutory auditor

## 2021 Calendar

**25** MARCH  
Publication of the PZU Group Strategy for 2021-2024

**16** JUNE  
PZU's Ordinary Shareholder Meeting

**04** AUGUST  
Appointment of Krzysztof Kozłowski to the PZU Management Board

**07** SEPTEMBER  
Loyalty program for retail investors: [mojeakcje.pzu.pl](https://mojeakcje.pzu.pl)

**06** OCTOBER  
Distribution of a dividend of PLN 3 billion

**12** OCTOBER  
Extraordinary Shareholder Meeting of PZU

**03** NOVEMBER  
S&P affirms PZU's rating at A- with a stable outlook

**09** DECEMBER  
KNF's stance on the dividend policy in 2022



# 1. PZU Group

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

**In this chapter:**

1. Potential
2. Brand
3. Mission
4. Value creation
5. Milestones in PZU Group's history
6. Awards and distinctions

**#SolidarnizUkrainą**





## 1.1 Potential

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland and Central and Eastern Europe. PZU heads up the group with its traditions dating back to 1803 when the first insurance company was established on Polish soil. PZU is a public company. PZU's stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its 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 402 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 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. The Group places the client in the center of attention and integrates all areas of activity around the client. This allows it to offer increasingly personalized, flexible and comprehensive products and services matching the needs of increasingly demanding clients at every stage of their private and professional lives and at the suitable place and time.

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

Among all insurers operating in Poland PZU offers its clients the largest sales and service network. It has 409 branches, 9.7 thousand tied agents and agencies, 3.2 thousand multiagencies, over 1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 12 banks and 20 strategic partners.

In addition, the PZU Group's clients in Poland have access to Bank Pekao's distribution network (650 branches) and Alior Bank's distribution network (600 branches, including 173 traditional branches, 7 Private Banking branches, 13 Corporate Banking Centers and 407 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 660 agents, 20 multiagencies and 455 brokers. PZU also cooperates with 6 banks and 13 strategic partners. In Ukraine insurance products are distributed through nearly 400 agents and in cooperation with 26 multiagencies, 35 brokers and 10 banks.

## 1.2 Brand

PZU is the most recognizable brand in Poland. It is spontaneously mentioned by 82% of Poles. Aided brand awareness is at the level of 99%<sup>1</sup>. 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, Lithuanian branch in Estonia and the Lithuanian company PZU Lietuva Gyvybes Draudimas (PZU Life Lithuania).

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 TUV PZUW. However, their logos look similar to

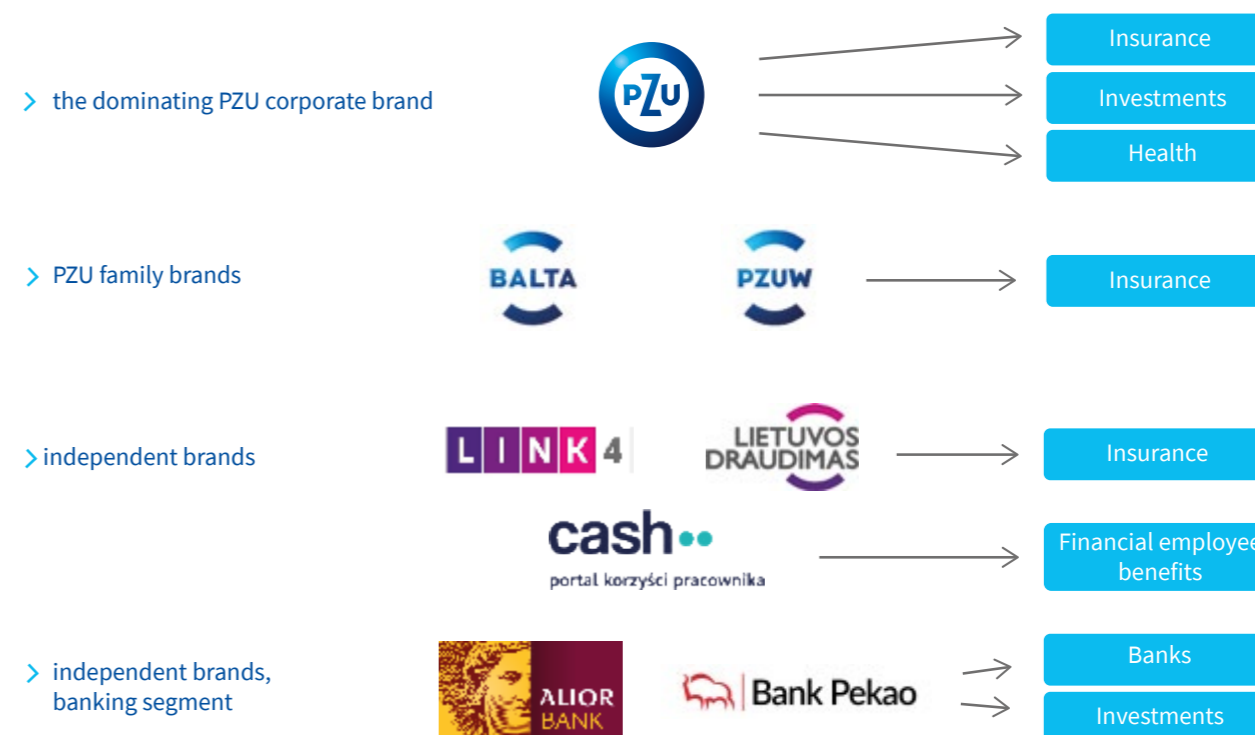
the corporate brand. These companies also use similar visual identification systems.

The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and LINK4. Aided awareness of the LINK4 brand in the Polish market is 95%<sup>2</sup>. In 2021, the brand of Lietuvos Draudimas had equally high prompted awareness – 95% in the Lithuanian market.

The independent brands that joined the PZU Group in 2015 and 2017 are Alior and Pekao bank brands, respectively. Both are the leading banks with regard to brand awareness in the category of banks according to the study by Kantar Millward Brown.

<sup>2</sup> Kantar, Brand tracking, December 2021

### PZU Group brand architecture (the “corporate umbrella” model)



<sup>1</sup>Kantar, Brand tracking, December 2021

## 1.3 Mission

In March 2021, the PZU Group published its Strategy for 2021-2024 under the motto of #PZU Potential and Growth. According to the mission, "We care about the most important things in life", PZU has the ambition to accompany its clients in successive stages of their lives, helping them make their key decisions. The underlying idea is to supply high quality insurance, financial and health products in the most efficient way in terms of price, distribution, adequacy and competitiveness.

### Modern product and service ecosystems

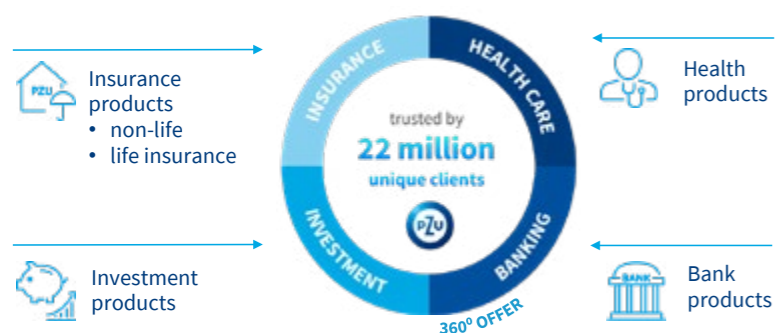
One of the tools supporting PZU's mission is building modern and comprehensive product ecosystems. First, those will be offers directed to businesses (benefits) and drivers. Through the **benefits ecosystem**, employers will obtain a comprehensive offering consisting of various types of benefits unrelated to salary for their employees. Among other things, they will obtain access to services such as the PZU Sport sports and leisure subscription, or the CASH portal offering loans on attractive terms, in which repayments are deducted directly from salaries. These benefits improve the living comfort of the employees, motivate them to be physically active and change their lifestyles. They allow PZU to build relations with clients that are based on daily life choices. The product ecosystem for drivers includes, among others, assistance in the purchase and sale of a car, support in financing the purchase, verification of the vehicle's technical condition, or assistance in choosing

a repair shop. PZU specialists will offer expert knowledge for clients to be able to make the best choices, even if they lack experience in maintaining a vehicle. The ecosystem will be the only solution of this type offered on the Polish market by an insurer.

### Personalization of services

The PZU Group has a corporate Data Warehouse that is one of the largest in the Central and Eastern Europe. Its application, combined with an integrated approach to clients and cooperation between various distribution channels, allows the Group to create personalized product offerings. In addition to the standard insurance, health, banking or investment products, PZU also offers modern support and advisory services, helping clients manage their risks better. These activities also increase the number of client interactions. It is the client and information about the client that are at the core of the Group's operating model. In its strategy, the Group assumes that further development of modern tools for all sales channels, implementation of advanced analytical environments and consolidation of analytical processes with banks will produce data that will best reflect client preferences and behaviors. This will ensure that the potential of the portfolio and knowledge about clients are fully utilized.

### PZU Group's product offer



#### Non-life insurance

Extensive offer of non-life insurance customized to clients' evolving needs - flexible approach to product configuration and method of premium payment

#### Life insurance

More modern and more attractive offer of group and individual life insurance - opportunity to shape protection freely depending on individual needs

#### Health

Long-term and single-use health products - customized to the needs of various client groups

#### Banking

Extensive and complete offering consisting of the leading products offered by the PZU Group's banks offered to PZU clients on preferential terms

#### Investments

Straight-forward investment products: offer customized to the wealth of their portfolios and the target investment period available online in the inPZU portal

Extensive and personalized range of products consisting of life and non-life insurance, health and bank products and individual protection and investment solutions.

	Traditional approach to health care	PZU Zdrowie's target approach
Approach to health	Treatment	Prophylactics
Focus of the health care system	On physicians	On patients
Delivering medical care	Single point	Comprehensive
Sales and service systems	Traditional	Digital or AI
Medical information systems	Distributed	Integrated
Making medical decisions	Based on a physician's individual knowledge	Based on medical protocols, data and AI
Treatment venue	Clinic	Clinic or at home
Purpose of treatment	Solving current problems	High quality and longevity

### Health and wellbeing

The PZU Group places great emphasis on the health and wellbeing of employees and clients. Its goal is to build health awareness in Poland, with special emphasis on prevention measures. It is the prevention of illnesses, not treatment, that is the priority for PZU. By developing the PZU Zdrowie offer and network, it wants to revolutionize the approach to health care in Poland and become the most comprehensive medical advisor. By using modern technologies, telemedicine and by developing the mojePZU application, it wants to provide easier access to specialist medical services and qualified physicians, helping Polish people to protect their health, which one of the greatest values in life.

The PZU Group is committed to the development of a responsible organization, strongly emphasizing the ESG (environment, social and governance) factors in its strategy. The priority for the PZU Group is to generate benefits for its shareholders and clients in a sustainable and responsible manner. The success of the PZU Group will be built based on contemporary business models widely incorporating ESG criteria, setting standards in this respect on the financial market. This approach will permit the making of decisions 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 leadership.

## 1.4 Value creation

### Sustainable future

The PZU Group operates on a large scale in Poland and in the Central and Eastern Europe and it is aware of its impact on the wellbeing of the society, business partners, investors, employees and the environment.

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



- 200 years of tradition
- Sound capital base, high Solvency II ratio
- Largest financial group in Central and Eastern Europe
- Strong brand

**A- with a stable outlook**  
AAA capital strength rating  
S&P Global Rating

**PZU / Super Ethical Company**  
Puls Biznesu 2018-2021

**PZU Życie / Super Ethical Company**  
Puls Biznesu 2021

- We keep our promises
- We observe transparent rules of doing business
- We are fair in our internal and external relations
- We cultivate a culture of ethics and compliance



- Artificial intelligence and machine learning<sup>1</sup>
- Continuation of the process of digitalizing insurance, banking, investment and health products and services
- Advanced analytics
- Process optimization

**Innovation Lab**  
Corporate Innovation Awards

**AI<sup>2</sup> in Claims Handling**  
Gazeta Bankowa 2019

**PZU GO**  
Fintech and Insurtech Awards 2019  
Gazeta Bankowa 2019

**PZU**  
Employer Branding Excellence Awards 2019

- We respond to the needs of clients, employees and society
- We manage our environmental impact deliberately and responsibly
- We offer an inspiring place of work



<sup>1</sup> Machine learning is a technology assuming that the program utilizes algorithms to "learn" on the basis of large data sets whereby it is capable of executing tasks without having to be designed directly by a human  
<sup>2</sup> AI (artificial intelligence)

## Value creation model

The PZU Group's value creation model refers to the international "IIRC" guidelines of the International Integrated Reporting Council. They define the approach to reporting, combining material information pertaining to an organization's strategy, approach to management, performance and future prospects in a way that reflects the financial, social and environmental context of an organization's operations. All these aspects should refer to value creation over time with the use of available capital, i.e. the resources that the organization can access and use to create value.

The overriding element in the PZU Group's value creation model is its corporate governance (C), which defines governance and supervision standards for the conducted business activity and strategic measures undertaken. The key processes are identified within the existing organizational structures that are critical for the performance achieved from capital (B), for individual business areas (A). The most important processes include risk management and development strategy. These two aspects determine the value of the company in the future as well as its impact on its surroundings and stakeholder relations.

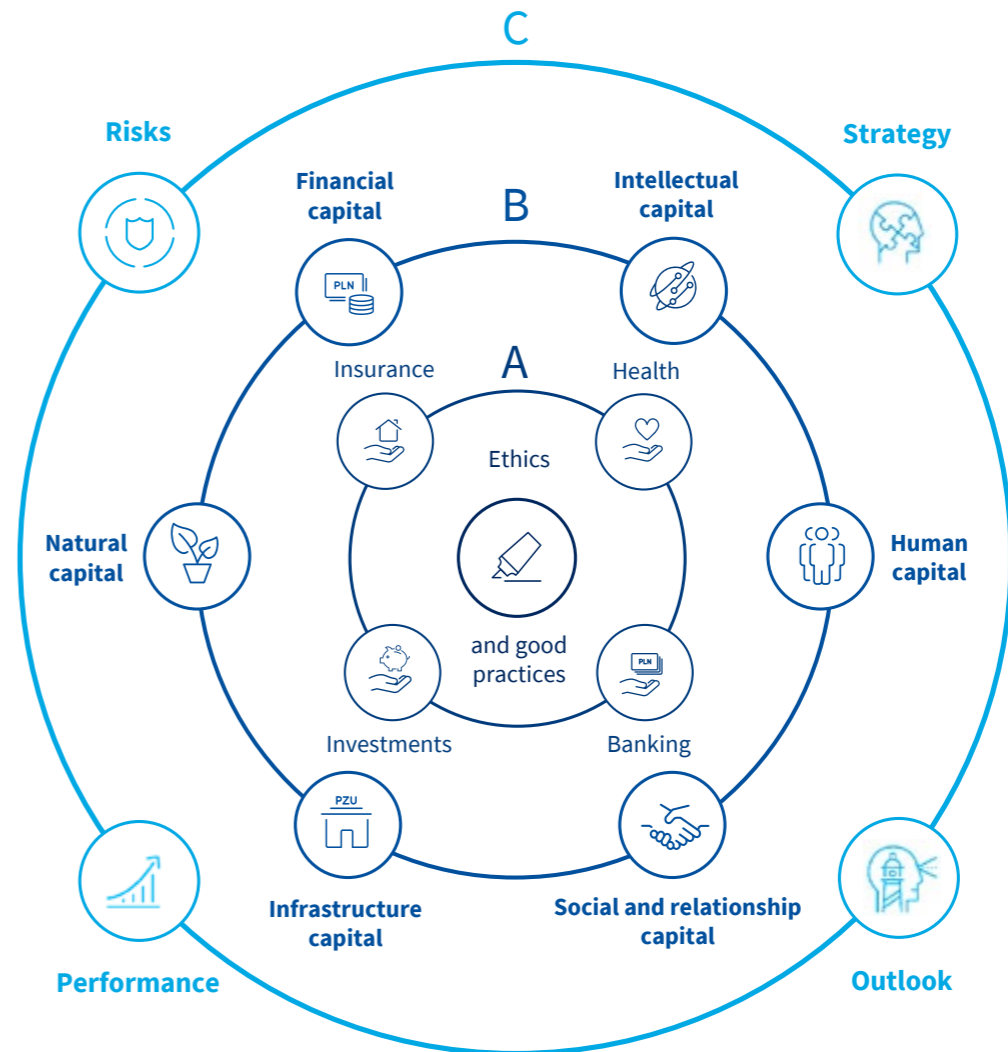
Business activity, with insurance as the key element, is at the core of PZU Group's value creation model. The offer is supplemented by health, banking as well as investment and pension products.

## Impact on the surroundings

PZU Group exerts significant influence, among others, on the Polish economy, society and environment. First of all, it is one of the largest employers in Poland, with several dozen thousand employees, makes significant contributions to the state budget from the taxes it pays, invests its significant assets in stocks, providing the funding needed for their development, and bonds, helping finance infrastructural projects that are important for the country, improvement of education or medical care.

Through its assets, the Group is a prominent player on the financial market in Poland, exerting significant influence on its status and development directions. The claims and benefits paid by the Group help businesses maintain continuity of business in unexpected situations and avoid serious financial problems. By insuring millions of Poles, PZU has real influence on their lives. First of all, the claims and benefits paid out help families to maintain financial stability in difficult

## Structure of the value creation model



situations, such as illness or death of a family member, loss of home due to fire, flood or other disasters. This offers additional protection, which provides the sense of stability and safety. Through its activities, PZU also affects the natural environment. Because of its size and market position, the Group is able to set new trends. For example, by selecting environmentally-friendly investments and sustainable suppliers, it emphasizes the importance of environmental protection and the fight with the climate change. This way

it impacts its business partners, which must adopt a similar attitude in order to continue cooperation. By creating new products, such as insurance for wind farms, photovoltaic installations, eco loans, the PZU Group takes an active part in energy transition, thus supporting its clients in making climate-positive decisions.

## Key business areas of the PZU Group

**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.

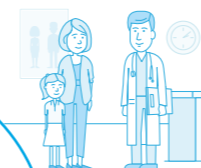
The PZU Group is also the leader in the insurance market of the Baltic States (Lithuania, Latvia, Estonia). It also conducts insurance activities in Ukraine.

Poland is the Group's core market, where it generates 91.2% of its revenue (measured by gross written premium). The insurance activity in the Baltic States and in Ukraine generates 8.8% 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 over 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 has three mutual fund management companies: PZU TFI, Pekao TFI and Alior TFI. It also has Powszechne Towarzystwo Emerytalne PZU managing the PZU Złota Jesień Open-end Pension Fund.



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

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

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

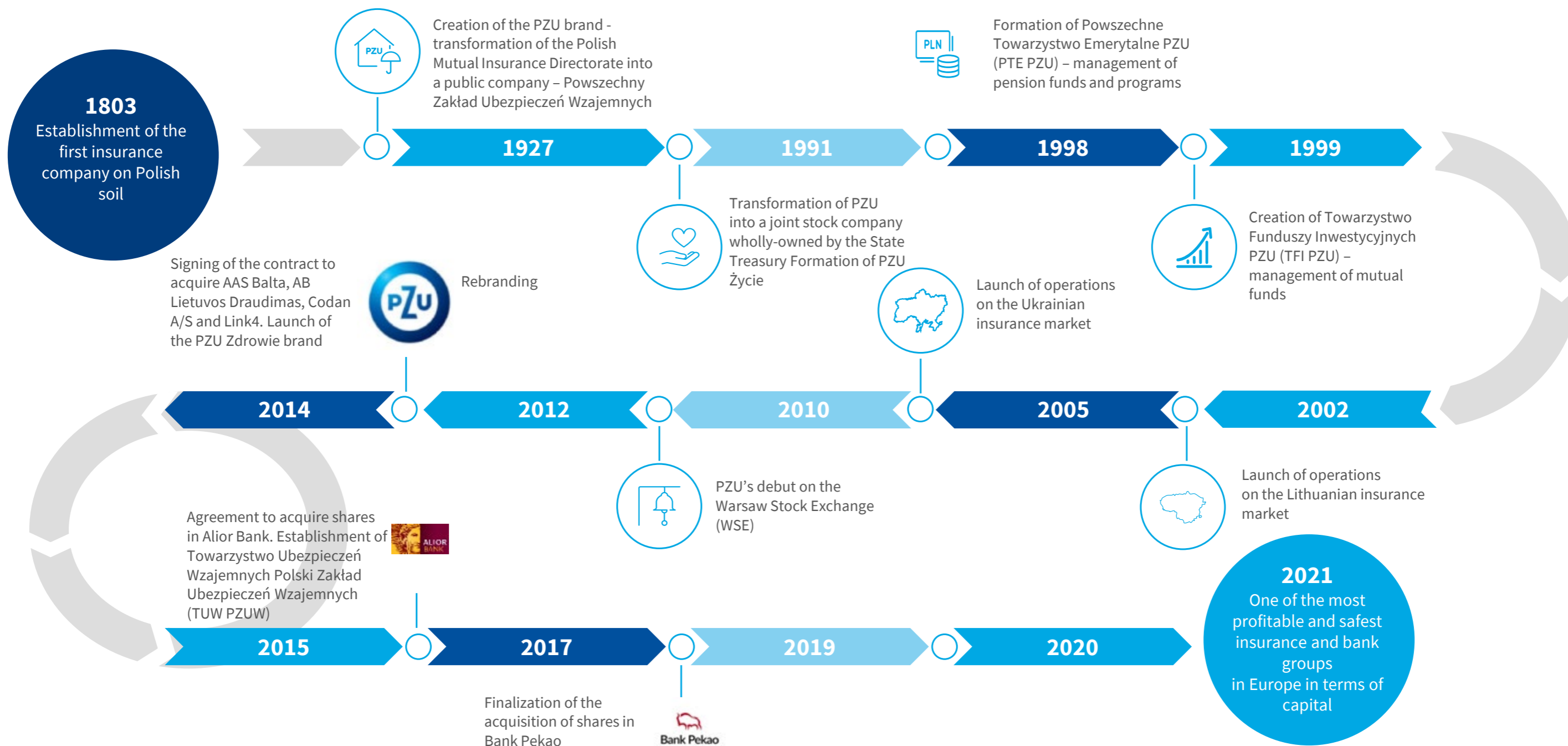
Tightening cooperation with banks has opened up enormous growth opportunities for the PZU Group, especially in terms of integrating and focusing its services on clients at every stage of their personal and professional development. Cooperation with the banking segment forms an additional plane for PZU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

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



## 1.5 Milestones in PZU Group's history

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





1.6 Awards and distinctions

**Business:**

PZU: The best insurer in Poland in the Institution of the Year 2021 ranking



PZU Życie: Super Ethical Company 2021



Alior Bank: "Best Bank 2021" in the Gazeta Bankowa competition (small and medium-sized banks)



Pekao "Best e-banking implementation" in e-Commerce Poland awards 2021



**Innovations:**

PZU: Double distinction in the "Innovation Eagle" competition of the Rzeczpospolita daily



PZU: WPROST Innovator 2021 for COVID Remote Care



PZU: The most digital insurer in the e-Commerce Poland Awards 2021 competition



LINK4: Super Business Golden Laurel in the "Innovation" category



LINK4: Investor in the Human Capital



PZU: Leader 2020 in the category "Insurance and other financial institutions" by Technobiznes 2021



PZU: Best Team supporting the Contact Center



Pekao: Konto Przekorzystne ranked 1st in the Golden Banker ranking



Pekao: "Innovation of the month" EFMA for PeoPay KIDS application



Pekao: Institution of the Year in the "Best Remote Account Opening Process" category by Mojebankowanie.pl portal



**CSR:**

AAS Balta: Sustainability Index Platinum Award (third time)



PZU: Droga do Zdrowia with PZU took 1 place in the category "Best service 2021" by Polish Radio



Alior: 1 place in the cash loan category and a distinction in the "Safe Bank - Best Practices" category awarded in the Golden Banker plebiscite



Alior: 1 place for brokerage account in the ranking of Puls Biznesu



Alior: Forbes-Best Bank for Business (II place)



Alior: II place in the category "Best Quality of Service" in the contest Institution of the Year



**HR:**

PZU: Best employee initiative development programs



LINK4: Best Quality Employer 2021 (third time)



PZU: Distinction in the Employer Branding Excellence Awards 2021



Pekao: Top Employers 2021



Pekao: Best Investment Bank in Poland



Pekao: III place in the Most Valuable Polish Brand ranking by the Rzeczpospolita daily



Pekao: Banking Star in the Stability category awarded by Dziennik Gazeta Prawna and PwC



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



PZU: Special prize Friendly Workplace



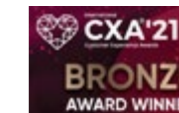
**Education:**

PZU: Plain Language Bureau conference awarded in Meeting Planner Power Awards 2020



**CX:**

PZU: distinction in the International Customer Experience Awards 2021



**IR:**

PZU: The Best Annual Report 2020 "The Best of the Best" (third time)







## 2.

### External environment

The year 2021 was a period of rapid economic growth. The release of deferred demand and the strong rebound in industry have created favorable conditions for the growth of PZU's business.

**In this chapter:**

1. Main trends in the Polish economy
2. External environment in the Baltic States and Ukraine
3. Situation on financial markets
4. 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 2022

# External environment

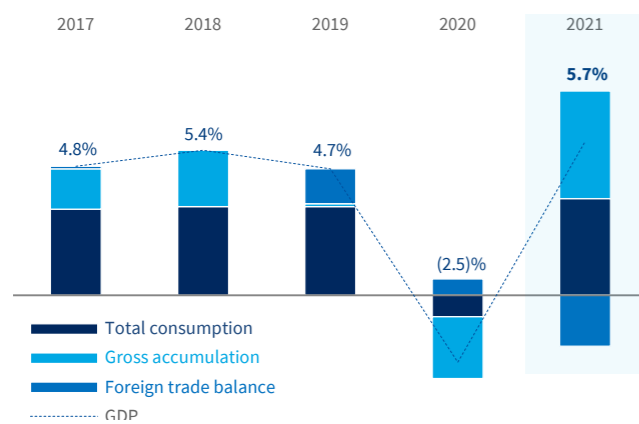
## 2.1 Main trends in the Polish economy

### Gross Domestic Product

According to Statistics Poland's quick estimate, GDP grew by 5.7% y/y for the whole of 2021. Household consumption during this period increased by 6.2% y/y and investment by 7.9% y/y. The largest contributors to last year's economic growth included: household consumption (which added 3.4 p.p. to the GDP growth rate), an increase in tangible current assets (+2.7 p.p.), gross fixed capital formation (+1.3 p.p.). In turn, the contribution of net exports was negative, having suppressed the GDP growth rate by 1.9 p.p.

Growth was supported by a strong increase in domestic demand - especially after the loosening of sanitary restrictions associated with the spring wave of the pandemic. This increase in deferred demand was made possible by government programs aimed at neutralizing the negative effects of the pandemic, and was facilitated by an accumulation of pandemic savings. Consumption was supported by a rapidly recovering labor market and robust wage growth, while the dynamic growth of investments by corporations was supported by their sound financial position, the prospect of economic recovery, and high levels of utilization of the production capacity. Widespread post-pandemic disruptions in global supply chains have also contributed to a marked increase in inventories. As a result, seasonally adjusted GDP exceeded the level recorded before the pandemic already in the second quarter of 2021,

### Decomposition of GDP growth in 2017-2021



Source: Statistics Poland, preliminary estimate of GDP in Q4 2021 as at 28 February 2022

and its high quarter-over-quarter growth continued through the end of the year. In Q4 of last year, the level of seasonally adjusted GDP was 7.3% greater than in the corresponding quarter of 2020.

The economy weathered the sanitary restrictions of the early months of 2021 well and did not have to face them in the last quarter. Industrial production grew at an unexpectedly fast pace in 2021, benefiting from good business conditions for durable goods and showing surprising resilience to supply disruptions. In 2021, industrial output sold rose as much as 14.8% y/y after falling 1.0% in 2020 (data not adjusted for seasonality, Statistics Poland). Retail sales for the full year 2021 increased 8.1% (following a 3.1% y/y decline in 2020). The recovery of construction and installation output was slower, increasing by 3.2% y/y in 2021 (after a 2.2% y/y decline in 2020) (data not adjusted for seasonality, Statistics Poland).

### Labor market and consumption

As the economy continued to recover in 2021, demand for labor has grown, accompanied by difficulties with finding qualified employees. This was reflected in a decline in the unemployment rate adjusted for seasonality and robust growth in wages.

For the entire 2021, the average monthly gross salary in the corporate sector increased in nominal terms by 8.8%. Given the increasing inflation, the purchasing power of salary rose in this period by 3.4% y/y. In terms of the whole national economy, the growth rate of wages was slightly lower than in the enterprise sector and stood at 8.4% y/y (3% y/y in real terms). At the same time, the average employment in the corporate sector increased by 0.3% y/y, and the data for the first three quarters of 2021 show that the growth in employment in the national economy as a whole was similar to that observed in the corporate sector (data from Statistics Poland). Data for the first three quarters of 2021 show that the salary growth in national economy as a whole was similar to that observed in the corporate sector

Since March last year, the number of registered unemployed has gradually decreased, with a decline recorded even in December, when seasonal factors contribute to an increase in unemployment. According to Statistics Poland, the registered unemployment rate was 5.4% at the end of 2021. In December 2021, the seasonally adjusted rate of economic unemployment (according to Eurostat) stood at 2.9% (compared to 3.4% in

December 2020), clearly below the European Union average (6.4%) and the euro area (7.0%).

In the improving situation in the labor market and rising incomes, consumer sentiments improved through September, favoring the realization of deferred demand. Consumption in the household sector in 2021 increased by 6.2%, after a 3% decrease in 2020.

### Inflation, monetary policy and interest rates

In 2021, the consumer price index (CPI) increased on average by 5.1% in annual average terms, compared to 3.4% in 2020. The acceleration in the increase of prices of consumer goods was the result of supply shocks (including an increase in energy prices), a relatively weak zloty, but also a side effect of the success of macroeconomic policies aimed at supporting demand and economic growth. The rise in inflation was a global phenomenon - strong growth of demand collided with a limited supply of factors of production, and supply disruptions led producers to accumulate inventories.

In the first three quarters of 2021, the National Bank of Poland's reference rate did not change, remaining at 0.1%. During this period, other central bank rates remained at the end-of-2020 levels. The NBP continued to make purchases on the secondary market for treasury bonds and treasury-guaranteed bonds (including bonds issued by the Polish Development Fund and Bank Gospodarstwa Krajowego), thereby supporting the liquidity of the domestic financial sector. These measures were aimed at counteracting the adverse economic effects of the COVID-19 pandemic and supporting economic growth. The strong increase in CPI inflation above the NBP's inflation target (2.5%) since March and above the upper limit of the inflation target (3.5%) since April, ultimately led to decisive NBP interest rate hikes in Q4. The NBP's base interest rate rose by 40 bps in October, by 75 bps in November and by 50 bps in December. Thus, in total, in the fourth quarter (and throughout the year) the NBP reference rate increased by 165 bps, ending 2021 at 1.75%.

### 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 debt of the public finance sector. While public finance sector debt was only 45.7% of GDP in 2019, it rose to 57.5% of GDP in 2020 (Statistics Poland - ESA definition). Both real GDP and inflation growth in 2021 turned out to be visibly higher than the state budget assumptions.

Therefore, the debt of the public finance sector to GDP in 2021 will most likely turn out to be lower than the 60.0% projected in the Convergence Program Update (APK) published last April (MF). According to forecasts published by the European Commission in November, the value of debt of the public finance sector is expected to decrease below 55% of GDP in 2021, while according to the Ministry of Finance (source: Budget Act for 2022), the estimated debt of the public finance sector in 2021, including non-budgetary expenditures (such as those earmarked for counteracting COVID-19), is expected to stand at approx. 57% (according to the ESA methodology).

The deficit in the general government sector (ESA), which in 2019 was 0.7% of GDP, increased to 7% of GDP in 2020 (Statistics Poland). According to APK, the public finance sector deficit in 2021 was expected to be 6.9% of GDP (MF). The markedly higher-than-assumed nominal GDP in 2021, however, contributed to higher-than-planned state budget revenues. Despite the continuation of additional government support in the first half of the year aimed at counteracting the negative effects of the pandemic, and despite the spring sanitary restrictions affecting economic activity, state budget actuals during the year regularly showed high surpluses compared to the corresponding periods in the previous year. As a consequence, the October budget amendment reduced the planned state budget deficit for 2021 by more than half (from PLN 82.3 billion to PLN 40.4 billion).

Due to the lack of significant sanitary restrictions affecting the economic activity and financial situation of companies and households in the fourth quarter, the estimated budget performance for 2021 (according to the Ministry of Finance) also turned out to be better than the revised assumptions (only about PLN 26.3 billion deficit instead of the planned PLN 40,4 billion). As a result of the impact of the above factors, the general government deficit in 2021 could only amount to 5.3% of GDP (Ministry of Finance: Budget Act 2022).

## 2.2 External environment in the Baltic States and Ukraine

### Lithuania

Q3 2021 saw a 6.0% y/y increase in GDP not adjusted for seasonality. It is expected that the strong economic growth



figures, the favorable economic outlook of the European Union, and the increased proportion of people who have achieved resilience suggest that economic growth will continue in the medium term.

The labor market situation improved in 2021. With the lifting of the quarantine in the country and the easing of contact restrictions, more people entered the labor market in Q3, resulting in increased labor force participation and employment driven by strong demand for labor, while the unemployment decreased. Industrial production was the sector most conducive to increase in employment in the first three quarters. Increase in employment has brought the nationwide unemployment rate closer to pre-pandemic levels. According to Labour Force Survey data published by the Lithuanian Statistical Office, the country's unemployment rate was 6.7% in Q3 2021. Both the private and public sectors have faced the problem of labor shortages. The number and level of vacancies at the country level is the highest since the first quarter of 2008. At the same time, increased labor shortages can increase the wage pressures and contribute to factors that limit the growth of production.

Favorable economic conditions and strong demand for labor stimulated salary growth. Wages grew at the same rate in both the private and public sectors. Annual wage growth was recorded in all types of economic activity, including the hospitality sector, leisure and retail activities most affected by the pandemic, where wages grew at double-digit rates. Wage growth was driven by a number of factors, including favorable economic development, the ability of business to adapt operations to the pandemic and quarantine conditions in a short period of time, a strong increase in the supply of vacant jobs and a shortage of skilled workers to meet labor market needs, government measures to support stimulation of domestic demand and the minimum monthly wage increased by 5.8 percent.

Steadily rising throughout the year, inflation reached 10.7% in December. The rise in inflation reflects increases in energy prices and disruptions in the supply of raw materials and commodities. It is expected that the main inflation driver will remain the increase in the prices of imported energy commodities, if their prices stabilize, inflation should slow down not only due to a more favorable development of energy commodity prices (transport fuels, thermal energy), but also as

a result of the decreasing pressure of energy prices on the cost of production of goods and services.

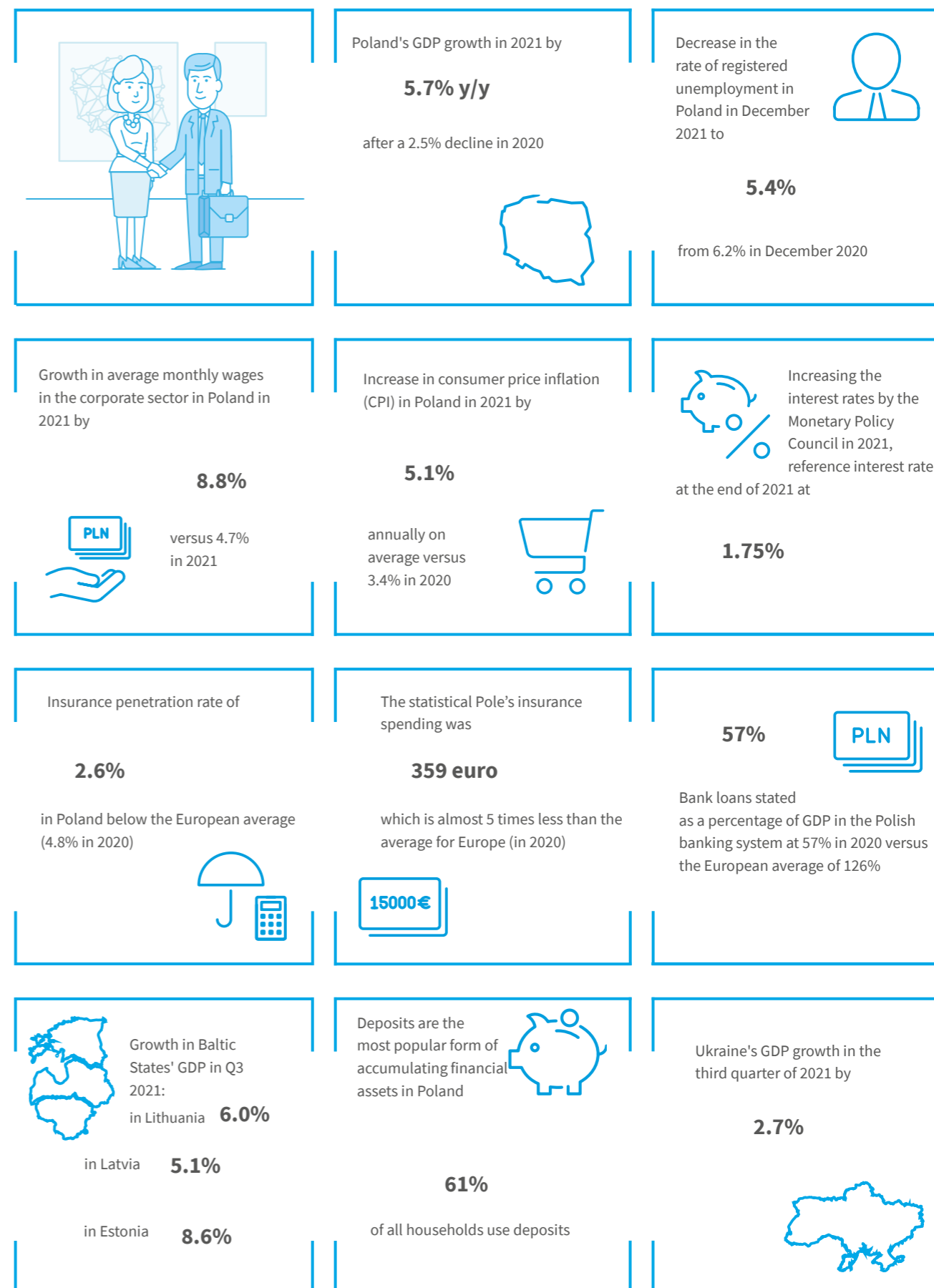
2021 was a favorable year for exporters. The increase in goods exports was primarily driven by the production of the chemical industry, which accounts for 14.9% of Lithuania's total goods exports. The growth of Lithuania's exports was also influenced by the recovery of demand for petroleum-based products and a strong increase in global oil prices, which led to a rapid increase in exports of mineral products.

### Latvia

In Q3 2021, GDP grew by 5.1% y/y (data adjusted for seasonality), overcoming the crisis much faster than expected at the beginning of the year. This has been driven by the favorable situation in external markets as well as by wide-ranging economic support measures, protecting companies and jobs and providing support to the most affected groups of population. However, in Q4, with the rapid spread of the COVID-19 pandemic and new restrictions imposed in early October, economic growth slowed down again and the downturn risk increased significantly.

From the sectoral perspective, trade, health care and social welfare, as well as manufacturing had the largest positive impact on Latvia's economic growth in the first three quarters of 2021. In contrast, declines were recorded in agriculture and construction. The hospitality sector, which has been hardest hit by the restrictions imposed to limit the spread of the COVID-19 pandemic, saw a 12.2% decline in the first three quarters of the year, while arts, entertainment and recreation fell 10.4%. A key role in the recovery was played by the 4.6% growth of private consumption, driven by the gradual easing and lifting of COVID-19 pandemic-related restrictions, as well as support for affected businesses and households. Government consumption also grew strongly, rising 4.9% in the first three quarters of the year, and investments rose 4.9%.

In 2021, consumer prices kept rising. Annual inflation in December was 7.9%, the highest since April 2009. The sharp increase in prices was mainly due to energy shortages. The



price of electricity in Latvia was 32.7% higher than in the corresponding period of the previous year. Gas and fuel prices increased by 40.4% and 30.3%, respectively. The future inflation growth rate will be driven by changes in commodity prices, especially energy prices on global exchanges, as well as the situation related to the spread of the COVID-19 virus.

Average gross monthly wages, which rose 6.2% in 2020 despite the COVID-19 pandemic crisis, grew even faster in 2021 as large numbers of low-wage earners were laid off and the minimum wage increased to EUR 500. In Q1 2021, the average monthly gross salary increased by 9.5% compared to the corresponding quarter of the previous year, in Q2 it increased by 10.2% and in Q3 by 10.4%. In 2021, changes in average wages were significantly influenced not only by changes in employee compensation, but also by structural changes in the labor market - the growth of start-ups and closures and changes in the number of employees.

## Estonia

Estonia's recovery pace has been one of the fastest in Europe, but its previously dynamic growth has faltered. In Q3 2021, Estonia's annual GDP growth rate stood at 8.6%. At the same time, the Bank of Estonia's economic forecast predicts that this growth will slow down to below 3% next year. It is expected that the further growth in the economy will be more difficult to achieve, and the economy's growth rate will be reduced by exceptionally high inflation. The sectors most affected by the restrictions implemented in the wake of the COVID-19 pandemic, particularly tourism, leisure and hospitality, have not yet returned to pre-pandemic levels, but most industries are doing well.

The consumer price index was 12.0% for the year. Inflation in December was the highest in 20 years. Half of the total price increase in the consumer basket came from energy; electricity and gas prices were more than 120% higher in December than a year earlier. The pass-through of energy costs to final prices of other goods and services is expected to drive inflation in the months ahead.

The unemployment rate was 6.2% at the end of 2021, registering a decrease of 0.8 p.p. compared to December 2020.

## Ukraine

Thanks to high domestic demand in 2021, gradual recovery of the economy continued in Ukraine. At the same time, there

are still risks of increased quarantine in Ukraine and the world, as well as a more sustained and more significant increase in inflation than expected.

In Q3 2021 Ukraine's GDP grew by 2.7%. Economic growth in the third quarter was primarily driven by stable consumer demand and was tempered by a negative contribution of net exports. Private consumption in Ukraine in the nine months of 2021 accounted for 72.4% of nominal GDP.

In September 2021, the annual inflation rate stood at 7.5%. Stable consumer demand, rising production costs and high global commodity prices remained the main factors accelerating the increase in the consumer price index.

The level of unemployment in Q3 2021 stood at 9.1%.

After nine months of 2021, a foreign trade deficit in goods and services (USD 1.2 billion) was recorded. Its value was, however, lower than a year ago due to a more dynamic growth of exports of goods in comparison with imports.

## 2.3 Situation on the financial markets



The course of the COVID-19 pandemic, the rising inflationary expectations and GDP growth prospects in Poland and globally were the main factors affecting the financial markets in 2021.

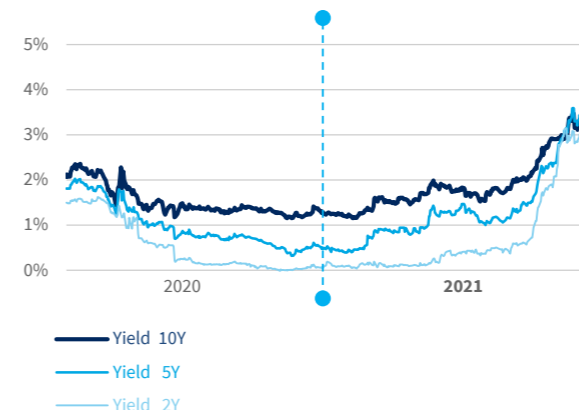
The improvement in market sentiments was supported by the unprecedented scale of fiscal and monetary stimuli to combat adverse economic effects of the pandemic. The progress of vaccination against SARS-CoV-2, and the increased resilience of economies to successive waves of the pandemic and the impact of the resulting sanitary restrictions, have also helped to significantly reduce the scale of uncertainty in financial markets. However, the main risk factor remains the further evolution of inflation in the context of possible continuation of disruptions in global supply chains or the evolution of energy commodity prices (also under the influence of the recent escalation of geopolitical tensions).

### Bond market

In 2021, the yields on Polish 1-year, 2-year, 5-year and 10-year treasury bonds increased. 1-year yields increased from 0.051% to 3.466%, 2-year yields from 0.102% to 3.346%, 5-year yields from 0.471% to 3.988% and 10-year yields rose from

1.252% to 3.705% (Refinitiv data). The spread versus 10-year German bonds that at the end of 2020 was 183 basis points, increased to 388.9 basis points at the end of 2021 (Refinitiv data). The entire Polish curve moved sharply upwards due to economic recovery, a strong increase in inflation and inflation

### Treasury bond yields in 2021 (Refinitiv Datastream data)



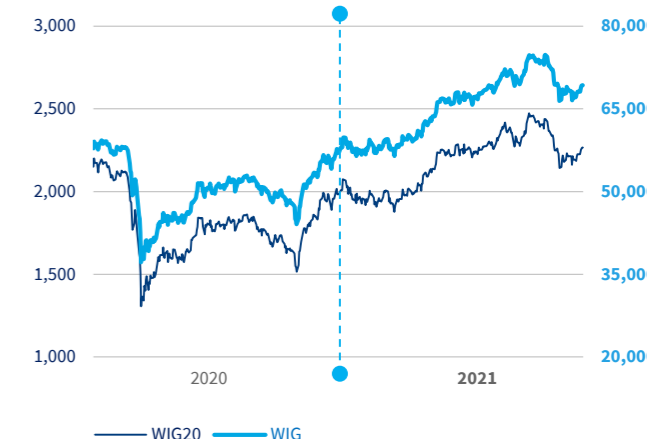
expectations, as well as rapid and significant NBP interest rates hikes in Q4.

The NBP reference rate, which was only 0.1% for the first three quarters of 2021, rose to 1.75% between October and the end of December. The situation on the core markets in 2021 also contributed to the increased yields on Polish bonds. Yields on 10-year US Treasury bonds, influenced by rising inflation expectations, increased from 0.9165% to 1.498%, and on German bonds from -0.575% to -0.179% (Refinitiv data).

### Equity market

In 2021, the WIG20 index increased by 14.3%, the WIG index by 21.5%, the mWIG40 by approx. 33.1%, and the sWIG80 by 24.6% (Warsaw Stock Exchange data). In addition to the dynamic economic growth and the higher resilience of the national economy to the impact of sanitary restrictions, compared to that observed in 2020, the rises in domestic stock market indices were also fostered by the loose fiscal policy (and a large scale of government aid to businesses in connection with the COVID-19 pandemic) and monetary policy. The low interest rates in an inflationary environment provided an additional incentive for investors in the domestic stock markets. They were also supported by rising risk appetites

### WIG and WIG20 indices (Warsaw Stock Exchange data)



across the world, usually favoring emerging stock markets, including the Polish market.

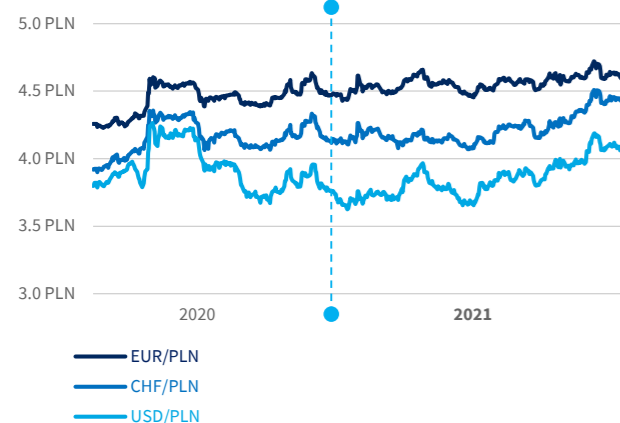
In 2021, global equity markets recorded significant gains, caused by growing expectations for economic recovery (prospects of the end of the pandemic and the progress in COVID-19 vaccinations) and increase in inflation (loose monetary and fiscal policy globally). In 2021, the American S&P500 stock index shot up 26.9% (S&P) while the German DAX index climbed 14.0% (Deutsche Boerse). The rising yields did not hinder the growth of stock market indices. Some signs of a slowdown in the growth of stock indices were visible only in China, which was linked to growing market concerns regarding the effect of the gradual phasing out of the intensive economic stimulus programs, previously implemented in China in connection with the COVID-19 pandemic, problems of Chinese real estate developers and the threat of withdrawal of Chinese suppliers from global supply chains. As a result, in 2021 the aforementioned index increased by a mere 4.8%.

### Currency market

The EUR to PLN exchange rate decreased slightly from 4.61 at the end of 2020 to 4.60 at the end of 2021 (NBP). The key factor, which kept the Zloty at relative weak levels in 2021, was the loose monetary policy adopted by the NBP, which, combined with the steadily growing inflation, led to interest rates in Poland that were negative in real terms. The NBP rate hikes that took place in Q4 did not lead to a significant appreciation of the zloty against the euro. The euro to USD exchange rate fell from 1.23 at the end of 2020 to 1.13 at the end of 2021 (the

EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). The strengthening of the dollar resulted from the fact that the US recovered from the

## PLN exchange rate (NBP data)



pandemic-related recession faster than the Eurozone, and from the more “hawkish” rhetoric of the U.S. central bank (Fed), which in June, September and December revised upwards the forecasts for the interest rate hikes in the U.S., moving them first from 2024 to 2023 and then to increasing their projected number from 2 to 3 (25 bps each). In Q4 the U.S. central bank also began phasing out its asset purchases. A significant increase in the attractiveness of the US dollar on global markets as a result of Fed's policy translated into an increase in the exchange rate of the American currency against the Polish zloty, which rose from 3.76 to 4.06 (NBP data).

The Swiss franc to PLN exchange rate rose from 4.26 at the end of 2020 to 4.45 at the end of 2021 (NBP data), although during this period it went down even to the range of 4.12. However, both the ECB, by announcing the impossibility of raising interest rates until the end of 2022 (which favored the strengthening of the franc against the euro), and the NBP, by maintaining relatively low interest rates in the conditions of clearly rising inflation, ultimately contributed to the weakening of the zloty against the Swiss franc (as the exchange rate of the franc against the zloty is a cross rate of the euro against the

franc and the euro against the zloty: CHF/PLN = EUR/PLN : EUR/CHF).

## 2.4 Polish and Baltic States insurance sector compared to Europe



Insurers operating in the European Union in 2020 raised EUR 994 billion in premiums, representing approximately 18.0% of global gross written premium<sup>1</sup>.

The year 2020 brought many challenges for the insurance market and required effective management in difficult market conditions. Overnight, insurers were faced with a reduced scale of business as a result of the restrictions put in place to counter the spread of COVID-19. The pandemic has accelerated such processes as the digitization of the insurance market or the automation of processes and changed the way business is done. Proactive adaptation to the new conditions and ensuring business continuity became critical. Processes and projects planned to be implemented over several years had to happen in a short period of time. The introduction of remote work and customer service was associated with increased cyber security concerns, and the economic downturn and continued uncertainty in the labor market did not support positive market sentiments. There were concerns about inflation, increased loss ratio in life insurance and reduced demand for voluntary insurance.

In 2020, the statistical European spent approximately EUR 1,778 on insurance<sup>2</sup>. A year earlier it was EUR 1,810<sup>3</sup>. The average Pole spent EUR 359 in 2020<sup>4</sup>, which is nearly 5 times less than the statistical European. Insurance spending by residents of Lithuania, Latvia and Estonia was even lower, at EUR 231, EUR 273 and EUR 353<sup>5</sup>, respectively. In 2020, the average Ukrainian spent only EUR 46 on insurance<sup>6</sup>. In Poland, the market insurance model has been developing since 1990. At present, Poland has the largest insurance market in Central and Eastern Europe. Despite intensive market development over the years, it is still significantly behind Western European

<sup>1,4,6</sup> Swiss Re, [sigma 3/2021: World insurance: the recovery gains pace](#)  
<sup>2</sup> Swiss Re, [sigma 3/2021: World insurance: the recovery gains pace](#); Eurostat; [www.osp.stat.gov.lt](#); [www.fktk.lv](#); [www.andmed.stat.ee](#)  
<sup>3</sup> Swiss Re, [sigma 4/2020: World insurance: riding out the 2020 pandemic storm](#); Eurostat; [www.osp.stat.gov.lt](#); [www.fktk.lv](#); [www.andmed.stat.ee](#)  
<sup>5</sup> Own calculations based on Eurostat and [www.osp.stat.gov.lt](#); [www.fktk.lv](#); [www.andmed.stat.ee](#)

<sup>7</sup> Insurance Europe, <https://insuranceeurope.eu/insurancedata>

countries. Gross written premium in the Polish market in 2019 amounted to EUR 14.2 billion<sup>7</sup>. In 2020, it was EUR 13.6 billion<sup>8</sup>.

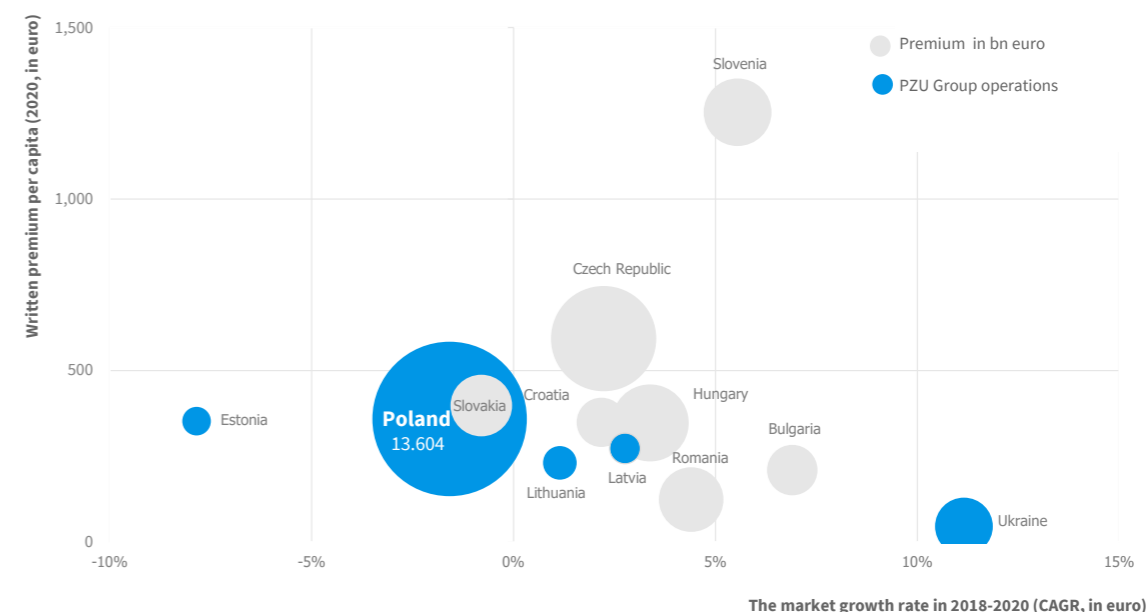
Europe's largest insurance market is the United Kingdom (with EUR 296,7 billion in gross written premium in 2020). Markets above the EUR 100 billion gross written premium threshold include Germany (EUR 226.5 billion), France (EUR 202.7 billion), and Italy (EUR 141.9 billion). In terms of size, the Polish insurance market also trails certain West European countries with a significantly smaller population than Poland, including Austria (EUR 18.0 billion), Belgium (EUR 36.1 billion), Denmark (EUR 33.4 billion), Finland (EUR 25.3 billion), the Netherlands (EUR 76.7 billion), Switzerland (EUR 55.0 billion) and Sweden (EUR 35.9 billion)<sup>9</sup>.

The structure of the Polish market is dominated by non-life insurance (approx. 67% of the market), with the majority of gross written premium generated by motor insurance. In 2020, gross written premium collected on motor third party liability insurance and motor own damage insurance accounted for 38% of the entire market's gross written premium<sup>10</sup>. The share of life insurance in Poland's total gross written premium (approx. 33%) was lower than the European average.

The Baltic countries are characterized by a similar structure of insurance markets. In those countries, life insurance, on

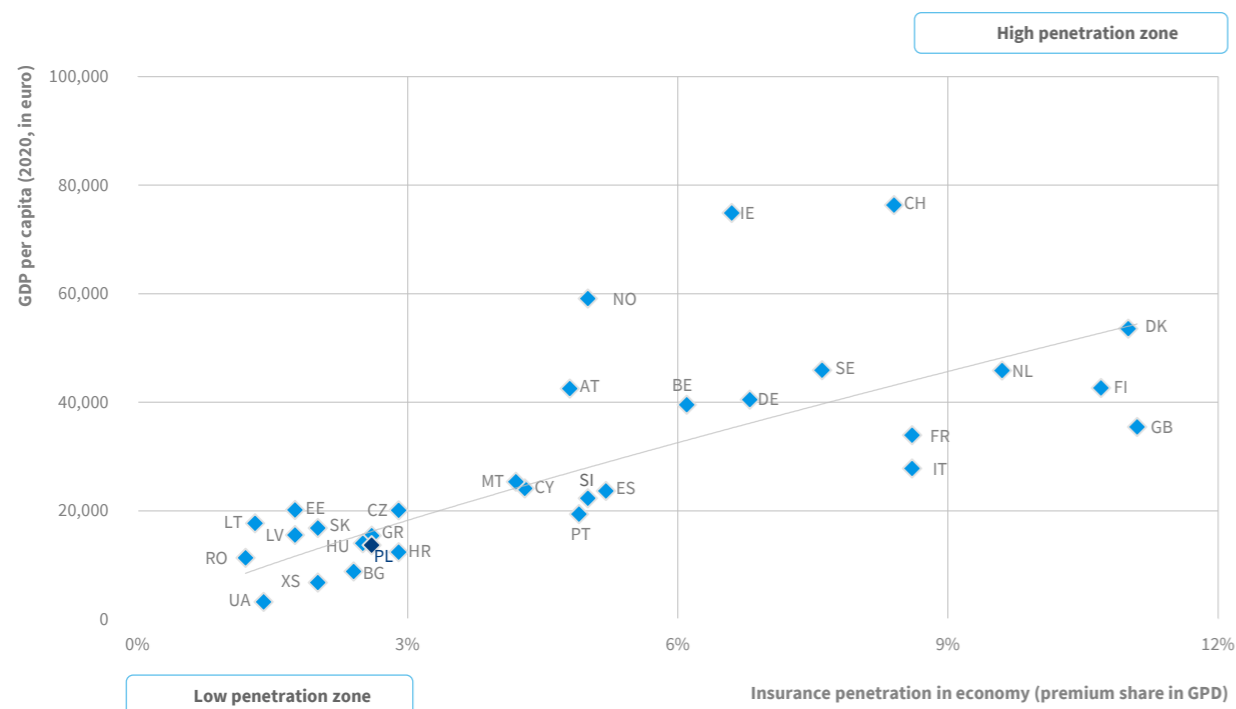
<sup>7</sup> Insurance Europe, <https://insuranceeurope.eu/insurancedata>  
<sup>8,9</sup> Swiss Re, [sigma 3/2021: World insurance: the recovery gains pace](#)  
<sup>10</sup> KNF, [Biuletyn roczny. Rynek ubezpieczeń 2020, data aktualizacji 28.09.2021r.](#)

## Gross written premium per capita (2019, EUR) in relation to the insurance market growth rate (2017-2019)



Source: Swiss Re, [sigma 3/2021: World insurance: the recovery gains pace](#); Eurostat; [www.osp.stat.gov.lt](#); [www.fktk.lv](#); [www.andmed.stat.ee](#)

Penetration of insurance in relation to GDP per capita in Europe (2020, EUR)



Source: Eurostat, Swiss Re Institute (sigma 3/2021)

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

## 2.5 Polish banking sector compared to Europe

Since the transformation there has been a significant increase in banking assets in Poland. Measuring the Polish banking sector by the value of assets, it ranks around the European median. According to data of the European Central Bank (ECB), at the end of 2020 the Polish banking sector's assets totaled<sup>17</sup> EUR 515.3 billion. The largest banking sector in the European Union is that of France (EUR 8,512 billion at the end of 2020), with Latvia occupying the other end of the spectrum (EUR 24.3 billion at yearend 2020). The assets of European banks (EU-27) at the end of 2020 stood at approx. EUR 35.1 trillion (in the euro area, about EUR 31.5 trillion)<sup>18</sup>.

<sup>17</sup> As at the date of the report, the most up-to-date data for Europe's banking market are available for 2020

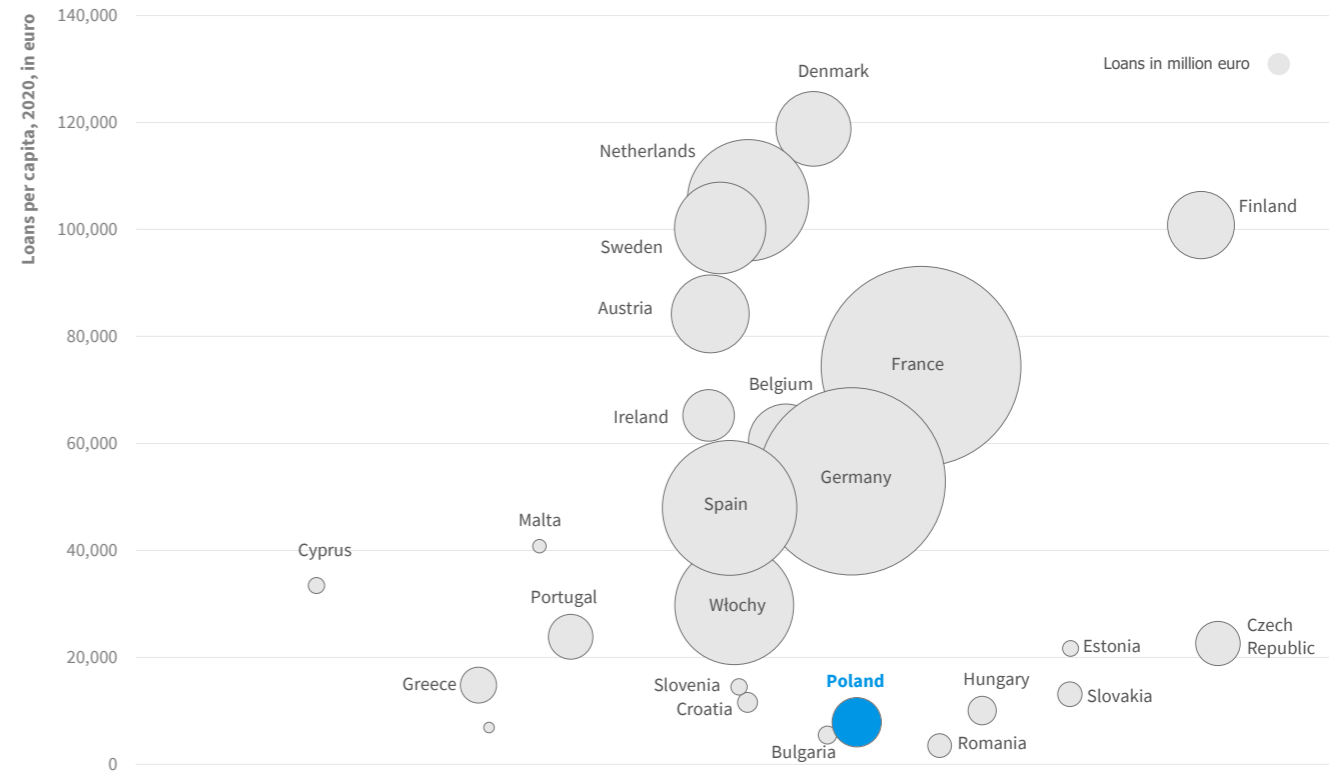
<sup>18</sup> European Central Bank, <https://sdw.ecb.europa.eu/>

In 2020, the ratio of the value of Polish bank assets to the value of GDP increased to 100.5%, which was the highest level in history<sup>19</sup>, although it is still relatively low compared to European Union countries. The increase in the ratio in Poland was influenced by an increase in banks' exposure to instruments serving to counteract the consequences of the COVID-19 pandemic issued and guaranteed by the State Treasury and the decline in GDP.

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 2020 accounted for 48% of such assets and was higher than the average for the banking sectors of the European Union (31%). The asset structures of the Polish banking sector and the European Union differ. Poland is characterized by the highest importance of debt securities, including treasury securities, in the balance sheets of Polish banks (in 2020, 29% and 21% share in assets, respectively). In the European Union these shares were on average 8% and 5%.<sup>20</sup>

<sup>19,20</sup> National Bank of Poland "Development of the financial system in Poland in 2020"

Loans per capita (2020, EUR) in relation to the insurance market growth rate (2013-2020)



Source: Own calculations based on Eurostat and European Central Bank data

At the end of 2020, the value of loans in the Polish banking sector amounted to EUR 298.7 billion, which places Poland in the middle of the European Union countries.<sup>21</sup>

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 57% of GDP while the European average is 126%. Finland, the Netherlands, Denmark and Sweden have the highest loans-to-GDP ratios.<sup>22</sup>

The Polish banking market features a relatively low percentage of business loans in the total value of loans extended to the non-financial sector (32% at yearend 2020).<sup>23</sup> The ratio of loans to businesses in the Polish banking sector to GDP (approx. 14%) was one of the lowest in Europe. In 2020, as a result of the pandemic, the gap in the structure of the loan portfolio between Poland and the European Union widened even further. In Poland, the growth rate of business loans gradually decreased, while in the European Union it increased. This was influenced by the different protective measures taken in each country in response to the pandemic. To a large extent,

<sup>21,22</sup> European Central Bank, <https://sdw.ecb.europa.eu/>

<sup>23</sup> National Bank of Poland, "Financial data of the banking sector"

subsidies provided under the PFR Financial Shield were responsible for the limited corporate demand for loans in Poland. In Europe, in turn, government guarantees for bank loans were a popular aid model, which reduced credit risk for banks, thereby stimulating growth in loans<sup>24</sup>. In turn, the lending activity of banks in Poland focuses on granting loans to households. In 2020, Poland was the second EU country in terms of the share of loans to households in the banking sector's loan portfolio<sup>25</sup>.

Mortgage loans account for the highest percentage of household loans in Poland (roughly 61%). In the European Union, this proportion is higher and stands at approx. 74% on average.<sup>26</sup> 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 countries.<sup>27</sup> Mortgage loans in Poland represent only ca. 20% of GDP, while the average in the European Union is 36% of GDP. On the other hand, Poland is one of the EU countries with the highest share

<sup>24, 25, 26</sup> National Bank of Poland "Development of the financial system in Poland in 2020"

<sup>27</sup> National Bank of Poland "Development of the financial system in Poland in 2019"



# External environment

of consumer loans in banks' loan portfolios, and the value of consumer loans granted in relation to GDP at the end of 2020 amounted to 13%, which is more than the EU average of 10%.<sup>28</sup>

In Poland, to a greater extent than the average for the European Union, banks finance their business with deposits from the non-financial sector (including 63% deposits by private individuals). At the end of 2020, they accounted for 61% of the total balance sheet value of the banking sector.<sup>29</sup> The situation is different in the case of the share of liabilities from the issue of debt securities in the total balance sheet value, which was among the lowest in the European Union. In Poland, excluding BGK's issues for the National Road Fund and the COVID-19 Response Fund, it was 3%, while in the European Union it was approx. 11%.<sup>30</sup>

In 2020, despite the COVID-19 pandemic, the financial assets being at the relatively free disposal of households increased by 15.5% y/y to PLN 1,644.5 billion at the end of December,

<sup>28,30</sup> National Bank of Poland, "Development of the financial system in Poland in 2020"

<sup>29</sup> National Bank of Poland, "Financial data of the banking sector"

and their ratio to GDP rose to 70.7%. In fear of the economic crisis and the consequences of the restrictions introduced in the fight against the pandemic, households chose more secure ways of investing. There was a high increase in cash in circulation (PLN +81.9 billion), as well as an increase in bank deposits (PLN +95.7 billion), which still remain the most popular form of accumulating financial assets by households. At yearend 2020, deposits in banks and credit unions accounted for 61.0% of the financial assets of households (-2.7 pp y/y), and 81.8% if counted together with their accumulated cash and treasury securities. Financial assets of households in the form of life insurance assets (including unit-linked funds) totaled PLN 62.7 billion in 2020, which accounted for 3.8% of total financial assets of these households (-0.5 pp y/y). Less frequently, households invest their savings in shares listed on the Warsaw Stock Exchange (4.9% of financial assets; +1.0 pp y/y), treasury securities (2.5%; +0.6 pp y/y) and non-treasury securities (0.2%; -0.2 pp y/y).<sup>31</sup>

<sup>31</sup> National Bank of Poland, "Development of the financial system in Poland in 2020"

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

Considering the regulations pertaining to the insurance and financial markets in Poland that were adopted in 2021, it is clear to see the growing importance that the European Union places on sustainability.

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"), has been in force, in principle, since 1 January 2022. The regulation sets out the criteria against which "green" financial products can be built. It also introduces the need to use labels in information about the products offered that indicate whether or not we are dealing with a product taking account of the taxonomy. In addition, a company that is required to publish non-financial information will be required to include in its non-financial statement or consolidated non-financial statement information on how and to what extent its business relates to economic activity that qualifies as environmentally sustainable.

On 1 January 2022, delegated acts to the taxonomy also came into effect:

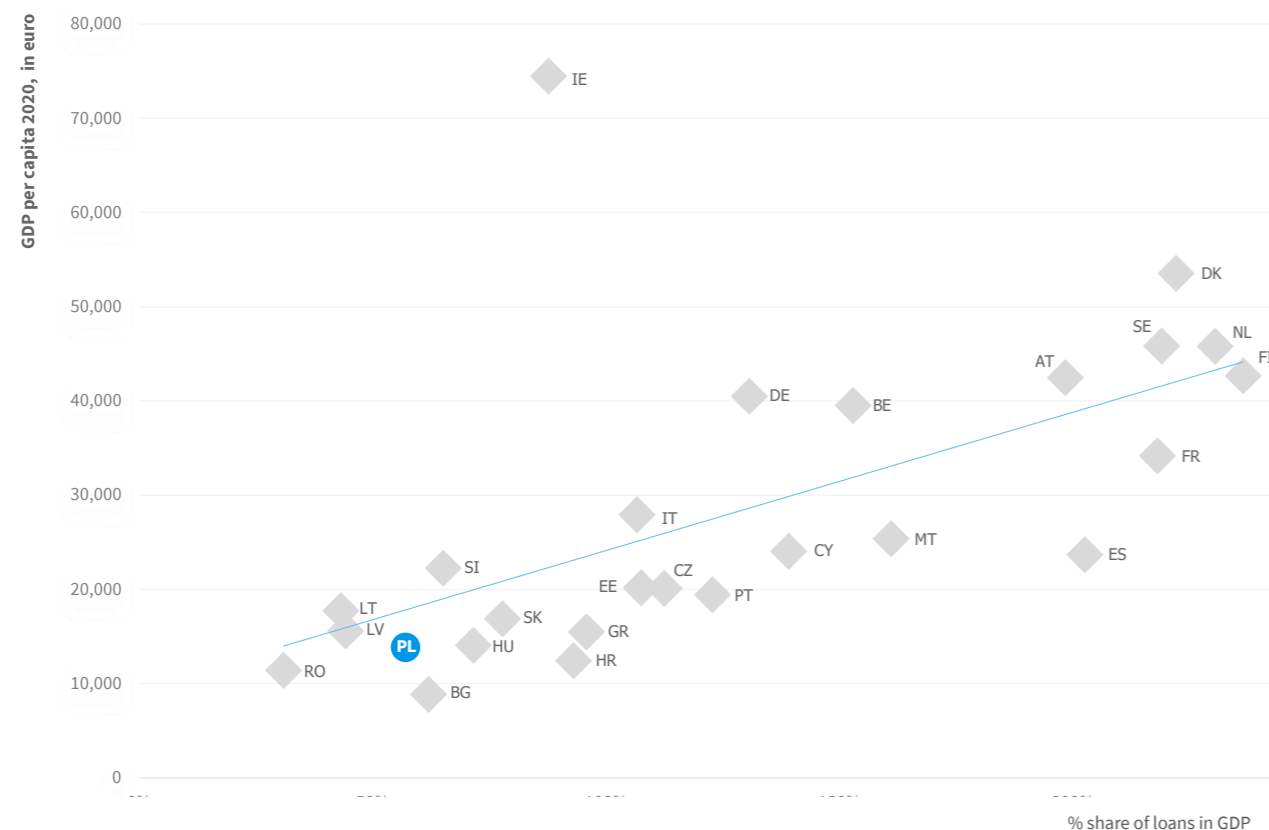
- **Commission Delegated Regulation (EU) 2021/2178** supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation;
- **Commission Delegated Regulation (EU) 2021/2139** supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

On 2 August 2022, in turn, amendments to the following regulations enter into effect:

- **Delegated Regulation (EU) 2015/35** supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). In accordance with the amendments, insurance undertakings will have to reflect, among other things, sustainability risks in their system of governance. The risk management function will be required to identify and assess risk to sustainable development, while the actuarial function will be required to consider the risk to sustainable development in assessing the uncertainty associated with estimates made in calculating technical provisions;
- **Commission Delegated Regulation (EU) 2017/2358** supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors. The amendments include testing the product on whether it meets the sustainability goals of the target group customer;
- **Commission Delegated Regulation (EU) 2017/2359** supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products. In this case, the amendments include, among other things, obtaining information from the client to assess whether the product meets the client's sustainability preferences and offering a product that meets the client's sustainability preferences.

Among the national regulations that will affect the insurance market, the amendment to the **Civil Code** that came into effect on 19 September 2021 is significant. They provide for the possibility of granting general damages to the closest members of an injured person's family in the event of serious and permanent damage to his or her body or an event causing a health disorder resulting in the inability to establish or continue family ties. The amendments are intended, in accordance with their substantiation, to remove discrepancies in judicial decisions in cases where general damages are sought for the closest family members of the injured person for harm in the form of broken family ties. The adopted solution applies to events that occurred before entry of the amendment into force, which may result in the filing of additional claims

Share of loans in GDP (2020, %) to GDP per capita (2020, euro)



Source: Own calculations based on Eurostat and European Central Bank data

against insurance undertakings by the closest family members of the injured persons.

Material changes for drivers have been brought about by the amendment to the [Road Traffic Law](#), which came into force on 1 January 2022. Among the changes introduced, one should mention the possibility for insurance undertakings to link the amount of motor insurance rates with the type of offences committed by a driver which constitute violations of road traffic regulations and the penalty points assigned to them. This change will come into force on 16 June 2022 and may, together with higher fines, have a positive impact on road safety and thus reduce the amount of claims paid by insurance undertakings. On the other hand, on 31 January 2022, an amendment to the [Road Traffic Law](#) will come into force providing for the possibility of temporary withdrawal of a damaged passenger car from traffic (for a period from 3 to 12 months). This amendment may result in an increase in the number of requests for a pro rata reduction in TPL insurance premiums for the period of temporary withdrawal of a damaged vehicle.

On 5 October 2021, the [Electronic Delivery Act of 18 November 2020](#) came into force. It is related to the progressing computerization, which includes the exchange of correspondence. In accordance with the introduced regulations, companies from the PZU Group are obliged to create an address for electronic deliveries, which will be entered in the database of electronic addresses kept by the minister competent for informatization.

On 1 January 2022, KNF's [decision of 15 July 2021 on prohibitions on marketing, distribution and sale of insurance-based investment products - life insurance contracts, if they are unit-linked \(product intervention\)](#) came into force. Among other things, the decision prohibited the marketing, distribution and sale of unit-linked life insurance contracts for which the average return is less than 50% of the interest rate for the period specified in the decision according to the relevant risk-free rate term structure. The product intervention does not apply to enrollment in group insurance concluded before 1 January 2022, and does not apply to Employee Capital Schemes, Employee Pension Schemes, Individual Retirement Security Accounts and Individual Retirement Accounts.

## Selected Supreme Court rulings affecting insurance activity

- Judgment of the Appellate Court in Rzeszow of 26 January 2021 (case file I ACa 461/19), in which the court held that in the case of violation of emotional ties between family members in such a way that only a change or deterioration of those ties occurs, the person closest to the injured party, who suffers a sense of harm because of that, is not entitled to general damages.
- Judgment of the Appellate Court in Warsaw of 11 June 2021 (case file VI ACa 101/20), in which the court ruled on the maturity of claims for monetary general damages for harm suffered.
- Judgment of the Appellate Court in Poznań of 2 June 2021 (case file I ACa 377/20) as regards general damages and claims paid to the life partner, according to which the concept of family cannot be limited only to the spouse, ascendants, descendants and relatives by marriage. Also, a cohabitation of several years, in which both cohabitants' material and emotional needs, aspirations for self-fulfillment and a sense of security were met, should be considered a family.

## 2.7 Factors that may affect the conditions of operations and the PZU Group's activities in 2022

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 2022, may be divided into the following three categories:

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

### Macroeconomic and geopolitical factors

The growth rate, level and structure of the key macroeconomic factors in Poland and abroad (GDP, inflation interest rates) translate into the growth rate of business in all sectors in which the PZU Group operates and their profitability. They

determine, directly or indirectly, albeit with a certain time lag, the gross written premium growth rate in non-life insurance, changes in demand for credit, accumulation of deposits and inflow of assets into funds. Moreover, they influence the loss ratio in non-life insurance and the investment result. They also determine the fund management results and key measures affecting the performance of the banking sector (interest margin and costs of risk).

In 2022, the [armed conflict between Russia and Ukraine poses a particular threat and may exert an adverse impact on economic growth, primarily due to the increased level of uncertainty and the increase in gas and oil prices](#) (and, to a lesser extent, as a result of disruptions in trade with Russia, Belarus and Ukraine). Natural gas is broadly used in many energy-intensive production processes. Additionally, the cost of gas is an important part of the budgets of households. The shock of rising prices may contribute to a deeper than currently expected weakening of the rate of growth in consumption and may suppress the GDP growth rate. Increased uncertainty may, in turn, exacerbate sentiments among investors. The increase in gas and oil prices – depending on the magnitude and persistence of this growth – will also push the inflation rate even higher. The increase in risk aversion, on a regional and global level, due to the Russia-Ukraine conflict may result in at least a temporary outflow of foreign capital, decreases in stock market indices, a temporary depreciation of the Polish zloty and may also contribute to an increase in bond yields. If, in this situation, the National Bank of Poland deems that the risk of an increase in inflation is too serious in the medium term, it may be forced to impose even greater interest rate hikes, thus hampering demand in the domestic economy. If the supply shocks pose a threat of a major deceleration of GDP growth – and the risk of a persistently high inflation in the medium term clearly diminishes – the NBP may opt for a more dovish monetary policy.

The war between Russia and Ukraine also has a direct impact on the PZU Group's business and results. This impact is currently difficult to estimate, but may include the loss of some insurance revenues and increased operating expenses on the part of the PZU Group companies operating in Ukraine. As at 31 December 2021, total net assets of the PZU Group companies in Ukraine included in consolidation, less liabilities and adjusted for mutual interests between PZU Ukraine and PZU Ukraine Life, amounted to PLN 70 million. The assets of those companies, net of mutual interests between PZU Ukraine and

PZU Ukraine Life, amounted to PLN 554 million, or 0.14% of the Group's total assets.

An additional geopolitical risk factor is a [potential resumption of the migration crisis on the border with Belarus](#). This may lead to additional disruptions of supply chains for Polish companies.

Other threats that may materialize include the possible prolonging of the COVID-19 pandemic and the scale of [constraints affecting economic activity](#) as a result of upholding the necessary sanitary restrictions in Poland and in relations with the country's trading partners. In this context, the risk includes a possible emergence of new SARS-CoV-2 variants resistant to the existing vaccines as well as an insufficient pace of vaccinations. Disruptions associated with the pandemic may pose the strongest hit to the service sector, transport, trade, restaurant and hotel services, and the broadly construed cultural and entertainment sector. This can generate additional challenges for insurers, banks and financial institutions in terms of their ability to offer products and aftersales service.

A risk factor, which may cause a weakening of economic activity in Poland, as well as in other countries, is a possible continuation of [the disruptions in supply chains and transport](#) and the related strong increase in the prices of raw materials, components and finished products. In particular, expansion of the Omicron variant in Asia and continuation of the sanitary restrictions in China may cause an intensification of such disruptions.

Whatever the cause, the [persistence of high inflation](#) can affect future claims paid on issued policies. Inflation also creates a problem for customers with depreciation of insurance benefits in long-term products.

In addition, in an environment of recovering demand and an improving labor market, the higher inflation is already resulting in tighter monetary policy. There is a risk that the reaction of the NBP, but also other central banks, will prove too strong, causing excessive cooling of the economy. In turn, too weak a response from central banks could mean an extended period of high inflation. The uncertainty about the level of inflation in Poland in 2022 is also related to the possibility that the government will extend the Anti-Inflation Shields.



# External environment

The economic environment, in particular the [actions of the Monetary Policy Council](#) with respect to interest rates and the reserve requirement, play a key role in the functioning of the banking sector. A very low interest rate environment has a negative effect on the sector's performance (by affecting the banks' net interest income), which could be felt in 2021. However, the interest rate hike cycle starting in late 2021 should be more beneficial to the performance of the banking sector. The relatively high level of inflation and the need to bring it down makes it much more likely that the NBP will continue to raise interest rates rather than lower them in 2022. On March 8, the MPC raised interest rates for the third time in 2022. The reference rate rose to 3.50%, i.e. the highest level in nine years.

On the one hand, an [increase in market interest rates](#) contributes to financial stability, because it helps improve profitability and financial standing of banks and insurers. On the other hand, however, it carries risks to financial stability by contributing to a deterioration of the quality of banks' loan portfolios.

The coming into life of the economic recovery scenario and a reduction in the level of uncertainty across the financial markets may result in a slight appreciation of the Polish zloty. This would help reduce expenses related to the prices of spare parts in motor insurance. However, in the conditions of the current account deficit of the balance of payments, persisting geopolitical tensions and the risk of postponing the disbursement of European funds under the National Reconstruction Plan - the [risk of weakening of the Polish zloty](#) remains - at least temporarily - relatively high.

On the other hand, slower-than-expected GDP growth in Poland may result in reduced household and corporate spending, including on purchases of motor insurance policies (for instance, due to softer sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for life insurance products, in particular as a result of a smaller pool of benefits offered by companies. Poorer financial standing of companies may result in an increase in credit risk (in particular in the banking segment) and higher loss ratio on the financial insurance portfolio, weakening of the growth rate of new mortgage loans and a weaker growth rate of consumer loans.

### Legal and regulatory factors

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

From the perspective of the insurance business, the Group's activity has been affected by all regulations and the case-law that affects the level of premiums and claims paid by insurance companies.

As regards property insurance, the changes to the [Road Traffic Law](#) and the [Civil Code](#) described in [SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND](#) may be particularly relevant. They concern, among other things, the possibility for insurance companies to link the amount of tariffs in motor insurance to the type of offences committed by the driver and the possibility to grant general damages to the closest family members of the victim in certain situations.

The PZU Group's unit-linked life insurance business is affected by the decision of the Polish Financial Supervision Authority taken as part of the [product intervention](#) described in [SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND](#), which came into force on 1 January 2022. PZU Życie has implemented the necessary measures that ensured adaptation to the product intervention, in particular it assured that the updated product offer included solely and exclusively products that meet all the criteria set forth in the decision issued by the regulatory authority.

One of the more important factors in 2022 in the context of banks is still the [issue of foreign currency mortgage loans](#). A risk factor is the potential necessity of establishing additional provisions to cover customer claims in litigations related to Swiss franc loans. After the CJEU confirmed that domestic courts have the ultimate power for identifying "unfair" clauses in FX loan agreements, the judgments of the Polish Supreme Court will be of key importance in this matter. The judgments of the Supreme Court will determine the domestic line of judgments in the matter of Swiss franc loans and consequently the scale of provisioning required from domestic banks to cover the claims of CHF clients for the use of unfair contractual clauses in FX mortgage loan agreements. Because the exposure of the PZU Group's banks to foreign currency loans is scarce compared to other banks operating in Poland, the direct impact of this risk on the Group will be limited.

The [resolution of the Bank Guarantee Fund \(BFG\) Board](#) of February 22, 2022 will also have a significant impact on the results of the banking sector. The BFG Board set the total bank contributions to the BGF in 2022 at PLN 3,701 million, compared to PLN 2,230 million in 2021 and PLN 3,175 million in 2020. This means an increase of 66% compared to 2021 and 16.6% compared to 2020.

Potentially significant impact on the financial market may be exerted by the [bill, currently in the legislative process, amending certain acts in connection with commitment to develop the financial market and protect investors in that market](#). According to its authors, it aims to organize and

streamline the functioning of financial market institutions, in particular to eliminate barriers to access to the financial market, strengthen the supervision of the financial market, better protect customers of financial institutions, minority shareholders, and increase the level of digitization in the implementation of supervisory responsibilities by the Polish Financial Supervision Authority. As regards the Insurance Activity Act, the bill provides, among other things, for extension of the group of authorities upon the request of which an insurance undertaking is obliged to provide information constituting a secret concerning individual insurance contracts. The bill also extends the list of persons on whom the regulatory authority will be able to impose financial penalties to include persons who, at the time of the violation, were members of the supervisory board of an insurance or reinsurance undertaking. The amount of potential penalties that KNF could impose on such persons was also significantly increased - up to PLN 20 million.

Also the draft amendments to the [Labor Code](#), regulating the way of performing remote work, is in the legislative process (the existing regulations in this regard were adopted only for the duration of the SARS-CoV2 virus epidemic). In accordance with bill, the principles of remote work need to be agreed upon at the workplace level in consultation with trade unions. If no agreement is reached between the parties to the negotiations, the employer may unilaterally issue internal rules and regulations governing the provision of remote work in its establishment. The employer will also be required to equip employees with tools and materials necessary to perform their work remotely and to compensate employees for part of the costs incurred by them in connection with performing the remote work.

The increased regulatory burden on financial institutions due to increased awareness of sustainable financing, climate change and environmental issues will be compounded in 2022 by the introduction of the [Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment \("Taxonomy"\)](#) and its delegated acts. The new regulations that particularly result in increased obligations to disclose how and to what extent a company's activities are related to business activities that qualify as environmentally sustainable are described in [SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND](#).

Polish economy highlights	2019	2020	2021	2022*
Real GDP growth in % (y/y)	4.7	(2.5)	5.7	4.0
Individual consumption growth in % (y/y)	4.0	(3.0)	6.2	3.6
Growth of gross fixed capital formation in % (y/y)	6.1	(9.2)	7.9	5.3
Consumer price index in % (y/y, annual average)	2.3	3.4	5.1	9.2
Nominal salary growth in the national economy in % (y/y)	7.2	6.2	8.4	10.0
Unemployment rate in % (end of period)	5.2	6.2	5.4	4.9
NBP's prime rate in % (end of period)	1.50	0.10	1.75	5.00

\* Forecast as of 18 March 2022, made assuming the Anti-Inflation Shield is in effect through the end of the current year.  
Source: PZU's Department of Macroeconomic Analyses /COS

# External environment

## Factors specific to the sectors in which the PZU Group operates

The PZU Group's operating conditions and results are affected by factors and conditions specific to the sectors in which the Group companies operate. Currently, the most important of these are the impact of the COVID-19 pandemic, climate change, demographic changes and the level of competition in the product groups that form the core of the Group's business.

In the last 2 years, the global **COVID-19 pandemic** has been a phenomenon that has determined the functioning of the markets in which the PZU Group operates. Although national vaccination programs and the easing of the restrictions related to the epidemiological situation stimulated the recovery in 2021 - allowing insurers worldwide to expect strong growth in 2022 - there is still conditions of uncertainty.

In life insurance, the most visible consequence of the pandemic visible to insurers is an **increase in mortality**. The restrictions that were imposed during the earliest waves of the disease also reduced the overall provision of medical services. Patients postponed their scheduled appointments and treatments for other, initially unspecified, dates. Although in 2021 patients returned to the provision of services postponed in previous months, the problem of the so-called healthcare backlog still remains. The long tail of the epidemic, in the form of deteriorating health for many people and the resulting complications, may drag on for years. The possible overlap of the long-term effects of the SARS-Cov-2 coronavirus outbreak and the effects of not treating other diseases will be an additional risk factor.

The rapid **growth of telemedicine** is another outcome of the COVID-19 pandemic changing the healthcare market. Telemedicine has proven to be an essential component of healthcare delivery during successive waves of the pandemic. However, many solutions combining the elements of telecommunications, IT and medicine have become a permanent feature of the medical market.

In the early phase of the pandemic, in connection with the lockdown periods affecting the Polish economy and restrictions in the movement of people, the **loss ratio decreased** in the key market segment of non-life insurance,

namely **motor own damage insurance and motor third party liability insurance**. However, with the increase of collective immunity and the subsiding of the pandemic, an increase of mobility is expected, among others due to the return of some employees to offices. Increased traffic on the roads may cause an increase in motor insurance loss ratio, which may potentially affect the profitability of this line of the non-life insurance business and, consequently, may lead to price increases.

Another effect of the pandemic is a higher level of customer awareness and a sense of uncertainty, which is associated with an expected increase in demand for life and health insurance. Similarly, the global fashion for healthy, active yet safe living is increasing interest in insurance and medical products. Therefore changing customer expectations will affect the business and performance of the PZU Group in each of its areas of activity. In particular, this concerns the personalization of the offering and the provision of a quick and easy access to a comprehensive ecosystem of financial services.

The pandemic and its associated restrictions have contributed to the rapid growth of remote customer service processes. Further transfer of clients from traditional to remote channels can be expected. 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.

**New technologies** have enabled insurers to continue operations during individual lockdowns, and have set new standards for customer service. However, the development of new technologies entails several challenges that insurers and financial institutions will have to face in the near future.

One of them is to effectively manage the solutions implemented rapidly at the onset of the pandemic. Two years have passed since the first information about the emergence of the coronavirus in Poland, and although many of the introduced solutions were long-awaited by customers, it is extremely important to skillfully assess their further

usefulness, scale and improve the introduced technologies, as well as adjust them to the long-term strategies of insurance companies. Insurers must be cautious as customer preferences are changing dynamically - it will become extremely important to balance service processes in such a way that the human factor is retained where it is necessary and expected by customers, and the part of the processes that will not cause a deterioration of service quality is automated.

Another challenge is the supply of skilled workers with expertise and skills in areas related to cybersecurity, artificial intelligence, machine learning and data analytics. The rapid growth of these fields has resulted in an increased demand for employees who can assist companies in leveraging their technological potential. The risk associated with the shortage of employees with appropriate skills in new technologies is one of the main problems associated with the implementation of technological advances.

Technological progress has also led to the emergence of so-called insurtechs and fintechs, which are already influencing and will continue to influence the transformation of the insurance and banking industries over the long term.

The PZU Group's business and results are also increasingly affected by factors related to **climate change**. Natural catastrophe events such as fires, storms, hail, flash floods, cyclones, tornadoes, and heat waves, which have been on the rise over the past few decades, have contributed to increasing the loss ratios in the property insurance sector. The increasing number of claims is weighing on the performance of insurers and reinsurers across the globe, focusing increasing attention on the issue of climate change. Current underwriting methods are based on past events and do not capture well the nature of the dynamic global climate changes. The complex nature of climate risk presents insurers with the challenge of developing new insurance products which will adequately reflect the frequency of catastrophic events and translate into the premium levels. The climate change risk also affects the level of capital requirements for insurance undertakings and the cost of reinsurance schemes.

At the same time, insurers and financial institutions are increasingly expected to take responsibility for delivering a just transition to a low-emission economy. This influences the development of "green" insurance and loan offerings for, among others, large corporations and smaller businesses, supporting sustainable development. At the same time, financial institutions, including insurers and banks, should increasingly incorporate responsible investment principles taking into account ESG factors into their investment activities. This is determined not only by regulatory issues, but also by society's changing expectations of financial institutions and corporations - customers want large companies to take a proactive stance in the fight for a better planet.

Customers themselves are also increasingly opting for eco-friendly solutions that contribute to combating climate change. 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 - this is the so-called shared mobility. This global trend includes not only cars but also scooters, segways, skymasters and electric unicycles, rented via smartphone apps. Insurers' offerings should meet customer expectations and include products dedicated to shared mobility.

Other factors that will affect PZU's operations over the long term include **demographic trends**, mainly the aging population, mortality, morbidity, especially of civilization diseases, and fertility rates. As the population continues to decline, coupled with the simultaneous aging of the population, the demand for health care and long-term care to

senior citizens increases. Similarly, other global trends, such as the sharing economy or the Internet of Things (IoT), and trends in the insurance industry, such as open insurance and building thematic ecosystems for customers, will influence the direction of insurers' business models and their product offerings.

A detailed description of the factors that may affect the PZU Group's business in 2022, broken down into operating segments, is presented in [SECTION 3. BUSINESS.](#)





### 3. Business

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

**In this chapter:**

1. Business model
2. Insurance
3. Medical care
4. Investments
5. Banking
6. Other areas

## 3.1 Business model

### Conglomerate

The PZU Group is a conglomerate comprised of insurance, financial and health care companies. It is headed by PZU, which, as a parent company, acts as a competence center setting standards of operation for the other entities. Among others, it defines the guidelines for capital safety, risk management or internal control systems, building common solutions on them. Of particular importance for the insurance segment is the cooperation between PZU and PZU Życie, which operate with shared structures, especially in terms of strategic management and risk, as well as operational support.

Insurance is the core business of the PZU Group. 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). 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 insurance offer is supplemented by comprehensive medical and investment services.

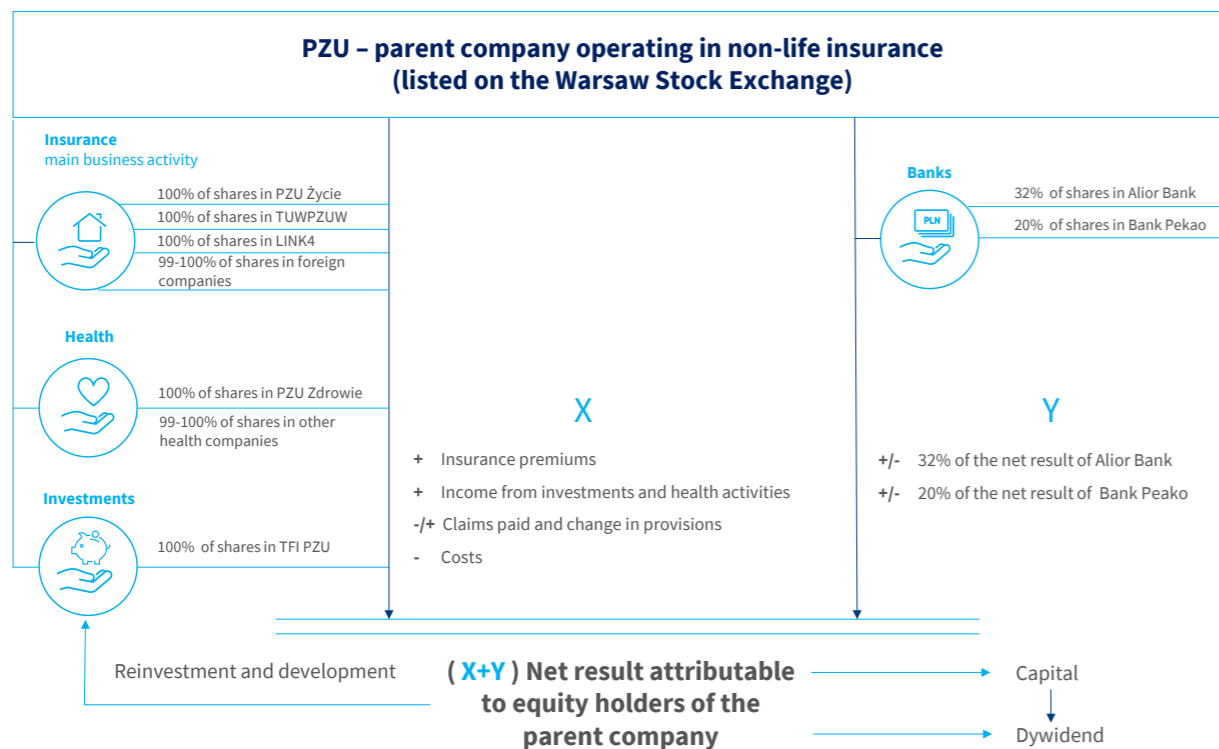
The core PZU Group companies include:

- PZU, PZU Życie, TUW PZUW, LINK4 – insurance in Poland;
- Lietuvos Draudimas (Lithuania), AAS Balta (Latvia) – insurance abroad;
- TFI PZU – investments;
- PZU Zdrowie – medical care;
- Bank Pekao, Alior Bank – banking.

### Operating model and value

Insurance is the PZU Group's core business. It is the basis for comprehensive product offerings focused on broadly defined safety. This is why the non-insurance activity should be analyzed primarily as an element supporting sales of the basic insurance offer. Banking operations play a unique role in the PZU Group's value chain. The parent entity in the PZU Group, i.e. PZU, holds shares allowing it to exercise control over two banks, Alior Bank and Bank Pekao. From the business perspective, this ensures effective cooperation in mutually supporting sales of insurance and banking products. From the shareholders' perspective, the banks contribute to the net profit, which may be distributed as dividends in accordance with the PZU Group's capital and dividend policy.

### PZU Group - simplified presentation of the business model



## 3.2 Insurance

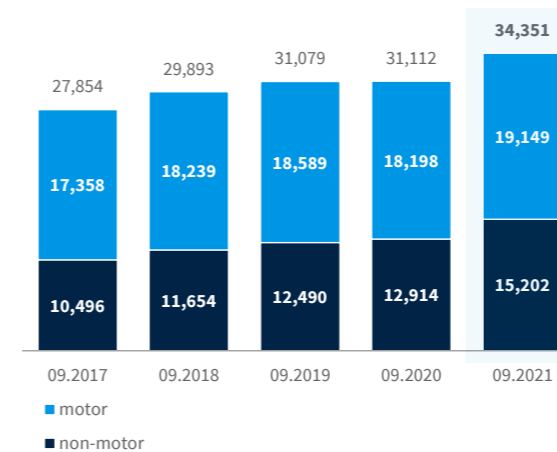
### 3.2.1 Description of the insurance markets on which PZU Group companies operate

#### Non-life insurance market in Poland

Measured by gross written premium in the first three quarters of 2021, the non-life insurance market in Poland grew by a total of PLN 3.2 billion (+10.4%) in comparison to the corresponding period of the previous year.

The market growth was driven primarily by gross written premium increase in the non-motor insurance area by PLN 2.3 billion (+17.7% y/y), while gross written premium in the motor insurance area was PLN 1.0 billion higher (+5.2% y/y).

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



Source: KNF's Quarterly Bulletin ([www.knf.gov.pl](http://www.knf.gov.pl)), Rynek ubezpieczeń [Insurance market] 3/2021, Rynek ubezpieczeń 3/2020, Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017

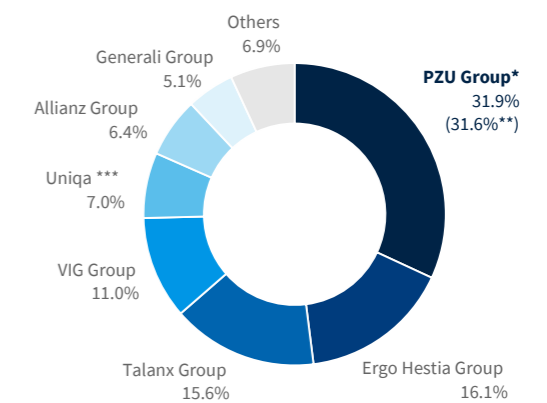
In motor insurance the gross written premium in motor TPL insurance, which is the most important category for the overall market, (PLN 12.0 billion representing 35.0% of the overall premium in non-life in the first three quarters of 2021) increased by PLN 268 million y/y (+2.3% y/y). For the first time in three years, gross written premium increased in direct business (up PLN 261 million, +2.4% y/y) and in two years in indirect business (PLN 6.4 million, +0.8% y/y). The change of the trend was caused by a gradual recovery of the leasing market to the pre-pandemic financing levels, higher sales among dealers and lower price activity of competitors due to the deteriorating profitability of the portfolio (partial return

to the pre-pandemic claims frequency and higher claims handling costs). The sales of motor own damage insurance rose by PLN 683 million (+10.6% y/y) up to PLN 7.1 billion, which accounted for 20.7% of the overall written premium in non-life insurance in the first three quarters of 2021.

In non-motor insurance, the increase in gross written premium was affected mostly by higher sales of insurance against fire and other damage to property (up PLN 1.1 billion, or 17.6% y/y, of which PLN 390 million was for indirect activity), accident and illness insurance (up PLN 437 million, +21.8% y/y) and insurance against various financial risks (up PLN 356 million, +52.8% y/y). A decline was observed in legal assistance products only (down PLN 3 million, -4.5% y/y).

In the first three quarters of 2021, the overall non-life insurance market generated a net result of PLN 3,851 million, which is PLN 813 million more in comparison with the corresponding period of 2020.

#### Non-life insurers – percentage of gross written premium in the first three quarters of 2021 (in %)



Groups: Allianz – Allianz, Euler Hermes, Aviva, Santander Aviva TU S.A.; Ergo Hestia – Ergo Hestia; Talanx – Warta, Europa; VIG – Compensa, Inter-Risk, Wiener, TUW TUW; Generali Group - Generali, Concordia  
 Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2021  
 \* PZU Group – PZU, LINK4, TUW PZUW  
 \*\* PZU Group's market share in non-life insurance on direct business  
 \*\*\* 9 April 2021 - KRS registration of the merger of AXA UBEZPIECZENIA TUIR S.A. (surviving company) and UNIQA TU S.A. (acquired company), effected by transferring all assets of UNIQA TU S.A. to AXA UBEZPIECZENIA TUIR S.A. and changing the name of the surviving company from AXA UBEZPIECZENIA TUIR S.A. to UNIQA TU S.A. On 9 April 2021, the acquired company terminated its activity.



Excluding the dividend from PZU Życie, net profit of the non-life insurance market increased by PLN 930 million (+54.5% y/y).

After the first 3 quarters of 2021, the technical result of the non-life insurance market fell by PLN 109 million to PLN 2,253 million. This was driven mainly by a decrease in the technical result in motor own damage products by PLN 203 million (effect of an increase in loss ratio on the portfolio), in assistance products by PLN 66 million, while the result on loan and guarantee insurance increased by PLN 145 million and on insurance against fire and other damage to property increased by PLN 40 million y/y.

After three quarters of 2021, the PZU Group had a 31.9% share in the non-life insurance market (31.6% on direct sales) compared with 32.6% in the corresponding period of 2020 (32.1% from direct business). With a slight decrease, it maintained high portfolio profitability.

After the first three quarters of 2021, 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 42.5% (the PZU Group's technical result was PLN 957 million while the overall market's technical result was PLN 2,253 million).

The total value of the investments made by non-life insurers at the end of Q3 2021 (net of the investments made by subordinated entities) was PLN 72,847 million, up 3.2% compared to the end of 2020.

Non-life insurers estimated their net technical provisions at an aggregate amount of PLN 61,615 million, signifying a 4.8% growth compared to the end of 2020.

## Life insurance market in Poland

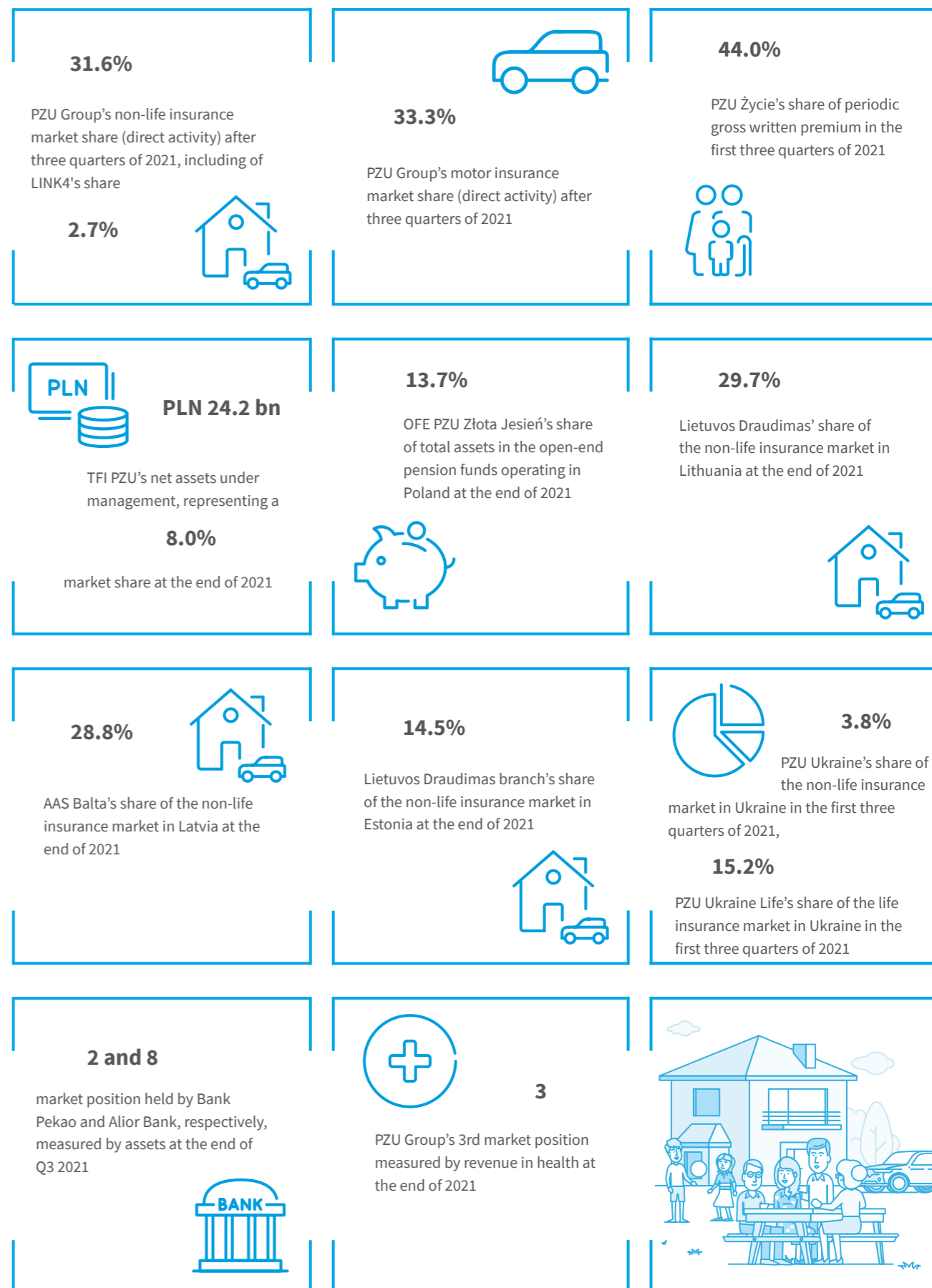
After three quarters of 2021, the life insurance market in Poland, measured by gross written premium, was estimated at PLN 16,563 million, meaning that over the most recent 5 years it contracted on average by 2.5% per annum, mainly due to changes in single premiums in investment products. At the same time, the premiums collected during the three quarters were 7.6% higher than those in the corresponding period of 2020, driven by an increase in both periodic and single premiums. Gross written premium in periodic premium products has increased both in life insurance (class I) and in accident and illness insurance (class V).

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. The changes in capital market trends 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

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

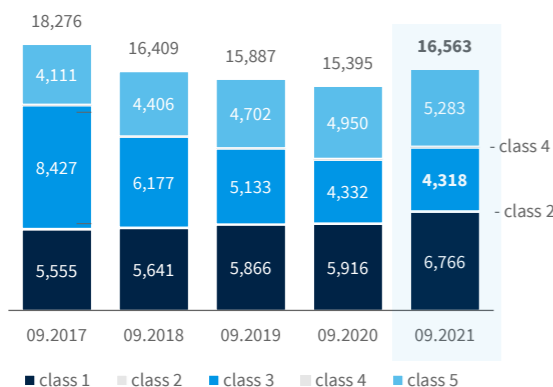
Gross written premium vs. technical result	1 January – 30 September 2020			1 January – 30 September 2021		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Gross written premium	10,131	31,112	20,981	10,969	34,351	23,382
Technical result	1,077	2,362	1,285	957	2,253	1,297

\* includes LINK4 and TUV PZUW  
Source: KNF's Quarterly Bulletin ([www.knf.gov.pl](http://www.knf.gov.pl)). Rynek ubezpieczeń 3/2021, PZU's data





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

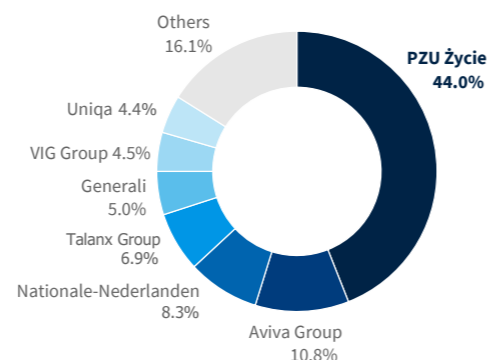


Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2021, Rynek ubezpieczeń 3/2020, Rynek ubezpieczeń 3/2019, Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017

was recorded (-31.7% y/y, of which -41.3% in the group of investment products) which was followed by downward movements in subsequent years. The volumes of single premium products have been recovering since Q3 2020, but they remain much lower compared to the previous periods.

The outcome of these market changes was the expanding significance of periodic premium that constitutes PZU Życie's competitive edge on the market. During the three quarters of 2021, premium with this payment form was 4.5% higher compared to the same period in 2020, with a cumulative average growth rate of 2.2% for the last 5 years. Despite the declining periodic premium in unit-linked life insurance (by PLN 118 million y/y), the premium on protection products in classes I and V increased (by PLN 694 million y/y) in both group and individually purchased insurance.

**Life insurers – percentage of periodic gross written premium in Q1-Q3 2021 (%)**



Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva - Aviva, Santander-Aviva  
 \* 9 April 2021 - KRS registration of the merger of AXA ŻYCIE TU S.A. (surviving company) and UNIQA TU na ŻYCIE S.A. (acquired company), effected by transferring all assets of UNIQA TU na ŻYCIE S.A. to AXA ŻYCIE TU S.A. and changing the name of the surviving company from AXA ŻYCIE TU S.A. to UNIQA TU na ŻYCIE S.A. On 9 April 2021, the acquired company terminated its activity.  
 Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2021

At the same time, market concentration measured by the periodic gross written premium remained high. During the last year, the sequence of the five largest market players has not changed, even though their combined market share fell to 74.9%.

The total technical result generated by life insurance companies in Q1-Q3 2021 amounted to PLN 1,903 million, i.e. PLN 820 million less (-30.1% y/y) than in the corresponding period of 2020. The declines occurred both in life insurance classes (class I) and in accident and illness insurance (class V).

The drop in the technical result in life insurance (class I) by PLN 788 million was particularly significant, because a negative technical result (PLN -255 million) was recorded at the end of

Q3 despite an increase in net earned premium. This was mainly due to a larger number of claims and benefits resulting from the higher number of deaths.

In this same period, life insurers generated a net result of PLN 1,487 million, down PLN 689 million (31.7%) y/y. This is the effect of the technical result being lower than in the corresponding period of 2020.

The total value of the investments made by life insurance undertakings at the end of Q3 2021 was PLN 41,452 million, signifying 0.5% growth compared to the end of 2020. In turn, the high investment performance of the funds contributed to a higher net asset value of life insurance in which the policyholders bear the investment risk (up 1.0% to PLN 49,072 million).

During Q1-Q3 2021, PZU Życie wrote 40.2% of the gross written premium of all life insurers on the market, signifying a decrease vs. the last year's market share (by 2.2 p.p.). Even though the gross written premium of PZU Życie, both single and periodic, was higher than last year, other insurance undertakings recorded higher growth.

At the same time, PZU Życie continued to be the leader in the periodic premium segment. In the first three quarters of 2021, it generated 44.0% of these types of premiums, signifying a small decrease (by 1.6 p.p.) in the market share in this segment as compared to the previous year. The growth rate of gross written premium at PZU Życie in this segment was 0.8% y/y, while the other market players posted a 7.6% growth rate. PZU Życie reported an increase in the accident and health insurance segment (class V) and a decrease in the life insurance segment (class I), while other market participants reported increases in those two segments.

PZU Życie's share in just the life insurance segment (class I) for periodic premiums at the end of Q3 2021 was 55.1% when measured by gross written premium and 57.5% when measured by the number of agreements in force. In turn, PZU's market share in terms of the method of entering into an agreement just in the life insurance segment was 62.3% for agreements executed in group form and 36.0% for individual agreements (measured by gross written premium).

PZU Życie's technical result represented 43% of 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 higher than the overall margin generated by other companies offering life insurance (12.3% versus 11.0%).

**Insurance markets in the Baltic States and Ukraine**

**Lithuania**

According to the Bank of Lithuania, in 2021 gross written premium on the non-life insurance market amounted to EUR 721 million. The last year's decline of the market was offset; premiums were 8.5% higher than in the previous year and 6.8% higher than in 2019. The market grew mainly in property insurance, which represents roughly one fifth of the entire non-life insurance market. Gross written premium in property insurance rose 16.4% y/y in 2021. Motor insurance remains the most significant insurance class on the market (representing 56.8% of all gross premiums written in non-life insurance). Due to the strong price competition, the value of sales in TPL motor insurance fell by 1.0% compared to last year. The value of motor own damage insurance sales increased by 9.4%. Sales of health insurance grew dynamically: gross written premium increased by 25.7% to EUR 64 million.

As of the end of December 2021, there were 13 companies operating in the non-life insurance sector, including 8 branches of insurance companies seated in other EU member states. The combined market shares of top 4 players in the non-life insurance market totaled 69.1%.

The PZU Group has been present in Lithuania since 2002. As of November 2014, it has conducted its activity on the 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 was 29.7% in 2021. Lietuvos Draudimas posted an increase in gross written premium by 8.8% y/y to EUR 214 million. The biggest growth was achieved in property insurance (up EUR 7 million) and

**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 2020			1 January – 30 September 2021		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	6,519	15,395	8,875	6,654	16,563	9,909
Technical result	1,519	2,723	1,204	816	1,903	1,087
Profitability	23.3%	17.7%	13.6%	12.3%	11.5%	11.0%

Source: KNF ([www.knf.gov.pl](http://www.knf.gov.pl)). Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2021, PZU Życie's data

MOD motor insurance (up EUR 6 million), while sales of TPL motor insurance fell by EUR 1 million.

Gross premiums written by Lithuanian life insurance companies in 2021 were EUR 319 million, up 9.8% relative to 2020. Sales of regular-premium insurance increased by 8.6% y/y, mainly due to higher volumes of new sales. Sales of single-premium insurance products increased by 30.4% y/y (i.e. by EUR 5 million). The growth was particularly pronounced at yearend, driven by tax relief.

In the life insurance structure, unit-linked insurance represented the largest share at 68.1% of the portfolio value. Traditional life insurance accounted for 12.3% of written premium.

New sales increased by 29.7%. Despite the limitations related to COVID-19, all life insurance companies achieved high growth in new sales. It was still only 2% higher than new sales generated in the year before the pandemic (2019).

As at the end of December 2021, 8 companies operated in this sector. The Lithuanian life insurance market is highly concentrated – in 2021, the share held by the three largest life insurance companies in total gross written premium was 61.6%.

Swedbank was the largest life insurance company in Lithuania in terms of total gross written premiums, with a 22.6% market share. The next players are Compensa (19.9% market share) and Aviva (19.1% market share).

PZU Group's life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas (PZU Lithuania Life). The gross written premium posted by PZU Lithuania Life was EUR 21 million, up 10.8% from 2020. This corresponds to a market share of 6.5% (+0.1 p.p. y/y).

## Latvia

On the Latvian non-life insurance market, gross written premium was EUR 402 million in 2021. This is EUR 22 million (i.e. +5.8%) more than in the previous year.

The biggest growth was achieved in property insurance and health insurance – up EUR 18 million and EUR 6 million, respectively. The biggest drop was observed in the TPL motor insurance area (down EUR 10 million) driven mainly by a decrease in insurance rates.

Motor insurance is the most important insurance class. Third party liability (TPL) insurance and motor own damage (MOD) insurance accounted for 19.8% and 22.7%, respectively, of the entire non-life insurance market in terms of gross written premium. Property insurance (24.5% of gross written premium) and health insurance (19.1% of gross written premium) also had an important position in the product mix.

At the end of 2021, there were 10 insurance companies operating on the Latvian non-life insurance market; the top 4 insurance groups held 72.3% of the market.

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 2021, the gross premium written by AAS Balta reached EUR 116 million, up 8.1% (EUR 9 million) relative to 2020. The largest growth was recorded in property insurance as well as travel and health insurance. At the same time, sales of motor insurance fell due to strong price pressures.

At the end of 2021, the share of AAS Balta in the non-life insurance market was 28.8%.

## Estonia

Gross written premium of non-life insurance companies operating in Estonia posted a 4.2% increase in gross written premiums up to EUR 400 million. 36.2% of this amount, i.e.

EUR 145 million, was collected by branches of foreign insurers operating in Estonia.

The key contributor to market growth was MOD motor insurance, which increased 5.3% y/y, financial insurance (+29.9% y/y) and property insurance of natural persons (+5.6% y/y). Health insurance also grew dynamically, with premiums nearly doubling at EUR 4 million. At the same time, sales of TPL motor insurance fell 4.0% y/y (i.e. EUR 4 million) due to persistently low prices of insurance.

The sales structure of non-life insurance did not change significantly in 2021: it was dominated by motor insurance, which accounted for 55.2% of gross written premium (of which MOD insurance accounting for 31.4%), with property insurance accounting for 28.7% of gross written premium. On the other hand, the share of health insurance increased to 1.5% (i.e. +0.9 p.p. y/y).

At the end of December 2021, there were 13 companies operating in the non-life insurance sector (including 5 branches of foreign insurance companies) among which the top 4 held a combined market share of 68.4%. LHV Kindlustus, the new Estonian insurer, which started actively selling motor, housing, travel and TPL insurance in 2021, reached a 1.7% market share at the end of the year.

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

The PZU Group's share in the Estonian non-life insurance market in 2021 was 14.5%, and the accumulated gross written premium was EUR 58 million, up 3.4% (i.e. EUR 2 million) relative to 2020.

The biggest growth was achieved in property insurance and MOD motor insurance. At the same time, due to the persisting price pressures in the region, the sales of TPL motor insurance declined (the average premium went down 4% in the mass segment and 1% in the corporate segment).

## Ukraine

As of the end of June of the 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.

After the first three quarters of 2021, The Ukrainian insurance market, measured by gross written premium, grew by 15.5% up to UAH 38 billion.

The premium accumulated in non-life insurance was UAH 33.9 billion, signifying 15.3% growth compared to the same period in 2020. The National Bank of Ukraine oversees the compliance of insurance market players with the applicable regulations and applies appropriate measures against the entities that violate them. In most cases, the market players decided to suspend their activity voluntarily: 38 insurance undertakings left the market during the first 9 months of 2021.

In the first quarter of 2021, periodic restrictions related to the COVID-19 pandemic had a significant effect on travel and Green Card insurance. In the following quarters, as the restrictions were gradually lifted, the deferred demand was activated and at the end of Q3 both insurance types recorded sales growth at 44.6% and 36.4%, respectively, as compared to Q1-Q3 2020. At the same time, the MOD motor insurance market (up 28.2% y/y) and the health insurance market (up 24.5% y/y) were also gradually recovering.

As at the end of September 2021, insurance companies offering life insurance collected gross written premium of UAH 4.2 billion, signifying 17.2% growth compared to the corresponding period of the previous year.

The Ukrainian insurance market is highly fragmented. As at the end of September 2020, there were 169 insurance companies operating in the country, 17 of which offered life insurance. Despite the large number of insurers, the top 50 non-life insurers generated 92% of gross written premium.

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

In 2021, gross written premium collected by PZU Ukraine amounted to UAH 1,746 million, or 17.5% more than in the previous year. Sales growth was recorded in all business lines, with the most significant ones in motor and travel insurance. In 2021, gross written premium collected by PZU Ukraine Life was UAH 635 million, up 18.1% from 2020.

During three quarters of 2021, PZU Ukraine attracted 3.8% of the gross written premium on the Ukrainian non-life insurance sector, maintaining its market share vs. Q3 2020. This ranked the company seventh on the non-life insurance market in Poland. PZU Ukraine Life ranked third in the life insurance market with a 15.2% market share (up 4.2 percentage points relative to the previous year).<sup>1</sup>

### 3.2.2 Activity and product offering of PZU Group's insurance companies

PZU Group offers non-life insurance 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. Life insurance is sold in Poland under the PZU Życie brand. Outside of Poland, the PZU Group sells insurance products under the PZU brand (in Ukraine), as Lietuvos Draudimas (in Lithuania and Estonia) and as Balta (in Latvia).

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.

<sup>1</sup> Insurance TOP, Ukrainian Insurance Quarterly, #7(83)2021

#### Activity and product offering - PZU



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

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

- extension of coverage of the PZU AUTO Assistance product to include two **Truck Assistance** options: Comfort Truck and Super Truck, addressed primarily to carriers with heavy fleet, i.e. trucks with gross vehicle weight exceeding 3.5t, truck tractors, buses, trailers over 2t, semi-trailers, fire-fighting vehicles. In the new options, in case of an incident on the road, PZU organizes and covers the cost of: repairing the vehicle on site, towing and cleaning the accident site, removing a vehicle blocking traffic (on a steep slope, a narrow roundabout or a dead end), supervising cargo, transport to a hospital, travel of a substitute driver and many other services. Extension of the PZU AUTO Assistance product complements the offering for corporate and SME clients. In particular, it strengthens the Company's position in the heavy vehicle fleet segment. The advantage for PZU is the availability of the new product in any suitable form: individual policies, fleet contracts and leasing programs, in all distribution channels;
- implementation of new forms of PZU Auto insurance documents in accordance with the plain language principles. The **simple PZU Auto policy** is another step to changing communication with clients to one that is user-friendly and consistent with the national plain language standard. The new document forms include: offers, policies and the confirmation of entering into an insurance agreement. In H2 2021, the functionality of new templates was extended by adding, among others, support for new payment forms: subscriptions and sharing for new entities, in the role of e.g. lender, borrower, lessor, lessee and CFM manager or renter;

- addition of **PZU Home** to be serviced in Radar Live – a pricing tool enabling a better alignment of the offering with the client's expectations and risks;
- sending the **Green Card Certificate** in PDF format to the specified e-mail address for self-printing. Simplification of the current process ensures security for both clients (no need to visit the branch or agent) and employees;
- launching a light sales front for SME property insurance products (PZU Firma and General TPL), to support agents in selecting an insurance cover that suits the profile of the client's business activity and in preparing an offer;
- introducing a subscription payment, which is a unique solution on the non-life insurance market. The subscription may be used by private individuals, who purchase PZU Auto, PZU Dom, PZU Plan na Zdrowie, PZU ADD, PZU Edukacja, OC w Życiu Prywatnym insurance products. Payments can be made with a traditional or fast transfer, BLIK or card. Currently, the subscription covers six most popular insurance types, but PZU plans soon to add more policies to the offer. Thanks to the new solution, a client may easily pay for all of his/her policies with a single monthly transfer, distributing the premium over 12 payments in a year.

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

Major new products included:

- development of the **Risk PRO** program – a comprehensive system to prevent property losses of companies insuring their business in PZU. The program has been designed for the industries, in which the risk of a loss is high due to the scale of their business and specialized production processes. The solution uses technologies based on the Industry 4.0 concept, monitors the level of safety in key areas of the company's activity, which are material from the risk perspective (e.g. production, logistics, machinery). The program is free for clients having an active insurance cover in PZU. The program has already passed the pilot phase

- and currently it is used in several work establishments serviced by PZU. The clients covered by the pilot suffered no significant losses during the pilot. Risk PRO, which is provided by PZU in cooperation with PZU LAB, implements the goal of support for corporate clients, frequently emphasized in the Group Strategy for 2021-2024. The risk management solution is unique on the market and promotes the idea of industry that is safe and compliant with the ESG ideals;
- introduction of a new **Truck Assistance** insurance for owners of trucks, truck tractors and buses. In case of an accident or vehicle failure, truck assistance ensures quick help for the driver – including repair of damages, replacement vehicle, tire replacement or towing services. Truck Assistance also offers support in the event of a dead battery, running out of fuel or locked keys. In the Super Truck option, the insurer will organize accommodation for the time of repair and in the event of an illness or bodily injury it will transport the driver to a hospital and organize travel for the replacement driver. The insurance is added to the offer for corporate and SME clients;
- pilot launch of the new **iFlota** system, which combines the fleet management and security functionality with fleet insurance management. The tool will be addressed to clients as well as insurance intermediaries. The offer includes access to data about insurance, claims as well as fleet management functions, such as management of fuel cards, registration of vehicles, drivers, repair costs, etc. The new system is to be launched in order to improve security of fleets through access to e-learning courses, knowledge databases, or suggested preventive measures.

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. One of the activities associated with the product offer in the financial insurance area was adaptation of the guarantee forms to the market requirements and adaptation of e-toll guarantees to the changes introduced in the e-toll system.

## Activity and product offering - LINK4



LINK4 was the first insurance undertaking in Poland offering products by phone; it remains one of the leaders on the direct insurance market, while it also extends its activities to cooperation with multi-agencies, banks and strategic partners. The company offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance and third party liability insurance.

Given the changing market situation, the company has zeroed in on the development of innovative solutions providing added value to both its clients and business partners. By using new technologies in internal processes and in relations with clients, the company continues to challenge the way of thinking about insurance. At the end of 2021, LINK4 had 60 processes that were fully robotized and 12 applications supporting day-to-day tasks of its employees. LINK4 continues the data-driven digital transformation, while placing the main emphasis on analytics and smart automation. There is currently more than a dozen operational machine learning models, which support the sales, claims handling and service processes.

In H2 2021, the company introduced new rules for assigning sales budgets based on advanced analytics, which aimed at maximizing their efficiency. LINK4 also placed greater emphasis on activating the whole multiagency network to use more of its potential, by measuring the so-called network activity ratio. At the same time, the work on development of a mobile application for agents continued, which should facilitate communication between agents and LINK4.

The special recognition enjoyed by LINK4 on the market and among its employees is confirmed by the title of the **Best Quality Employer 2021**. The award granted by Centralne Biuro Certyfikacji Krajowej places LINK4 among the best employers in Poland. LINK4 was also awarded the prestigious title of **Investor in Human Capital** for its exceptional above-average employee satisfaction and engagement. This is very important, especially since the study covered the difficult period of the pandemic and remote and hybrid form of working.

In 2021, LINK4 focused on expanding further its current product offering, adapting it to the changing expectations of its clients and business partners. The most important activities linked to modifying its product offering were as follows:

- amendment to the GTCI for motor own damage insurance, including introduction of more precise provisions aimed at, among others, making the claims handling process easier, and amendment to the GTCI of the Assistance Scheme – expanding its scope to include assistance in case of battery failure;
- development of the new product, **LINK4Medica**, the implementation of which has been planned for 2022 (delayed from H2 2021).

## Activity and product offering – TUV PZUW



Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUV 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 2021, the number of members exceeded half a thousand, i.e. 518, up 86 from the end of 2020.

TUV members are grouped by specific criteria (industry, corporate, risk types) in 57 mutual benefit societies (5 more than there were in the previous year).

TUV PZUW is consistently attuning its operating model to the growing scale of business by expanding its team of professionals, who provide comprehensive service of its members' insurance and tailor the offering to the members' individual preferences. As the only mutual insurance company in Poland, TUV PZUW enjoys high ratings from the S&P rating agency. It was also included in the prestigious ranking of the companies that can be trusted, developed by the "Home&Market" monthly.

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

- launching the offer of new insurance products: "**Sila Wiatru**" for wind farms and "**Moc Słońca**" for photovoltaic installations, promoting renewable energy sources and furthering the goals pursued by the Strategy for 2021-2024. It is a comprehensive property insurance against all risks, including against damage and loss of profit, as well as liability insurance associated with the operation of wind turbines and photovoltaic panels, addressed to corporate clients. It is yet another environmentally-friendly project of TUV PZUW, after insurance of photovoltaic panels for individual clients offered as part of an affinity program;
- expanding the offer for church institutions by adding another custom product, **TUV Podróż**. The insurance may be taken out by clergy and consecrated persons who go on missions, visit missions, or travel abroad for any other purpose. The agreement is signed for one year and is effective worldwide. It is offered in three options where the price depends on the guaranteed sum insured. The policy has an important feature, i.e. comprehensive assistance in case of problems that may arise during trips – legal assistance and interpreter services, financing of accommodation during convalescence abroad or early return home, delivery of necessary items from home or even a visit of a loved one. TUV PZUW also offers assistance in the continuation of treatment or rehabilitation after returning to Poland. The insurance also covers third party liability and luggage of the insured, as well as accidents;
- introduction of the market-first business risk insurance for franchisees. "**Polisa na biznes**" is a solution designed for smaller businesses associated with franchising networks. The insurance responds to market needs and supports smaller entrepreneurs, for whom financial security is the key factor considered when making decisions to launch their own business. The policy offers protection against business risk, e.g. insolvency, if the situation forces the entrepreneur to cease his or her business activity. "Polisa na biznes" will be first available to more than 6,000 franchisees of Żabka, a chain of convenience stores;
- extension of the offer for medical entities to include an **innovative solution** for hospital groups, i.e. an umbrella cover. It protects the facilities from the necessity to cover the expenses themselves after the guaranteed sum under mandatory insurance is exhausted. It also offers protection for the potential injured parties, who will have an easier path to obtaining compensation;
- introduction of a third party liability insurance for directors and officers of a medical treatment entity – offering

comprehensive protection against the consequences of management errors, among others:

- non-performance or undue performance of a contract with the National health Fund,
- breach of the rules of public finance discipline – in the case of entities with the State Treasury or local government shareholding;
- violation of tax regulations or accounting principles.

## Activity and product offering - PZU Życie



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.

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 concern 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).





The changes incorporate the new requirements introduced by the regulatory authority and the increasing legal protection of consumers.

Activities of PZU Życie under **group, individually continued and health insurance** included:

- adding a new voluntary **malignant neoplasm** insurance rider to the Individual Continuation (IK) group insurance. The rider is available for both new and existing IC clients up to 80 years of age. The insurance provides financial support in the event that a malignant neoplasm is diagnosed;
- launching a new insurance bundle **PZU Support in life and health**. The new product has 21 options offering a range of benefits, sums insured and premium levels: 18 options for clients aged 18-59 and 3 options for clients aged 60-69. Under the insurance cover, the client may, among others, receive a payment in the event of an illness or an accident, or take advantage of medical services in case of various health problems. The simplicity of the product and the speed of purchase allows the company to use the potential of external and internal sales networks focused on mass non-life insurance clients;
- update of the offer for people up to 59 years of age, who have the right to Individual Continuation of group insurance. The refreshed **PZU Continuation for You Plus** product ensures a broad insurance cover, flexibility in selecting the insurance cover and the possibility of adding medical care to the product;
- launching pre-defined packages for the **PZU Cover and Health** and **PZU Życie under Cover** insurance, built around the main product advantages. It is a comprehensive response to the client's need.

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

- **revitalization of the individual life insurance offer**, entailing among others:
  - lowering the technical rate from 1.5% to 1% adjusting it to the new maximum technical rate announced by the KNF Office on 29 January 2021 (change from 1.76% to 1.32%) in PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Wsparcie Najbliższych insurance products,

- adding the option of increasing the sum insured without risk assessment in the PZU Ochrona Każdego Dnia term insurance, adding the option of changing the sum insured in PZU Ochrona Każdego Dnia term insurance,
- separating indexation from profit-sharing in PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Wsparcie Najbliższych insurance products, which created a separate premium indexation mechanism (which will index the premium and the benefit amount) and a separate profit-sharing mechanism (which can increase the sum insured without changing the premium amount),
- increasing the minimum premiums and adapting them to the current market conditions and the purchasing power of money,
- extending the grace period for premium payment, as a result of which a policyholder may benefit from a new, extended grace period for premium payment (when he/she keeps the insurance cover even if due premium is not paid) from 1 month to 2 months of the agreement;
- allowing individual clients of PZU Życie to join the **Opieka Medyczna S (OMS)** insurance. The insurance is available in two options: Standard and Comfort, which offer a different scope of laboratory and imaging tests and the number of available specialist physicians;
- offering insurance riders to clients who already have individual insurance in PZU Życie;
- increasing the limit, which allows the **PZU Wsparcie Najbliższych** whole life insurance product to be purchased without the need to fill out a medical questionnaire and undergo full risk assessment.

The numerous changes introduced over the past year have made PZU's individual life and health insurance offer one of the broadest and the most competitive in the Polish market.

In **individual pension insurance**, the major moves related to the change of the product offer included:

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

- pay into IRSA up to 1.8 times the average forecast monthly salary in the national economy for the given year. Other clients may pay into IRSA up to the limit of 1.2 times the average forecast monthly salary for the given year;
- adaptation of **IRA** (Individual Retirement Account) to the current market conditions, by changing the list of unit-linked funds available in the product and applying TFI funds with a cheaper participation unit category.

### Activity and product offering – foreign companies

#### Lietuvos Draudimas

Lietuvos Draudimas is the largest and the most experienced insurer, the leader of the Lithuanian insurance market and the largest insurance company in the Baltic States. Every third resident of Lithuania chooses insurance in Lietuvos Draudimas. In 2021, in addition to the current activity in non-life insurance, Lietuvos Draudimas continued to focus on expanding further its product offering, while adapting it to the changing circumstances and expectations of its clients.

The most important activities included:

- motor own damage (MOD) insurance for individual clients, which was updated at the end of 2020, offering more favorable terms with regard to replacement vehicles, and adding new technical assistance options. In March 2021, the company launched sales of this insurance also on the Internet platform, which impacted the sales results significantly. The work on additional improvements in the sales process is continuing;
- property insurance of individual clients – in 2020, new clients were offered two additional options in the “Home” and “Home Plus” insurance, in which the sums insured in TPL insurance were increased and the term of the cover was extended (12+3 months). Similar activities were restarted in the period of May-August 2021 and renewed regulations were introduced in April offering a broader insurance cover;
- ADD insurance for families, whose option “Two insurance products as a gift” was introduced into sales in 2020. In 2021, the campaign was relaunched in the period from July

to November, with the offer extended by additional risks, including COVID-19. The extended insurance offer was in effect until the end of the year, with an extension option. The additional insurance protection implemented in travel insurance products covers COVID-19 risks and is available for additional premium during short trips only (up to 31 days);

- health insurance – after analyzing the needs and expectations of customers, Lietuvos Draudimas was the first insurance company on the market to introduce health insurance for individual customers in January 2021. At the same time, after assessing the situation in the country and the importance of remote services, Lietuvos Draudimas added a fee for remote medical consultations to the health insurance package and established cooperation with Mano Doktoras (My Doctor), an electronic system for booking a visit with a specialist or receiving a consultation online.

#### PZU Lithuania Life

In 2021, the focus was on implementing significant changes in the product area. In early 2022, a modern product named *Myliantiems gyvenimą* (For Those Who Love Life) was launched, offering the broadest life insurance cover on the market. The goal is to provide clients with consistent, comprehensive daily support and make sure that anyone can create custom whole life insurance suited to their needs and capacity.

The company also worked on the project of refreshing the LICOSS sales system, in order to obtain a more efficient system supporting both direct and remote sales processes. The entire sales process was analyzed and a new innovative tool enabling a more precise identification of client needs was implemented in the sales system.

During the year, the process of remote identification of adult insured clients was fully implemented. The process of remote identification of minors was launched, developed and prepared for implementation.

The cooperation with Lietuvos Draudimas was strengthened and, in order to achieve synergies and increase the number of recommendations, the process of obtaining clients' marketing consents through their self-service in Lietuvos Draudimas was commenced.

## AAS Balta

Broad assortment of products, excellent customer service and well-thought out investments in brand promotion activities allowed Balta to maintain its leading position on the Latvian non-life insurance market in terms of sales volume and significantly strengthen the leading position through brand awareness and reputation.

In 2021, the increase in sales was driven, among others, by products added to the offer in the previous year to address the changing customer needs. These products include: crop insurance, extended warranty insurance, liability insurance for real estate intermediaries and accident insurance against COVID-19-related risks.

In 2021, Balta also modified some of its existing products:

- in Motor Own Damage (MOD) insurance, the cover was extended to include an additional risk related to luggage outside of a car;
- in travel insurance, the cover now includes COVID-19-related risks; if a trip must be canceled due to a COVID-19 infection or a duty to undergo a quarantine, Balta will cover the costs already incurred in connection with the planned trip; it also covers the cost of treatment and will pay a benefit for hospitalization in case of an infection.

New motor assistance products were also launched in cooperation with partners.

## Lietuvos Draudimas – branch in Estonia

At the end of 2020, the Lietuvos Draudimas branch in Estonia introduced a new health insurance product, with which the company asserted its presence on the fast-growing health care market. In the first half of 2021, the focus was on product development in the production system and on the self-service platform, which enables participation in larger tenders; sales through the platform were launched in July.

In the TPL motor insurance, the option of making monthly payments was implemented in the Internet sales channel for annual policies.

In order to improve the management of past due payments, the SMS project was launched: a policyholder receives a text

message with a reminder whenever an installment is not paid. The project has achieved the expected results and had a positive effect on collections.

The company's main distribution channels are its partners, SEB Bank and the Internet. In order to improve its operating efficiency, synergies and cross-selling in all direct distribution channels, at the end of 2021 the company launched the project of building its Own Sales Network. The sales are expected to be launched in H2 2022.

## PZU Ukraine

In 2021, PZU Ukraine carried out a project and conducted analysis and studies to tidy up its product portfolio. A number of changes were made in the product range, with the key ones being:

- update of the tariff policy and the terms and conditions of insurance in the TPL and MOD insurance area;
- revision of travel insurance, to enable its sales on online platforms (Hotline, EWA and Jobian);
- update of the terms and conditions for policies offered by PZU Ukraine at visa centers.

At the same time, in an effort to address client needs and improve the quality of customer service, an innovative technology was introduced in property insurance of individual clients that allows clients, during the claims handling process, to take and deliver photos themselves in low-value claims. This option is offered by the Object control mobile application.

## PZU Ukraine Life

In the first half of 2021, PZU Ukraine Life launched a new Life chat-bot service for clients. Its task is to carry out consultations with clients and provide additional information. The service is partially automatic when it provides forms of documents and general information on contracts and products. If any individual requests are made, the additional information is provided by contact center operators. The service is very popular among clients. It is used by more than 1,000 customers per month and about 50% receive answers to their questions without the need to involve contact center operators.

In 2021, the mailing of paper indexed insurance certificates was abandoned, switching to electronic form. This sped up

transmission of information to clients significantly. The goal is to switch to electronic form exclusively in 2022, which will encourage clients to actively register their e-mail addresses and cooperate with PZU Ukraine Life by using the Life Customer Office.

## 3.2.3 Distribution and customer service

PZU Group'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 409 branches across the country with 189 in small communities and tied agents, multiagencies, insurance brokers and electronic distribution channels.

In 2021, the PZU Group's distribution network included the following:

- tied agents – in Poland the PZU's own agency network consisted of 9.7 thousand tied agents and agencies. Sales are conducted through the agency channel predominantly in the mass client segment, particularly of motor and non-life insurance as well as individual insurance (life insurance). LINK4 cooperated with 350 agents not tied to any aggregator. In the Baltic States the Group's agency network comprised over 660 agents, while in Ukraine there were 392 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 property insurance) as well as individual life insurance. LINK4 cooperated with 50 multiagencies, while in the Baltic States Group companies cooperated with 20 multiagencies and in Ukraine with 26 multiagencies;
- insurance brokers – in Poland, the Group, in particular PZU's Corporate Client Division, cooperated with over 1 thousand insurance brokers. In the Baltic States where the brokerage channel is a major insurance distribution channel, the Group companies cooperated with over 455 brokers and in Ukraine with 35 brokers;
- bancassurance and strategic partnership programs – in the insurance area, PZU and PZU Życie cooperated in Poland

with 8 banks and 11 strategic partners, TUW PZUW with 1 bank and 7 strategic partners, LINK4 cooperated with 6 banks in different sales models – traditional through OFWCA with about 13 thousand sellers, online and call center. and 4 strategic partners. In the Baltic States, the cooperation included 6 banks and 13 strategic partners and 10 banks in the Ukraine;

- 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 (245 consultants). This channel comprises also the mojePZU portal.

## Branches and agencies

Bulk of PZU's clients prefer direct service by the agent and in the agent's office.

The network of 409 standardized PZU branches is evenly distributed across Poland in carefully selected locations. PZU branches are the only distribution channel ensuring in each outlet comprehensive sales and aftersales service of PZU Group's non-life, life and pension insurance and investment products. The offering in PZU branches is targeted at individual clients as well as businesses from the small and medium-sized enterprise (SME) segment.

## Branches and agencies



[See more](#)

PZU continues to develop the professional agency sales network. Agent offices offer spacious and modern layouts and the quality of service appreciated by millions of clients. Continuous work is conducted on professionalizing the network and improving the quality of customer service, through attractive training courses and workshops. Agents actively use modern CRM and remote service systems such as mojePZU. 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.

PZU supports agents by developing and promoting their online presence, as clients show great interest in seeking contact with an insurance consultant using this particular channel. The [www.agentpzu.pl](http://www.agentpzu.pl) site is continuously developed as well as agents' websites in the agentpzu.pl domain. Support is also provided through management of Google business cards of

the agency establishments and joint administration of agents' professional Facebook profiles.

At the end of 2021, the number of the PZU's tied agent offices was greater than 1490.

### moje PZU

The launch of the mojePZU [myPZU] portal in 2018 was a way of fundamentally modifying client interactions. This is a one-of-a-kind dashboard enabling clients to check their insurance cover at any time, manage their medical coverage and appointments as well as their investments. Through the mojePZU portal, PZU Group clients may:

- buy a motor, home or travel policy and medical packages;
- view their policies and report changes;
- make an appointment with a physician;
- collect a referral for examination or an e-prescription;
- check their medical records;
- invest their savings;
- report a claim and check its current status.

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 contact a hotline. It is accessible from any location and at any time on personal computers and through the mobile app. At the end of December 2021, the mojePZU portal had more than 2.5 million users.

The service is continuously developed and supplemented with additional functions, in the area of insurance sales and renewals, claims and benefits handling, as well as health and investment areas, the PZU Pomocni Club loyalty program, or new products such as PZU Sport (sports and leisure subscription offer).

### Bank channel

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, assuring banking 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 the PZU Group Strategy in 2021–2024, the cooperation with banks and other non-financial partners is one of the Group's priorities. By actively cooperating with 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. Over the term of the strategy, the Group plans to generate roughly 3 bn PLN1 of cumulative gross written premium on insurance and banking collaboration with Bank Pekao and Alior Bank.

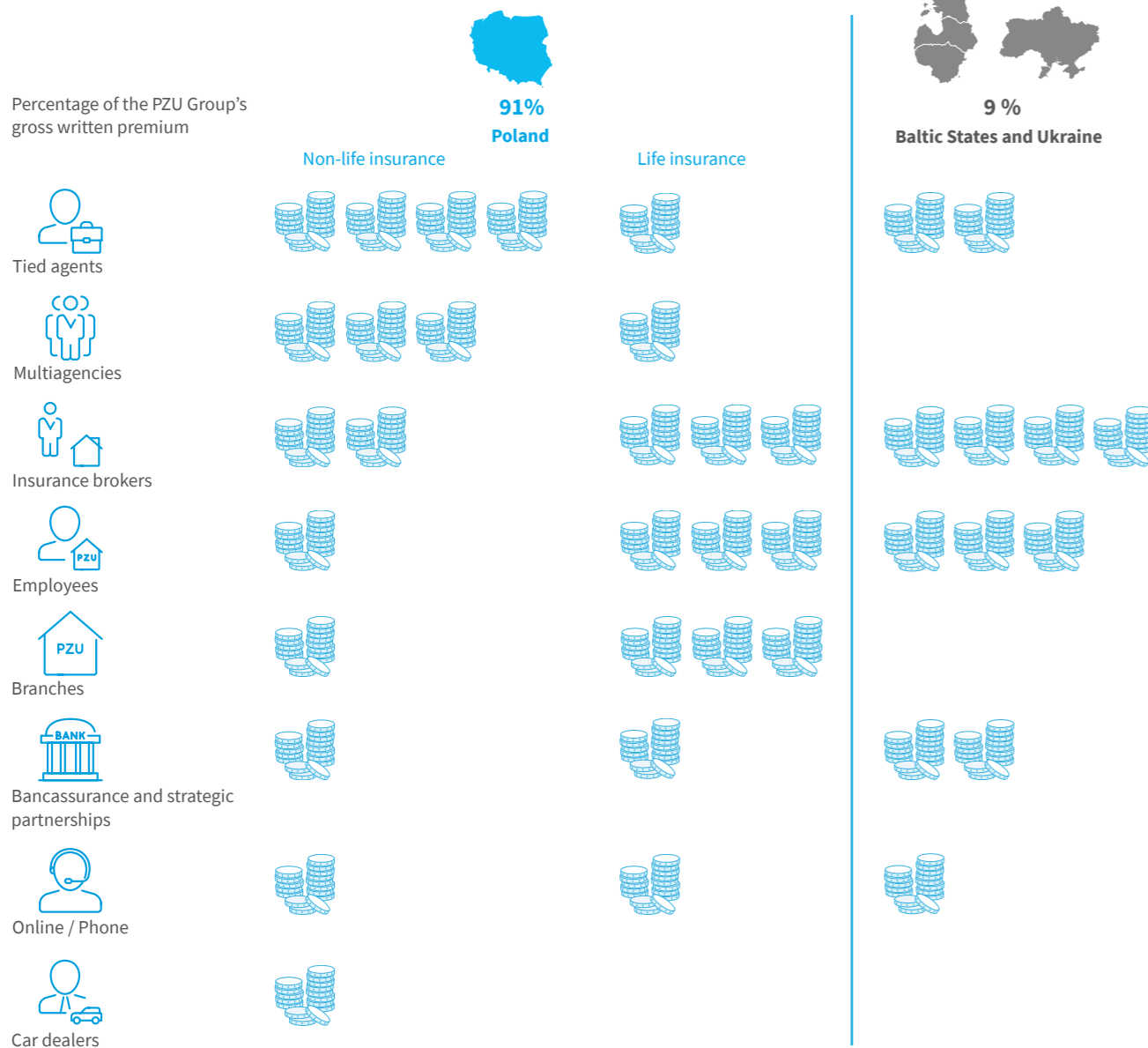
In 2021, cooperation with Bank Pekao and Alior Bank included in bancassurance:

- with Bank Pekao
  - cooperation in offering insurance for mortgage loans, cash loans and for personal bank accounts,
  - investment products,
  - sales of travel insurance;
- with Alior Bank
  - sales of non-life and life insurance for cash borrowers and for mortgage loan borrowers,
  - sales of travel insurance;

in assuring banking:

- as part of end-to-end sales, in the remote channel, PZU successively launches new banking products – currently these are Przekorzystne Konto and Przekorzystne Konto Biznes accounts offered by Bank Pekao;
- all PZU's own branches launched a joint campaign entitled "Auto 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. The year 2021 also saw the roll-out of the Auto plus Account offer into Partner Branches and the launch of pilot sales of two banking products in the

### Distribution network



Tied Agent network, namely a personal bank account in the Auto plus Account promotion and a cash loan. PZU is one of the largest external partners of Bank Pekao in the sales of personal bank accounts (RORs) via the bank's Pekao360 app;

- the **Cash Portal**, an innovative loan platform with a unique product offering for employees was being developed together with Alior Bank. In 2021 the portal was made available to other companies – the overall reach of the Portal in large companies was more than 100 thousand employees. The product portfolio on offer was also extended – by Alior Bank's consolidation loan and a Mini Cash short-term loan fully funded with the equity of PZU Cash SA. The Cash Portal is a good example of synergy and leveraging the strengths of the two companies in the PZU Group, 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 H1 2021, PZU Życie launched the sales of endowment insurance in the bancassurance channel. In the case of **unit-linked products**, sold by Bank Millennium, Bank Pekao and Alior Bank, in 2021 promotional prices were offered to clients, which increased the attractiveness and competitiveness of the offer in the market. These products were removed from the offer as of 24 December 2021 and new products compliant with the KNF's product intervention requirements were introduced in Bank Pekao and Alior Bank in January 2022. The new design of the products will reduce costs to clients.

Moreover, in Q3 2021, PZU Życie implemented modified insurance for Bank Millennium borrowers; the cover was extended to also include the insured's inability to work and exist independently due to an illness and an option of a medical consultation abroad.

### 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 contributes 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.

Within the framework of its strategic partnerships, PZU offers a number of insurance agreements to the business partners' clients, including:

- electronic equipment insurance and phone insurance;
- assistance insurance 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;
- insurance of photovoltaic installations;
- travel insurance.

In 2021, PZU cooperated with several strategic partners. Those 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. For example, PZU cooperates with power sector companies to offer assistance services – 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 and iSpot.

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

### Claims and benefits handling

Claims handling is for the client the moment when they check the quality of their product. Satisfying client expectations 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/](https://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 Plain Polish at the University of Wrocław.

### How to report a claim

	Poland	Baltic States	Ukraine
Internet form	✓	✓	
mojePZU platform / application	✓		
video chat	✓		
phone	✓	✓	✓
text message	✓		
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	✓		
by e-mail, by letter, by fax	✓	✓	✓

Additional details from the table:

- Internet form: [zgloszenie.pzu.pl/](https://zgloszenie.pzu.pl/)
- mojePZU platform / application: [moje.pzu.pl](https://moje.pzu.pl)
- video chat: [porozmawiaj.video.pzu.pl/video/pzu/](https://porozmawiaj.video.pzu.pl/video/pzu/)
- phone: 801 102 102 or 22 566 55 55
- text message: with the content CLAIM to the number 4102 – we will call you back and accept your notification
- in person in a branch: PZU logo
- by e-mail, by letter, by fax: e-mail [kontakt@pzu.pl](mailto:kontakt@pzu.pl)



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, without limitation, in handling claims arising from property, motor or personal damage, claims reported by corporate clients, benefits, damage involving in the theft of personal vehicles or claims handled as part of the direct claims handling (DCH) service. A separate unit deals with technical issues related to claims arising from motor or property damage.

In connection with the COVID-19 pandemic, in 2020 most of the claims handling staff was offered an opportunity to work remotely, which secured the continuity of the claims and benefits handling.

In 2021, PZU also launched an alternative way to help customers outside of Poland while bypassing intermediaries. PZU Pomoc organized road assistance through Polish-speaking service providers; the service was available throughout the year in selected parts of Germany and during holidays additionally in Croatia. Moreover, a new combined transport model has been developed for long-distance international towing orders, in order to reduce their costs, and an additional partner has been engaged specializing in the provision of hotel and taxi services in the territory of the European Union. In Poland, a service provider network for trucks has been created from scratch and a unified, attractive price list has been developed for these services. The first Truck Assistance policies have already been serviced.

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 the process.

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 Polish Chamber of Insurance (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 companies that are not part of agreement.

PZU cooperates with **repair shops** in the area of post-accident vehicle repairs in countries covered by the PZU Group's insurance business. PZU has created Poland's largest network of cooperating repair shops enabling the Company to control the quality and speed of service already at the claim handling stage. Every client who orders a repair in the PZU Pomoc Repair Network receives a quality certificate ensuring that the repair has been performed in accordance with the highest standards.

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. Thanks to this solution the client could have their vehicle repaired without leaving home. PZU additionally continued the procedure of disinfecting a vehicle after repair by a Repair Network workshop before it is released to the customer. The success of the customer focus is confirmed by customer satisfaction surveys, in which the satisfaction of customers using Repair Networks is at 95%.

LINK4 also takes advantage of the PZU Repair Network. In order to improve service, a tool has been implemented to support the process of referring clients to the cooperating workshops. The dedicated search engine uses pre-defined business rules to select the optimum partner workshop, taking account of customer preferences, distances and repair costs. Additionally, in 2021 LINK4 carried out tests Tactable artificial intelligence-based costing tools.

In 2021, a **road assistance monitoring system** was optimized and implemented across Poland. Service providers gained access to the MASA (Assistance Network Activity Monitoring)

application through which they receive orders, can take photos of the incident site, which are then automatically uploaded, and immediately get in contact with the hotline by pressing a button in the application. In 2021, the service of PZU Auto Szyba cover was transferred to PZU Pomoc, in order to add glass suppliers to the workshops cooperating with the Repair Network.

In April 2021, PZU restarted the campaign named **"Bicycle instead of a replacement car"**. Under this program, clients who get into an accident and the necessary repairs last 7 days or more, may choose from a replacement vehicle, for the time of the repair, or a bicycle to keep. The program is to promote a healthy lifestyle, care for the natural environment and reduce emissions of exhaust fumes.

PZU is developing its proposal to assist clients in **managing damage remains**. Clients may sell them on the Online Assistance platform to the highest bidder, where bidders are credible entities cooperating permanently with the administrator of the platform. LINK4 also takes advantage of PZU Group's solutions and the potential of the vehicle remains sales platform (PPO) as well as field inspections and the moto-assistance service (PZU Pomoc). Under the latter service, LINK4 has been providing towing services for all incident participants since 2021.

### New claims and benefits handling technologies

PZU develops new 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:

- 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).

The new forms of determining the extent of a loss are gaining popularity among clients.

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 2021, PZU continued the **ADD video assessment service**, in which medical examinations are carried out using a video call. The organization of the process is based fully 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 during the restrictions related to the COVID-19 pandemic. Moreover, PZU reduced the scope of documents required from clients. This is another initiative which made it possible to continue providing the services during the pandemic and, additionally it 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. Robotics is used in specific claim types, e.g.: motor claims, mass claims caused by weather phenomena, and handling of medical and life claims (deaths and births).

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 2021, artificial intelligence analyzed over 130 thousand claims worth over PLN 1.2 billion.

In 2021, PZU Życie developed **robotic handling of medical benefits** launched in Q4 2020. 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 claims handling time and eliminates mistakes which could occur during manual data input. In late Q3/early Q4 2021, the robot's scenario was supplemented with steps that enable it to make a decision on the case after verifying the necessary data, further automating the claims handling process for claims of this type.

Another important technology used in LINK4 is **RPA** (Robotic Process Automation). In 2021, LINK4 continued the improvement of the existing claims handling processes, among others through gradually increasing the number of modern tools used, i.e. **robots**. The robots employed by LINK4 have reduced the work time, improved efficiency significantly and allow the company to implement additional solutions to increase customer satisfaction. Among others, they support: automatic registration of motor and casualty and property claims, update of the reserve amount and entry of costs of inspections carried out by third party suppliers, verification of a vehicle's loss ratio, collection of loss documentation, handling of memos from the Insurance Guarantee Fund, handling of medical opinions, review of vehicles with MOD insurance, the process of sharing claims files, sending claims decisions, they prepare payouts in the Direct Claims Handling process, collecting the documentation of inspections from the platforms used by the company. 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 2021, LINK4 also developed competencies in other technologies that enable process automation, such as VBA and Power Apps.

To make the insurance purchase process easier for clients, LINK4 has introduced a new tool which supports **vehicle inspection by the client** when the MOD insurance is purchased. The process is very 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 just 8 pictures. In order to reduce the risk of fraud, the photos must be taken "in real time" and they are automatically transferred to LINK4, where they are verified by artificial intelligence for correctness, e.g. against policy details. Clients do not have to install any apps on their phone; the only requirement is a mobile phone with an Internet connection. In 2021, the scale of remote inspections was increased and implemented in all procurement processes. Additionally, an interface has been developed in-house for employees to handle artificial intelligence (AI) analysis results. Currently, they have a single tool that includes a full set of details such as photographs, AI analysis results, policy data. The tool offers great time savings, both for clients (as there is no physical inspection) and for employees, who may focus only on verifying the photos that show irregularities. The results of more than 90% correctly performed inspections indicate that the tool was well received by clients.

In 2021, LINK4 used a speech analytics tool, which enables verification of 100% of calls conducted by consultants in order to quickly identify the considerations, issues and comments that are the most important for clients. This allows to take even better care of call quality and meet client expectations. After tests of the **Voice Bot** technology, which began in 2020, the production launch of the project took place in H1 2021.

LINK4 also developed the **analytical claim segmentation** engine implemented in 2020, which used machine learning algorithms to select a claim handling path that is optimal for the client. In 2021, a workshop search module was implemented as an extension of the analytical claim segmentation engine. Based on the make of the car, client preferences and data on the car's location, the engine automatically suggests partner workshops that are closest to the client and meet his or her requirements. As a result, the repair shop selection process is faster and more efficient.

### Foreign insurance companies

In 2021, foreign insurance companies continued the improvement of claims handling processes.

Lietuvos Draudimas focused on digital technology. In the second half of 2021, automatic registration of private client claims via the [www.savald.lt](http://www.savald.lt) website was implemented, the service of private customers was removed from purview of the Contact Center. By the end of the year, roughly 75% of private customer claims were registered automatically.

The development of the self-service portal opens the way for transforming the claims handling process. Direct claim notification, transmission of necessary evidence (photos and documents), use of remote tools for claims review and assessment (motor claims in particular) significantly accelerates the claim value estimation process. The documentation is stored in the Saperion archiving system, from which clients receive the history of the claims handling process, documents, communication history or documents from relevant institutions.

Since November, the self-service tool has been integrated with the Audatex calculation engine for motor vehicle claims. Whenever a client decides to estimate the claim

value themselves, they are directed to the calculation tool to describe the damage and present photos of the damaged vehicle and documents. Then, after submitting the requested information, they are redirected to a self-service portal to approve the estimated value of the claim. Once approved, the payment is processed automatically with no manual authorization required.

In order to ensure 24/7 assistance and support in case of an accident abroad, the handling of travel insurance claims is partially outsourced to an external partner, OPS Lithuania.

Health claims are handled through the EPS system, which connects health care providers (medical centers, pharmacies) to the Lietuvos Draudimas database. The network consists of more than 120 partners and the EPS system allows clients to pay for services with their health insurance card.

At Balta, a company operating in Latvia, the Academy of Safety was opened in June 2021. It is a digital platform where customers and invited guests can share knowledge, get information about safety of their property, how to prevent fire hazards, water leaks and theft. This platform gives Balta the opportunity to share valuable content on prevention and educate the public on how to keep themselves safe. The Academy of Safety started its operations with a digital panel discussion with experienced experts from well-known companies and the police. It was broadcast on the [www.delfi.lv](http://www.delfi.lv) news platform and on Facebook.

In 2021, the health insurance e-card in a mobile phone was introduced. It allows clients to receive health benefits under their insurance even without a plastic health insurance card.

In Estonia, in order to increase the efficiency of the claims handling process, direct handling of motor TPL and MOD claims was implemented for certain situations and to the extent prescribed by the outsourcing agreement. The first agreements with selected repair workshops have been signed, specifying the conditions regarding the claims handling process and the maximum amount, within which the workshop may take a decision on indemnification, was limited (to EUR 2040 incl.VAT.); Trusted partners in this area are selected

based on an analysis of past cooperation. They provide PZU Estonia with services, which involve collecting claims documents, establishing the circumstances of the incident and administering the incident in databases. If a case handled by the partner meets the previously agreed conditions, the partner may decide on the details of the repair without the need for PZU Estonia to approve its value beforehand or to make a decision on indemnification. The collected documentation is reviewed at random by PZU Estonia.

In order to streamline the claims handling process, PZU Ukraine decided to centralize the estimating of TPL and MOD claims. This allows it, among other things, to monitor costs by controlling the pricing policies of repair workshops.

The functionalities for handling personal injury claims have been transferred to SOS Service, the assistance company in order to increase the efficiency of the claims handling process, since the efficient processes already existing in SOS Service may be used.

In order to meet the expectations of the clients, the first changes were made in the organizational structure of the Claims Handling Department. Corporate clients have been assigned a dedicated manager to manage the full claims handling cycle in Motor Own Damage insurance. At the same time, the employees of the regional network, under the supervision of the central team, were given the authority to handle the full cycle of uncomplicated motor insurance claims.

In the case of claims reports, which previously were signed manually, the option of using an electronic digital signature was implemented. The acceptance takes place in the Profitsoft technical system via Вчасно (Wczasno) service.

### 3.2.4 Factors, including threats and risks, that may affect the insurance business in 2022

#### Non-life insurance in Poland

In addition to chance events such as sudden floods, hail, torrential rain, hurricanes, cyclones, droughts, spring ground frosts, which due to the ongoing climate change are becoming more and more unpredictable and contribute to increasing loss rates in the property insurance sector, the following hazards also exist:

- persisting COVID-19 pandemic and its socio-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;

- high uncertainty as to the growth of new car sales, mainly in the dealership channel and financed by leasing companies, which may result in lower sales of motor insurance;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro and the limited availability of spare parts (due to COVID-19), which affects claims handling costs;
- reduced demand for voluntary insurance due to a higher inflation rate, higher unemployment and a decline in employment, which may be linked to the continuing COVID-19 pandemic;
- slower 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;
- 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.

#### Life insurance market in Poland

Do głównych czynników ryzyka należą:

- successive waves of the COVID-19 pandemic and their 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;
- inflation and its impact on the clients' financial standing and consequently purchasing capacity;
- 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;

- softer conditions on the capital markets deteriorating the attractiveness of products, especially unit-linked products;
- negative effect of higher interest rates, increasing inflation and maintenance expenses (prices of energy, goods and services) on sales of mortgage/cash loans and linked insurance products;
- changes in client trends and behaviors towards customization of the offering;
- impact of new EIOPA regulations for the insurance market in the European Union;
- KNF decision on product intervention in the unit-linked life insurance segment, which came into effect on 1 January 2022;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies.

#### Insurance in the Baltic States and Ukraine

In addition to chance events such as sudden floods, hail, torrential rain, hurricanes, cyclones, droughts, spring ground frosts, which due to the ongoing climate change are becoming more and more unpredictable and contribute to increasing loss rates in the property insurance sector, the following hazards also exist:

- geopolitical tensions, in particular the Russia-Ukraine war, which has a direct impact on the possibility of conducting insurance operations in Ukraine. In the face of an attack by the armed forces of the Russian Federation and the declaration of martial law by Ukraine, the Ukrainian companies of the PZU Group have implemented appropriate procedures prepared for such circumstances. In the Polish PZU headquarters operates a crisis management team with members of the board and senior management and representatives of Ukrainian subsidiaries, which monitors the situation on an ongoing basis and makes decisions on preventive actions;
- 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;
- the protracted period of 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;

- increase in the prices of spare parts affecting claims handling expenses as a consequence of their limited availability caused by the COVID-19 pandemic;
- resumption of price pressure in motor insurance, i.e. competition for clients through an active pricing policy applied by competitors;
- 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;
- 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;
- increase in insurance fraud cases as a result of the more difficult situation in numerous industries causing growing unemployment;
- coming into force of further regulations or financial burdens on insurance undertakings;
- geopolitical tensions, in particular the escalation of the conflict between Russia and Ukraine, which may directly impact the conduct of insurance business in Ukraine.

## 3.3 Medical care

### 3.3.1 Situation on the health market

The health market is a dynamically developing and prospective business area. Experts from PMR<sup>2</sup>, dealing with market research and analyses in Central and Eastern Europe, expect that in 2021-2026:

- the growth rate of private health insurance will reach the average annual level of approx. 8.6% for supplementary health insurance and approx. 7.8% for subscriptions;
- the average annual growth rate of the fee for service market will be 7.6%.

In addition, the following is expected:

- further intensive development of telemedicine and service opportunities through remote channels;

<sup>2</sup> PMR's report, "Private healthcare market in Poland 2021 - Market analysis and growth forecast for 2021-2026"

- increasing number of persons outside working age and greater need to provide care to senior citizens;
- increasing public awareness of prevention and periodic examinations;
- persistently high inflation of medical services, in particular due to wage pressures from medical staff.

According to PMR<sup>3</sup>, the private health care offered under fee-for-service products at the end of 2020 was worth PLN 16.7 billion (down 20.7% y/y). The value of medical subscriptions reached PLN 5.10 billion (up 0.4%), while the value of private health insurance was over PLN 0.9 billion (up 3.8% y/y).

The coronavirus pandemic and the various forms of restrictions introduced during the subsequent waves of COVID-19 keep affecting the capacity to provide medical services and result in postponing patient appointments and procedures until unspecified dates.

The main area that gained importance in connection with the development of the COVID-19 pandemic was telemedicine. It enabled the provision of medical services despite the restricted access to clinics and thus reduced the loss of patients by outpatient centers. On the one hand, the intensive development of telemedicine may impact the price growth rate which, in the longer run, may have an adverse impact on the nominal growth rate of the private medical care market. On the other hand, it may have a stabilizing effect on the cost side.

<sup>3</sup>PMR Report entitled "Private Health Care Market in Poland 2021 – market analysis and growth forecasts for 2021-2026"

According to PMR, medical inflation will be an important factor affecting the value of the private medical care market in 2021-2026. The previous trend of growing prices will be maintained in the coming years and its pace will be even higher. This is why the above aspects will be particularly important for the prices of outpatient care and physician services. PMR expects that the macroeconomic situation will improve, which may provide a favorable impulse for further development of all segments of the medical service market. Gradual improvement of the condition of businesses should contribute to increased interest in private medical care in the form of employee benefits. The private medical service market may be still driven by greater household consumption which will be one of the most important factors improving the growth rate of the value of the whole market.

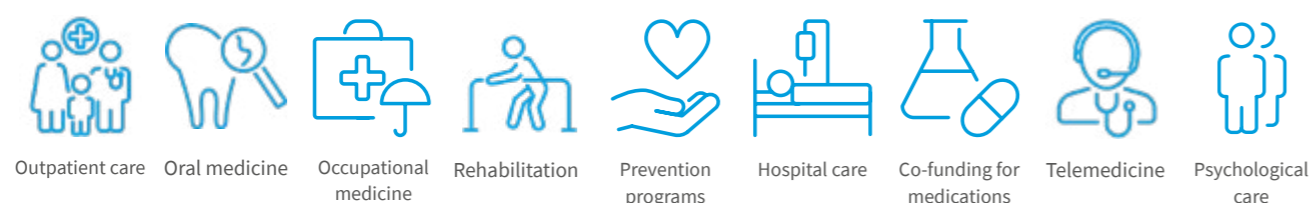
On 1 July 2021, the National Health Fund abolished admission limits on outpatient specialist care. This abolition has enabled a significant increase in the number of admissions and in the volume of outpatient specialist care services provided in PZU Zdrowie's own facilities operating under contracts with the National Health Fund.

### 3.3.2 Activity and product offering

The Health Area has become an integral part of PZU Group's business model in 2014. Operations associated with the development of medical services are among the most significant growth areas of the PZU Group. As at the end of 2021, the Group had 3 million in-force health contracts.

Despite the ongoing COVID-19 pandemic, the value of revenues in the health business increased significantly, reaching the level of nearly PLN 1.2 billion.

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



The operating model in the Health Area supplements and expands PZU's insurance offering. The PZU Group's activities in the Health Area include:

- **sales of health products in the form of insurance** (life and health insurance; and non-life health insurance);
- **sales of non-insurance products** (occupational medicine, group and individual 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.

Additionally, in the period of the COVID-19 pandemic, telemedicine infrastructure was significantly developed through the establishment of the PZU Zdrowie Telemedicine Center. The provision of services under this model enabled PZU Zdrowie clients with constant access to medical consultations.

The medical care model is focused on keeping up the good health of clients, providing a broad range of prevention measures and screening tests and on promoting healthy lifestyles.

#### Development of the non-insurance health offering of PZU Zdrowie

In 2021, PZU Zdrowie continued taking steps aimed at developing its group and individual medical care offering to make it even more responsive to the needs of its key beneficiaries and to strengthen PZU Zdrowie's competitive edge in terms of offering and brand in the private medical care sector.

Actions taken with a view to developing the offering and providing support to sales structures in 2021 included:

- based on the experience gained in connection with the SARS-CoV-2 epidemic, the presence of telemedicine services in the product offering became even stronger. **Access to telemedicine consultations became a standard solution** in the roster of medical care services offered in the market;
- the Occupational Telemedicine project was launched to expand the list of telemedicine services with the option to **provide occupational medicine examinations remotely**. The objective of the project is to create centers providing occupational medicine services with access to both diagnostic and specialist tests and the assessment of

fitness for work using the possibilities offered by modern telemedicine;

- a **roadmap of scheduled tenders** for the coming years was prepared in order to increase the chances of winning a contract by preparing early and thoroughly enough;
- work was launched to implement a comprehensive product system in PZU Zdrowie to improve the process of calculation and preparation of product proposals;
- a **new reimbursement option** for subscription and insurance clients was implemented under the name of Refundacja Twój Wybór ("Your Choice" Reimbursement). In this option, the patient is entitled to a quarterly expense limit within which he or she will be reimbursed for each service provided;
- the assumptions and process were also developed for riders covering:
  - **night-time and holiday general practitioner assistance in Warsaw**,
  - on-line **first aid training courses**;
- an option to issue an **Employee Health Report** was implemented. This solution is dedicated to strategic clients, based on a detailed analysis of claims data;
- in terms of **partnerships** with PZU Group companies, work was launched on rolling out offerings for:
  - **Alior Bank's** business customers (new product – cooperation with PZU),
  - **PGE's** customers (new product – cooperation with TUW PZUW),
  - **ENEA's** customers (new product – cooperation with TUW PZUW),
  - **PGNiG's** customers (modified product – cooperation with TUW PZUW).

#### Development of the insurance health offering of PZU Życie

PZU Zdrowie, in addition to offering its own health products, acts as a medical operator handling PZU Życie insurance products. In 2021, PZU Zdrowie completed the following endeavors:

- On 24 May 2021, pilot sales of the **PZU Życie Medical Care for Individual Clients** offering was launched, in two optional ranges of medical services: Standard and Comfort. In accordance with the assumptions of the pilot sales project, the offering is available to clients who have entered into individual insurance contracts based on a standard risk assessment procedure;



- On 20 September 2021, sales of the **PZU Support in Life and Health** offering began through several sales channels, including Multiagencies. This offering features a flexible structure, enabling each client to purchase exactly the protection he or she needs for the premium the client is willing to pay. Moreover, within the framework of a single policy, clients may purchase broader access to private medical care services for insureds aged between 18 and 59 or preventive medical testing for clients aged between 60 and 69. This offering enables the purchase of a health insurance bundle based on a profile of the client's specific insurance needs;
- On 20 September 2021, sales of a new version of the **Continuation for You Plus** offering launched, intended for the clients under 59 years of age holding the right to individual continuation of insurance that began under a group life insurance contract. The Continuation for You Plus product is based on 3 distinct client needs: Protection, Health, and Protection and Health combined. Each of them has 3 options: Only for Me, For Me and My Spouse/Partner, and For My Family. Among the modifications made to this offering was an extension of the insurance cover to include medical services in the field of basic preventive medical testing.

## Activities completed in 2021 in furtherance of the development of the health area

### Development of medical infrastructure

- in response to the growing demand for medical services in all business lines, the **number of cooperating physicians in the Group's own network increased** to over 2,400 (from 2,200 at the end of 2020);
- NZOZ Grupa Medical** (imaging diagnostics center in Grójec) was acquired;
- investment processes aimed at opening 3 new own (**greenfield**) centers in 2022 (in Łódź and Kraków) and at relocating and expanding 2 centers in Gdańsk and Kraków were launched;
- 24/7 on-duty general practitioner** for patients in Warsaw;
- the scale of cooperation with the National Health Fund enlarged significantly owing to an increase in the number of patients admitted for care and services provided under outpatient specialist care arrangements (due to the abolishment of admission limits since July 2021);

- new contracts with the National Health Fund for MRI examinations in Warsaw, Poznań and Wołomin were obtained for PZU Zdrowie's Imaging Diagnostics network;
- in own centers in Warsaw, Kraków, Poznań and Wrocław, the development of **dental** services proceeded, thus significantly increasing the scale of operations and the range of services offered.

### Remote channels

- roll-out of robots to monitor the appointments made available by the centers and broker;
- development of laboratory diagnostics – establishment of over 600 Synevo sample-taking points;
- analytical support for the Ecosystem project and preparation of change backlogs for new functionalities;
- remote psychological care – a process was prepared and implemented to provide remote psychological assistance to parents of children with cancer (for PZU and PZU Życie vouchers sold);
- group psychological workshops – a series of workshops to support frontline workers (elimination of benefits) in the field of early intervention and recognition of symptoms of post-traumatic stress disorder (PTSD) and in dealing with aspects of work related to the organization of assistance to accident victims and people suffering from chronic illnesses;
- organization of psychological support for staff members handling claims related to deaths – workshops in a form similar to group therapy held in groups of 4-5 people, moderated by a psychologist. Each group participated in four two-hour online meetings carried out based on a weekly timeframe. In total, 160 person-hours of workshops were delivered, attended by over 80 PZU Życie staff.

### E-commerce

- roll-out of a new business line (November 2021) – subscriptions for individual clients;
- roll-out of 13 new prevention packages targeted at various health aspects, including rehabilitation, dietetics, diabetes and cancer;
- online sales up by 522% in December compared to January 2021 (370 thousand in December vs. 34.5 thousand in January);
- increase in sales of fee-for-service appointments by 969% in December compared to January 2021 (net of services

provided in cooperation with the Ministry of Health and TPK).

### Projects

2021 was also a year of intense project work aimed at developing technological functionalities for patients and building new lines of business.

#### mojePZU project in PZU Zdrowie

Development of the moje.pzu.pl portal and assistance functionality to support self-service and customer service:

- PZU Zdrowie's offering for strategic partners** - presentation of a customized sales offering on mojePZU, dedicated to customers of PZU Zdrowie's business partners (such as bank customers). Through a dedicated link that is placed e.g. in a service application or on the partner's website, customers are directed to a sales page;
- Native screens in the mobile app** - adaptation of the mobile app to serve clients who have purchased a health product and intend to purchase a medical service provided within the PZU Zdrowie network. Development of optimized native screens adapted to mobile devices, departure from displaying responsive views;
- Arrangement of laboratory tests directly at the sample-taking point, stage 2** - logged-in clients may make appointments via the moje.pzu.pl website for laboratory tests directly for a sample-taking point of the service provider Synevo;
- Support for discounts on FFS services** – an option to generate discount codes in the Assistance system and changes on the moje.pzu.pl website enabling the use of such codes in the process of purchasing medical services;
- Medical interview for clients that have not logged in** – possibility of using an algorithm that will suggest the right doctor and show the initial diagnosis;
- Medical bundles** – sales of individual medical bundles.

#### #Ecosystem project – Definition Stage

The project was aimed at providing solutions, content and products enabling the construction of a digital ecosystem containing data on health, habits and preferences of PZU Zdrowie's current and potential clients ("Ecosystem").

The execution of the project definition stage enabled the company to determine measurable financial and qualitative benefits that may be obtained following the roll-out of the Ecosystem and to create a work schedule for 2022-2023. Based on its knowledge about the client rooted in analyzing the

client's behavior and history of purchases, the Ecosystem will be increasingly more capable of offering personalized content and products tailored to the client's specific needs.

#### #mojeZdrowie [#myHealth] project (development of the PZU Zdrowie Telemedicine Center)

- In 2021, the Telemedicine Center provided 5.5 times more services than in 2020 (225 thousand vs. 40 thousand);
- Every third teleconsultation for PZU Zdrowie patients was performed by physicians of the Telemedicine Center. In terms of the scale of services provided, it ranked as the 2nd PZU Zdrowie center, with physicians of **14 specializations** and record-high customer satisfaction results: **NPS at 63, CSS for physicians at 95%**.

#### Development of innovative solutions

Growth of the MedTech and HealthTech market, accelerated by the pandemic, continued in 2021. In these circumstances, PZU Zdrowie monitored and tested out innovative solutions in patient care and operations, in particular:

- Artificial intelligence in stroke diagnostics** – a pilot program for stroke recognition in computed tomography tests was continued in the PZU Zdrowie imaging diagnostics network, carried out in cooperation with BrainScan, a Polish start-up. This solution applies artificial intelligence algorithms to recognize strokes in computed tomography tests. This method supports the work of radiologist physicians and enables automatic detection of life-threatening lesions. Thanks to this 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;
- Therapy for insomnia** – in cooperation with the MIT Enterprise Forum CEE PZU Zdrowie acceleration program, PZU Zdrowie ran a pilot project of the terapiabezsenności.pl solution. Under the pilot project, 120 PZU Group employees participated in a medically certified, completely remote cognitive behavioral therapy for insomnia (CBT-I);
- AI in Health Coalition** – PZU Zdrowie became the chief member of the AI in Health Coalition. Within the framework of its activities, the Coalition aims to promote the use of artificial intelligence in the Polish health care system. Bringing together a group of experts and entities pursuing the ultimate objective of the well-being of patients, its ambition is to set directions for the development of the use

of AI-based technologies in the sector. The Coalition aims to develop conditions that will enable the broadest possible use of solutions of this kind. At the same time, it highlights the significance of professional medical personnel, pointing to the supporting role of technology, which is to augment the treatment process rather than eliminate or diminish the role of a physician. In its activities, the Coalition gets involved in projects seeking to advance the digitization of the health care system, in cooperation with the Ministry of Health and the Office of the Prime Minister. Under the auspices of the Coalition, PZU Zdrowie was a keynote speaker at the AI in Health Conference, presenting the potential of employing artificial intelligence in imaging diagnostics. In October, PZU Zdrowie participated in a hybrid meeting with the Ministry of Health on the e-Health Strategy and access to medical data. In November, PZU Zdrowie became a partner of the series of podcasts “Health in Conversation” devoted to the technological revolution in medicine, held by the Coalition in collaboration with the Polish Federation of Hospitals;

- **Pilot run of a mobile app supporting the prevention of skin cancer** – using a modern solution based on artificial intelligence and mobile technology, PZU is involved in a pilot project to support the prevention of skin cancer, with financial contributions from the prevention fund. The solution is based on a mobile app which, when installed on a smartphone, is capable of assessing the risk posed by a skin mark and, if necessary, support further observation or – in urgent cases – refer the user to a dermatologist. The testing procedure is very straightforward. All the user needs to do is download the mobile app, register and take a photo of skin lesions following the instructions provided by the app. Their assessment is generated immediately. This technological solution was created in cooperation with a team of dermatologists in compliance with the applicable clinical testing procedure. Its diagnostic analysis process employs algorithms that are based on machine learning and millions of photographs that have already been analyzed by this innovative solution over a span of several years. Each new photograph taken by a user is scrutinized for similarities with previously analyzed data. Each high-risk case is additionally verified by dermatologists. The pilot program currently in progress covers some 100 thousand people employed in companies cooperating with PZU;
- **Autenti pilot project** – a platform for the remote signing of documents and enabling the remote creation of qualified

signatures within 10 to 20 minutes. The pilot project of the Autenti system provides selected (approx. 60) facilities cooperating with PZU Zdrowie with the ability to remotely create a qualified electronic signature (depending on the needs of PZU Zdrowie) and handle all documents exchanged between PZU Zdrowie and these facilities over the platform for 12 months.

#### **PZU Zdrowie’s involvement in the promotion of health**

- **Compendium of information “You can control your life”**  
PZU Życie in cooperation with PZU Zdrowie prepared a compendium of knowledge on health and financial prevention entitled “You can control your life.” The publication was first published on 6 October 2021 during Congress 590. The compendium contains the most interesting conclusions from the “Survey of Poles’ life and health,” carried out in May 2021 on a sample of 1,500 Poles aged between 18 and 65. Moreover, it presents valuable tips and advice from experts in various fields for everyone willing to take specific actions for a healthier, longer and safer life for themselves and their family. In it, readers will also find pieces of valuable advice from a PZU Zdrowie dietitian, physiotherapist and psychologist. The compendium was part of the life and health campaign “Live long and happily,” carried out in cooperation with PZU Życie.

- **Cooperation of PZU Zdrowie with the K.I.D.S. Foundation**  
PZU Zdrowie cooperates with the K.I.D.S. Foundation by supporting the organization in activities aimed at transforming children’s hospitals into more patient-friendly modern facilities. An example of this cooperation is the “Children’s hospital of the future” contest. The contest consisted of 11 categories. PZU Zdrowie took the patronage over one of them: the Innovation Center. The winner in this category was the Łódź Center for Molecular Diagnostics. The contest gala was held on 2 October 2021.

- **Local activities of PZU Zdrowie medical centers**  
PZU Zdrowie medical centers are involved in the conduct of educational activities promoting healthy lifestyles and behaviors, held in their local communities. Examples of such events include:
  - **Defibrillation Campaign** held on 30 October 2021 in Kielce – representatives of the PZU Zdrowie facility in Kielce created a health zone for workshop participants;
  - **Health Town in Radom** – employees of PZU Zdrowie centers in Radom organized their own health zone where residents were invited to check the composition of their

bodies, posture defects or skin marks free of charge, and to check their blood pressure and glucose levels. The event took place on 19 August 2021;

- **3rd Good Path Run** organized by Caritas of the Archdiocese of Gdańsk on 19 September 2021. PZU Zdrowie was a partner of the event – the purpose of which was to promote volunteerism and promote jogging not only among adults, but also among children and people with disabilities;
- **Let’s Talk about Health** – an outdoor meeting for women, which took place on 6 August 2021. PZU Zdrowie was a partner of the event attended by representatives of Kraków’s medical centers.
- **Cooperation with the Iskierka Foundation**  
PZU Zdrowie is the sponsor of the [onkorodzice.pl](http://onkorodzice.pl) website. It is a knowledge base on children’s cancers that may be accessed by both the parents of sick children and representatives of the medical community. It aims to facilitate the exchange of experiences with other parents who have found themselves in a similar situation and to provide support in many areas related to pediatric oncology. The website was created by the Iskierka Foundation, which PZU Zdrowie also supports in other initiatives, including by promoting the Gold September

– an initiative to promote September as a month of cancer awareness among children.

- **Envio Tennis Cup 2021 tournament**  
PZU Zdrowie became the main sponsor of the tournament which took place on 10 July on the courts of the Tennis Arena Bydgoszcz. Agnieszka Radwańska and Dawid Celt held a training session for students of tennis schools and played an exhibition match with the winners of the full-day tournament. The Envio Tennis Cup 2021 (formerly the Kotewicz Cup) is one of the oldest tournaments for members of the business community and amateurs in Poland.
- **5th Patient Empowerment Congress**  
PZU Zdrowie was the main partner of the event. Congress participants discussed solutions that will be beneficial for the future of patients, including in terms of patient experience, modern technologies and effective education. Among the key thematic blocks of the Congress was “Medicine, Science and New Technologies.” PZU Zdrowie experts were also invited as keynote speakers at the Congress. The event was held place on 27-28 April 2021.

### **PZU Health Services Management Center (CZUM) in Gdańsk**

#### **24-hour contact centre support for persons infected with COVID-19**



- in 2021, 111,000 patients took 4 million measurements, of which 165,000 generated an alert requiring a Contact Centre response;
- 5,000 Emergency Medical Team calls;
- over 2,000 alerts per day handled during the peak of the third infection’s wave.



#### **Referrals for COVID-19 tests**

- 150,000 COVID-19 test referrals issued in 2021.



#### **Prevention 40 Plus**

- 148,000 questionnaires qualifying patients aged 40 and over for free preventive medical screening completed between July and December 2021.



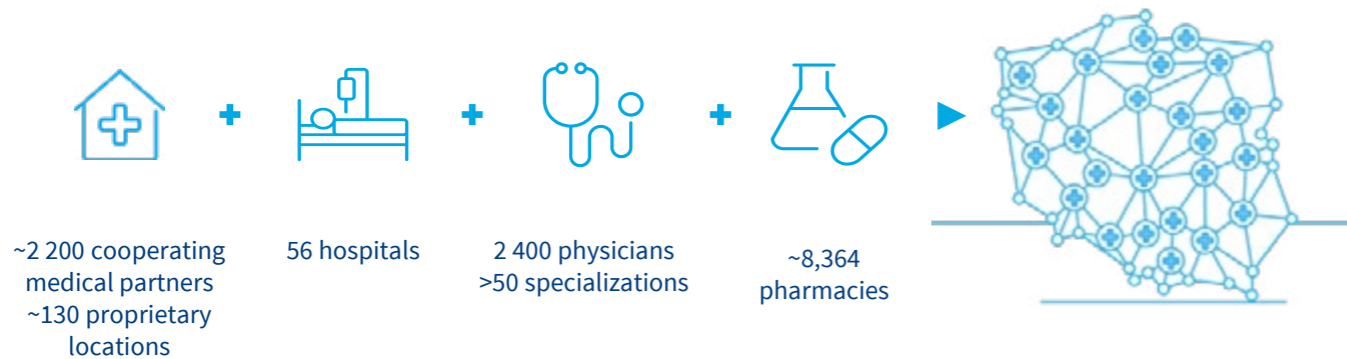
#### **First Contact Teleplatform**

- 40,000 calls handled and 28,000 teleprompters provided in the period October - December 2021 within the framework of night and holiday medical assistance available outside working hours of primary health care units, i.e. from Monday to Friday between 6:00 p.m. and 8:00 a.m. and 24 hours a day on weekends and public holidays.

## 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)				✓

## Development of the scale of operations of PZU Zdrowie



## Podcast “Health in Conversation,” or about new technologies in medicine

PZU Zdrowie became the main partner of the podcast. The podcast consisted of 6 episodes of interviews with medical workers, startups, innovators, patient organizations, representatives of the general public and directors of medical centers on creating and deploying innovative solutions in the Polish health care system, with a particular focus on digital innovations. Its purpose was to popularize the application of innovative solutions among patients and the general public. It also featured presentations of specific implementations in the field of artificial intelligence. The first and last episodes of the “Health in Conversation” podcast were broadcast on 18 November 2021 and 26 January 2022, respectively.

## PZU Health Ombudsman

The job of the Health Ombudsman is to solve non-standard patient cases in the complaint process and disseminate knowledge about preventive health care. 100 articles were prepared in cooperation with the Health Ombudsman and other PZU Zdrowie experts. They are available in the Guide section on the [pzuzdrowie.pl](https://pzuzdrowie.pl)

## 3.3.3 Distribution and customer service

Health products – in the form of life & health and property insurance as well as non-insurance products – are distributed through virtually all sales channels of the PZU Group, including the corporate and agency network of PZU and PZU Życie and the sales network of PZU Zdrowie. The COVID-19 pandemic also contributed to an increase in sales through the digital channel of the mojePZU website where clients may choose from the new offering of prevention bundles and individual medical subscriptions as well as individual medical consultations delivered both in the form of teleconsultations and stationary appointments.

## Medical infrastructure

PZU Zdrowie cooperates with more than 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

## Contact channels



self-service portal mojePZU



24/7 infoline 801 405 905



mobile application



chat with consultant

## Medical centers



[See more](#)

medical centers, among others in Warsaw, Gdańsk, Poznań, Katowice, Wrocław, Kraków, Częstochowa, Radom, Płock and Opole. It employs over 2,400 physicians in total. Initially, it was created by acquiring local health care service providers with extensive experience and a good reputation in the medical community. Currently, PZU Zdrowie is in the process of expanding the scope of its activities in the following two ways:

- by acquiring establishments enjoying a good reputation on the local market;
- 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.

## 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 with access to the calendar of appointments of each center;
- PZU mobile app;
- 24/7 medical hotline.



## What distinguishes us

- access to specialist doctors without a referral
- accepting referrals from outside the network PZU Zdrowie
- reimbursement of the costs of medical visits and examinations outside PZU Zdrowie facilities
- modern and accessible patient portal
- Scientific Council - expert support from various fields of medicine
- modern medical centres equipped with top-class equipment
- electronic medical interview "Symptom Checker"
- emergency medical assistance



- wide range of telemedicine services
- high standards of patient service
- organization and management of occupational medicine using a dedicated portal
- preventive programs
- psychological help and vouchers for psychological consultations
- smooth process for proceeding to medical care
- Pregnancy care and access to birthing school

### 3.3.4 Factors, including threats and risks, that may affect the operations of the health area in 2022

The main risk factors include:

- 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 bottom-line results;
- uncertainty surrounding the evolution of the pandemic and potential limitations in the operation of medical facilities may significantly affect the performance of medical centers;
- 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 directly affect financial performance in the health area;
- wage pressure combined with an increase in demand for medical services may result in limited ability of providing these services in selected medical centers – medical personnel may prefer/accept only facilities that meet higher employee compensation expectations;
- relatively high saturation of the market in larger cities and also staff shortages and lack of customer potential in smaller towns may reduce growth rates;
- potential modification of the valuation of outpatient specialist care services by the National Health Fund may cause significant changes in the financial results generated by medical centers;
- stronger and/or more aggressive policy geared at the development of the network of own facilities by competitors in the market may significantly affect the options available to patients or the competitive position of medical operators in the long term.

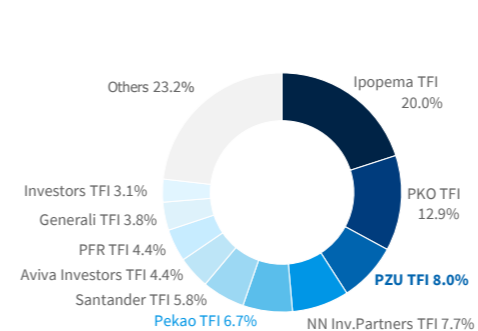
## 3.4 Investments

### 3.4.1 Mutual funds and pension funds markets

#### Mutual funds market

As at the end of 2021, assets under management of domestic mutual funds were nearly PLN 301.5 billion, compared to 280.0 billion at the end of 2020, representing an increase by 7.5%.

#### Mutual fund management companies – % of assets as at 31 December 2021 (in %)



Source: IZFiA

Despite numerous challenges, not only of a regulatory nature, 2021 brought a growing popularity of funds characterized by a higher appetite for market risk, chiefly equity funds. Their assets swelled from PLN 28 billion to almost PLN 40 billion. According to Anality Online, it was the worst year in history for Polish long-term treasury funds.

The sales performance was affected by the inflow of funds from January to September 2021 (over PLN 19 billion). Then, starting in October, clients kept withdrawing funds on a mass scale (over PLN 8.3 billion in total). The negative balance in the last quarter of 2021 was mainly determined by outflows from debt funds as a consequence of increases in bond yields (and thus a drop in prices) throughout 2021. As a result, the seemingly "safe" bond funds generated losses to investors across the whole year at a level of even more than 10%.

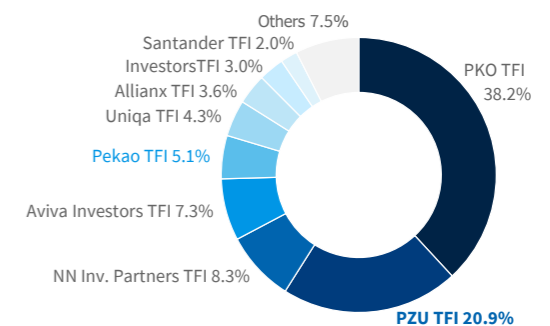
#### Employee Capital Schemes

The net asset value of the target date funds operated under the Employee Capital Schemes totaled over PLN 7.6 billion as at yearend 2021. Net asset value of the target 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 2021 stood at PLN 6.5 billion.

In 2021, contracts for the management and maintenance of Employee Capital Schemes were continued, enabling the accumulation of private savings independent from the general

#### ECS – % of assets by TFI as at 31 December 2021 (in %)



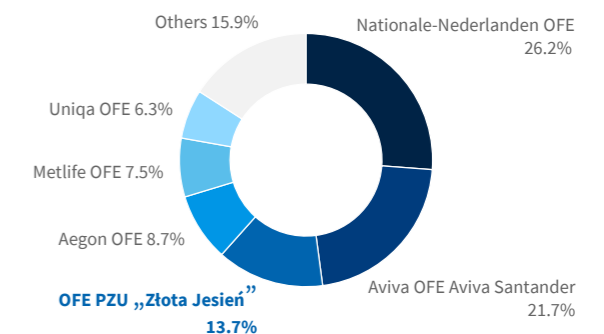
Source: KNF, net asset value of FZD according to management institutions, data for TFI only, without PTE and TU

pension system. In 2021, all employers were required to create an Employee Capital Scheme.

#### Pension funds market

As at the end of 2021, the net asset value of open-end pension funds was nearly PLN 188 billion, up 27% relative to the end of 2020. This increase in assets was largely due to the quotation rebounds following the 2020 stock exchange slump caused

#### Open-end Pension Funds – percentage of net asset value as at 31 December 2021 (in %)



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



by the COVID-19 pandemic. For the most part of 2021, high volatility of prices on stock markets was observed.

### Voluntary Pension Funds

Despite the volatility on the equity market in 2021, the net asset value of voluntary pension funds increased to just over PLN 700 million as at the end of 2021. 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 2021 were higher than the year before.

### 3.4.2 Activity and product offering

#### TFI PZU



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);
- Group Pension Plans (GPP), within which Individual Retirement Security Accounts (IRSA) are available.

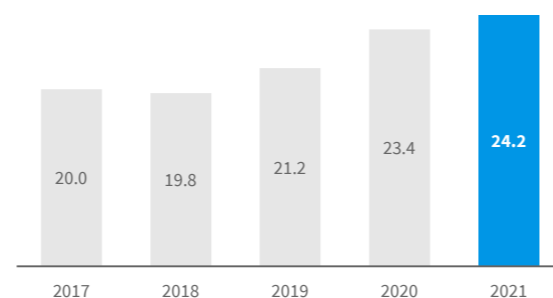
As at the end of 2021, TFI PZU had 55 funds and sub-funds in its portfolio, including 9 ECS sub-funds.

In 2021 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 and actively managed "lifecycle" funds with investment policy changing over time, adapted to savings for pension. In 2021, 7 new inPZU SFIO subfunds were added to the offering. Moreover, on 10 January 2022, a new method of

verifying the client's identity was implemented on the inPZU website in the form of video verification. TFI PZU also offers intensively developed managed account services.

As at the end of 2021, TFI PZU managed a portfolio of net assets worth PLN 24.2 billion, representing a 3.1% increase from the end of 2020 and more than an 8% share in the mutual fund market. Accordingly, TFI PZU reached the status of one

#### TFI PZU's net assets (in PLN billion)



Source: IZFiA

of the three largest mutual fund management companies in Poland (it was ranked third according to reports published by the Chamber of Fund and Asset Management (IZFiA), after Ipopema TFI and PKO TFI).

The largest increase in TFI PZU's assets was recorded in the following subfunds: PZU Sejf+ (up PLN 307.1 million); PZU Obligacji Krótkoterminowych (up PLN 222.4 million); PZU Akcji KRAKOWIAK (up PLN 197.11 million); PZU Globalny Obligacji Korporacyjnych (up PLN 67.2 million); inPZU Akcje Rynków Rozwiniętych (up PLN 33.9 million). In percentage terms, the highest rates of growth were posted by the following subfunds: PZU Globalny Obligacji Korporacyjnych (up 312.8%); PZU Akcji Polskich (up 145.9%); inPZU Puls Życia 2050 (up 138.3%); PZU Akcji Rynków Rozwiniętych (up 91.4%); PZU Sejf+ (up 89.0%).

Funds whose net assets recorded the greatest decrease as at the end of 2021 were: PZU Stabilnego Wzrostu Mazurek (down PLN 383.0 million), PZU Papierów Dłużnych POLONEZ (down PLN 279.4 million), PZU Dłużny Aktywny (down PLN 72.3 million), PZU Dłużny Rynków Wschodzących (down PLN 63.1 million) and inPZU Inwestycji Ostrożnych (down PLN 58.9 million), while the highest percentage decreases were recorded

by: PZU FIO Ochrony Majątku (down 49.8%), PZU Dłużny Aktywny (down 42.2%) and PZU Dłużny Rynków Wschodzących (down 24.5%).

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;
- client interest in a product with insurance against the risk of loss (Sejf+ with Capital Protection);
- acquisition of assets from the efforts in unit distribution by external distributors;
- interest rate hikes by central banks decreasing in relative terms the profits generated by some funds;
- high inflation rate;
- the COVID-19 pandemic resulting in increased volatility of fund valuations.

TFI PZU is also one of the leaders of the Employee Capital Schemes market. 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.

In May 2021, the last stage of systemic accession to the Employee Capital Schemes ended. The Employee Capital Scheme offering at TFI PZU was very popular among employers from the public finance sector, which translated into the execution of 21,867 contracts in this segment.

In total, as at the end of 2021, TFI PZU had almost 100,000 Employee Capital Scheme management contracts in place.

In total, about 600,000 people joined the Employee Capital Schemes offered by TFI PZU.

#### PTE PZU

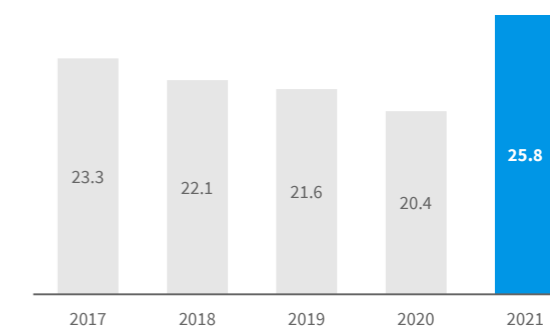
PTE PZU manages the following entities:

- OFE PZU "Złota Jesień" open-end pension fund;
- DFE PZU voluntary pension fund.

OFE PZU "Złota Jesień" is one of the largest participants in the pension funds market in Poland.

At the end of 2021, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

#### Net assets of OFE PZU "Złota Jesień" (PLN billion)



Source: KNF

- the fund had 2,279,516 members, or 15.0% of all participants in open-end pension funds;
- net assets stood at nearly PLN 26 billion, thereby representing 13.7% of the total asset value of the open-end pension funds operating in Poland.

As at the end of 2021, DFE PZU had 39.3 thousand IKZE accounts with assets worth PLN 492.5 million. It kept the leading position in the voluntary pension fund segment. The value of its assets increased by PLN 149,4 million (+43.6% y/y). The year 2021 was the best year in the history of the fund in terms of inflows - they amounted to PLN 123 million.

### 3.4.3 Distribution and customer service

#### TFI PZU

TFI PZU acquires assets for management within the framework of the following four business models:

- The first one of these, which is still the most important one, is based on obtaining funds through strengthening the company's market position in the third pillar segment of the pension system, where the company has a nearly 40% share among all Polish employers. At yearend 2021, TFI PZU accumulated net assets in the amount of PLN 6.3 billion in Employee Pension Schemes. This model has been in place for 17 years, making the company one of the market leaders for Employee Capital Schemes. The amount of assets accumulated in ECS funds managed by TFI PZU stood at PLN 1,362.81 million, which accounted for nearly 20.9%

of the market as at end of 2021. By 31 December 2021, ECS management contracts were signed with TFI PZU by nearly 99 thousand employers.

- The second model involves cooperation with external entities, such as banks, brokerage houses, insurers and independent financial advisors (IFAs) that distribute TFI PZU funds to retail and institutional clients. The external distribution model was launched in 2011 and is rapidly expanding in scope by acquiring new partners in traditional and remote channels. Currently, TFI cooperates with 21 institutions in this channel.
- The third model is based on the use of own and partner networks related to PZU – a network of PZU insurance branches, PZU Group member banks (Bank Pekao and Alior Bank) and TFI's own sales network.
- The fourth and youngest distribution model is the online platform launched in 2018 along with the launch of the first umbrella of passive funds in Poland, which is currently comprised of 16 asset classes.

## inPZU

The online platform, inPZU.pl, launched in 2018, enables clients to independently invest in the first fully proprietary passive funds in Poland. The platform is available 24/7, both in the desktop version and on any mobile device, and since 2020 also an English language version has been available. On the inPZU website, users may compare funds, define their investment objectives and personalize them. inPZU also enables users to search for funds and ready-made model portfolios as well as pay for their 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.

As part of the provision of a comprehensive and developing investment offering, the following were launched:

- in 2018, the first 6 index funds for the main asset classes
- in 2019, funds for another two global classes
- in 2020, an index and a fund for CEE countries were created in collaboration with the Warsaw Stock Exchange

- in 2020, 5 life-cycle funds were added for individual retirement account products and individual pension security account products
- in 2021, another 7 global funds were created, also of a sectoral nature
  - [inPZU Akcje Europejskie](#) aims to mirror the MSCI Europe Net Total Return Local Index
  - [inPZU Akcje Sektora Zielonej Energii](#) aims to mirror the MSCI Global Alternative Energy Net Return Index
  - [inPZU Akcje Rynku Złota](#) aims to mirror the MSCI ACWI Select Gold Miners IMI Net Total Return Index
  - [inPZU Akcje Sektora Nieruchomości](#) aims to mirror the MSCI World Real Estate Net Total Return USD Index
  - [inPZU Akcje Sektora Informatycznego](#) aims to mirror the MSCI World Information Technology Net Total Return USD Index
  - [inPZU Akcje Rynku Surowców](#) aims to mirror the MSCI World Commodity Producers Net Total Return USD Index
  - [inPZU Obligacje Inflacyjne](#) aims to mirror the Bloomberg Barclays World Govt Inflation-Linked All Maturities Total Return Index

As at yearend 2021, the inPZU.pl website had nearly 75,000 active users, including participants of Employee Capital Schemes.

## PTE PZU

Payments to OFE PZU originate from pension insurance contributions transferred by the Social Insurance Institution (ZUS) in accordance with the decision made by the insured, under the second pillar of the pension system.

Client acquisition for individual pension security accounts by DFE PZU is carried out through five distribution channels:

- PZU Życie;
- Bank Pekao;
- PZU CO;
- own sales network of PTE PZU;
- online using the contract creation wizard. With this solution, clients may easily open their individual pension security accounts at [ikze.pzu.pl](https://ikze.pzu.pl), without the need to send any paperwork or certificates.

In 2021, acquisition activities were carried out during the ongoing pandemic and in conditions of restricted access to stationary outlets. Despite this, the achieved results demonstrated that the greatest sales potential comes from

direct contact with the client, mainly during the handling of his or her matters in PZU Group outlets and Bank Pekao branches.

Throughout the year, educational activities were carried out in combination with the communication campaign on contribution limits, including a new higher limit of 1.8 times the average monthly salary forecast in the national economy for the respective year for people running non-agricultural businesses. The new higher limit provides an opportunity for savers to get an even greater tax relief for their contributions made to individual pension security accounts.

## 3.4.4 Factors, including threats and risks, which may affect the operations of mutual funds, Employee Capital Schemes and pension funds in 2022

### Mutual funds

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

- macroeconomic situation (including military conflict between Russia and Ukraine, the pace of economic growth the rate of economic growth, the unemployment rate and the inflation rate in Poland and throughout Europe) affecting the financial standing of enterprises and households;
- the condition of Polish economy and global economies as a result of escalation of the military conflict in Ukraine and/or the restrictions associated with the ongoing COVID-19 pandemic;
- 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;
- the impact of interest rate hikes announced by the National Bank of Poland on both the bond market and the whole capital market in Poland;
- absorption by the economy of the high inflation environment which will affect the rate of economic growth in Poland;
- propensity to allocate savings in investment and long-term solutions in the event of a higher inflation and greater debt servicing costs.

### Pension funds

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

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, conditioned by the military conflict between Russia and Ukraine and 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;
- active asset allocation due to increasing interest rates;
- 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;

## 3.5 Banking

### 3.5.1 Situation on the banking market in Poland

In 2021, the banking sector was recovering from the losses it suffered in 2020, but the pre-pandemic levels were not yet reached. Stronger demand for loans along with the ongoing economic recovery and low interest rates, coupled with lower credit risk impairment charges, contributed to the improvement in financial performance. However, demand for loans in distinct categories remained varied with the mortgage sector performing best. The sector still faces the challenge of rebuilding its profitability (which has declined due to changes in the monetary policy in 2020) and also the materialization of risks associated with foreign currency loan portfolios.

At the end of December 2021, there were 30 commercial banks, 511 cooperative banks and 37 branches of credit institutions operating in Poland. The banking network comprised a total of 5,211 branches, 2,587 offices, agencies and other customer service outlets and 2,993 representative offices (including partner centers). Therefore, the banking network comprised a total of 10,791 outlets, i.e. 966 fewer outlets than at the end of the previous year.

Headcount in the banking sector at the end of December 2021 fell to 143.0 thousand people and was 6.0 thousand (4.0%) lower than at end of 2020.

In 2021, the banking sector generated a net profit of PLN 8.8 billion, compared to PLN -0.3 billion in the corresponding period of the previous year, up PLN 9.1 billion. The largest impact on the increase in the net result was exerted by the following factors, among others: result on provisions and write-offs for credit risk (down by PLN 5.5 billion y/y) and result on commissions (up by PLN 2.3 billion y/y). Moreover, dividend income was significantly larger (PLN 0.5 billion y/y).

Throughout 2021, the interest margin remained above 2%. As at the end of December, this metric stood at 2.07% (compared to 2.26% as at the end of December 2020).

The banking sector's return on equity (ROE) after December 2021 was 4.34%, representing an increase by 4.43 pp y/y. ROA increased from -0.01% in December 2020 to 0.36% at the end of December 2021. The smaller scale of write-offs caused the R/I ratio (the ratio of the banking sector's provisions and write-offs to operating income) to drop to 19.62% at the end of 2021 (-10.79 pp y/y). The slowdown in the y/y rate of decline in operating income (with costs kept under control) reduced the C/I ratio in the whole sector from 63.4% at the end of 2020 to 58.8% at the end of 2021.

At yearend 2021, the net asset value of the banking sector was PLN 2,573 billion, up 9.5% from December 2020.

Loans and advances in December 2021 stood at PLN 1,364 billion, up 5.9% y/y. Despite the record low level of interest rates (during three quarters of 2021), deposits continued to grow, albeit at a decreasing rate. As at the end of December 2021, they increased to PLN 1,870 billion, or 10.2% y/y.

At the end of December 2021, deposits of the non-financial sector totaled PLN 1,549 billion (net of frozen deposits), representing an increase by 8.0% y/y. The largest rate of growth was maintained by corporate deposits, although its rate was gradually declining. Household deposits also grew at a slower rate than in 2020.

At the end of September 2021, the banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR1 Regulation, was PLN 228 billion, down 0.4% from the end of September 2020.

In 2021, the sector's capital situation remained stable. The banking sector's total capital ratio at the end of September 2021 was 19.98%, while the Tier I capital ratio at the end of this period was 17.95%.

### 3.5.2 Activity and product offering

#### Bank 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. Since 2017, Bank Pekao has been part of the PZU Group.

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

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

Idea Bank was commercial bank offering banking services provided to individual and institutional clients, such as, among others, acceptance of cash deposits payable on demand

or upon maturity and keeping accounts for such deposits, granting loans, granting bank guarantees, issuing securities. The acquisition of Idea Bank did not entail any payment from Pekao. As a result of the transaction the PZU Group acquired Idea Bank's assets and liabilities whose total estimate fair value was negative. Considering the foregoing, on 8 January 2021 Pekao received from BFG support in the form of a subsidy of PLN 193 million to cover the difference between the value of the acquired liabilities and the value of the acquired property rights of Idea Bank.

At the end of Q3 2021, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

#### New products and services

The key factor in the pursuit of Bank Pekao's new strategy is growth of the portfolio of payment cards. As at the end of 2021, the Bank had over 4.6 million cards issued to retail clients, or 140 thousand more than a year earlier. In 2021, the value of non-cash transactions reached the highest level in history and was over 22% greater than the year before. A number of initiatives were implemented to encourage customers to make use of non-cash payments, emphasizing their convenience and security. Pekao held an ECO Lottery to promote cashless payments and environmentally friendly activities. Card payments enabled the customers to participate in a lottery for an AUDI Q4 e-tron electric car and 36 electric bikes. The number of the ECO Lottery participants was twice as high as in 2020. Part of the profit from transactions made with cards registered in the lottery was allocated by the Bank to supporting and protecting the Homole Gully Nature Reserve.

Moreover, attractive vouchers for purchases in popular stores were offered to customers who paid with their card, a 10% refund for online transactions was also offered along with the possibility of repayment for purchases made with the card in 0% installments. Also, in July, an option of a quick remote increase in the credit card limit was launched as part of the bank's ready-made credit offering. Customers may set an additional card limit after logging in to the Pekao24 online platform or the PeoPay mobile app.

The card offering was extended with the Revolutionary Visa Debit FX, which is available in the Mastercard and VISA systems. The Revolutionary Card is a modern multi-currency debit card with a guarantee of the lowest exchange rates. The card is issued to a PLN account, but foreign currency

accounts may also be linked to it. When making a transaction in a foreign currency, the system automatically recognizes the currency of the transaction and charges the respective foreign currency account without performing a currency conversion. If the required amount is not available in the account or the transaction is in a currency that the customer does not have, the whole amount gets converted from the PLN account. In such a situation, the holder of a multi-currency card does not incur any additional costs charged by the bank and the currency conversion is carried out directly at the exchange rate applied by Visa or Mastercard.

In 2021, in cooperation with PZU, the Bank introduced the "Comfort Package" to its offer, which is one of the few combinations of banking and insurance products available on the market with such a wide range of protection. The "Comfort Package" provides customers with, among others, the possibility of instant payments and insurance of online shopping transactions, assistance in the event of a breakdown at home, insurance of personal belongings.

In the interest of environmental protection, the bank developed its lending activity by promoting electronic processes, transferring after-sales processes to electronic channels and introducing solutions that significantly reduce the quantum of documents printed in its branches.

In 2021, sales through electronic channels achieved a record high of PLN 1.8 billion, up 79% compared to 2020. In Q4 2021, as much as 67% of Bank Pekao's cash loans were granted through electronic channels. This was possible owing to the introduction of new solutions and the expanded availability of one-click offering for customers. As part of the development of the bank's remote processes, an innovative one-click consolidation loan process was launched, enabling customers to easily transfer loans from other banks completely online. The bank also introduced the option of granting a one-click loan by a consultant and relationship manager during a telephone call with the customer.

Since June 2021, the open banking service has also been employed in the process of granting cash loans, speeding up the lending and decision-making processes based on online access to the history of accounts held with other banks.

In 2021, on an ongoing basis, the bank kept adjusting its offering of housing loans to the changing market situation

while consistently optimizing its loan granting and aftersales service processes. The most significant activities included the deployment of the mortgage loan application assessment process across the branch network and the launch of the **Platform for Partners**, which was made available to selected intermediaries under a pilot project. The new platform centralizes mortgage lending processes and enables the remote submission of loan applications to the bank. It supports users by providing pre-contractual assistance and an explanation form for the customer.

Bank Pekao introduced a mortgage loan with a periodically fixed interest rate indexed to a foreign currency. Its customers may (in compliance with Recommendation S) change the interest rate formula from a variable to a periodically fixed interest rate (for 60 months). Concerned about the environment, the bank also extended its offer of housing loans by promoting ecological solutions.

In the business client segment, in 2021, the functionalities of a new lending workflow were implemented in the form of a decision-making bot, which enables the completion of the whole transaction, including the disbursement of funds, in less than an hour. The credit decision is made fully automatically, and the risk assessment is carried out by a system of multi-threaded decision-making rules that do not require the participation of credit analysts. The application may be submitted remotely or over the telephone without the need to visit a branch.

The automation of renewals and the centralization of services translated into an increase in the volume of renewable limits processed, and thus into an improved focus of the sales network on acquiring new transactions.

Since December 2021, Bank Pekao's business customers issuing invoices with deferred payment terms for their goods or services have been offered the option to take advantage of a factoring product. The product enables the customers to receive their cash faster, after invoicing the counterparty, rather than on the date of payment.

In 2021, Bank Pekao's offering was expanded with new products: travel insurance and assistance insurance as part of the bundle of services for the Mega Beneficial Account. In the area of bundled insurance products, offerings were

harmonized – as a result, insurance for a cash loan may be purchased on the same terms, regardless of the sales channel. Sales of insurance for cash loans via the call center were also launched. Moreover, customers were offered the option to purchase motor insurance with a special discount through electronic channels.

Within the framework of its collaboration with PZU, the bank's clients in over 170 branches (up by over 50% compared to 2020) may open the Mega Beneficial Account, and the number of the bank's customers acquired through PZU branches increased by 47% compared to the previous year. Moreover, as part of the pilot project, a new distribution channel was launched – PZU Tied Agents – and a new product combining the insurance and banking offerings called the **“pharmacy card with an account.”**

Bank Pekao continued to promote remote service channels. In 2021, customers purchasing investment products were offered preferential pricing terms.

In Q3 2021, the bank enabled its clients to remotely sign an agreement for accepting and transferring orders regarding participation units in mutual funds, updating the questionnaire, expressing consent for a durable carrier and the possibility of remote opening of an investment account through the **PeoPay** mobile application.

In Q4 2021, in the Pekao24 and PeoPay systems, retail customers were offered the option of purchasing a new product called **Term Deposit with a Fund**, with an attractive interest rate on the deposit and the simultaneous purchase of participation units in one of the 5 Pekao TFI funds tailored to their investing preferences.

In December 2021, a promotional campaign for new customers on the **Savings Account** was relaunched (2.5% for 6 months up to PLN 20 thousand). The campaign is targeted at customers who actively use remote channels to handle their banking products. Every new customer may set up a promotional Savings Account along with a Mega Beneficial Account or World Premium Account solely through a remote channel such as Pekao24 or PeoPay.

## Pekao TFI



The Pekao Mutual Fund Management Company (Pekao TFI) is member of the Pekao Group.

It is the oldest mutual fund management company in Poland. Pekao TFI provides clients with modern financial products and offers

opportunities to invest in the largest capital markets on the globe. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third retirement pillar. Pekao TFI also offers portfolio management services and Employee Capital Schemes (ECSs). The company is in the ECS records and its offering is available also through the [mojeppk.pl](https://mojeppk.pl) portal.

As at 31 December 2021, the net asset value of Pekao TFI's mutual funds (including Employee Capital Schemes) totaled PLN 20.3 billion, up by PLN 0.9 billion or 4.8% compared to the end of December 2020.

## 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 has been a member of the PZU Group since 2015.

Alior Bank provides services predominantly to customers from Poland. In 2017, Alior Bank opened a foreign branch in Romania, offering retail banking products and services. However, the percentage of international customers in the overall number of the bank's customers is low.

In March 2021, the Bank updated its “More than a bank” strategy (announced in 2020). The principal direction of the bank's development did not change. Certain modifications were introduced only to some indicators describing the pursuit of the strategy until the end of 2022. The key assumptions of the strategy were maintained, namely:

- building lasting relationships with customers;
- consistent digitization and personalization of services;

- use of state-of-the-art technologies in improving the efficiency of the organization;
- balancing the loan portfolio and reducing the cost of risk.

In practice, this means that Alior Bank's objective is to combine the functions of a traditional bank with those of highly personalized digital bank in order to provide its customers with a completely new experience. The strategy update also assumes the development of a broad range of products and activities in the environmental area. In this manner, Alior Bank responds to the challenges posed by climate change and implements the postulate of social responsibility, continuing to support the green transition and the gradual expansion of its green product offering with both its current and prospective customers in mind.

At the end of Q3 2021, Alior Bank was the 8th largest bank in Poland in terms of the value of its assets.

## New products and services

In 2021, Alior Bank continued its endeavors aimed at increasing the availability of its online services, but also deployed solutions to improve the safety of customers' visits to its branches.

Since 2021, customers have been offered the option to remotely book meetings at Alior Bank's own branches via the Booksy app. This means that retail customers and micro-entrepreneurs may conveniently plan their appointments in the bank's branches located in 100 cities across Poland.

The bank continuously strives to improve the appeal of its flexible personal accounts offering by adding special options for key client segments (medical bundle, discounts and additional services for players).

Work was continued on streamlining the process of applying for credit products (the bundling of loans and current account overdrafts or credit cards with a consolidation loan) and a savings and checking account. The **cash loan** offering was made more appealing by developing new price options and enabling a completely online-based process with a digital signature.





Moreover, customers may tokenize their card before its physical delivery. This enables them to make payments using [Google Pay](#) and [Apple Pay](#) wallets.

By adding promotional offers with a periodically fixed interest rate, Alior Bank increased the attractiveness of its [mortgage loan](#) product.

With a view to acquiring young customers, in 2021 a new [Junior Account](#) offering was introduced for children aged 13 and above. This process is already available in the bank's branches. In the near future, the products designed for the youngest customers will also be available from the mobile app and online.

Alior Bank also expanded its services for customers with savings and checking accounts. The option to submit new 300+ and 500+ applications directly from the electronic banking platform was added. Also, the Mastercard loyalty program "[Priceless Moments](#)" was implemented.

Using state-of-the-art technologies, the bank secures the transfer and storage of personal documents on a durable medium based on blockchain technology.

In the spirit of the ECO philosophy, the bank gradually expands the roster of products for which agreements do not need to be signed in hardcopy form (the exchange of documents is done via e-mail) and develops a portfolio of products based on virtual services (virtual card and BLIK Contactless). In 2021, Alior Bank introduced a new "[Plan Biznes](#)" account for business customers with an attractive bundle of free benefits, tailored to the receiving company's needs. For customers in the micro, SME and large enterprise segment, a company debit card MasterCard with Plus was offered (additional benefits associated with the card: temporary promotions, discounts and rebates at partner establishments). The next step was the preparation and roll-out of [PZU medical insurance products](#), which were made available at the beginning of 2022.

The development of the credit offering targeted at business customers investing in green energy sources was continued. In H2 2021, an offering to fund renewable energy projects was made available to professional electricity generators. Alior

supports the green transition of its customers with products such as the [EKOFIRMA Loan](#) (for the purchase and installation of photovoltaic panels) or the loan for the purchase of a car fitted with an electric or hybrid engine.

Since the beginning of 2021, the bank has been intensifying its endeavors aimed at acquiring new customers. It offers the customers of other banks reduced fees and margins on revolving loans, mortgage-secured loans and factoring financing. A promotional offering was prepared for micro and small enterprises with the preparation fee for an overdraft reduced to 0%.

Also, last year, the range of remote payment methods was expanded – all cards issued to business customers were fitted with a contactless payment feature for Apple Pay, Google Pay, Garmin Pay, Fitbit Pay and SwatchPAY!. The card may also be tokenized before its physical delivery (meaning that the card may be connected to the Google Pay or Apple Pay virtual wallet without having to wait for its physical arrival), and the remote customer service functionality was extended with the Autenti signature option for larger amounts (even up to PLN 600 thousand) and also for changing the form of financing.

Business customers were offered a broad range of aftersales instruction options as part of the [BusinessPro](#) system (including the issuance of certificates confirming the closing of accounts and deposits, the issuance of bank opinions on the account balance and deposits, the instruction to prepare documentation for people with special needs, the instruction to change the password to execute treasury transactions).

The bank continues to work on the deployment of a new electronic banking platform for business customers, accessible both online and through a mobile app.

#### 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.

### 3.5.3 Distribution and customer service

#### Bank Pekao

##### 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 2021, the bank had 650 own branches and 1,475 own ATMs.

##### Online and mobile banking

In 2021, 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 Q4 2021, all the bank's customers were offered the use of the latest version of the [PeoPay](#) app. The PeoPay 4.0 app was developed in collaboration with the bank's customers who tested the digital solution. Its interface provides a very convenient access to accounts and products, but above all facilitates daily mobile banking operations. The PeoPay mobile application offers a number of innovative solutions, such as:

- executing a loan agreement under a "one click" process without leaving home – 30 seconds after an agreement is accepted – or at a bank branch;
- approving transfers and payments using finger or face biometrics;
- broad range of payment methods: Google Pay, Apple Pay, BLIK, Garmin Pay, Fitbit Pay;
- payment for online shopping in the phone without the need to log into online banking;
- availability of the messaging module for communication with the bank;
- automation of recurring payments using the Qlips service (interbank service supported by the National Clearing House and the Polish Bank Association);

- automatic payments for motorway tolls using the Autopay service;
- purchase of public transport tickets;
- full access to brokerage services, including online quotes and stock exchange orders.

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. In Q4 2021, customers who had set up their PeoPay KIDS app were offered a variety of attractive promotions, such as: "5.00% on your savings account My Sweetie with PeoPay KIDS" and "Your child's first pocket money to the PeoPay KIDS account," which benefits of up to PLN 100 in cash. As at the end of September 2021, the youngest customers held nearly 65 thousand PeoPay KIDS accounts and 90 thousand virtual piggy banks in which they amassed over PLN 34 million. Children using PeoPay KIDS cards made nearly 2.5 million transactions for a total amount of PLN 26 million.

The bank keeps developing its Pekao24 and PeoPay services with self-service processes, enabling customers to submit applications for a housing loan, student loan, cash loan, account or card on their own without leaving home, including an application for a complete early repayment of a mortgage loan or cash loan, for the issuance a certificate of outstanding debt, a bank opinion or documents for the establishment of a mortgage.

The PekaoID digital identity and trusted profile services were also expanded, enabling remote confirmation of the identity of retail customers. Following integration with the eIDAS National Node, the numbers of PekaoID activations have surged. As at the end of 2021, the number of PekaoID customers was 1.5 million.



Since November 2021, customers have been offered the option to submit an application for the forgiveness of the PFR 2.0 Financial Shield aid via the Pekao24 electronic banking system.

In December 2021, Bank Pekao was getting ready to roll out the option to submit applications for the Family Care Capital benefit and the 500+ benefit. Since 4 January 2022, both these options have been available.

## Alior Bank Distribution network

At yearend 2021, Alior Bank had 600 outlets (173 traditional branches, 7 private banking branches, 13 Corporate Banking Centers and 407 partner centers). The bank's products were also offered in the chain of 10 mortgage centers and a network of roughly 3 thousand intermediaries. The bank also had 55 branches in Romania.

By the end of 2021, Alior Bank upgraded its 69 branches to the new format. The distinguishing features of these facilities include their innovative design and the use of modern technologies. The role of branches is primarily to provide customers with convenience and privacy and to ensure the comfort of work for bankers (e.g. quiet space for customers to familiarize themselves with banking applications).

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. In turn, partner centers 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 also offered through the networks of financial intermediaries.

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 2021, Alior Bank launched the "My Matters" self-service module on the Alior Online platform. Now customers may submit instructions on their own rather than visit a branch or contact the call center (for instance, to change personal data, obtain a bank opinion on the costs of credit products, obtain reimbursement of costs after an early repayment of a loan, report complaints). By developing the module, Alior Bank intends to usher in additional automated services.

Alior Bank also focused on delivering additional financial and non-financial services through its banking applications (both mobile and online) to provide customers with more than just a banking app. This makes it easier for customers to deal with their everyday matters, having suggestions for the best solutions at their fingertips, with the freedom of choice and availability at any time through the mobile app.

In 2020-2021, a number of non-financial services were added to the mobile app, including:

- moBilet (functionality enabling the purchase of a public transport ticket and the payment of parking fees),
- AutoPay (automatic collection of motorway tolls),
- motor third party liability/motor own damage insurance with LINK4,
- PZU Wojażer travel insurance,
- BIK alerts and BIK reports.

Moreover, customers sporting the latest models of Huawei smartphones may now also use the Alior Mobile app. Thereby, the application is currently available to users of all major systems, including iOS and Android.

## 3.5.4 Factors, including threats and risks, that may affect the operations of the banking area in 2022

The main risk factors include:

- the scale of demand for banking services and the ability of banks' customers to timely pay their liabilities largely depends on the customers' financial situation. Apart from the country's macroeconomic standing, the economic situation of a number of customer groups also depends on the national economic policy being pursued. Both a lower growth rate of the Polish economy and changes in the legal and fiscal framework for the operation of enterprises may exert an adverse impact on the financial standing of selected customers;
- ongoing consolidation and restructuring processes in the banking sector;
- development of banking services offered by non-regulated entities;
- interest rate policy of the Monetary Policy Council;
- the tax and regulatory environment, including in particular the existence of a tax on certain financial institutions, high equity requirements, contributions to Bank Guarantee Fund (BFG), costs of further adjustments to numerous regulatory solutions (e.g. MIFID II, GDPR, PSD II, MREL).

## 3.6 Other areas

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.

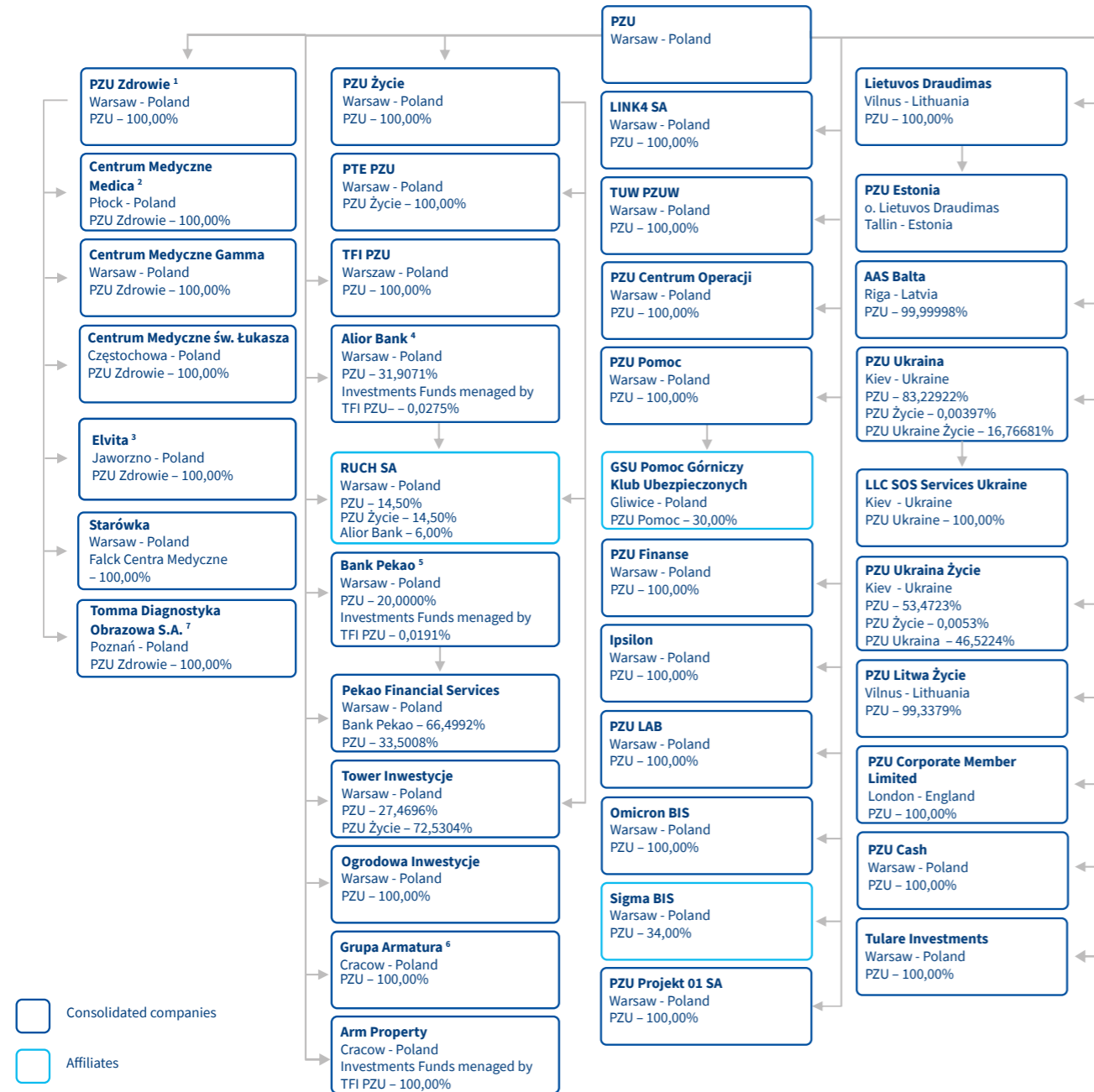
The following changes transpired in the structure of the PZU Group in 2021 up to the date of publication of these financial statements:

- On 3 January 2021, Idea Bank was acquired by Bank Pekao following the decision of the Bank Guarantee Fund (BFG) on

a resolution. The resolution instrument applied by the Bank Guarantee Fund against Idea Bank involved the take-over by Bank Pekao, with the effect specified in Article 176(1) of the BFG Act, of Idea Bank's enterprise, comprising its overall rights and liabilities as at the end of the date of initiation of the resolution, i.e. as at 31 December 2020, excluding specific property rights and liabilities specified in the BFG's decision.

- On 7 January 2021, CORSHAM sp. z o.o. sold all the shares it held in PayPo sp. z o.o.;
- On 31 March 2021, Bank Pekao purchased 210,641 shares representing 38.33% of capital and 38.33% votes at the Shareholder Meeting of Krajowy Integrator Płatności SA, with its registered office in Poznań
- On 15 April 2021, the change pertaining to NewCommerce Services sp. z o.o., of which Alior Leasing sp. z o.o. became the sole shareholder, was registered in the National Court Register;
- On 20 May 2021, the liquidation of PZU Finance AB commenced;
- On 31 May 2021, PZU Zdrowie S.A. merged with Polmedic sp. z o.o.; all assets of Polmedic sp. z o.o. were taken over by PZU Zdrowie S.A. and Polmedic sp. z o.o. ceased to exist. The activity conducted previously by Polmedic sp. z o.o. will be continued by PZU Zdrowie S.A. through its branch "PZU Zdrowie S.A. Polmedic Medical Center Branch in Radom";
- On 31 May 2021, Bonus-Diagnosta Sp. z o.o. purchased 100% shares in NZOZ Grupa Medical Sp. z o.o. with its registered office in Bydgoszcz;
- On 1 July 2021, a merger was entered in the National Court Register involving the transfer of all assets of the acquired company NewCommerce Services sp. z o.o. to the acquiring company Serwis Ubezpieczeniowy sp. z o.o. (merger by acquisition);
- On 20 July 2021, Pekao Leasing sp. z o.o. purchased 100 shares in PEUF sp. z o.o., which represented 100% in the company's capital and votes;
- On 29 September 2021, Harberton sp. z o.o. in liquidation was deleted from the National Court Register;
- On 29 October 2021, the title to 100% of shares in the capital and 100% of votes at the shareholder meeting of Dom Inwestycyjny Xelion sp. z o.o. was transferred to Quercus Agent Transferowy sp. z o.o.;
- On 2 November 2021, Bonus Diagnosta sp. z o.o. and NZOZ Grupa Medical sp. z o.o. merged, as a result of which NZOZ Grupa Medical ceased to exist;

Structure of the PZU Group as at 31 December 2021



<sup>1</sup>The following branches operate within PZU Zdrowie: CM FCM in Warsaw, CM Tarnów, CM Nasze Zdrowie in Warsaw, CM Medicus in Opole, CM Cordis in Poznań, CM in Warsaw, CM in Krakow, CM in Poznań, CM in Wrocław, CM Gdańsk Abrahama, CM Artimed in Kielce, CM Warsaw Chmielna, CM Polmedic in Radom, CM in Łódź  
<sup>2</sup>The Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. with its registered office in Ciecchocinek  
<sup>3</sup>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  
<sup>4</sup>The Alior Bank Group is composed of: Alior Bank SA, Alior Services Sp. z o.o., Alior Leasing Sp. z o.o. (which holds 100% of shares in AL Finance sp. z o.o. (until 5 August 2021 operating under the business name of Serwis Ubezpieczeniowy Sp. z o.o.)), Meritum Services. ICB SA, Alior TFI SA, Absource Sp. z o.o., CORSHAM Sp. z o.o., RBL\_VC Sp. z o.o., RBL\_VC sp. z o.o. ASI S.K.A.,  
<sup>5</sup>The Bank Pekao Group is composed of, among others: Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing Sp. z o.o. (which holds 100% of shares in PEUF 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.), Pekao Investment Management SA (holding a 100% stake in Pekao TFI SA), Krajowy Integrator Płatności SA  
<sup>6</sup>The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL  
<sup>7</sup>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.

- Under the share purchase agreements executed in 2021 (in March, the acquisition of 21 AAS BALTA shares representing 0.0004% of the capital and votes at the company's shareholder meeting; in September, the acquisition of 169 AAS BALTA shares representing 0.0036% of the capital and votes at the company's shareholder meeting; in December 2021, the acquisition of 52 AAS BALTA shares representing 0.0011% of the capital and votes at the company's shareholder meeting), PZU SA as at the end of December 2021 held 4,728,063 shares in AAS BALTA representing 99.99998% of the company's capital and votes at the shareholder meeting (with 1 minority shareholder remaining with 1 AAS BALTA share);
- As a result of the deal struck in January 2022, in the shareholder structure of PZU SA's related party, PRJSC IC PZU Ukraine, as at the end of January 2022 compared to the end of 2021, changes occurred resulting in the following current shareholding structure of PRJSC IC PZU Ukraine:
  - PZU SA – 90.994354%
  - PZU Życie – 0.003967%
  - PrJSC IC PZU Ukraine Life Insurance – 9.001678%;

On January 5, 2022, the Trade Register struck Aquaform RO SRL off the register. The company has been liquidated with effect from 20 January 2022.

On March 17, 2022 PZU signed preliminary agreement to acquire 100% of shares in Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna ("TFI Energia") from Polska Grupa Energetyczna Spółka Akcyjna. The transaction is planned to be finalized in mid-year, after obtaining the approvals of the Polish Financial Supervision Authority and the Office of Competition and Consumer Protection. After the transaction is completed, TFI Energia will be a subsidiary of PZU, subject to consolidation.

Brief description of other PZU Group companies

PZU Pomoc

PZU Pomoc provides auxiliary services to PZU Group companies:

- managing the PZU repair network – at the end of 2021, the company cooperated with 845 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 2021, over 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). 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.

PZU LAB has implemented Poland's first product certification system in property damage prevention. The purpose of the certification system is to improve the effectiveness of products deployed to ensure the safety of enterprises and thus to reduce the instances of damage and the scope of losses to company assets. Certified products are marked with the patented "PZU LAB Approved" logo.

The company conducts intense safety-related educational and promotional activities. At the initiative of PZU LAB, the Maritime Industry Safety Forum, the Energy Industry Safety Forum and the Wood Industry Safety Forum are held annually. Moreover, a series of training courses entitled “Pyramid of competences” was launched for all participants in the insurance market, aiming to increase the level of knowledge in risk management among businesses.

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

### Tower inwestycji

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 proposal is presented by Alior Bank. The Cash portal is an innovative solution on the Polish market that enables employees to take out online loans. The loan proposal is targeted at employees of those companies that have established cooperation with PZU Cash.

### PZU Corporate Member Limited

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

### Armatura Kraków

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

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





## 4.

### Strategy in 2021–2024

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

**In this chapter:**

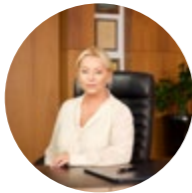
1. PZU Group Strategy in 2021-2024
2. Opportunities and challenges 2021+
3. Strategic objectives
4. Operationalization
5. Major achievements in pursuing the strategy in 2021
6. Metrics



## 4.1 PZU Group Strategy in 2021–2024 – #PZU Potential and Growth

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

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



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

- With a sense of social responsibility, the Strategy also defines measures improving the situation of society as a whole in the areas of:
- health and active lifestyle – promoting a healthy and active lifestyle to change the habits of Poles and improve public health;
  - safety and prevention - cooperation with and financial support for rescue institutions and organizations (such as Voluntary Mountain Rescue Service, Voluntary Water Rescue Service, Fire Brigade), involvement in local activities to improve safety and mold responsible and safe conduct;
  - culture and protection of national heritage – supporting the most important cultural institutions and events and taking action to protect national heritage, which contributes to building national identity, respect for tradition, a feeling of belonging to the community and its history.



## 4.2 Opportunities and challenges 2021+

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

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

### Digitalization and digitization

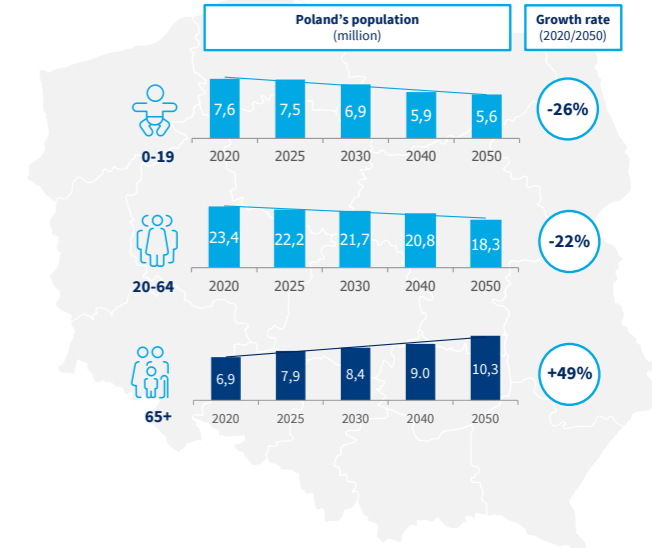
Dominujący w ostatnich latach trend rozwoju technologicznego i cyfryzacji będzie kontynuowany. Wiąże to ze sobą wiele możliwości, które mogą być wykorzystane przez Grupę. Dzięki rozwojowi narzędzi analizy danych, machine learningu, sztucznej inteligencji, chatbotów, wirtualnych asystentów, data miningu oraz pojawieniu się możliwości integracji kanałów sprzedażowych (omnikanałowość), Grupa PZU będzie mogła zaspokoić potrzeby klientów szybciej i lepiej.

### Increasing awareness and importance of ecology

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

### Demographic and social changes

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



Source: Eurostat – Population projections (July 2020)

## 4.3 Strategic objectives

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

### Area I Stable dividend and growing gross written premium and revenue

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

### Maintaining cost discipline

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

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

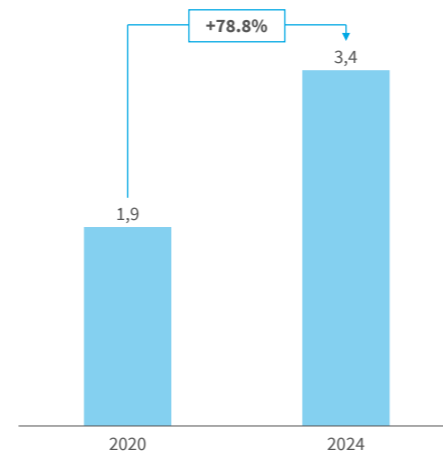


Tomasz Kulik, Member of the PZU and PZU Życie Management Boards, PZU Group's Chief Financial Officer

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

By harnessing consistent measures carried out on all the markets where the PZU Group is present, at the end of 2024 it will be possible to generate the highest net result since the time when PZU went public of roughly PLN 3.4 billion. This signifies an increase by approximately 79% versus 2020.

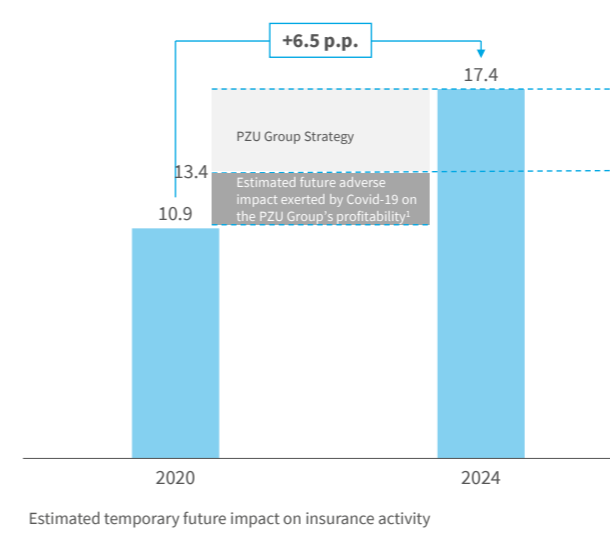
**PZU's net profit attributable to the parent company (bn PLN)**



**Delivering high business profitability**

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

**Return on equity (ROE) (%)**



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

**Area 2 – Leveraging the PZU Group's potential**

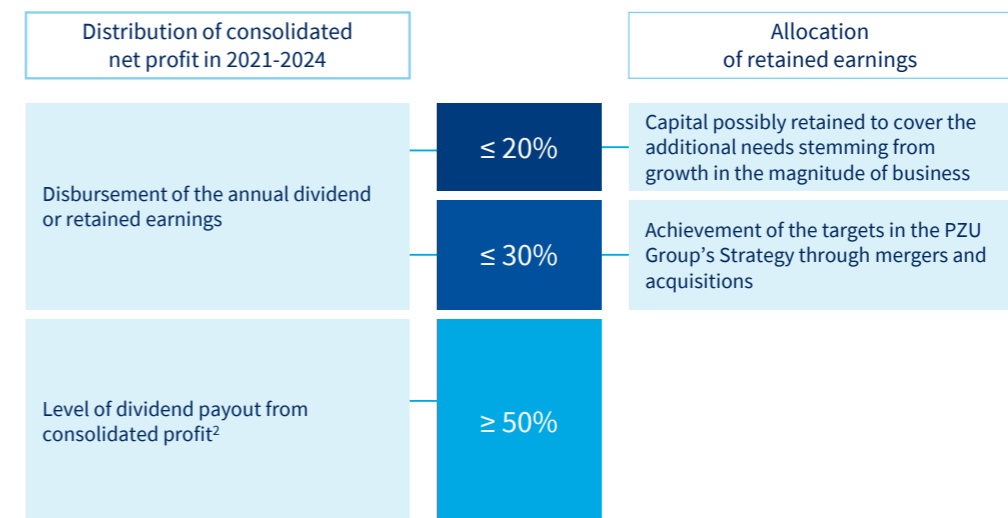
- Effective utilization of databases and knowledge of clients**  
The PZU Group plans to use knowledge about its clients even more effectively. This will allow it to create a top-quality offering addressing actual needs of its clients. By harnessing the potential of databases, it will be able to personalize the offering, provide coordinated care of relationship managers at each stage and acquire new clients. The Group's strategic activities assume: harmonizing access to information sources and channels, rolling out analytical tools for machine learning and artificial intelligence, and incorporating them in our business processes.
- Development of business collaboration with banks and strategic partners**  
Together with Bank Pekao and Alior Bank, the PZU Group wants to achieve cumulative gross written premium of about PLN 3 billion, by reaching the banks' clients with a comprehensive and unique offer of combined insurance and banking products. It plans to broaden the PZU Cash offer, strengthen the insurance position on the energy market and develop cooperation with strategic partners operating on the e-commerce market.



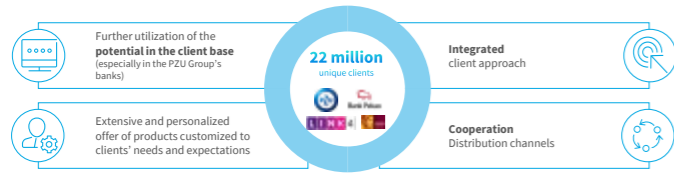
STABLE DIVIDEND AND GROWING GROSS WRITTEN PREMIUM AND REVENUE  
LEVERAGING THE PZU GROUP'S POTENTIAL  
INNOVATIVE FINANCIAL GROUP  
SUSTAINABLE GROWTH

- We will achieve **further growth on every market** where we operate
- We will deliver an **increase in gross written premium** on insurance activity
- We will materially **grow revenue in our health business**
- We will be a **leader on the asset management market generating high returns** on our own portfolio and on savings and investment products
- We will leverage the **potential in the PZU Group's banks**
- We will maintain the **cost effectiveness** in the business we run post-Covid-19
- Our ambition is to **bolster the PZU Group's potential to generate a high level of net profit**
- We will deliver **high business profitability**
- We will ensure a **predictable and attractive model for generating shareholder value** and a **safe solvency ratio**
- We will generate **benefits ensuing from the potential and scale** of being the largest insurance and banking group in Central and Eastern Europe
- We will give clients a **comprehensive product offering** thanks to the synergies afforded by the PZU Group by **taking advantage of various distribution channels**
- We will revolutionize the approach to health care** by becoming the most comprehensive medical advisor for our clients
- We will leverage **new technologies in all operating areas**
- We endorse **sustainable** development: we will be an active participant in the green energy transformation

**Dividend policy in 2021-2024**

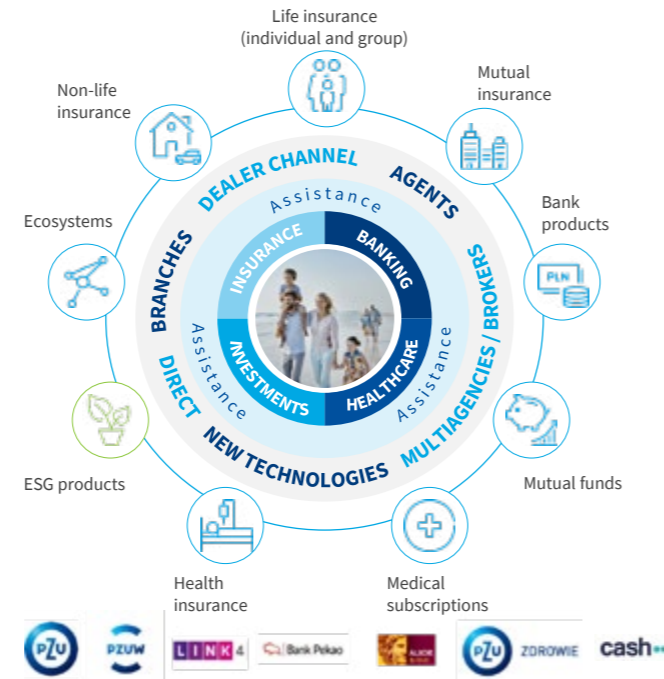


<sup>2</sup> PZU's net profit attributable to the parent company



### Utilization of all distribution channels

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



„As the PZU Group, today we provide clients the most comprehensive set of financial services in insurance, banking, investments and health care and medical services. We want for the offer we as the PZU Group propose to our clients in the future to be complete and satisfy the needs of our clients to the fullest extent”



Krzysztof Szypuła, Member of the PZU Życie Management Board, PZU Group Director in PZU

### Activation of the branch potential

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

### Modern agency channel

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

### Accelerating the development of the digital channel

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



### Profitable growth in multiagencies and the dealer channel

- Strengthening network management structures
- Technological changes
- Enhancing the product portfolio
- Coordination of PZU - Link4's activities

### New sources of value in the corporate segment

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

### Affinity, Bancassurance

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

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

### Recognition of damage on the basis of photos

Utilizing artificial intelligence makes it possible to fully control and audit losses in which the payment will be accepted automatically

### Automatic data reading from documents

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

### AI in the agent application

This solution enhances the quality of insurance documentation at the stage of its collection thereby reducing the cost of verification.

### Using robots to search for a service provider

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

### Anonymizing photos

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

### Automatic segregation and classification of e-mails

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

### New approach to health care in Poland

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

„We do not wish merely to tend to the ill. Rather, we want to keep our clients healthy for as long as possible while augmenting their living standard. The foundation for this approach is rooted in prophylactics. It calls for tearing down the wall between the insurance business and health care”



Aleksandra Agatowska, President of the PZU Życie Management Board



### Area 3 – Innovative financial group

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

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



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

## Area 4 – Sustainable growth

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

The PZU Group also wants to become the best employer on the markets where it operates. For this purpose, it will leverage the potential of its teams by increasing efficiency of cooperation between business areas, increasing speed and effectiveness of

*“The measure of our business success consists not only of our financial results but also of generating them in a sustainable manner. This is our commitment to our shareholders. [...] Fulfilling this commitment is possible because we do business with an eye to environmental conservation while showing our respect for social issues and acting in accordance with the best practices in corporate governance”*

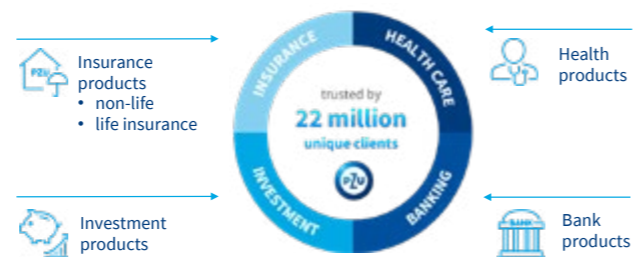


Dorota Macieja, Member of the PZU Życie Management Board

actions and quality of solutions implemented. This will enable a better utilization of resources (synergies) and knowledge and allow us to streamline processes.

## 4.4 Strategy operationalization

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



- Business support services**  
The PZU Group also expands its offering for businesses to include support services, such as risk management assistance through advisory services and implementation of advanced tools and providing an IT system for fleet management (insurance administration, fleet risk management, advisory services, ongoing legal support for Polish international fleets).

- Tapping into the potential of our portfolio and knowledge about clients**

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

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



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

- Developing modern business ecosystems**  
The PZU Group wants to supply comprehensive solutions to help clients lead a healthy life and operate a sustainable business, provide medical care to their families or employees, protect their assets and help grow their assets, give them a

feeling of stabilization and taking good care of their relatives regardless of what the future brings. The Group's goal is to develop business ecosystems, for institutional and individual Clients.

### Ecosystem Benefits

The aim of building Benefit Ecosystem is to create new interactions with customers based on everyday life activities such as physical activity, healthy lifestyle, sports, health, family, safety. The ecosystem includes a set of advanced digital tools addressed both to employers and individual customers. Institutions within the ecosystem will find functionalities for managing non-wage benefits, animating their employees' communities, and handling applications and service processes, while end users will have access to various types of benefits: products and services of the PZU Group, such as PZU Sport or PZU Cash, as well as numerous offers from external partners.

### Ecosystem for Drivers

It is an extensive ecosystem that provides in-depth assistance, including support for buying or selling a car, vehicle health checks, possible repairs and legal assistance, discounts on services from Group partners, arranging a replacement car, among other things. All services are available in one place, through secure and user-friendly digital tools. In the next steps, it is planned to provide services such as repair history, access to loyalty programs, tire service, glass service, etc. The new driver platform is available to everyone, even those without insurance.

## ECOSYSTEM BENEFITS

**Convenient space to manage benefits unrelated to salary**

- Set of advanced digital tools facilitating employers' comprehensive management of benefits

**Extensive offering of the PZU Group's benefits**

- Many benefits in one venue – ranging from cafeterias and sport cards to insurance and financial products and all the way to health products
- Contact with a single supplier of multiple services for employees: time savings, unifying processes, convenience and lower administrative expenses

**Building a community**

- An ecosystem offers new opportunities to build relations with clients in daily life






**Institutional** clients obtain a comprehensive offering consisting of various types of benefits unrelated to salary for their employees

**Individual** clients have accessible services and tools enhancing their comfort in life, activity, lifestyle, etc.

	#Better quality of life	#Responsible organization
#Trusted Partner in green transformation	#Better quality of life	#Responsible organization
<p>We support the development of a low-emission economy, contributing to sustainable transformation</p> <ul style="list-style-type: none"> <li>PZU Group developing an insurance offer supporting climate and energy transformation</li> <li>Responsible investor supporting safe and sustainable transformation</li> <li>Green organization operating on the basis of sustainable decision-making and governance processes</li> </ul>	<p>We encourage communities to adopt a sustainable and safe lifestyle</p> <ul style="list-style-type: none"> <li>Responsible partner supporting safety in local communities</li> <li>Trustworthy guide to a sustainable lifestyle</li> </ul>	<p>We build a modern organization, which is managed responsibly</p> <ul style="list-style-type: none"> <li>Employer promoting responsible leadership and responsible attitudes among Employees</li> <li>Trusted Partner in business promoting the sustainable development idea</li> </ul>
<b>Our ambitions</b>		
<b>Sustainable development goals</b>		

## ECOSYSTEM FOR DRIVERS

We will prepare an ecosystem addressing clients' various needs...

- We will help **buy and sell** a car
- We will provide support in **financing purchases**
- We will provide **insurance products**
- We will check the vehicle's state of repair
- We will **organize its repair**
- We will provide legal support
- We will organize road assistance and a replacement vehicle
- We will propose a **repair workshop**
- We will remind clients of important dates
- We will make the **history of repairs** available
- We will prepare a **loyalty program**
- We will offer **additional discounts** on our partners' services

...in which the driver is at the center of attention. We provide comfort and safety of use to...



... **widespread access to services** and the usage of the relevant digital technologies.

- Services accessible in a single venue without leaving home, 100% online**
- The ecosystem will be accessible for everyone**, even if he or she does not have insurance
- Hotline accessible 24 hours a day, 7 days a week**
- Jointly with our clients** we will develop our services and constantly improve their quality
- We will furnish **safe and user-friendly** digital tools

**Not every driver is an expert in vehicle maintenance** and that is why we want to provide support to him or her and act as a partner to care about comfort and safety

### Ecosystem for Health

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

### Special offer for seniors

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

## ECOSYSTEM FOR HEALTH

Individual health needs of different clients, among others:

- Prophylactics
- Mental health
- Medicines
- Medical care

Medical care **solutions**

- Subscriptions
- Insurance
- Fee-for-service medical services (FFS)
- Financing of medical services

Individual health needs of different clients, among others:

- Sleep
- Healthy nutrition
- Sport
- Beauty

medicines, organizing physical therapy, to household repairs or participation in sports classes and courses.



### Development of the green insurance offer supporting sustainable development

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

### Introducing an integrated approach to all distribution channels

In order to improve contacts with clients, the PZU Group plans to introduce a solution based on the omnichannel approach. It entails development of hybrid service paths in the service and sales process. This will enable further cooperation with e-commerce partners and expansion of the product portfolio

in banking channels Digitalization of sales and post-sales processes will ensure an increase of their efficiency and create a new channel for the activation of agents.

### Leveraging the potential of PZU Group companies

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

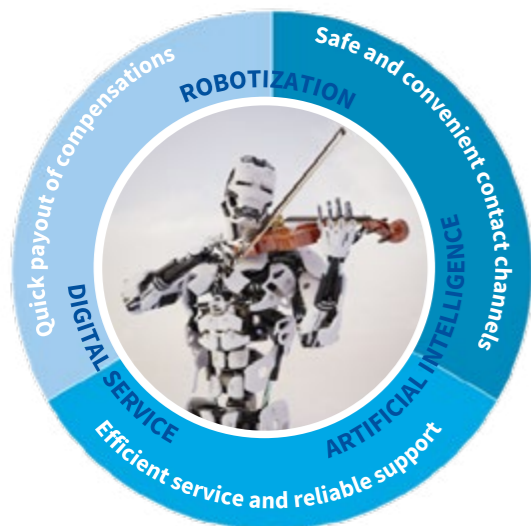
**TUW PZUW** - an increase in gross written premium by approximately 62% to about PLN 1 bn by 2024, which will translate into 2.3 percent of additional market share for the PZU Group. The assumed increases will be achieved thanks to, among others, operating and cost efficiencies. New products will also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

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

### Omnichannel approach



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



Through developing technologies such as artificial intelligence, robotization and big data, ultimately it will be possible to automate the claims and benefits handling process. Progress in this area will help satisfy client expectations and strengthen our competitive edge.

- **Comprehensive, efficient and friendly customer service**

The PZU Group will keep improving its claims and benefits handling procedures. Adapting to clients' new expectations will help ensure agile and friendly service processes. Access to an extensive vehicle repair network, an efficient service process and a quick disbursement of indemnification or benefits will solidify the PZU Group's position as the most reliable insurer on the market.

- **Revolution in the private health care market**

The PZU Group wants to become a comprehensive medical advisor through a revolutionary approach to medical care. Owing to the Group's fresh and more proactive customer relationship management model and improved sales of subscriptions and occupational medicine examinations (also in the form of telemedicine consultations), revenues will increase and relationships with clients will become even stronger. In turn, the Group's comprehensive offering of health insurance and related products within the Ecosystem for Health will help reach a greater number of individual clients. The Group's

involvement in health education, active presence in social media and top quality of customer service will translate into improved awareness and image of the PZU Zdrowie brand. In addition to the implementation of the new model, the Group plans to cooperate with the external health care system and integrate its internal medical centers.

- **Further growth in the Baltic States**

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

- **ESG Strategy**

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

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

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

Planned actions:

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

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

Planned actions:

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



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

Planned actions:

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

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

Planned actions:

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

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

Planned actions:

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

**4.5 Major achievements in pursuing the strategy in 2021**

In 2021, the PZU Group's ambitions, as defined in the PZU Group Strategy in 2021–2024, were pursued in line with the primary directions laid down in therein.

**Broadest offering on the market**

The PZU Group seeks to offer its clients the broadest range of products on the market, tailored to their specific needs and



expectations. Owing to the advancement of the mojePZU portal, clients may now access their policies online, view any upcoming insurance proposals or report a claim and then monitor its status. The continuous improvement of the mojePZU website coupled with the implementation of clients' proposals has translated into over 2.5 million users at the end of 2021.

Among the Group's strategic priorities is entry into the health area of the individual client segment. In order to ensure the health safety of Poles, which became a matter of even greater urgency during the pandemic, PZU Zdrowie bundles were created in the form of medical subscriptions for preventive and pre-paid baskets of services, which may be purchased on the mojePZU website or phone app, where patients also have the option to arrange for medical appointments and tests.

Another objective called for in the Strategy for the coming years is the encouragement of renewable energy sources. It is a PZU Group ambition to promote green transition among business partners, clients and social partners. For individual clients, TUW PZUW created the PZU Eko Energia offering, which provides insurance cover for devices generating energy from renewable sources and also protects owners of photovoltaic installations against the risk of power failures or a decreased efficiency in electricity generation. This insurance product is available in three options, from which the client may select the one best suited to his or her needs.

An offer addressed to corporate clients was also introduced with a view to supporting the development of renewable energy sources. New environmentally friendly insurance products were created – “Power of the Wind” for wind farms and “Power of the Sun” for photovoltaic installations – within the framework of the affinity program. They will enable businesses to insure key risks related to the operation of wind farms or photovoltaic installations, such as damage caused by fire, lightning, cyclone, hail, flood, theft and other elements. The expansion of the Group's green insurance offering for corporate and individual clients is another step in the pursuit of the PZU's ESG strategy.

The green transition is also very advanced in the automotive market as, according to reports, the number of hybrid and electric vehicles keeps growing rapidly. In order to meet the growing demand, PZU introduced a new scope of comprehensive motor own damage insurance covering damage to chargers, charging cables and batteries.

## Leveraging our unique client base

Another ambition of the PZU Group is to provide clients with a comprehensive range of services by enabling them to customize insurance products to their specific lifestyle and needs. The Group's ecosystems provide the answer to this problem by offering new opportunities for building relationships with the clients based on their daily lives.

In line with the assumptions of its Strategy, the PZU Group has implemented an integrated ecosystem of fringe benefits for employees. This ecosystem constitutes one of the most up-to-date fringe benefit platforms on the market, providing a comprehensive offering of products delivered both by the PZU Group – such as life and non-life insurance, medical and sports subscriptions and PZU Cash loans – and some 200 partners. It is a ready-made tool which may be rolled out in a simple and effective manner with the support of PZU Pomoc. Companies taking advantage of the platform will be able to set up the system and configure its features in accordance with their specific preferences and needs.

The PZU Group is committed to promoting an active lifestyle, because it translates into improved fitness and a better health, which is why PZU Sport subscriptions are available to its clients. Such subscriptions enable their holders to exercise in nearly 3,000 facilities across Poland. The product is available online via the mojePZU app. PZU Sport is a fringe benefit offered to companies employing at least 10 staff. It is another step towards creating comprehensive product and service ecosystems.

One of the directions adopted by the PZU Group for its further development consists of leveraging its insurance potential by strengthening cooperation between the Group companies. In cooperation with Bank Pekao, PZU introduced a new “Safe Travel” policy, providing a broad range of services to solo travelers as well as voyaging families and groups. This new PZU insurance is available to Bank Pekao personal account holders and active users of its electronic banking platform. The insurance may be purchased remotely via the Pekao24 website and the PeoPay mobile app. A novelty in the offering of Bank Pekao personal accounts is also insurance for online purchases and personal belongings as well as assistance, home assistance and personal third party liability insurance.

## Excellence in customer service

Owing to its use of modern technologies and extensive experience, the PZU Group supports clients in managing their specific risks. The Risk PRO is a comprehensive property damage prevention system for companies that insure their business with PZU. The solution, based on the Internet of Things and Industry 4.0 technologies, monitors the level of security in the company's operational areas that are of key significance from the risk perspective, such as production, logistics and machinery. The program also supports clients in the conduct of educational activities aimed at raising awareness of clients' staff, which is a matter of enormous significance for minimizing the risk of damage. The system has already been put in place by nearly 50 PZU clients.

In response to market demand, PZU introduced an innovative payment system for non-life insurance in the form of subscriptions. It is a unique solution that enables clients to break down the payment for all their policies into monthly premiums. By replacing a one-time premium with installment payments, clients may consider purchasing an additional policy and extend their cover.

## Corporate social responsibility

As the largest insurance group in the region, PZU supports entities which take on the challenge of climate transition. It rolls out new insurance products, but is also involved in a variety of renewable energy projects. In June 2021, PZU signed a co-financing deal for the Potęgowo wind farm, which is currently the largest project of this kind in Poland. PZU will allocate PLN 100 million to the expansion of the Potęgowo project and will join the consortium of banks providing funding for its execution. The project's capacity is 219.5 megawatts. Thanks to the scheduled funding, it will be enlarged by another wind farm with a capacity of 37.4 megawatts. The expansion will also help reduce CO2 emissions by 87,140 tons annually. This is an equivalent of annual carbon dioxide emissions by nearly 21,000 cars.

However, it is not the only project being executed with the involvement of PZU Group companies. TFI PZU SA decided to join an initiative to fund the construction of two wind farms in Poland (Grajewo and Mława) with a total capacity of 51.4 megawatts and the total annual generation of clean electricity of approximately 192 GWh. The company's exposure to the project is PLN 50 million while the total value of term financing is PLN 223 million. TFI PZU will join the debt financing of the

project which has so far been provided jointly by the European Bank for Reconstruction and Development and DNB Bank Polska.

The PZU Group's objective is to increase its current exposure to investments supporting climate and energy transition by PLN 500 million during the term of the strategy (2021–2024).

In an effort to protect the natural environment, PZU Group employees, hand in hand with foresters, embarked on an initiative to restore a forest in the Tuchola Pinewoods in northern Poland. The restoration of 100 hectares of forest in the selected area of the Rytel Forest District will be carried out using funding allocated to a carbon dioxide absorption project executed by the State Forests. The PZU Group purchased Carbon Dioxide Units (CDUs) corresponding to the quantity of CO2 that will be additionally absorbed by the forest areas included in the Forest Carbon Farms program. Under the project, the management of selected tree stands will be modified to achieve a greater degree of absorption of carbon dioxide than would normally be the case under standard forest management procedures.

The offset of CO2 emissions confirms the Group's pursuit of its strategic declaration and carbon neutrality.

PZU is intent on promoting a safe and sustainable lifestyle in its interactions with clients, employees and business partners. To this end, it conducts numerous awareness campaigns and provides co-funding for the execution of local community projects. Among the preventive campaigns carried out by PZU is Helping is Power. PZU subsidized 59 projects dedicated to health care, increasing safety and supporting a healthy lifestyle. The total amount of funding provided under this initiative was PLN 1 million. Within the framework of preventive campaigns, initiatives resulting in the improvement of safety and health protection were pursued. Co-funding was granted to projects of an educational nature (training, workshops) and practical nature (to improve public urban infrastructure and build outdoor gyms). The PZU Group is involved in a variety of health promotion initiatives, such as “Live a long and happy life” and “Health in conversation,” and cooperates with the Tatra Volunteer Search and Rescue Service in keeping visitors to Poland's mountains safe. The PZU Group sets market standards and inspires others to take action to improve general safety.

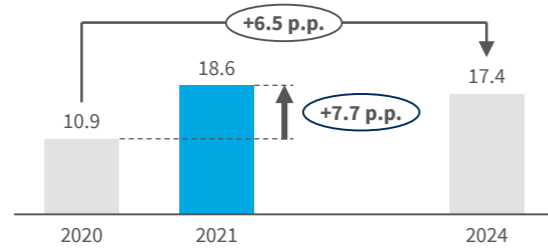




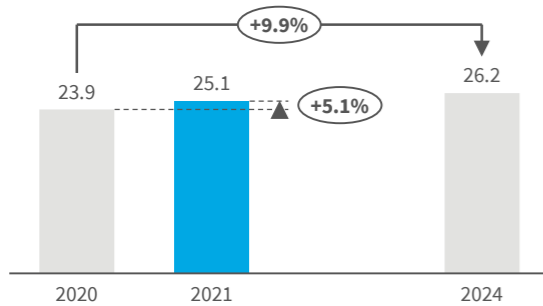
## 4.6 Metrics

### Financial measures and strategy execution

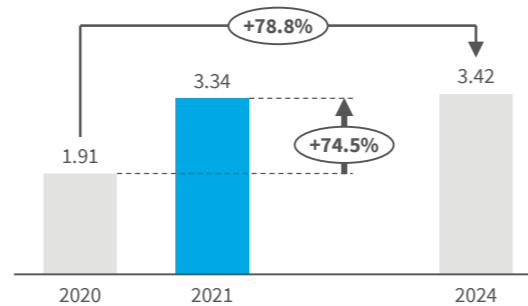
#### ROE (%)<sup>1</sup>



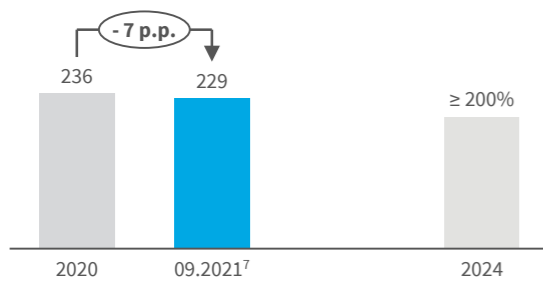
#### GROSS WRITTEN PREMIUM<sup>2</sup> (BN PLN)



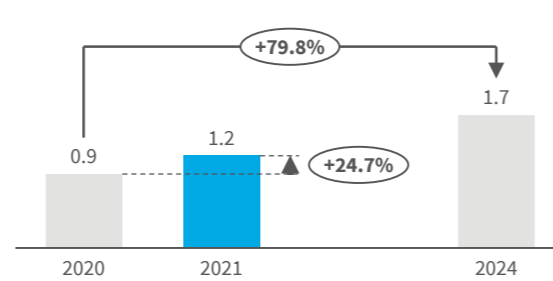
#### NET PROFIT<sup>3</sup> (BN PLN)



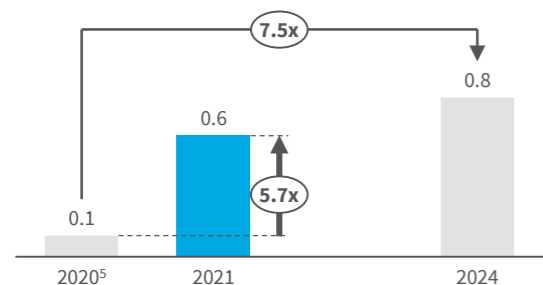
#### SOLVENCY II RATIO (%)



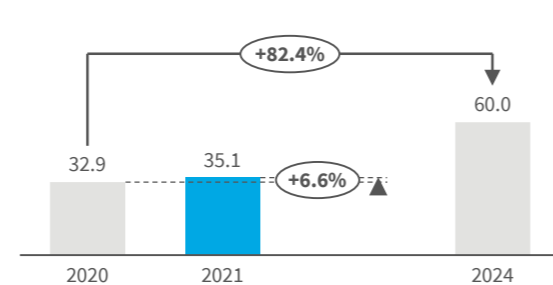
#### PZU ZDROWIE'S REVENUES (BN PLN)



#### BANKS' CONTRIBUTION TO PZU NETTO PZU GROUP'S NET RESULT S<sup>4</sup> (BN PLN)



#### ASSETS UNDER MANAGEMENT<sup>6</sup> (BN PLN)



<sup>1</sup> Attributable to the holders of the parent company; <sup>2</sup> Gross written premium of the PZU Group; <sup>3,4</sup> Net profit attributable to the holders of the parent company; <sup>5</sup> Does not incorporate the impairment losses for intangible assets following from the acquisition of Alior Bank and Bank Pekao; <sup>6</sup> Third party assets under management TFI PZU, Pekao TFI and Alior TFI; <sup>7</sup> Data are not subjected to audit or review by a statutory auditor

### ESG indicators

#### ESG goals in Senior Mgmt targets

Giving consideration to ESG targets in the Company's strategic objectives and handing them over for execution by Senior Management

55%

Assessment from the ESG perspective of 55% of the biggest corporate insurance clients from sectors sensitive to ESG risks

500 m

Increase of the current exposure in investments supporting climate and energy transformation by 500 m PLN in 2021-2024

70%

Percentage of key procurement processes which give consideration to ESG criteria

scope 1 and 2

Reaching climate neutrality of own operations thanks to reduction of emissions, purchase of green energy and compensation of CO<sub>2</sub> emissions

70%

Percentage of employees covered by the #Well-being program

10-15 m

Number of recipients of social activities in the area of safety and sustainable lifestyle during the year



## 5. Financial results

Return on equity attributable to equity holders of the parent company (ROE) at 18.6%.  
Increase in profit attributed to equity holders of the parent company to PLN 3.34 billion.  
Gross written premium up 5.1% year on year.

**In this chapter:**

1. Key factors affecting the financial results achieved
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 to the consolidated result made by industry segments
8. PZU's standalone results

## 5.1 Key factors affecting the financial results achieved

In 2021, net profit attributable to the shareholders of the PZU Group's parent company was PLN 3,336 million, compared to PLN 1,912 million in 2020 (up 74.5%). Net profit reached PLN 5,434 million, i.e. PLN 2,904 million more than in 2020, and profit before tax stood at PLN 7,454 million, compared to PLN 4,058 million the year before.

Net result rose by 27.3% compared to last year, net of non-recurring events<sup>1</sup>.

Operating profit in 2021 was PLN 7,469 million, up PLN 84.1 % compared to the result in 2020.

Operating profit was driven in particular by the following:

- higher gross written premium, especially in non-motor insurance and MOD insurance in the mass client segment and corporate client segment, individual protection products in the bancassurance channel, and growth of sales in the Baltic companies, including property, MOD and health insurance products;
- increased valuation of shares in a logistics company following its IPO;
- better performance of the banking business: last year, there was a one-off effect of the impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses;
- lower profitability in group and individually continued insurance, on account of the increased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- higher result in individual insurance achieved on a growing protection products portfolio in the bancassurance channel and term products sold in the own network, as well as higher insurance activity expenses;

<sup>1</sup> Non-recurring events include: higher result on investment activity as a result of listing of a company from the logistics industry from a mutual fund portfolio managed by TFI PZU, and last year – the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million (after adjustment for the impact of deferred income tax and minority shareholdings, the impact on the net result attributable to the parent company's shareholders was PLN 42 million).

- lower profitability in the mass insurance segment, which was an effect of a lower net earned premium, combined with higher loss ratio in motor insurance and higher acquisition expense ratio;
- lower operating result in the corporate client segment, which is an outcome of a decrease in motor insurance profitability, coupled with a lower loss ratio in the non-motor insurance portfolio, including natural catastrophe insurance, third party liability insurance, and insurance against various financial risks.

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

- increase in gross written premium by 5.1% to PLN 25,080 million. It concerned mainly non-motor insurance, including insurance against fire and other damage to property in the corporate client segment, as a consequence of renewal of a long-term high-ticket contract and a higher premium written under a contract with a client from the fuel and energy sector, as well as other TPL and ADD insurance and other insurance in the mass client segment, including mainly accident insurance added to mortgage and cash loans thanks to the development of sales in cooperation with the Group's banks. At the same time, a higher premium was posted in MOD insurance in both segments, which is an effect of the gradual revival of new automobile sales after the slowdown caused by the COVID-19 pandemic. In life insurance, the higher sales are attributable to individual protection products in the bancassurance channel; the growth of sales in the Baltic companies was generated by property, MOD and health insurance products. Allowing for the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 23,232 million, and was 0.9% higher than in 2020;
- increase by 24.3% in investment income which, after factoring in the interest expenses<sup>2</sup> amounted to PLN 9,137 million, as compared to PLN 7,352 million in 2020. Growth was posted in investment income from banking activity. In banking activity, the increase in profit was triggered by the lower costs of risk due to last year's establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio in Bank Pekao and Alior Bank. Concurrently, interest income of both banks fell y/y

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

as a result of the low level of interest rates persisting in the first three quarters. Income on investing activity, excluding banking business, fell by 1.6% as compared to the previous year, as an outcome of a lower investment activity result earned on the portfolio of assets held to cover investment products, offset by a better result on listed equities, in particular the higher valuation of the logistics company as a result of its listing on the stock exchange. The positive effect was also enhanced by the high result on the real property portfolio. Lower investment results of the portfolio of assets held to cover the investment products alone do not affect the PZU Group's overall net result, because they are offset by the movement in net insurance claims and benefits;

- the higher level of claims and benefits paid, which amounted to PLN 15,731 million, i.e. 1.0% more than in 2020. This growth was attributable primarily to life insurance, as a result of the increase in benefits for the insureds' and co-insureds' death in 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- acquisition expenses higher by 7.7%, having increased to PLN 3,572 million, from PLN 3,317 million in 2020. This increase is mainly attributable to the modification in the product and sales channel mix, including a higher share of the multiagency and bancassurance channels in the mass client segment.
- increase of administrative expenses by 3.5% to PLN 6,826 million, from PLN 6,597 million in 2020. In the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value), administrative expenses increased by PLN 295 million; in the insurance activity segments in Poland, administrative expenses increased by PLN 45 million, which resulted from, among others, increased personnel costs associated with the payroll pressure, intensification of marketing activities, and higher real property maintenance expenses resulting from the indexation of lease hire rents and costs of utilities;
- movement in the negative balance of other operating income and expenses – to PLN 2,315 million, compared with PLN 3,990 million in 2020. This resulted mainly from the non-recurring effects from last year – i.e. the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the

impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million, and the decrease of the BFG contribution from PLN 541 million in 2020 to PLN 396 million in 2021, respectively. At the same time, the burden related to the levy on financial institutions increased (the outcome of growth of the value of assets subject to the levy, and not the rate of the levy).

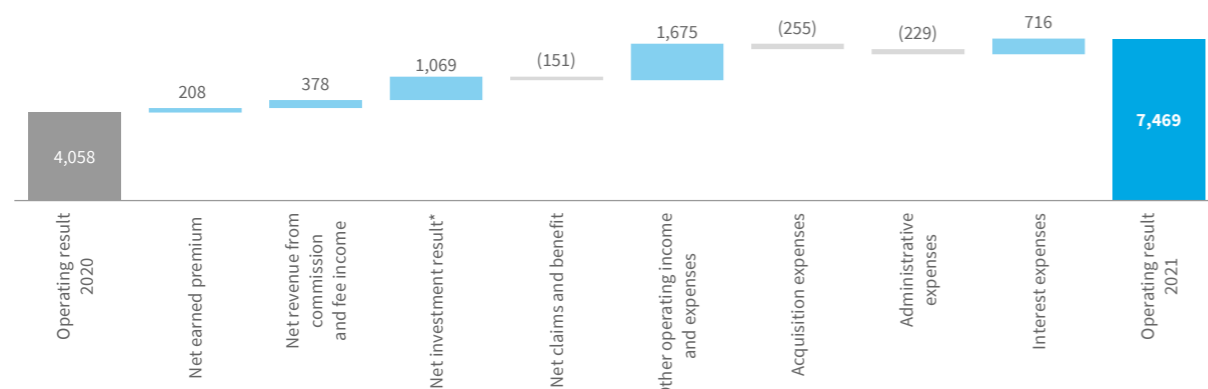


Key data from the consolidated profit and loss account	2017	2018	2019	2020	2021
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premiums	22,847	23,470	24,191	23,866	25,080
Net earned premiums	21,354	22,350	23,090	23,024	23,232
Net revenues from commissions and fees	2,312	3,355	3,279	3,166	3,544
Net investment result *	7,893	9,931	11,298	8,486	9,555
Net insurance claims and benefits	(14,941)	(14,563)	(15,695)	(15,580)	(15,731)
Acquisition expenses	(2,901)	(3,130)	(3,363)	(3,317)	(3,572)
Administrative expenses	(5,357)	(6,609)	(6,606)	(6,597)	(6,826)
Interest expenses	(1,350)	(2,046)	(2,129)	(1,134)	(418)
Other operating income and expenses	(1,552)	(2,201)	(2,790)	(3,990)	(2,315)
Operating profit (loss)	5,458	7,087	7,084	4,058	7,469
Share in net profit (loss) of entities measured by the equity method	16	(1)	(4)	-	(15)
Profit (loss) before tax	5,474	7,086	7,080	4,058	7,454
Income tax	(1,289)	(1,718)	(1,895)	(1,528)	(2,020)
Net profit (loss)	4,185	5,368	5,185	2,530	5,434
Net profit (loss) attributable to equity holders of the parent company	2,895	3,213	3,295	1,912	3,336

restated data for 2017-2019

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

## Operating result of the PZU Group in 2021 (PLN million)



\*net of interest expenses

Assets

**PLN 402,129 million**

(+6.1% y/y)

Equity attributable to equity holders of the parent company

**PLN 17,080 million**

(-9.0% y/y)

Net profit

**PLN 5,434 million**

(+114.8% y/y)

Net profit attributable to equity holders of the parent company

**PLN 3,336 million**

(+74.5 y/y)

Gross written premium

**PLN 25,080 million**

(+ 5.1% y/y)

Net earned premium

**PLN 23,232 million**

(+0.9% y/y)

Net insurance claims and benefits

**PLN 15,731 million**

(+1.0% y/y)

Net result on investing activities excluding interest expenses

**PLN 9,555 million**

(+ 12.6% y/y)

ROE attributable to equity holders of the parent

**18.6%**

(+7.7 p.p. y/y)

Combined ratio COR (Poland)

**89.1%**

(+0,7 p.p y/y)

Operating margin in group and individually continued insurance

**12.4 %**

(-7,5 p.p. y/y)



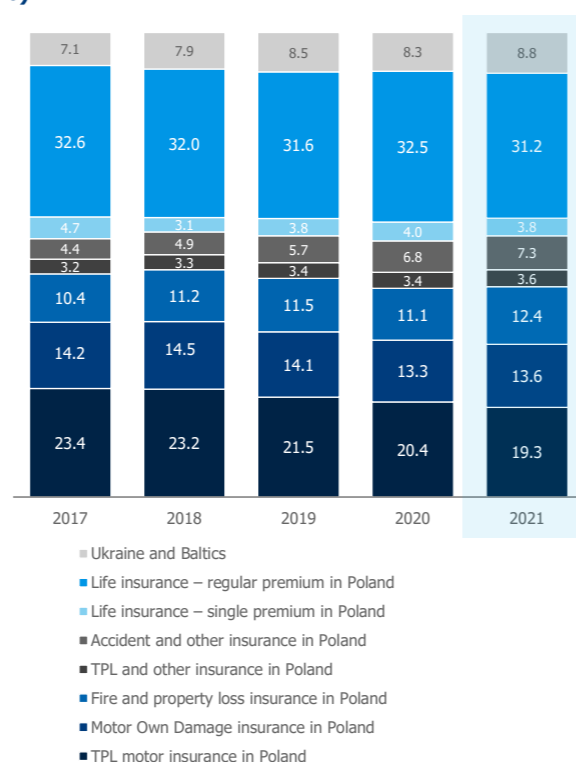
## 5.2 PZU Group's income

### Premiums

In 2021, the PZU Group collected gross premiums of PLN 25,080 million, i.e. 5.1% more (PLN 1,214 million) than in 2020. The change in gross written premium (net of inter-segment premiums) was affected primarily by:

- increase by PLN 695 million (+6.8% y/y, up to PLN 10,895 million) in sales in the mass client segment in Poland – especially in the ADD and other insurance, mainly accident insurance as a result of the development of the sales of insurances offered in cooperation with the Group's banks to mortgage loans and cash loans; natural catastrophe insurance and other property insurance, predominantly crop insurance, as a result of a higher than last year pool of state budget subsidies, as well as in MOD insurance as a result of an increased volume of insurances and higher average price of MOD policies;
- increase in the written premium in the corporate client segment by PLN 237 million (+8.0%, to PLN 3,199 million), including insurance against fire and other damage to property, as a result of renewal of a long-term high-ticket contract, and increased premium written from a contract with a fuel and energy client;
- increase by PLN 221 million (+11.1% y/y, up to PLN 2,206 million) of sales of the foreign companies, mainly in property, MOD and health insurance in the Baltic States;
- increase by PLN 38 million (+2.2% y/y, up to PLN 1,750 million) of the written premium in the individual life insurance segment, driven mainly by growing sales of protection products offered in collaboration with banks and the persisting upward trend in premium written in equity and term protection products offered in own channels;
- increase by PLN 23 million (+0.3% y/y, up to PLN 7,030 million) of sales of group and individually continued insurance, in particular health insurance in group or continued form, and active up-selling of other insurance riders in individually continued products.

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



### Net revenues from commissions and fees

In 2021, net revenues from commissions and fees amounted to PLN 3,544 million, and were by PLN 378 million, i.e. 11.9%, higher than in the previous year.

The revenues included primarily:

- net revenues from commissions and fees in the banking business of PLN 2,911 million, up PLN 389 million, or 15.4%, as compared to last year; included mainly: brokers' commissions, revenues and expenses related to the services linked to bank accounts and payment and credit cards, as well as fees charged for intermediation in insurance sales;
- revenue from pension insurance of PLN 154 million, up PLN 24 million, or 18.5% as compared to the previous year; the increase was applicable to the income on the reserve account, as well as lower income from management fees;
- revenues and fees received from funds and mutual fund management companies of PLN 474 million, down PLN 35 million, or 6.9%, as compared to 2020.

Insurance segments (PLN million), local GAAP	Gross written premium (external)				
	2017	2018	2019	2020	2021
<b>TOTAL</b>	<b>22,847</b>	<b>23,470</b>	<b>24,191</b>	<b>23,866</b>	<b>25,080</b>
Total non-life insurance – Poland (external gross written premium)	12,702	13,384	13,596	13,162	14,094
Mass insurance – Poland	10,029	10,325	10,332	10,200	10,895
Motor TPL	4,606	4,610	4,383	4,205	4,199
Motor MOD	2,406	2,524	2,572	2,513	2,688
Other products	3,017	3,191	3,377	3,482	4,008
Corporate insurance – Poland	2,673	3,059	3,264	2,962	3,199
Motor TPL	735	845	814	677	645
Motor MOD	848	878	827	669	718
Other products	1,090	1,336	1,623	1,616	1,836
Total life insurance – Poland	8,519	8,237	8,546	8,719	8,780
Group and individually continued insurance – Poland	6,855	6,891	6,966	7,007	7,030
Individual insurance – Poland	1,664	1,346	1,581	1,712	1,750
Total non-life insurance – Ukraine and Baltic States	1,527	1,729	1,897	1,827	2,026
Ukraine non-life insurance	181	202	256	214	249
Baltic States non-life insurance	1,346	1,527	1,641	1,613	1,777
Total life insurance – Ukraine and Baltic States	100	120	151	158	180
Ukraine life insurance	42	55	79	77	90
Baltic States life insurance	58	65	72	81	90

In 2021, net investment result, including interest expenses but excluding Bank Pekao and Alior Bank, was lower than in the previous year, due to the poorer performance of the variable coupon debt portfolios resulting from prepayments on high profitability exposures as well as decline in the EUR/PLN exchange rate (as compared to growth in the previous year), and poorer results from investment activity on the portfolio of assets held to cover investment products. Investment results on the portfolio of assets held to cover the investment products alone do not affect the PZU Group's overall net result, because it is offset by the movement in net insurance claims and benefits.

The impact of the aforementioned drivers was partly offset by:

- increased valuation of shares in a logistics company following its IPO;
- high result on the real property portfolio, due to increase in the valuation of the certificates of PZU FIZ Aktywów Niepublicznych Sektora Nieruchomości [PZU Closed-End Mutual Fund of Non-Public Assets of the Real Property Sector 2];
- high result of the Private Equity portfolio thanks to better environment on the technological market, which is the primary investment destination for portfolio funds;
- higher result of the Polish treasury bonds (AC) portfolio, due to a higher balance of assets.

In 2021, the balance of other operating income and expenses was negative and stood at PLN 2,315 million, compared to the also negative balance of PLN 3,990 million in 2020. This was caused by the following factors:

- non-recurring effects in the corresponding period of last year: impairment loss on goodwill arising from the acquisition of Alior Bank – in the amount of PLN 746 million, and Bank Pekao – in the amount of PLN 555 million, as well as the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million;
- lower BFG fees – which decreased from PLN 541 million in 2020 to PLN 396 million in 2021, as a result of a lower contribution to the resolution fund;
- higher charge of the levy on financial institutions, which in the case of the PZU Group (insurance and banking activity considered jointly) increased from PLN 1,203 million in 2020 to PLN 1,290 million in 2021, due to higher charges on the bancassurance activity resulting from the higher balance of taxable assets (the rate of the bank levy has not changed);

- decrease by PLN 45 million of the costs of amortization of intangible assets purchased in company acquisition transactions;
- reversal of the provision for the fine imposed on PZU by the President of the Office of Competition and Consumer Protection (UOKiK) on 30 December 2011, in the amount of PLN 57 million.

### 5.3 PZU Group's claims paid and technical provisions

In 2021, net claims and benefits (taking into account the movement in technical provisions) reached PLN 15,731 million, and were 1.0% higher than the year before. This change was driven primarily by:

- in life insurance: an increase in benefits for the insureds' and co-insureds' death in 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- higher benefits in riders related to hospital treatment and surgical operation as well as permanent disability and dismemberment in group and continued insurance, as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic;
- decrease in the unit-linked life insurance technical provisions, both as an effect of lower payments into unit-linked funds as well as lower results on investment activity in comparison to the results generated last year (the latter effect has no impact on the PZU Group's total net result; the item is the outcome of lower investment results on the portfolio of assets held to cover investment products);
- higher loss ratio in motor insurance, resulting from higher claim frequency in motor TPL insurance (gradual return to the natural loss ratios after the pandemic) in the mass insurance segment, and reduction of the average payout;
- in the mass client segment, a lower loss ratio than a year before caused by atmospheric phenomena, including rainfall and hail;
- in the corporate client segment, a better loss ratio in natural catastrophe insurance and various financial risks insurance (in 2020, a higher loss ratio on the medical entity insurance portfolio).

### 5.4 PZU Group's acquisition and administrative expenses

In 2021, acquisition expenses increased by PLN 255 million, or 7.7%, in comparison to the previous year, and stood at PLN 3,572 million. The increase is mainly attributable to the modification in the product and sales channel mix, including a higher share of the multiagency and bancassurance channels in the mass client segment.

In 2021, PZU Group's administrative expenses amounted to PLN 6,826 million, compared to PLN 6,597 million in the previous year, i.e. up by PLN 229 million. Administrative expenses in the banking activity segment (net of the adjustments on account of the valuation of assets and liabilities to fair value) increased by PLN 295 million, including in Bank Pekao, mainly in connection with the integration costs of the acquired spun-off portion of Idea Bank, recovery of variable payroll costs, and growing depreciation and amortization associated with investments in the Bank's transformation processes. The expenses of the insurance activity in Poland increased by PLN 45 million, due among others to the persisting wage pressure, consolidation of the PZU brand image, and higher maintenance expenses resulting from the indexation of lease hire rents and costs of utilities.

### 5.5 Drivers and atypical events affecting the results

In 2021, a higher result on investing activity was recorded owing to the IPO of a logistics company held in the portfolio of a mutual fund managed by TFI PZU. The increase in revenue driven by this event was PLN 485.3 million in 2021.

The PZU Group's 2020 result incurred the charge of a non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao. For Alior Bank, the impairment loss was PLN 746 million, and for Pekao – PLN 555 million. The result was also impacted 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.

As for continued and group insurance, the technical rate applied to the calculation of life insurance provisions 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 on the portfolio behavior in connection with the mortality of the insured and the probability of the insured's having co-insureds, to prevent the growing mismatch relative to the previously adopted assumptions. The Group also modified its method of calculating provisions for the group insurance portfolio, by adopting an individual approach instead of the hypothetical portfolio structure.

### 5.6 PZU Group's asset and liability structure

As at 31 December 2021, the PZU Group's total assets were PLN 402,129 million, up PLN 23,155 million compared to the end of 2020.

#### Assets

53.5% of the Group's assets (versus 52.1% at the end of 2020) was loan receivables from clients. Their balance reached PLN 215,008 million. It increased compared to the end of 2020 by PLN 17,720 million, mainly due to the growing loans (particularly mortgage loans) for individual customers, and an increase of the balance of operating loans in the business segment.

37.2% of assets (versus 39.5% at the end of 2020) were investments: financial assets, investment property, derivatives and financial assets pledged as collateral for liabilities. They totaled PLN 149,391 million, and were down by PLN 363 million as compared to the end of last year. The decrease in the value of investments was associated particularly with Bank Pekao, and was related to the lower value of the portfolio of government debt securities. Net of the banking business, the investment portfolio was at a level comparable to the previous year, and changes in its balance are attributable to the generated investment result, and inflow of premiums driven by business growth.

2.6% of assets (versus 2.7% at the end of 2020) were non-current assets in the form of intangible assets, goodwill and property, plant and equipment. They amounted to PLN 10,325

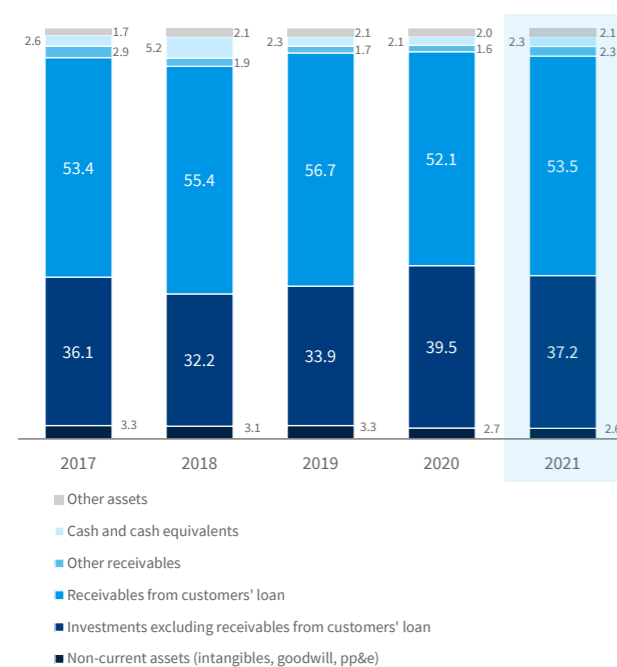
million, and were by PLN 155 million higher as compared to the end of 2020. The increase is attributable to intangible assets in Bank Pekao.

2.3% of assets (versus 2.1% at the end of 2020) were cash and cash equivalents. Their value was PLN 9,447 million, and was PLN 1,508 million higher than a year before. This was caused by an increase in the balance of funds accumulated in Poland's central bank by Bank Pekao and Alior Bank.

2.3% of assets (versus 1.6% at the end of 2020) represented the PZU Group's receivables, including receivables under insurance contracts and the current income tax. They amounted to PLN 9,418 million and were higher by PLN 3,172 million compared to the year before. The increase arose primarily from the higher value of outstanding transactions involving financial instruments.

0.2% of assets (compared to the corresponding share as at the end of 2020) were the assets held for sale. Their balance grew by PLN 53 million, to PLN 643 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 2021, the PZU Group's consolidated equity reached PLN 39,994 million, which was down PLN 3,409 million versus the year before.

The value of the non-controlling interests decreased by PLN 1,712 million to PLN 22,914 million. This was driven by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, Pekao's dividends to non-controlling shareholders of PLN 674 million and the result generated by Alior Bank and Bank Pekao attributable to non-controlling owners of PLN 2,098 million.

Equity attributable to the parent company's shareholders dropped by PLN 1,697 million to PLN 17,080 million. This was caused by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, distribution of PZU's profit for 2020, including the allocation of PLN 3,022 million to dividend payout, and PLN 3,336 million in net profit generated in 2021 attributable to shareholders of the parent company.

65.9% of the Group's equity and liabilities at yearend 2021 were liabilities to clients under deposits. They amounted to PLN 265,155 million and were higher by PLN 23,180 million than one year before. This resulted from the increase in current deposits of Bank Pekao and Alior Bank by PLN 30,900 million, which was partly offset by a decrease in term deposits.

As at 31 December 2021, the PZU Group had liabilities arising from own debt securities totaling PLN 5,940 million, including:

- PLN 4,154 million on bonds issued by Bank Pekao and Alior Bank;
- PLN 695 million on certificates of deposit issued by Bank Pekao and Alior Bank;
- PLN 1,091 million on covered bonds issued by Bank Pekao.

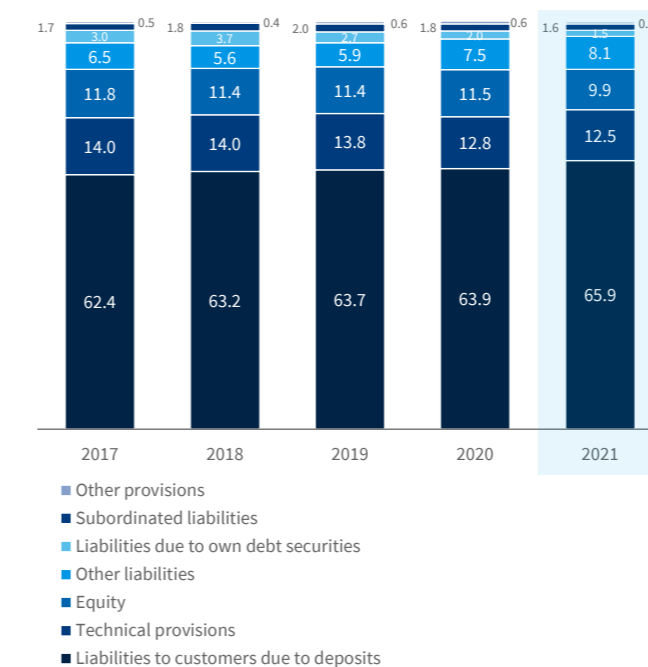
Subordinated liabilities of the PZU Group at yearend 2021 reached PLN 6,274 million, which was similar to the corresponding 2020 value.

12.5% of equity and liabilities at yearend 2021 was the value of technical provisions. It reached PLN 50,173 million and was PLN 1,702 million higher than one year before. This was affected by:

- higher provision for unearned premiums in non-life insurance resulting mainly from developing sales of insurance;
- increase in the provision for outstanding claims and benefits in non-life insurance related to the higher level of claims provisions in motor TPL, general liability and motor own damage insurance;
- higher provisions in life insurance as an effect of enhancing cooperation with banks in terms of protection and investment products;
- lower provisions for policyholder risk in group investment products as a result of negative portfolio investment performance and a decrease in provisions on the structured product in life insurance which had been withdrawn from the offering.

3.3% of equity and liabilities at yearend 2021 was other liabilities in the amount of PLN 13,203 million. They were higher by PLN 769 million than one year before. The balance changed primarily due to liabilities arising from transactions in financial instruments and repurchase transactions.

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



## Cash flow statement

At yearend 2021, net cash flow was PLN 1,442 million, up by PLN 1,471 million versus the previous year. This growth was recorded in particular in cashflow from investment activity.

## Material off-balance sheet line items

The value of contingent liabilities at the end of 2021 was PLN 68,948 million, that is PLN 3,163 million more year on year. This was caused predominantly by:

- PLN 4,813 million in contingent liabilities for renewable limits in settlement accounts and credit cards;
- PLN 41,017 million in liabilities from loans in tranches;
- PLN 9,531 million in liabilities in the form of awarded guarantees and sureties;
- PLN 5,240 million in the form of guarantees for the issue of securities.

## 5.7 Contribution made by the market segments to the consolidated result

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

- corporate insurance (non-life insurance) – a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU, LINK4 and TUW PZUW;
- mass insurance (non-life insurance) – property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and LINK4;
- life insurance: group and individually continued insurance – protection, investment (which are not investment contracts) and health insurance; PZU Życie offers it to employee groups and other formal groups, e.g. to trade unions, and persons under a legal relationship with the policyholder (e.g. employer or trade union) enroll in the insurance agreement; individually continued insurance covers persons who acquired the right to individual continuation during the group phase;

- individual life insurance: protection, investment (which are not investment contracts) and health insurance; PZU Życie provides it to individual clients and the insurance agreement applies to a specific insured who is subject to individual underwriting;
- investments – the segment reporting according to the Polish Accounting Standards comprises investments of the PZU Group’s own funds, understood as the surplus of investments over technical provisions in PZU, LINK4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income over the income allocated at transfer prices to insurance segments; the segment includes also income from other free funds in the PZU Group, including consolidated mutual funds;
- pension insurance – the segment includes income and expenses of PZU OFE pension funds;
- banking – a broad range of banking products offered to corporate and retail clients by Bank 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 2021 was PLN 294 million, meaning it was down by 6.1% compared to 2020.

The result was affected mainly by:

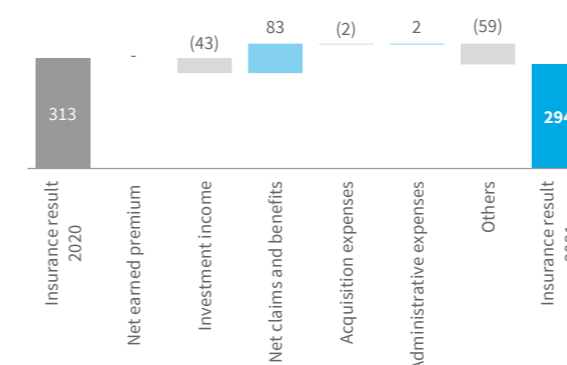
- net earned premium kept stable at PLN 2,365 million combined with an increase in gross written premium by PLN 257 million (+8.5% y/y) relative to 2020. The growth in gross written premium was driven by:
  - premium increase in insurance against fire and other damage to property as the offshoot of signing several high-value agreements, including a renewal of two large contracts, specifically a long-term contract (for 18 months) with a premium of nearly PLN 124 million and an increase in written premium under a contract with an operator in the fuel and energy sector with a total premium in excess of PLN 200 million,
  - higher written premium in motor insurance (+1.4% y/y) offered to both leasing firms and in fleet insurance, resulting from the decrease in motor TPL insurance and increase in MOD insurance – as a consequence of the gradual rebound in sales of new vehicles (an increase in new passenger car registrations in 2021 reached 4.3% y/y) and a more rapid growth of the lease market recovering from the slowdown caused by the COVID-19 pandemic,
  - improved written premium in the third-party liability insurance portfolio;
  - lower sales of insurance against various financial risks and guarantees as a consequence of a decrease in written premium in loss-of-profit insurance;
- drop in the net value of claims and benefits by PLN 83 million (-5.2% y/y), which, combined with the stable net earned premium, resulted in an improvement in the loss ratio by 3.5 percentage points to 63.8%. The decrease in the total loss ratio in the corporate insurance segment was driven by the following factors:
  - higher loss ratio in motor insurance, both TPL and MOD. The increased loss ratio resulted mainly from the higher average payout which was partially offset by a lower frequency of reported claims,
  - lower loss ratio in the non-motor insurance portfolio, which was a consequence of a better loss ratio in natural catastrophe insurance and various financial risks insurance (in the corresponding period of 2020 a higher loss ratio on the medical entity insurance portfolio);
- the decrease in investment income allocated to the segment on the basis of transfer prices, compared to the previous year, resulted in particular from the depreciation 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 changed level of insurance liabilities covered by foreign currency assets;
- increase by PLN 2 million (+0.4% y/y) in acquisition expenses (including reinsurance commissions), which, while maintaining the net earned premium at a constant level, resulted in an increase in the acquisition expense ratio by 0.1 p.p. This was chiefly a consequence of changes in the portfolio structure, including a higher share of non-motor insurance and higher share of motor insurance offered under leases (especially noticeable in the first half of the year) and changes in the remuneration model for fleet insurance;
- decrease by PLN 2 million (-1.4% y/y) in administrative expenses, mostly due to the lower costs of protective and preventive measures related to the COVID-19 pandemic compared to initial expenditures during the first year of the pandemic and lower expenditures on advisory services related to strategic and regulatory projects.

This was caused by the following factors:

- decrease in net earned premium by PLN 71 million (-0.7% y/y) combined with an increase in gross written premium by PLN 666 million (+6.5% y/y). The PZU Group posted the following under sales:
  - increase in written premium in ADD and other insurance, chiefly accident insurance as a result of the growing sales of insurance offered in cooperation with the Group’s banks for mortgage loans and cash loans. The increase was partially offset by a drop in group ADD insurance premiums – in the corresponding period of 2020 insurance cover against a COVID-19 infection was provided to physicians and medical personnel,
  - higher premiums from the natural catastrophe insurance and other property damage insurance, chiefly crop insurance (due to the subsidy pool from the state budget greater than the year before), household insurance and insurance for small and medium-sized enterprises. This effect was partly offset by lower premiums from mandatory insurance of farm building insurance due to the significant competition on the market and the natural erosion of the portfolio (declining number of farms),
  - higher written premium in motor insurance which, much like in the corporate segment, was caused by weaker sales of motor TPL insurance and an increase in motor own damage insurance (improvement in the number of policies and the average price) – the recovery in sales after a period of lower availability due to the COVID-19 pandemic was partially curbed by the persisting low supply of new vehicles in the market (especially acute in the dealership channel);
- lower net insurance claims and benefits by PLN 23 million (-0.4% y/y), which, when coupled with net earned premium being down by 0.7%, translated into the loss ratio deteriorating by 0.2 p.p. relative to 2020. This change was driven mainly by:
  - higher loss ratio in motor insurance, both TPL and MOD, resulting from a higher claim frequency in motor TPL insurance (gradual return to the natural loss ratios after the pandemic period) and a reduction in average payouts;
  - lower loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of lower than the year before level of

## Operating result in the corporate insurance segment (in PLN m)



## Mass insurance



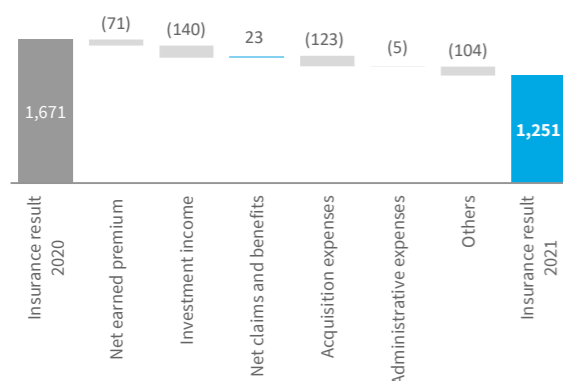
In 2021, in the mass segment, the PZU Group generated a result of PLN 1,251 million, 25.1% less than the year before.



losses caused by atmospheric events (ground frosts and hail);

- decrease by 26.7% y/y in investment income allocated to the segment on the basis of transfer prices, compared to the previous year, caused in particular by the depreciation 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 changed level of insurance liabilities covered by foreign currency assets;
- rise in acquisition expenses (including reinsurance commissions) by PLN 123 million (+6.1%), to PLN 2,133 million, which, when coupled with the net earned premium being down 0.7%, caused growth in the acquisition expense ratio by 1.4 p.p. The increase in acquisition expenses was mainly attributable to the modification in the product and sales channel mix, including a higher share of the multiagency and bancassurance channels;
- increase by PLN 5 million (+0.7% y/y) in administrative expenses as a result of, among other factors, higher personnel costs resulting from the wage pressure, phasing out the aid package for the sales area, weaker demand for advisory services related to strategic and regulatory projects, and lower costs of providing protective and preventive measures related to the COVID-19 pandemic.

## Operating result in the mass insurance segment (in PLN m)



## Group and individually continued insurance



In 2021, the operating result in the group and individually continued insurance segment was PLN 870 million, or 37.5% less than in the previous year.

This result was suppressed largely by the increase in benefits triggered by the deaths of insureds and co-insureds observed in the whole population and confirmed by Statistics Poland data.

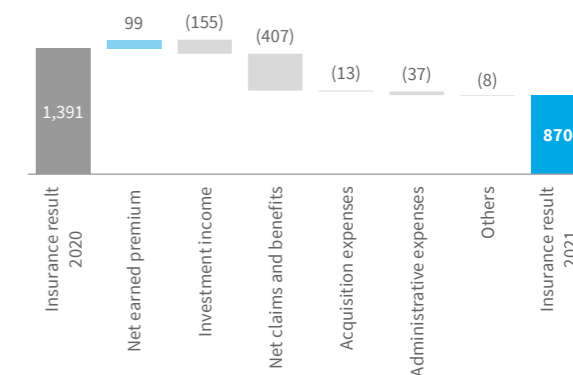
Factors affecting this segment's performance and its movements in 2021:

- rise in gross written premium by PLN 23 million (+0.3% 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 yearend 2021, PZU Życie had over 2.5 million active contracts of this type in its portfolio;
  - up-selling of other insurance riders as part of individually continued products, including in the malignant neoplasm insurance rider introduced in Q2 2021;
  - 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;
- increase in the net earned premium by PLN 99 million (+1.4%) in connection with the partial derecognition of the provision for unexpired risk established the year before. This provision was established to cover the possible shortfall of future premiums (due to the heightened mortality caused by the COVID-19 pandemic), and its partial derecognition in 2021 was associated with the forecast of a lower mortality rate;
- the decrease in investment income, which is comprised of income allocated according to transfer prices and income from investment products, resulted from deteriorated performance on investment products, especially Employee Pension Schemes, and lower income allocated in protection products. At the same time income from investment products does not affect the result of the group and

individually continued insurance segment because it is offset by changes in insurance liabilities;

- higher insurance claims and benefits along with the movement in other technical provisions by PLN 407 million (+7.8% y/y), to PLN 5,597 million. This was caused by:
  - rise in insureds' and co-insureds' death benefits during the year, corresponding, as follows from Statistics Poland's data, with a higher mortality in the whole population in the period,
  - higher benefits in riders related to hospital treatment and surgical operation and permanent disability and dismemberment as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic;
  - growing outpatient health insurance benefits due to low base - limited availability of health care last year caused deferment of some procedures to future periods. The adverse factors were partially offset by a decrease in technical provisions in EPS (a third pillar retirement security product), which was affected by weaker investment performance than in 2020;
- acquisition expenses in the segment of group and individually continued insurance greater by PLN 13 million (+3.4% y/y). This was caused by the higher fees for insurance intermediaries in group protection insurance related to the stronger sales, especially in the segment of insurance products dedicated to small and medium-sized enterprises;
- increase in administrative expenses by PLN 37 million (+5.9% y/y), largely caused by an increase in personnel costs as a result of wage pressures, boosting the PZU brand image and higher costs of maintenance of properties due to the indexation of lease prices and utility prices. Factors affecting the decrease in costs included a greater use of vacation leaves (including overdue leaves) by employees, the phasing out of the assistance package for the sales area and lower costs of providing protection and prevention measures related to the COVID-19 pandemic compared to the initial expenses incurred during the first year, as well as weaker demand for renovation work and equipment of the branch network.

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



## Individual insurance



The operating result in the individual insurance segment in 2021 was PLN 255 million, up by PLN 11 million, or 4.5%, year-on-year.

This improvement was driven by the continued development of protection products in the banking channel and of term products sold in own network.

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

- gross written premium higher by PLN 38 million (+2.2% y/y), to PLN 1,750 million as a result of:
  - increase in the portfolio of protection products in the bancassurance channel, including those sold in cooperation with the PZU Group's banks, chiefly in the area of insurance offered for mortgage loans,
  - constantly rising level of premiums in the case of protection products in endowments and term insurance offered in own channels – the high level of new sales and indexation of premiums in agreements remaining in the portfolio,
  - decrease in premium generated in investment insurance in the bancassurance channel as a result of restrained cooperation with one of the external distributors. At the same time, positive rates of growth in products offered in collaboration with PZU Group banks;
- the decrease in investment income, which is comprised of income allocated according to transfer prices and income

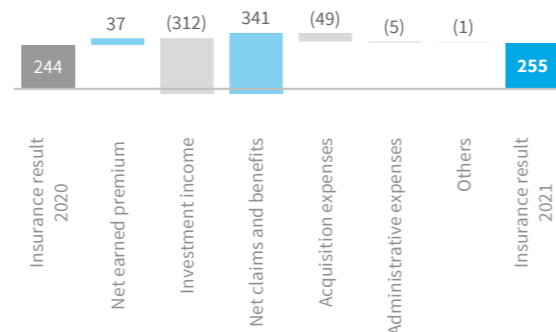
from investment products, was related in particular to the deterioration of funds' performance in the portfolio of investment products. At the same time income from investment products does not affect the result of the individual insurance segment because it is offset by changes in insurance liabilities;

- lower insurance claims and benefits along with the movement in other technical provisions by PLN 341 million (-20.4% y/y). This was largely caused by a decrease in provisions related to unit-linked products, which resulted both from lower investment income and a slump in contributions to unit-linked funds.

From the point of view of the operating result, the latter factor was of small significance – it was offset by a lower level of gross written premium and lower investment income. In turn, the increase in insurance claims and benefits along with the movement in other technical provisions was affected by growth in the protection business carried out in cooperation with banks (where, in connection with single premiums, the establishment of provisions entails high initial costs) and growth in the portfolio of term and endowment products sold in own channels;

- acquisition expenses higher by PLN 49 million (+28.0% y/y), to PLN 224 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;
- increase in administrative expenses by PLN 5 million (+6.2% y/y), largely caused by an increase in personnel costs as a result of wage pressures, boosting the PZU brand image and higher costs of maintenance of properties due to the indexation of lease prices and utility prices. This effect was partly offset by the expiration of the assistance package for the sales area and lower costs of providing protection and prevention measures related to the COVID-19 pandemic compared to the initial expenses incurred during its first year.

## Operating result in the individual insurance segment (in PLN m)



## Investments



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

## 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 3,779 million in 2021 and was higher by PLN 3,585 million than the year before. The result without the impairment of Alior Bank's and Pekao's goodwill in 2020 increased by PLN 2,284 million. The higher result was associated mainly with lower costs of risk and higher net fee and commission income.

The COVID-19 pandemic exerted a pivotal impact on the year-on-year comparisons, because it significantly stepped up the cost of risk in 2020, which forced the establishment of additional credit provisions for the forecasted deterioration in the quality of the loan portfolio. Moreover, the decline in banks' interest income in 2021 was caused predominantly by a series of interest rate cuts throughout the year – by approx. 140 basis points in total, the unfavorable consequences of which were not set off by the increases that followed in Q4 2021.

Bank Pekao's contribution to the 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 3,000 million, while Alior Bank's contribution was PLN 779 million. Alior Bank's performance in 2021 was affected by non-recurring events, specifically: the impairment loss on tax assets associated with the Bank's operations in Romania and the establishment of a provision for commission refunds, the so-called Small CJEU). Moreover, the segment's performance in the comparable period of 2020 was affected by Alior Bank's goodwill impairment of PLN 746 million and Bank Pekao's goodwill impairment of PLN 555 million.

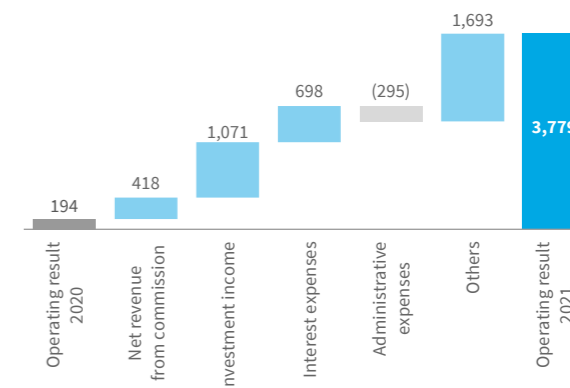
Investment income, being the key component of the banking segment's revenue, increased to PLN 7,319 million (+17.1% y/y). It consists of interest and dividend income, trading result and result on impairment losses. The increase in investment income was primarily due to lower allowances for expected credit losses due to recognizing additional allowances related to the COVID-19 pandemic last year. This effect was partially offset by provisions for legal risk related to mortgage loans in foreign currencies. An additional impact on investment performance was exerted by the decrease in interest income correlated with the central bank's interest rate cuts in 2020 by a total of 140 basis points; the subsequent interest rate hikes in Q4 2021 managed to only partially offset the effect of the previous cuts.

The total portfolio of loan receivables in both banks increased by PLN 17.3 billion (+8.7% y/y) in 2021 compared to 2020. In 2021, the value of loans granted to retail customers increased, including mortgage loans, which, given the low rates (for most of 2021), were popular among customers.

The value of allowances for expected credit losses and impairment losses on financial instruments totaled PLN 777 million in Bank Pekao and PLN 1,050 million in Alior Bank, and was lower y/y by PLN 804 million and PLN 686 million, respectively.

The profitability measured by the net interest margin was 2.39% for Bank Pekao and was lower by 6 bps relative to 2020, while in Alior Bank it stood at 3.75%, i.e. 17 bps less than the year before. The difference in the net interest margin level between Bank Pekao and Alior Bank resulted from the structure of the loan receivables portfolio. In both banks, the interest margin declined as a result of the low level of interest rates prevailing for most of the year. The rate hikes announced in the last quarter of the year only partially counteracted this drop.

## Operating result in the banking segment (in PLN m)



The net fee and commission income in the banking segment improved by 14.0% relative to the previous year and reached PLN 3,426 million. The main drivers of the improved commission income were commissions on loans, borrowings and leases and commissions on currency exchange transactions.

The segment's administrative expenses increased to PLN 5,077 million, up 6.2% compared to 2020. For Bank Pekao and Alior Bank, they totaled PLN 3,619 million and PLN 1,458 million, respectively. The increase resulted chiefly from higher costs in Bank Pekao, mainly in connection with the integration of the acquired spun-off portion of Idea Bank, the recovery of variable costs of remuneration and the growing depreciation and amortization associated with investments in the Bank's transformation.

In addition, other contributors to the operating result included other operating income and expenses, above all the Bank Guarantee Fund fees (PLN 396 million) and the levy on other financial institutions (PLN 965 million). Bank Pekao's result was additionally affected by a restructuring provision in the amount of PLN 120 million in connection with the agreement with the trade unions concerning group layoffs of 23 March 2021, and the decline in other operating expenses in Alior Bank was predominantly caused by the higher expenses incurred in 2020 in connection with the goodwill impairment caused by the acquisition of Meritum Bank ICB SA in the amount of PLN 104 million and the redemption of non-financial assets related to the T-Mobile Banking Services project being closed in the amount of PLN 48 million.

# Financial results

The Cost/Income ratio was 42% for both banks (43% for Bank Pekao and 40% for Alior Bank), or 1.2 percentage points less than the year before. The improved value of the ratio was a consequence of income growing faster than costs. The increase in income was experienced chiefly in the area of commission income.

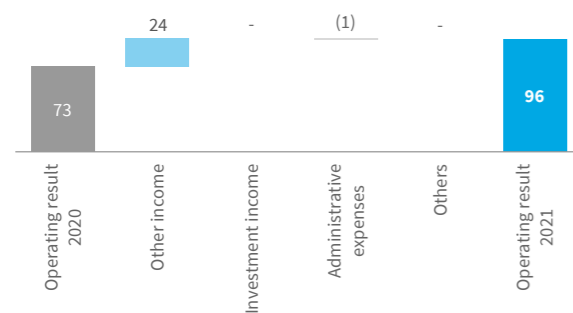
## Pension insurance



The operating profit in the pension insurance segment amounted to PLN 96 million in 2021, or 31.5% more than in 2020. Factors affecting the operating result and its movement:

- other revenue higher by PLN 24 million (18.5% y/y), to PLN 154 million. It was driven by revenue from the reserve account (PLN 11.6 million) and improved revenue from the management fee;
- administrative expenses higher by PLN 1 million (+1.8% y/y), to PLN 57 million. This was caused by an increase in personnel costs and the costs of marketing and sales support as well as a slight increase in the funds' operating expenses;
- neither investment income nor other items changed compared to 2020 and stood at PLN 4 million and PLN -5 million, respectively.

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



## Baltic States

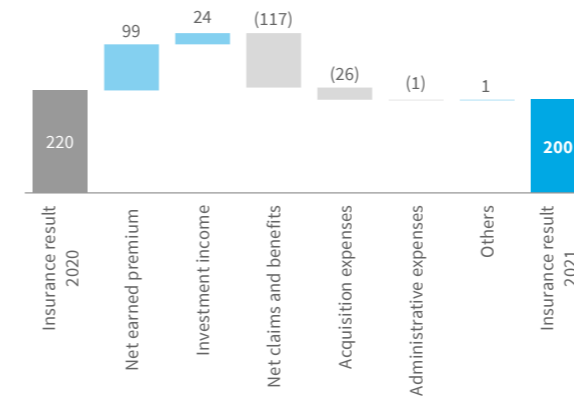


The operating result on the activity in the Baltic States in 2021 was PLN 200 million, down by PLN 20 million, or 9.1%, compared to 2020.

The following factors affected this result:

- net earned premium higher by PLN 99 million (6.0% y/y) combined with an increase in gross written premium. Gross written premium totaled PLN 1,867 million and was higher than the year before by PLN 173 million (+10.2% y/y, +7.7% y/y in the functional currency). Sales were up by PLN 164 million (10.2% y/y), generated in non-life insurance, chiefly as a result of a considerable growth in sales of property insurance (+17.4% in the functional currency), motor own damage insurance (+6.1% in the functional currency) and health insurance (+19.6% in the functional currency). A decrease in sales, as a result of low premium rates across the region, was recorded in motor third party liability insurance (-4.4% in the functional currency). In life insurance, sales climbed by PLN 9 million (+11.1% y/y);
- investment income higher by PLN 24 million, to PLN 42 million, mainly as a result of increases in stock markets;
- net claims and benefits higher by PLN 117 million (12.1% y/y). The previous year's restrictions caused by the COVID-19 pandemic contributed to a significantly lower frequency of losses in motor insurance and to a lower frequency of disbursed health insurance benefits. In 2021, the situation gradually returned to the pre-pandemic levels – an increase in the frequency of losses and the average loss value was noticeable. The loss ratio in non-life insurance rose 2.4 p.p. to 60.2% compared to the previous year. In life insurance, the value of benefits stood at PLN 87 million and was PLN 26 million greater than in 2020;
- increase in acquisition expenses by 7.6% to PLN 366 million. The rate of growth in expenses was correlated with the rate of growth in sales; the acquisition expense ratio calculated on the basis of net earned premium increased by 0.3 p.p. to 21.0%;
- administrative expenses slightly higher (+0.7% y/y) at PLN 142 million. The administrative expense ratio stood at 8.2%, down 0.4 p.p. compared to the previous year.

## Operating result in the Baltic States segment (in PLN m)



## Ukraine



The Ukraine segment ended 2021 with the result on insurance activity deteriorated by PLN 40 million, at PLN 14 million compared to PLN 54 million in 2020. The segment's result takes into account valuation of the equity stake in PZU

Ukraine repurchased by PZU from PZU Ukraine Life (impact on the result: PLN -14 million).

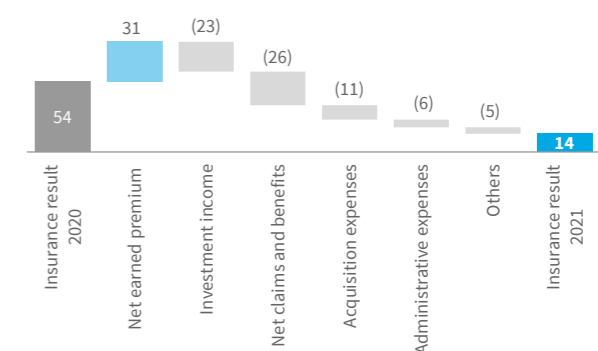
Factors affecting this segment's performance:

- increase in net earned premium by PLN 31 million (+15.8% y/y) combined with an increase in gross written premium. Gross written premium totaled PLN 339 million and increased by PLN 48 million (+16.5% y/y, +17.6% in the functional currency). Sales in 2020 were largely affected by the restrictions on the movement of people imposed during the COVID-19 pandemic, as a result of which sales of travel and other third party liability insurance policies (mandatory for individuals applying for a visa to travel to Poland) decreased significantly, in line with sales of green card insurance. In 2021, sales volumes of these products increased by a total of 27.9% in the functional currency. Sales of motor third party liability and motor own damage insurance also increased (in total by 15.9% y/y in the functional currency). Written premium in life insurance increased by PLN 13 million (+16.9% y/y);
- investment income lower by PLN 23 million; the value of investment income was burdened in 2021 with the valuation performed for the purposes of the PZU Ukraine share transfer transaction;
- net claims and benefits higher at PLN 102 million (+34.2% y/y). Last year, the restrictions in movement introduced

due to the COVID-19 pandemic considerably contributed to the lower frequency of losses in motor TPL and MOD insurance, coupled with a lower frequency of losses in health insurance. In 2021, the frequency rates hovered above levels similar to those recorded in the pre-pandemic period. Moreover, the value of claims was affected by large losses in the corporate client segment. In life insurance the value of benefits paid increased by PLN 1 million (+2.9% y/y) compared to the previous year. The loss ratio calculated on the basis of the net earned premium in non-life insurance was 47.5%, up 13.9 p.p. compared to 2020;

- increase in acquisition expenses to PLN 112 million from PLN 101 million (+10.9% y/y) in the previous year. The rate of growth in expenses is correlated with the rate of growth in sales; however, the acquisition expense ratio decreased by 2.2 p.p. to 49.3%;
- administrative expenses higher by PLN 6 million (+18.2%), at PLN 39 million. The administrative expense ratio calculated on the basis of the net earned premium increased 0.4 p.p. and stood at 17.2%. 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 2021 remained stable compared to 2020, having reached PLN 33 million.

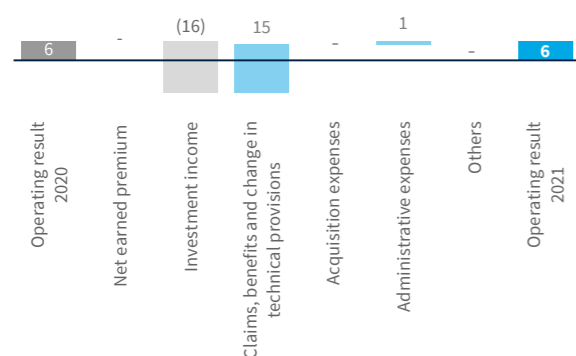
The investment result in the segment of investment contracts deteriorated compared to the previous year, chiefly due to the lower rate of return on individual pension security accounts. Additionally, investment income does not affect the result of the investment contracts segment because it is offset by changes in insurance liabilities.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased by PLN 15 million (-40.5% y/y) to PLN 22 million, mostly due to the aforementioned difference in investment income in unit-linked products.

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

Administrative expenses decreased to PLN 2 million (-33.3% y/y) as a consequence of the decreasing portfolio of contracts in this segment.

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



The segment's operating result remained stable compared to the previous year at PLN 6 million.

### Alternative Performance Measures

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

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

### Profitability indicators

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

The return on equity (ROE) and the return on assets (ROA) indicate the degree to which the Company is capable of generating profit when using its resources, i.e. equity or assets. They belong to the most frequently applied indicators in the analysis of profitability of companies and groups regardless of the sector in which they operate. Return on equity (ROE) is a measure of profitability. It permits an assessment of the degree to which the company multiplies the funds entrusted to it by the owners (investors). This is a ratio of the generated profit to the held equity, i.e. financial resources at the Group's disposal for an indefinite term which were contributed to the enterprise by its owners. In the case of the PZU Group, the value of net profit and equity differ considerably depending on whether they are provided excluding or including the profit/equity of minority shareholders. Therefore, both return on equity (ROE) – attributable to equity holders of the parent, and return on equity (ROE) – consolidated, without excluding profit and equity attributable to non-controlling shareholders, are presented.

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

Return on equity attributable to equity holders of the parent (PZU) for 2021 was 18.6%. At the same time, it was 7.7 p.p. higher than that achieved in the previous year, which resulted from the improved result in the banking business – in the corresponding period of last year, there was a one-off effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses. Moreover, the higher return on equity was driven by investment performance in 2021 resulting from the increase in the valuation of shares in a logistics company caused by its admission to trading on the stock exchange.

Return on assets (ROA) of the PZU Group for 2021 was 1.4%, i.e. 0.7 p.p. higher than in 2020. The primary cause was the increase in the result on banking activity, driven by:

lower cost of risk related to the establishment of additional provisions for expected credit losses last year;

non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao and impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and client relations).

### 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 earned premium for a given period.

Basic performance indicators of the PZU Group	2017	2018	2019	2020	2021
<b>Return on equity (ROE) – attributable to the parent company</b> (annualized net profit/average equity) x 100%	21.0%	22.1%	21.2%	10.9%	18.6%
<b>Return on equity (ROE) – consolidated</b> (annualized net profit/average equity) x 100%	15.3%	14.6%	13.5%	6.1%	13.0%
<b>Return on assets (ROA)</b> (annualized net profit/average assets) x 100%	1.9%	1.7%	1.5%	0.7%	1.4%



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

In 2021, it stood at 89.2% and was 1.0 p.p. higher than in 2020, largely due to the higher acquisition expense ratio in the mass insurance segment. The increase in acquisition expenses was mainly attributable to the modification in the product and sales channel mix, including a higher share of the multiagency and bancassurance channels and a lower value of earned premium.

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 2021, the indicator reached 12.7%, and its fall by 5.9 p.p. in comparison to 2020 was in particular due to a higher loss ratio in 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 movements in allowances for expected credit losses and impairment losses on financial instruments. In 2021, the cost to income ratio in the PZU Group's banking business reached 42.2%, and was lower than in 2020 by 1.2 p.p. due to the rate of growth in income surpassing that in costs. The increase in income was experienced chiefly in the area of commission income.

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

Operational efficiency ratios	2017	2018	2019	2020	2021
<b>Gross claims and benefits ratio (simple)</b>					
1. (gross claims and benefits/gross written premium) x 100%	67.3%	63.8%	66.5%	67.5%	64.3%
<b>Net claims and benefits ratio</b> (net claims and benefits/net earned premium) x 100%					
2.	70.0%	65.2%	68.0%	67.7%	67.7%
<b>Operating expense ratio in the insurance segments</b> (insurance activity expenses/net earned premium) x 100%					
3.	21.1%	21.4%	22.3%	22.6%	23.8%
<b>Acquisition expense ratio in the insurance segments</b> (acquisition expenses/net earned premium) x 100%					
4.	14.0%	14.5%	15.1%	15.3%	16.3%
<b>Administrative expense ratio in the insurance segments</b> (administrative expenses/net earned premium) x 100%					
5.	7.2%	6.9%	7.2%	7.4%	7.6%
<b>Combined ratio in non-life insurance</b> (net claims and benefits + insurance activity expenses) / net earned premium x 100%					
6.	89.6%	87.1%	88.5%	88.2%	89.2%
<b>Operating profit margin in life insurance</b> (operating profit/gross written premium) x 100%					
7.	19.3%	21.3%	20.5%	18.6%	12.7%
<b>Cost/Income ratio</b> - banking operations					
8.	48.0%	42.3%	40.8%	43.4%	42.2%

## 5.8 PZU's standalone results

In 2021, the issuer (PZU) recorded a technical result of PLN 1,269 million, compared to PLN 1,533 million in 2020, a drop by 17.2%. Net profit was PLN 2,028 million, up 5.7% relative to PLN 1,919 million generated in the previous year. Disregarding the dividends received from PZU Życie, PZU's net profit was PLN 814 million, and was by PLN 226 million, i.e. 38.5%, higher compared to 2020.

As regards the individual net result items, PZU recorded:

- increase in gross written premium to PLN 13,389 million, or 6.8% more than in the previous year. This was due to the higher premium in insurance against fire and other damage to property (impact of the renewal of several large contracts and improved sales of crop insurance) as well as motor own damage, accident and sickness insurance. After the reinsurers' share and change in the provision for unearned premiums, net earned premium was PLN 11,917 million and was 1.2% lower than in 2020;
- lower level of claims and benefits - amounting to PLN 7,356 million, which means a fall by 2.2% compared to 2020. The most significant change, that is the drop in insurance against fire and other damage to property and motor third party liability insurance, was partially offset by the greater value of losses, including assistance and motor own damage insurance;
- net investment result<sup>3</sup> up at PLN 1,558 million (by 41.3% in comparison to 2020), as a result of improved performance reported by subsidiaries;
- acquisition expenses higher by PLN 113 million, or 4.7%, compared to 2020, including reinsurance commissions, as a consequence of the growing insurance portfolio and the high share of bancassurance and multiagency channels in the sales structure, characterized by higher commission rates;
- administrative expenses down by 0.3% - from PLN 725 million in 2020 to PLN 723 million in 2021, suppressed by the lower costs of protective and preventive related to the COVID-19 pandemic (compared to the initial expenses in the first year of the pandemic) and intensification of marketing activities.

In 2021, PZU collected gross written premium of PLN 13,389 million, i.e. 6.8% more than in 2020. The premium comprised mainly:

- TPL motor insurance premiums, accounting for 35.5% of PZU's insurance portfolio (38.3% in the prior year). Both the decrease in written premium and the diminished share in the portfolio by 2.8 p.p. were caused by intensified competition in the market, strong price pressures and the persisting limited availability of new vehicles (experienced especially in the dealership network and partly in lease agencies);
- the MOD insurance premium with a 23.7% share of PZU's total gross written premium (movement by 0.1 p.p. versus the previous year). Contrary to the portfolio of motor third party liability insurance, the value of written premium increased 6.4% compared to 2020, largely driven by the recovery in the financing market recorded by the lease financing sector and sales of new vehicles (primarily in dealerships);
- premiums on insurance against fire and property damage accounting for 22.4% of PZU's premium portfolio. Compared to 2020, their share in the insurance portfolio edged up 2.2 p.p., while their value was up 18.6%. This was a consequence of the resumption of a contract with a client operating in the fuel and energy industry in 2021, with a simultaneous increase in written premium to a total of nearly PLN 240 million and an increase in written premium in crop insurance (impact of a subsidy pool from the state budget greater than the year before). This effect was partly offset by lower premiums from mandatory insurance of farm building insurance due to the significant competition on the market and the natural erosion of the portfolio (declining number of farms);
- premiums on ADD and other insurance, whose share in the portfolio reached 12.1%, i.e. 0.6 p.p. higher than in 2020. The premium 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. The increase was partially offset by a drop in group ADD insurance premiums - in the corresponding period of 2020 insurance cover against a COVID-19 infection was provided to physicians and medical personnel.

The increase in net investment result from investing activities in 2021 was largely driven by improved investment income on subordinated assets, chiefly due to the ramped up dividend income and last year's non-recurring effect of the goodwill

<sup>3</sup> investing activities include investment income, unrealized gains on investments, costs of investing activities, unrealized losses on investments and share in net profit (loss) of subsidiaries measured by equity method

impairment caused by the acquisition of Alior Bank and Bank Pekao in the total amount of approximately PLN -1,155.4 million, of which PLN -797.4 million was recognized in the profit and loss account, and improved investment performance in the main portfolio, in particular as a result of the acquisition of FIZ AN SN by FIZ AN SN2 and the recognition in the profit and loss account of FIZ AN SN's income, previously recognized in equity.

In 2021, net claims and benefits and the incremental growth in PZU's provisions totaled PLN 7,356 million, i.e. 2.2% less than in 2020.

The following factors contributed to the change in the net value of claims and benefits:

- significantly lower level of losses caused by natural forces and other property damage, including events of high unit value and claims under crop insurance policies – in the corresponding period of last year, the frequency of losses was higher due to adverse weather phenomena, such as ground frosts and hail, which occurred mostly at the turn of Q3 2020;
- lower claims and benefits in motor insurance as a consequence of deterioration in the motor own damage category and a significantly lower level of claims in third party liability insurance. The movement in claims and benefits was caused by the gradual return to the pre-pandemic loss frequency and the decrease in the average loss value;
- lower loss ratio in guarantees and insurance of various financial losses, predominantly in loss-of-profit insurance;
- increased claims and benefits in third party liability insurance, chiefly in motor insurance (PZU Auto Pomoc).

In 2021, acquisition expenses (including reinsurance commissions) amounted to PLN 2,536 million, and increased by 4.7% in comparison to 2020, which along with a 1.2% decrease in net earned premium y/y translated into a deterioration of the acquisition expense ratio by 1.2 p.p. The change in the acquisition expense ratio was driven largely by the modification in the product and sales channel mix, including a higher share of the multiagency and bancassurance channels as well as changes in the remuneration model for fleet insurance.

In 2021, administrative expenses reached PLN 723 million, i.e. 0.3% lower than in the previous year, which alongside the drop in net earned premium by 1.2% y/y translates into a worse administrative expense ratio, by 0.1 p.p. The decrease in administrative expenses was caused mainly by the lower intervention expenses incurred in connection with the COVID-19 pandemic and the intensification of marketing activities.

The balance of other technical income and expenses in 2021 was negative and stood at PLN 195 million. The 22.1% improvement in comparison to 2020 was an outcome of a higher allowance to the prevention fund and lower impairment charge on receivables.

The balance of other operating income and expenses was also negative. It reached PLN 278 million, while the year before – when it was also negative – it stood at PLN 149 million. In 2020, the balance of other operating income included revenue from the reversal of impairment losses and provisions for future expenses in the amount of PLN 57.8 million and revenues from the reversal of the provision for co-funding of PZU Finance AB (publ.) – in 2020, the PLN 81.5 million reversal of the 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.

At the end of 2021, PZU's balance sheet total was PLN 44,466 million and was 0.4% lower compared to the previous year.

The main component of PZU's assets were investments which stood at PLN 39,251 million (down 2.4% compared to the end of 2020), which accounted for 88.3% of PZU's total balance sheet value, compared to 90.0% as at the end of the previous year. The level of investments, excluding investments in subordinated entities, increased in connection with the achieved investment performance and net operating income, offset by the disbursement of dividends from the 2020 profit, increased by the amount transferred from supplementary capital, originally augmented by the 2019 profit.

As at the end of 2021, PZU's receivables stood at PLN 2,404 million, and accounted for 5.4% of assets, whereas the year before they amounted to PLN 1,689 million (3.8% of assets). The biggest increases were recorded in the value of receivables on direct insurance (PLN +235 million y/y) and other receivables, including from other entities (PLN +394 million y/y), where the increase was a consequence of a higher level of receivables from outstanding investment transactions and collateral margins.

Fixed assets, in the form of intangible assets, goodwill and property, plant and equipment, were disclosed in the balance sheet at PLN 423 million (PLN -2 million y/y). They accounted for 1.0% of assets.

As at the end of 2021, PZU held cash of PLN 146 million (0.3% of assets). The year before, the corresponding value was PLN 124 million.

At the end of 2021, technical provisions were the main component of PZU's equity and liabilities. They reached the value of PLN 22,675 million (net), which accounted for 51.0% of equity and liabilities. Their share in the balance sheet increased by 2.4 p.p. compared to 2020, while in terms of value

they rose by PLN 968 million, in particular due to a higher provision for outstanding claims and benefits, mainly in the group of motor TPL insurance, general third party liability and motor own damage insurance, and a higher provision for unearned premiums, mainly in accident insurance, other damage to property and motor own damage insurance.

As at the end of 2021, equity was PLN 15,776 million and accounted for 35.5% of equity and liabilities, down 4.1 p.p. compared to yearend 2020.

Contingent receivables amounted to PLN 3,704 million, i.e. were lower by PLN 272 million (-6.8% 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 1,203 million, which represents a growth by PLN 2 million (+0.2% y/y) in comparison to 2020. This was a consequence of an increase in other contingent liabilities (PLN +19 million y/y), including

Operational efficiency ratios	2017	2018	2019	2020	2021
<b>Gross claims and benefits ratio (simple)</b> (gross claims and benefits/gross written premium) x 100%	60.9%	60.5%	61.7%	63.2%	57.2%
<b>Claims and benefits on own share ratio</b> (net claims and benefits/premium earned on own share) x 100%	64.1%	62.2%	63.1%	62.4%	61.7%
<b>Insurance activity expense ratio</b> (insurance activity expenses/premium earned on own share) x 100%	25.2%	24.8%	25.6%	26.1%	27.3%
<b>Acquisition expense ratio*</b> (acquisition expenses/premium earned on own share) x 100%	19.0%	19.3%	19.9%	20.1%	21.3%
<b>Administrative expense ratio</b> (administrative expenses/premium earned on own share) x 100%	6.2%	5.4%	5.7%	6.0%	6.1%
<b>Combined ratio (COR)</b> (net claims and benefits + insurance activity expenses) / premium earned on own share) x 100%	89.3%	87.0%	88.7%	88.5%	89.1%

\* having accounted for reinsurance commissions received

Basic profitability ratios of PZU	2017*	2018	2019	2020	2021
<b>Return on equity (ROE)</b> (annualized net profit/average equity) x 100%	19.2%	19.7%	18.4%	11.8%	12.1%
<b>Return on assets (ROA)</b> (annualized net profit/average assets) x 100%	6.2%	6.3%	6.2%	4.4%	4.6%

\* restated data

liabilities due to unpaid loan tranches and lower disputed claims, not recognized by the insurer (down by PLN 17 million y/y).

In 2021, PZU generated a return on equity (ROE) of 12.1%, up 0.4 p.p. compared to 2020. In 2017-2021, the average return on equity (ROE) was 16.2%.





## 6. 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 chapter:**

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

## 6.1 Objective of risk management

Risk management in the PZU Group aims to build value for all stakeholders. It involves active and deliberate management of the quantum of risk accepted. The essence of this process also involves preventing the acceptance of risk at a level that could pose a threat to the financial stability of the PZU Group or the PZU Financial Conglomerate.

Risk management in the PZU Group consists in analyzing risk in all processes and units and therefore is an integral part of the management process.

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

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- allocation of 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 sector are additionally obligated to apply standards appropriate for their 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. It also has in place internal guidelines and regulations for managing risk concentration at the level of the PZU Financial Conglomerate, which precisely define the obligations of the leading entity and the regulated entities.

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

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

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

## 6.2 Risk management system

The risk management system in the PZU Group consists in the following:

- split of duties and tasks performed by statutory bodies, committees and individual organizational units and cells in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management

*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.*

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 first three are:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness; performs duties as part of its decision-making powers defined in the entity's Articles of Association and the Supervisory Board Rules and Regulations, as well as through the Audit Committee;
- The Management Board, which organizes the risk management system and ensures that it is operational, by adopting strategies and policies, setting the level of risk

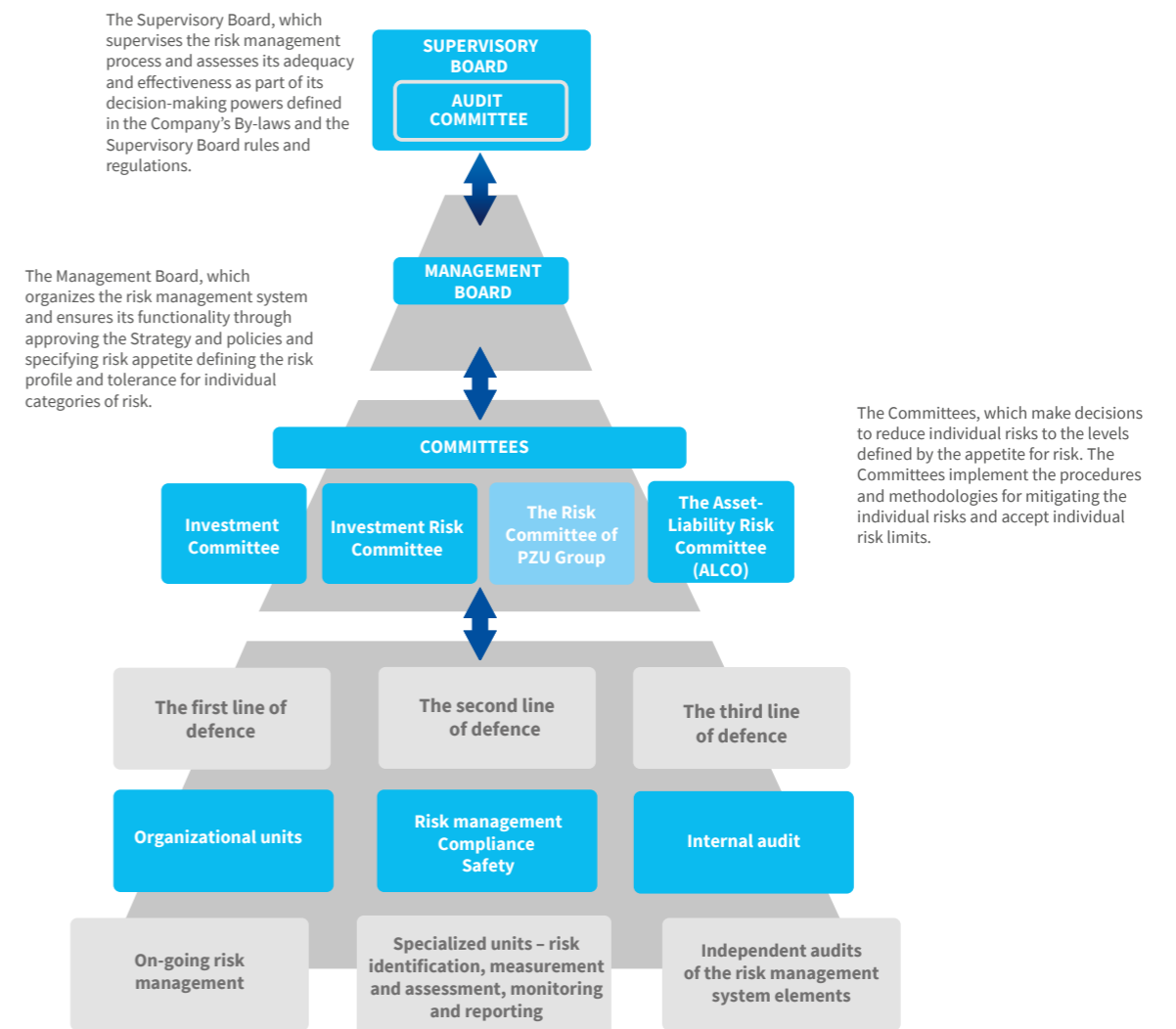
appetite, defining the risk profile as well as tolerance levels for the individual categories of risk;

- The committees, which decide about limiting the levels of individual risks to fit the risk appetite framework they have defined, adopt procedures and methodologies for mitigating the individual risks and accept the limits for individual risk types.

The fourth decision-making level pertains to operational measures divided into three lines of defense:

- the first line of defense – entails ongoing risk management at the entities' business unit and organizational unit level and decision-making as part of the risk management process, taking into account the limits for individual risks;
- the second line of defense – risk management by specialized units responsible for risk identification, measurement, monitoring and reporting, as well as for limits control;

### Chart of the organizational structure for the risk management system



- 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.

## 6.3 Risk appetite

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

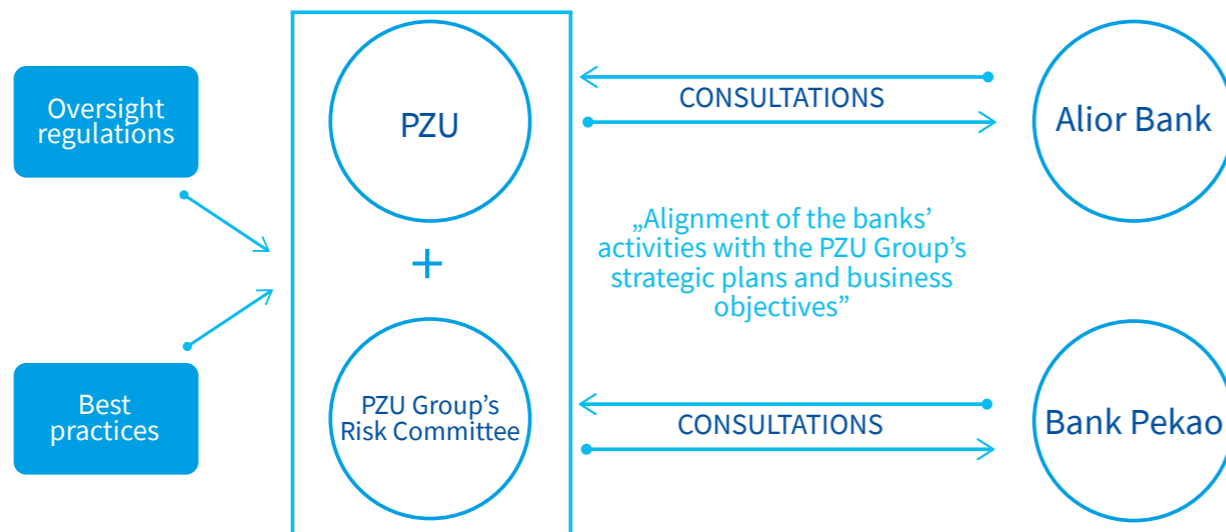
Risk appetite defines the maximum permissible risk level while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance entities in the PZU Group. The management board of each entity determines the risk appetite, risk profile and risk tolerance reflecting its financial plans, business strategy and the objectives of the entire PZU Group. This approach ensures the adequacy

and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial stability of individual entities or the entire PZU Group. The determination of the appropriate level of risk in each entity is the Management Board's responsibility, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk. All these measures are coordinated at the PZU Group level.

The risk appetite is set at least once a year also by the two banks from the PZU Group. 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>Solvency II for PZU Group above average for European insurers</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>The credit rating of reinsurers is assessed on the basis of market data, data obtained from external sources, e.g. from S&amp;P Global Ratings, as well as on the basis of the model</p>

## 6.4 Risk management process

Two levels are distinguished in the risk management process:

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

Risk management at this level is supposed to ensure that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred. The PZU Group provides its subsidiaries with support in the implementation of a risk management system.

Risk management on the Group level includes the introduction of compatible mechanisms, standards and organization of an efficient internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area)

and the security management system in the PZU Group. It also involves their ongoing monitoring. The PZU Group's designated personnel cooperates with the Management Boards of entities and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of mutual cooperation agreements.

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

level of both the PZU Financial Conglomerate and individual 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 attains their business objectives in a safe manner appropriate to fit the scale of the risk incurred. This is supported by:

- monitoring of the limits and unique risk categories existing in the given entity,
- implementation of effective mechanisms and standards,
- organization of an effective internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system in the PZU Group.



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) and liquidity risk.

The overall risk of the banking sector entities, taking into account PZU's shares in both banks, accounts for approximately 32% of the PZU Group's total risk (Q3 2021), while the largest contribution is in credit risk.

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

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

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

### Actuarial risk

This is the likelihood of a loss or an adverse change in the value of liabilities under the existing insurance contracts and insurance guarantee agreements, due to inadequate assumptions regarding premium pricing and creating technical provisions.

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

- analyzing the general terms and conditions of insurance with respect to the risk being undertaken and compliance with the generally binding legal regulations;

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.

### Major risks in the PZU Group



### 6.5 PZU Group's risk profile



The major risks to which the PZU Group is exposed include the following: actuarial risk, market (including liquidity) risk, credit risk, concentration risk, operational risk, model risk and compliance risk.

# Risk management

- analyzing the general / specific terms and conditions of insurance or other model agreements with respect to the actuarial risk being undertaken on their basis;
- recognizing the potential risks related to a given product to measure and monitor them at a later time;
- analyzing the impact exerted by the introduction of new insurance products on capital requirements and risk margin computed using the standard formula;
- verifying and validating modifications to insurance products;
- assessing actuarial risk through the prism of similar existing insurance products;
- monitoring of existing product;
- analyzing the policy of underwriting (assessment of the risk accepted for insurance), tariffs, technical provisions and reinsurance and the claims and benefits handling process.

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

The measurement of actuarial risk is performed using:

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

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

Reporting aims to ensure effective communication regarding actuarial risk and supports management of actuarial risk at various decision-making levels – from an employee to the supervisory board. The frequency of each report and the scope of information provided therein are tailored to the needs at each decision-making level.

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

- defining the level of tolerance for actuarial risk and monitoring it;
- business decisions and sales plans;
- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, monitoring of current estimates and assessment of the premium adequacy;
- the process of assessment, valuation and acceptance of actuarial risk;
- application of tools designed to mitigate actuarial risk, including in particular reinsurance and prevention.

Moreover, mitigation of the actuarial risk inherent in current operations is supported by:

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

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

## Market risk, including liquidity risk

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

The risk management process for the credit spread and concentration risk has a different set of traits from the process of managing the other sub-categories of market risk and has been described in a subsequent section (Credit risk and concentration risk) along with the process for managing counterparty insolvency risk.

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with active allocation, i.e. designating the optimum medium-term asset structure (AA portfolios);
- banking operations – in conjunction with them the PZU Group has a material exposure to interest rate risk.



Numerous documents approved by supervisory boards, management boards and relevant committees govern investment activity in the PZU Group entities.

Market risk identification consists in the identification of actual and potential sources of this type of risk. For assets, the identification of risk begins with the decision to commence transactions in a given type of financial instrument. Units that make a decision to start entering into such transactions draw up a description of the instrument containing, in particular, a description of the risk factors. They convey this description to the unit responsible for risk that identifies and assesses market risk on that basis.

The identification of market risk associated with insurance liabilities commences with the process of developing an insurance product. It involves identification of the relationship between the cash flows generated by that product and the relevant market risk factors. The identified market risks are subject to assessment using the criterion of materiality, specifying whether the materialization of risk entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures:

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

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

Market risk measurement is divided into stages, in particular:

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

The risk measurement is performed:

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

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

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

Management actions in respect of market risk involve in particular:

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

The application of limits is the primary management tool to maintain a risk position within the acceptable level of risk tolerance. The structure of limits for the various categories of market risk and also for the various organizational units is established by 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.





# Risk management

**Financial liquidity risk** means the possibility of losing the capacity to settle, on an ongoing basis, the PZU Group's liabilities to its clients or business partners. The liquidity risk management system aims to maintain the capacity of fulfilling the entity's liabilities on an ongoing basis. Liquidity risk is managed separately for the insurance part and the bancassurance part.

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:

- shortage of liquid cash to satisfy the current needs of the PZU Group entity;
- lack of liquidity of financial instruments held;
- the structural mismatch between the maturity of assets and liabilities.

Risk assessment and measurement involve estimation of the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:

- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;
- potential shortage of financial funds (medium-term financial liquidity risk) – through analysis of historical and expected cash flows from the operating activity;
- stress tests (medium-term financial liquidity risk) – by estimating the possibility of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;
- current statements of estimates (short-term financial liquidity risk) – by monitoring demand for cash reported by business units of an insurance undertaking in the PZU Group by the date defined in regulations which are in force in that entity.



The banks in the PZU Group employ the liquidity risk management metrics stemming from sector regulations, including Recommendation P issued by the Polish Financial Supervision Authority.

To manage the liquidity of the banks in the PZU Group, liquidity ratios are used for different periods ranging from 7 days, to a month, to 12 months and to above 12 months.

Within management of liquidity risk, banks in the PZU Group also analyze the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:

- stability of equity and liabilities with indefinite maturities (e.g. current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g. mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

Monitoring and controlling financial liquidity risk involves analyzing the utilization of the defined limits.

In connection with the COVID-19 pandemic, banks in Poland, including the banks from the PZU Group, experienced excess liquidity in 2021. However the data from the banking sector indicate that in the balance sheets of Polish banks, in Q4 2021, the volume of new loans came close to the level observed before the pandemic, which, if the trend continues, should contribute to gradual reduction of excess liquidity in this sector.

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

Liquidity risk reporting involves communicating the level of financial liquidity to various decision-making levels.

The frequency of each report and the scope of information

provided therein are tailored to the information needs at each decision-making level.

The following measures aim to reduce financial liquidity risk:

- maintaining cash in a separate liquidity portfolio at a level consistent with the limits for the portfolio value;
- maintaining sufficient cash in a foreign currency in portfolios of investments earmarked for satisfying insurance liabilities denominated in the given foreign currency;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU to at most 3 days after a request for cash is filed;
- keeping open credit facilities in banks and/or the possibility of performing sell-buy-back transactions on treasury securities, including those held until maturity;
- centralization of management of portfolios/funds by TFI PZU;
- limits of liquidity ratios in the banks belonging to the PZU Group.

## Credit risk and concentration risk

**Credit risk** is understood as the risk of a loss or an adverse change in the financial situation resulting from fluctuations in the reliability and creditworthiness of issuers of securities, counterparties and all debtors. It materializes in the form of a counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:

- spread;
- counterparty default risk;
- credit risk in financial insurance.

**Concentration risk** is understood as the possibility of incurring loss stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Credit risk and concentration risk are identified at the stage of making a decision on an investment in a new type of financial instrument or on accepting credit exposure. It involves an analysis of whether the contemplated investment entails credit risk or concentration risk, what its level depends on and what its volatility over time is. Actual and potential sources of credit risk and concentration risk are identified.

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

The measurement of credit risk is performed using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure),
- capital requirement calculated using the standard formula.

Concentration risk for a single entity is calculated using the standard formula.

A measure of total concentration risk is the sum of concentration risks for all entities treated separately. In the case of related parties, concentration risk is calculated for all related parties jointly.

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices. Credit risk is measured using a set of loan portfolio quality metrics.

Monitoring and control of credit risk and concentration risk involves an analysis of the current risk level, assessment of creditworthiness and calculation of the degree of utilization of existing limits. Such monitoring is performed, without limitation, on a daily, monthly and quarterly basis.

The monitoring pertains to:

- credit exposure in investment portfolios;
- credit risk exposures in financial insurance;
- exposures to reinsurance,
- exposure limits and risk tolerance limits,
- credit exposures in the processes in effect in 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.



# Risk management

Management actions in respect of credit risk and concentration risk involve in particular:

- setting limits to curtail exposure to a single entity, group of entities, sectors or countries;
- diversification of the portfolio of assets and financial insurance, especially with regard to country and sector;
- acceptance of collateral;
- execution of transactions to mitigate credit risk, i.e. selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring a debt;
- reinsurance of the financial insurance portfolio.

The structure of credit risk limits and concentration risk limits for various issuers is established by appointed committees in such a manner that the limits are consistent with the adopted risk tolerance determined by the management boards of the respective subsidiaries and in such a manner that they make it possible to minimize the risk of 'infection' between concentrated exposures.

In banking activity the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a credit decision is performed using tools devised to support the credit process, including a scoring or rating system, external information and the internal databases of a given PZU Group bank. Credit products are granted in accordance with the binding operational procedures stating the relevant actions performed in the lending process, the units responsible for that and the tools used.

To minimize credit risk, adequate collateral is established in line with the credit risk incurred. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

Because of the continuing COVID-19 pandemic, in 2021, despite the improved repayment rate on the loan portfolio, PZU Group's banks continued their conservative approach, including stricter model parameters, restrictions in underwriting and close monitoring of exposures potentially at risk. No additional COVID-19-related allowances were recognized in this period.

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

No significant changes in the structure of financial instruments held were recorded in 2021. The value of credit risk allowances and the coverage, which is defined as the ratio of cumulative credit risk allowances to the gross carrying amount of all PZU Group assets exposed to credit risk subject to the IFRS9 regime, did not change materially compared to Q4 2020. At the same time, the value of lifetime allowances increased after foreign treasury bonds from a single issuer were reclassified to the 2nd credit quality bucket when the issuer's rating was downgraded in June 2021. The main source of changes in allowances in 2021 was the realization of systematic risk, which is deemed to reflect changes in the macroeconomic environment.

In 2021, 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, which remained operational in 2021. The Crisis Management Team is monitoring the situation and takes the necessary measures to ensure business continuity of the companies while observing the safety measures and restrictions resulting from, among others, the Council of Ministers' Regulation imposing specific restrictions, prohibitions and orders in connection with the state of pandemic. A crisis situation was declared at PZU and PZU Życie on this day in connection with the COVID-19 pandemic.

PZU and PZU Życie implemented solutions and processes to minimize the risk of infection and spread of the coronavirus in the organization and to adapt their functioning to the evolving external situation. Appropriate safety measures were applied:

- information measures (newsletters, alerts, SMS, information posted in the PZU24 service, webinar, FAQ, bulletin for WKK);
- 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, psychological support for employees);
- 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 ozonization 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. Employees were informed monthly of the current working model, which was adjusted on an ongoing basis to the external situation and to the current business processes. In H1 2021, 64% of employees in PZU and PZU Życie performed their work remotely. In H2 2021, it was on average 48% of all employees of both companies. For the entire year 2021, this ratio was 57% on average.

Insurance branches and agencies remained open, adapting to all legal limitations and sanitary restrictions associated with the spread of COVID-19.

The sales, service and claims handling processes were adapted in a similar manner to ensure business continuity and, at the same time, safe customer service.

# Risk management

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

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

## Model risk

Model risk, classified by the PZU Group as significant, is defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models.



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

The model risk management process involves:

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



In the entities from the banking sector, given the high significance of model risk, the management of this risk has already been implemented in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both

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

## Compliance risk

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

- being subject to legal sanctions;
- incurring financial loss;
- or 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 2021 the compliance systems of PZU Group entities were aligned with the standards set by PZU.

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

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

- analysis of monthly and quarterly reports received from compliance units of each member of the Group;
- assessment of the impact of compliance risk on the PZU Group as a whole;
- analysis of the implementation of recommendations issued to entities pertaining to the fulfillment of the compliance function;
- support of the PZU Group entities' compliance business units when assessing compliance risk;

- issuing best practice recommendations for PZU Group entities;
- reporting to the PZU Management Board and Supervisory Board.

Compliance risk includes, in particular, the risk that the operations performed by PZU Group entities will be out of line with the changing legal environment. This risk may materialize as a result of delayed implementation or absence of clear and unambiguous laws, or what is known as a legal gap. This may cause irregularities in the PZU Group's business and, as a result, lead to higher costs (for instance, administrative penalties, other financial penalties) and a heightened level of loss of reputation risk.

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation is predominantly inherent in the Group's insurance companies and banks.

The identification and assessment of compliance risk for each internal process in PZU Group entities is the responsibility of the heads of organizational units, in accordance with the allocation of responsibility for reporting. Moreover, compliance units in PZU Group entities identify compliance risk on the basis of notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries sent to them.

Compliance risk is assessed and measured by calculating the effects of risk materialization of the following types:

- financial risks, resulting among others from the possibility of imposing administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages,
- intangible risks pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored through:

- systemic analysis of the regular reports received from the heads of organizational units and cells;
- monitoring of regulatory requirements and adaptation of the business to the changing legal environment of PZU Group entities;
- participation in the legislative work on amendments to generally prevailing provisions of law;
- performing diverse activities in industry organizations;
- coordination of external control processes;

- monitoring of implementation of recommendations issued following internal audits;
- coordination of the fulfillment of disclosure obligations imposed by the stock exchange (in respect of PZU) and by statute;
- popularization of knowledge on competition law and consumer protection among PZU Group employees, according the area of their activities;
- monitoring of anti-monopoly jurisprudence and proceedings conducted by the President of UOKiK;
- reviews of the implementation of recommendations issued by the PZU Group's compliance unit;
- ensuring uniform standards and consistent implementation of the compliance function within the PZU Group.

Management actions in response to compliance risk include in particular:

- acceptance of the risk arising, without limitation, from legal and regulatory changes;
- mitigation of the risk, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;
- avoidance of risk by preventing any involvement of PZU Group entities in activities that are out of compliance with the applicable regulatory requirements, best market practices or activities that may have an unfavorable impact on the PZU Group's image.

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:

- continuous implementation of an effective compliance function as a key management function;
- participation in consultations with legislative and regulatory authorities (supervised entities within the PZU Group) at the stage of development of the regulations (social consultations);
- delegating representatives of the PZU Group's supervised entities to participate in the work of various commissions of regulatory authorities;
- participation in implementation projects for new regulations;
- training of staff on new regulations and standards of conduct;



- issuing opinions on internal regulations and recommending possible amendments to ensure compliance with the applicable laws and accepted standards of conduct;
- verifying procedures and processes in the context of their compliance with the applicable laws and accepted standards of conduct;
- aligning documentation to upcoming changes in legal requirements before they are enacted;
- systemic supervision exercised by PZU over the execution of the compliance function in PZU Group entities;
- analyses and ongoing monitoring of the application of “Chinese wall” rules – in connection with the additional investor commitments made by PZU in connection with the proceedings under the notification on the intent to purchase Bank Pekao’s shares;
- ongoing monitoring of changes in the legal and regulatory environment in order to identify gaps or areas requiring action to ensure compliance.

The actions in 2021 in the compliance area were also associated with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence applying 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.

Moreover, the compliance area was involved in the work on aligning the Company to the requirements stemming among others from the following legal acts:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, entered into force;
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088;
- Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law;
- Act of 1 March 2018 on Combating Money Laundering and Financing of Terrorism;
- International Financial Reporting Standard 17 “Insurance Contracts” (IFRS 17);
- draft Act Amending the Mandatory Insurance, Insurance Guarantee Fund and Polish Motor Insurers’ Bureau Act and the Insurance and Reinsurance Activity Act;

- draft Act Amending the Commercial Company Code and certain other acts;
- Act of 18 November 2020 on Electronic Deliveries;
- draft Act on Protection of Whistleblowers;
- draft Act amending certain acts in connection with commitment to develop financial market and protect investors on that market.

Moreover, PZU Życie implemented the necessary measures that ensured adaptation to the product intervention (KNF’s decision of 15 July 2021 prohibiting the marketing, distribution and sale of investment products – life insurance agreements if they feature unit-linked funds), and in particular it assured that the updated product offer included solely and exclusively products that meet all the criteria set forth in the decision issued by the regulatory authority.

### Risk concentration

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

Supplementary supervision protects the financial stability of lending institutions, insurance 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.

## 6.6 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.

Sensitivity of the asset portfolio (in PLN m)	Change of the risk factor	31 December 2020	31 December 2021
		Change in portfolio value	Change in portfolio value
Interest rate risk	decrease by 100 bp	1,988	1,373
	increase by 100 bp	(1,897)	(1,313)
Foreign exchange risk	increase by 20%	838	912
	decrease by 20%	(819)	(874)
Equity instruments price risk	increase by 20%	122	136
	decrease by 20%	(122)	(136)

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;

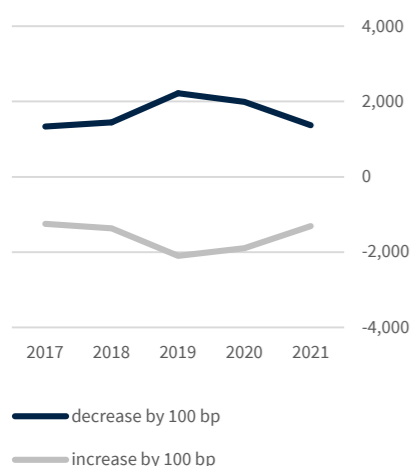
Foreign exchange risk – the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of currency exchange rates.

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.

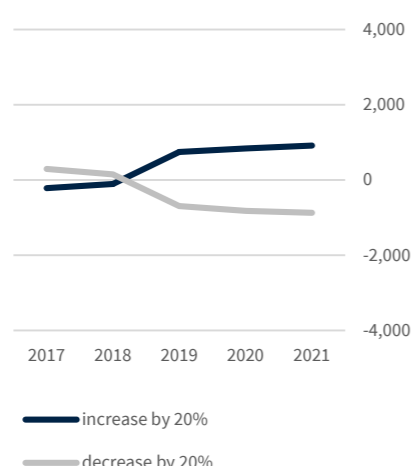
The differences in asset portfolio sensitivity between 2021 and 2021 ensue from the execution of the adopted investment strategy and the adjustment of the investment portfolio to it.



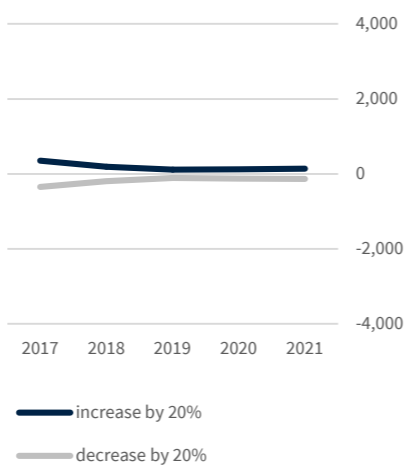
## Interest rate risk



## Currency risk



## Equity instruments price risk



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.

Entity	Sensitivity in %	31 December 2020		31 December 2021	
		decrease	increase	decrease	increase
Pekao Group	NII	(6.31)%	1.99%	(7.51)%	(1.15)%
	EVE	2.76%	(7.1)%	3.36%	(6.31)%
Alior Bank Group	NII	(13.09)%	1.84%	(7.52)%	0.89%
	EVE	(0.14)%	(1.03)%	(0.50)%	(2.49)%

### 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 (in PLN m)

	31 December 2020		31 December 2021	
	gross	net	gross	net
Technical rate - increase by 0.5 p.p.	457	427	457	425
Technical rate - decrease by 1.0 p.p.	(1,180)	(1,104)	(1,173)	(1,090)
Mortality at 110% of the currently assumed rate	134	129	139	134
Mortality at 90% of the currently assumed rate	(151)	(143)	(157)	(149)

### Impact of the change in assumptions on provisions in annuity insurance in life insurance on the net financial result and equity (in PLN m)

	31 December 2020	31 December 2021
Technical rate - decrease by 1.0 p.p.	(20)	(18)
Mortality at 90% of the currently assumed rate	(9)	(9)

### Impact of the change in assumptions on provisions in life insurance, excluding provisions in annuity insurance, on the net financial result and equity (in PLN m)

	31 December 2020	31 December 2021
Technical rate - decrease by 1.0 p.p.	(2,491)	(2,512)
Mortality at 110% of the currently assumed rate	(896)	(886)
110% morbidity and accident rate	(205)	(194)

## 6.7 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. The values of prospective losses are assigned to each one of the zones under analysis. They correspond to the severity of a given phenomenon and, consequently, its specific probability level. On this basis, as part of the annual reinsurance cover program design process, the distribution of the level of possible catastrophic loss is estimated.

PZU uses reinsurance treaties to limit its risk related to catastrophic losses among others through a catastrophic non-proportional excess of loss treaty and a non-proportional excess of loss treaty for crop insurance. The risk related to the consequences of large single losses, in turn, is mitigated under

non-proportional reinsurance treaties to protect its portfolios of property, technical, marine, 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) and proportionate reinsurance of cybernetic risks.

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 TUW 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

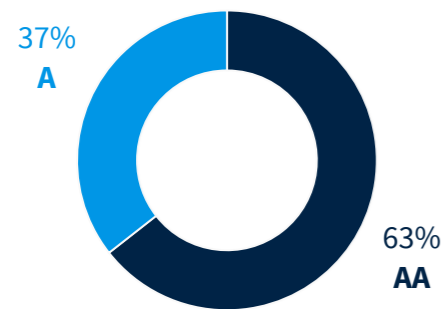
The outward reinsurance treaty entered into by PZU Życie protects the company's entire portfolio against the accumulation of risk and individual policies with higher sums insured.

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 TUW PZUW

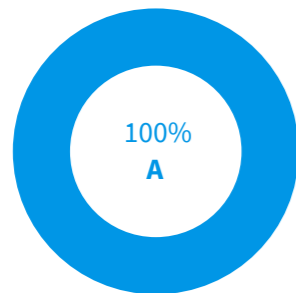
The PZU Group's other insurance companies, i.e. Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate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

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



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

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



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

## 6.8 Capital management

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

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through organic growth and acquisitions;
- ensure sufficient financial means to cover the Group's liabilities to its clients.

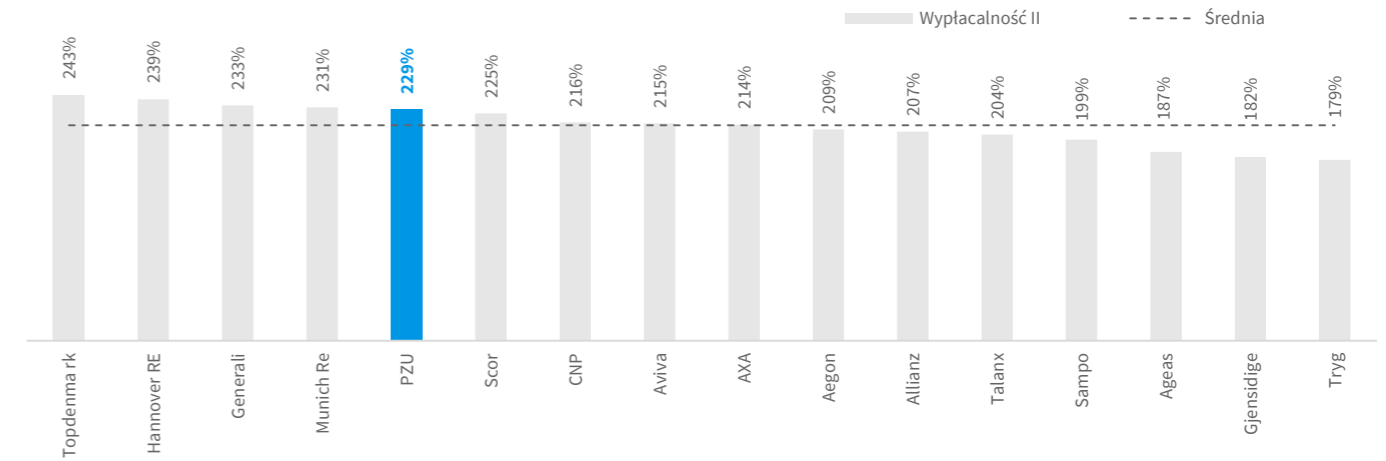
The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU SA and PZU Życie SA (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- PZU will not issue any new shares for the duration of this Policy.

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

As at the end of Q3 2021, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 229%, a level above the average solvency ratio reported by insurance groups in Europe.

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



Source: Data taken from insurers' reports as of Q3 2019 in the case of Ageas, Allianz, Aviva, AXA, CNP, Generali, Gjensidige, Munich Re, NN, Phoenix, RSA, Sampo, Scor, Talanx, Topdanmark, Tryg and as of H1 2019 in the case of the other insurers

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

Solvency ratio	2020	Q3 2021 *	
<b>SCR</b>			
<b>PZU Group</b>	<b>236%</b>	<b>229%</b>	
PZU	268%	256%	
PZU Życie	348%	346%	
<b>MCR</b>			
<b>PZU Group</b>	<b>412%</b>	<b>385%</b>	
PZU	960%	948%	
PZU Życie	772%	769%	
<b>CRR</b>			
		<b>2020</b>	<b>2021</b>
Pekao Group – total capital adequacy ratio	19.2%	16.9%	
Tier 1	17.2%	15.1%	
Alior Bank Group – total capital adequacy ratio	15.9%	14.2%	
Tier 1	13.5%	12.5%	

Q3 2020 was not audited or reviewed by an Auditor





## 7. The PZU Group on the capital and debt markets

In 2021, PZU paid out a dividend of more than PLN 3 billion from its net profit. It was the highest amount paid out in 2021 by a company listed on the Warsaw Stock Exchange.

**In this chapter:**

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 2022

## 7.1 Equity and bond market

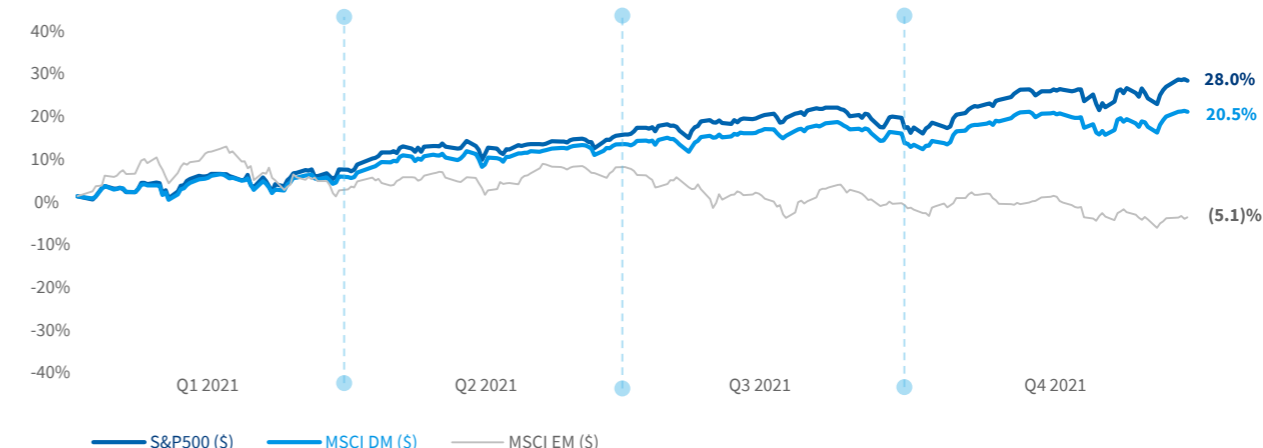
The year 2021 was a period of markets rebounding on the wave of economic recovery and improving prospects associated with the limitation of negative economic effects of the COVID-19 pandemic. The situation was improved by the declining infection numbers and quick progress in the organization of universal vaccination programs. As the restrictions were lifted, the performance of companies improved, supported to a large extent by government aid programs. At the same time, the world's key central banks maintained interest rates near zero and continued their quantitative easing programs. The central bank of the USA (the FED) did not increase any rates in 2021.

The sentiment on equity markets in 2021 is well reflected by the MSCI AXWI „MSCI ACWI - All Country World Index (in terms of price)” which groups large and mid-cap companies from developed and emerging markets<sup>1</sup>. In 2021, the index rose 16.8% y/y with a much lower volatility than that observed in 2020, when accumulated weekly losses reached up to 30%.

High returns were recorded both on the US and European markets. Emerging markets proved to be much weaker as they struggled with higher costs of servicing their USD financing and with inflation. Large Chinese technology companies were also depreciating due to additional regulatory burdens.

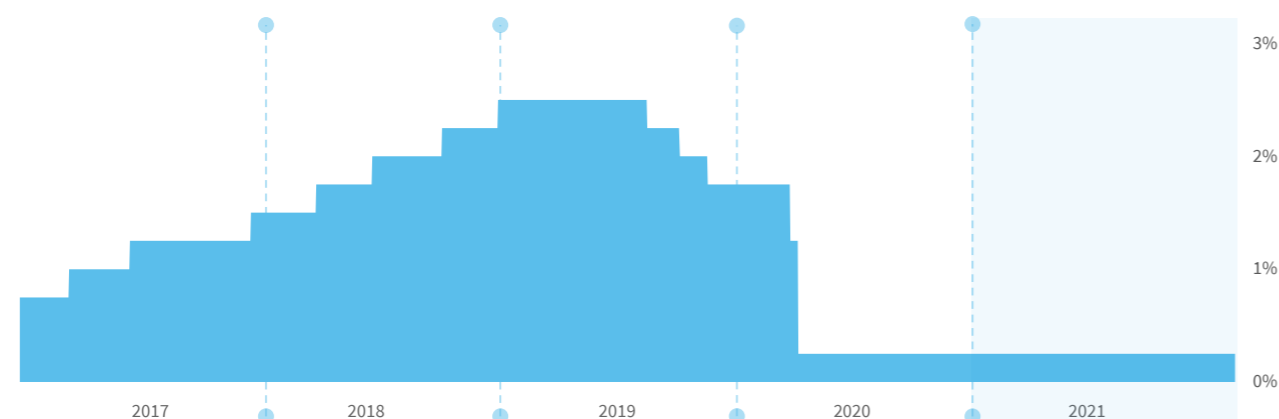
<sup>1</sup> At the end of December 2021, the index included stocks from 48 countries, of which of which 23 are classified as developed markets and the remaining 25 are considered emerging markets.

## S&P500, MSCI Developed Markets (DM), MSCI Emerging Markets (EM) indices



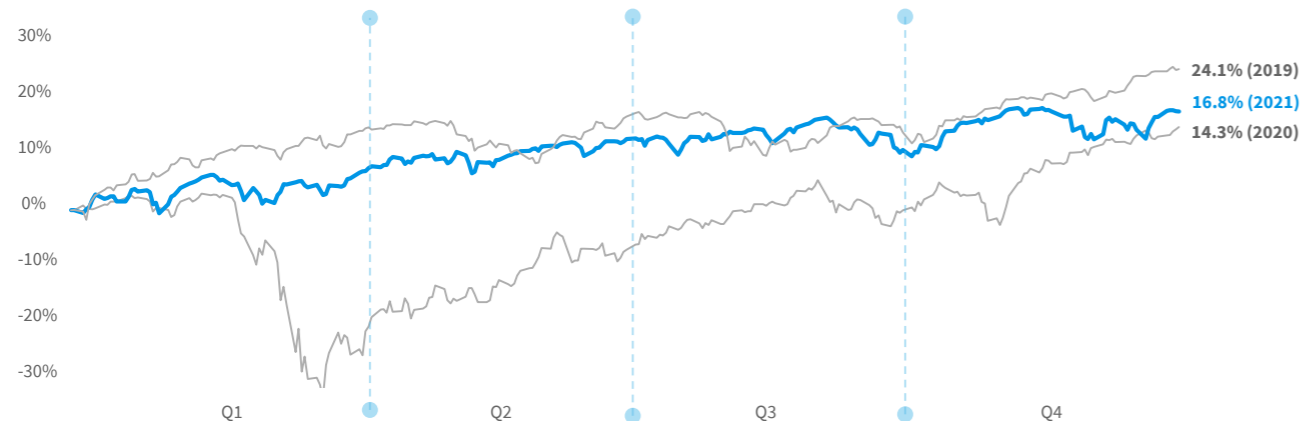
Source: [www.stooq.pl](http://www.stooq.pl), [www.msci.com](http://www.msci.com)

## Key interest rate FED (upper limit)



Source: <https://fred.stlouisfed.org/>

## MSCI ACWI (\$) 2019-2021



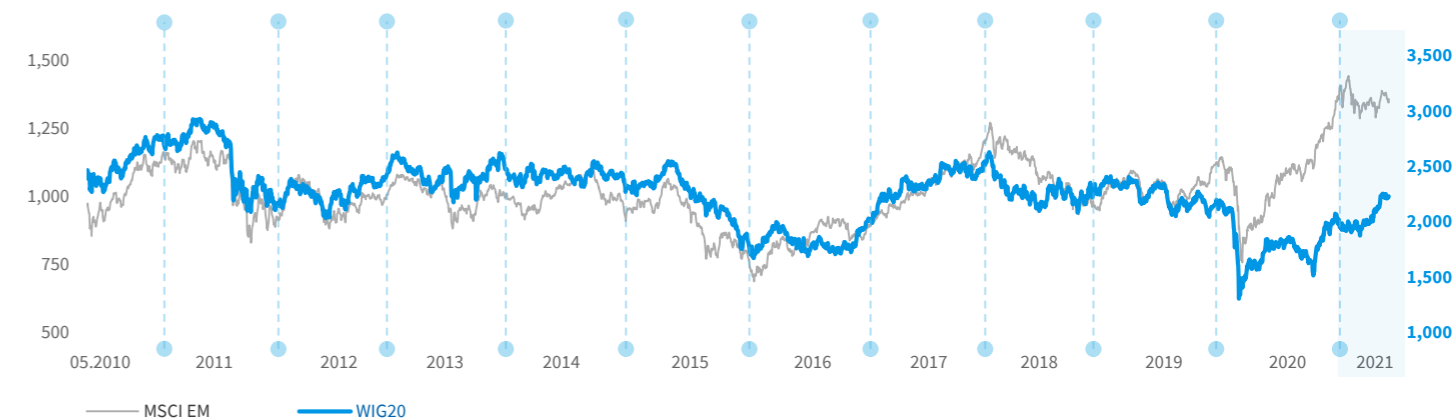
Source: [www.msci.com](http://www.msci.com)

In 2021, the main Polish index WIG20 did not go in the same direction as the emerging market index, even though historically they were highly correlated. In contrast to the depreciating MSCI EM index, the Polish equity market performed very well in 2021. WIG20 rose 14.3% y/y, driven mainly by the strong growth of companies in the banking sector.

impressive when compared to the two preceding years, when returns did not exceed 0.3% y/y. The good performance of this index was visible ever since the beginning of the year and was continued until mid-Q4, when fears about the development of the pandemic returned in connection with the new and more infectious coronavirus variants.

The year 2021 was also a very good period for the wide market WIG index, which rose 21.5% y/y, which is especially

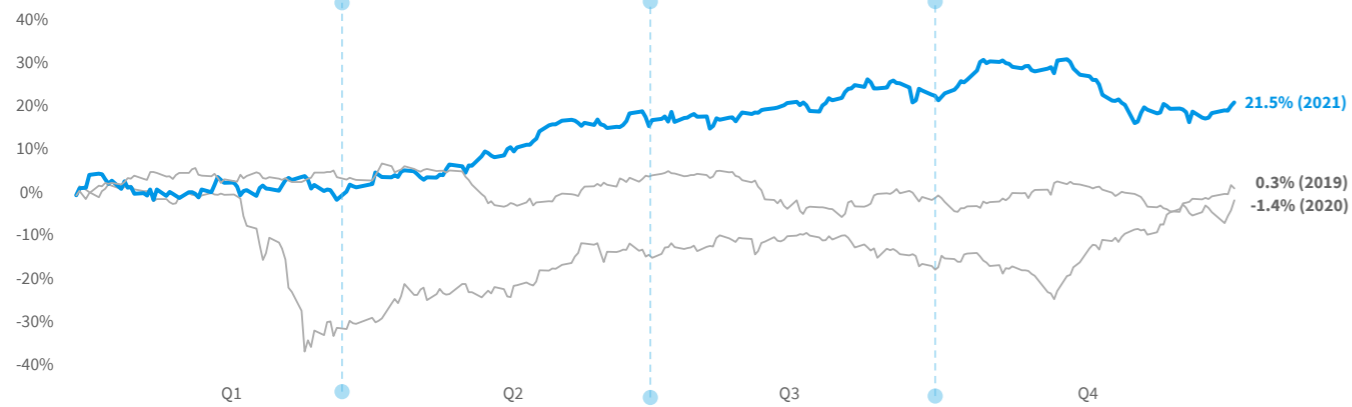
## WIG20 vis-à-vis MSCI EM



Source: [www.infostrefa.com](http://www.infostrefa.com), [www.msci.com](http://www.msci.com)



**WIG (2019-2021)**



Source: [www.infostrefa.com](http://www.infostrefa.com), [www.msci.com](http://www.msci.com)

### Debt market situation

The majority of 2021 was relatively peaceful on the debt market. However in Q4 the situation became more dynamic, in connection with the fast-growing inflation driven by supply factors associated with supply chain interruptions, as well as demand factors due to lockdowns introduced in 2020, or greater demand for electricity. In Q1 2021, the CPI core inflation index in Poland was 2.7% y/y, increasing to 7.7% y/y in Q4 2021. As a result, the Polish central bank (NBP) increased the main interest rate from 0.1% to 1.75% over a period of just two months.

The interest rate increases carried out in a high inflation environment, caused a large decline in prices (increase in profitability) of Polish treasury bonds across the yield curve. 1-year yields increased from 0.05% to 3.47%, 2-year yields from 0.10% to 3.35%, 5-year yields from 0.47% to 3.99% and 10-year yields from 1.25% to 3.70%.

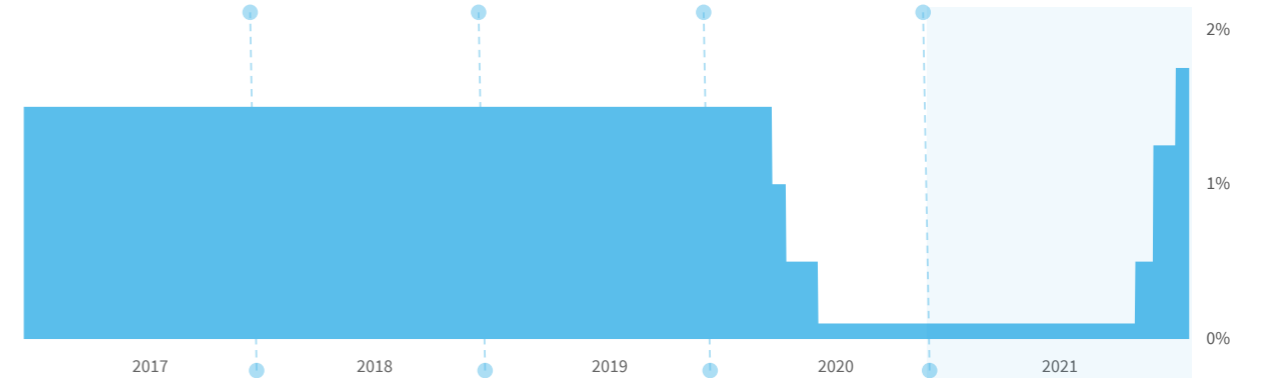
The situation on the core markets in 2021 contributed to the increased yields on Polish bonds. Yields of 10-year US Treasury bonds, influenced by rising inflation expectations, increased from 0.9% to 1.5%, and of German bonds from -0.58% to -0.18%. [CHAPTER 2.3 SITUATION ON FINANCIAL MARKETS](#)

**Yields of Polish (10Y) treasury bonds**



Source: [www.stooq.com](http://www.stooq.com)

**NBP's main interest rate (2017-2021)**



Source: [www.nbp.pl](http://www.nbp.pl)

### 7.2 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 WIG20, 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, WIG20 TR, 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 midcap index (developed markets).

#### Warsaw Stock Exchange indices

In 2021, the Polish blue chip index (WIG20) oscillated within a broad band between 1,877 and 2,472 points. The variance between these points was 595 points and was 299 points lower than that observed in the corresponding period of 2020 (894 points). In 2021, WIG20 went up by 14.3% y/y, or by 16.8% y/y

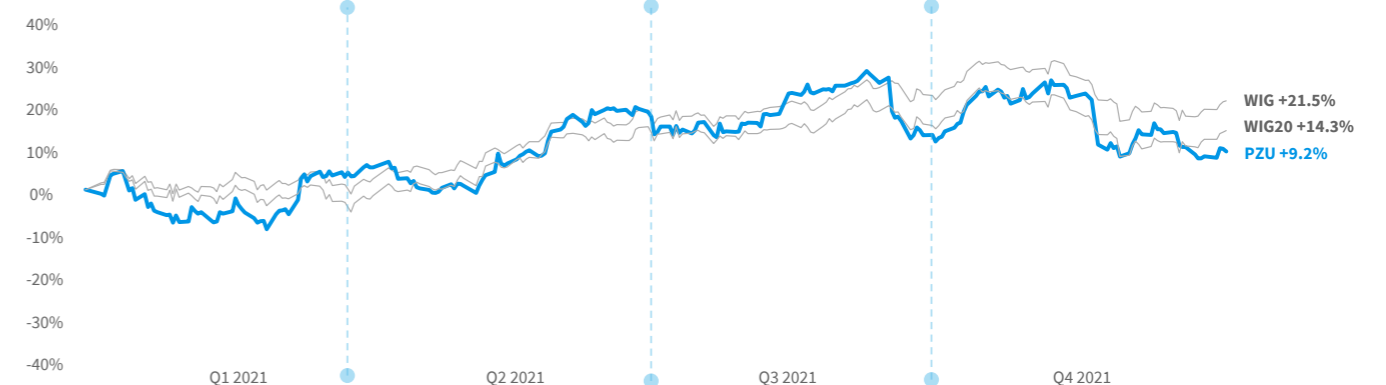
if dividends are taken into account (WIG20 TR). The WIG broad market index gained 21.5% y/y. Small and medium cap indices also appreciated; sWIG80 and mWIG40 gained 24.6% and 33.1% y/y, respectively.

#### PZU's share price

In 2021, the PZU stock prices went hand in hand with the main indices of the Warsaw Stock Exchange, which remained in an upward trend for the most part of the year. The correction came in Q4 2021 as fears regarding the development of the pandemic increased, and effects of the growing inflation and depreciation of the Polish zloty against euro and US dollar.

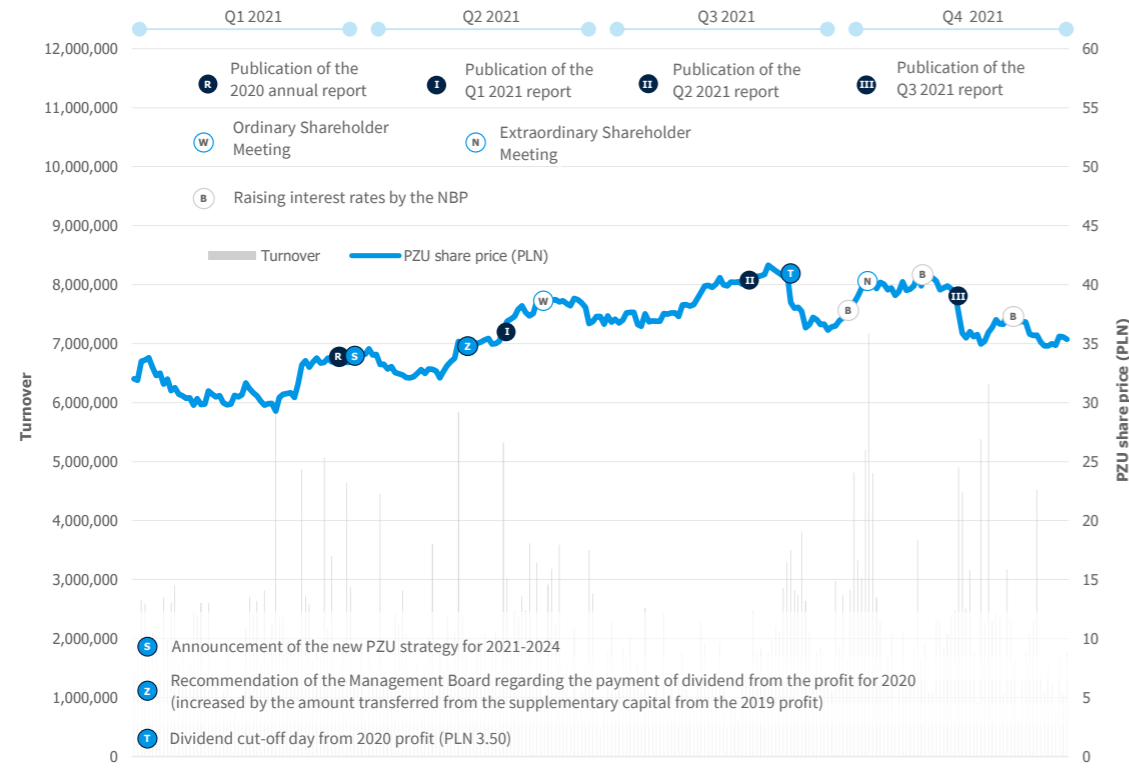
The decline in the PZU stock price in Q3 2021 shown in the graph below resulted from the deduction of the value of dividends paid out (PLN 3.5 per share). After the stock price was corrected for dividend, the total rate of return on PZU shares in 2021 was 20.1%, i.e. 3.3 p.p. above the main return index, WIG20 TR. In terms of price, PZU shares increased by 9.2% y/y in 2021.

**PZU stock price versus WIG and WIG20**



Source: [www.infostrefa.com](http://www.infostrefa.com)

## Main factors affecting PZU's stock price in 2021



### QR codes (video links)

- R Publication of the 2020 annual report
- I Publication of the Q1 2021 report
- II Publication of the Q2 2021 report
- III Publication of the Q3 2021 report

Source: [www.infostrefa.com;PZU](http://www.infostrefa.com;PZU)

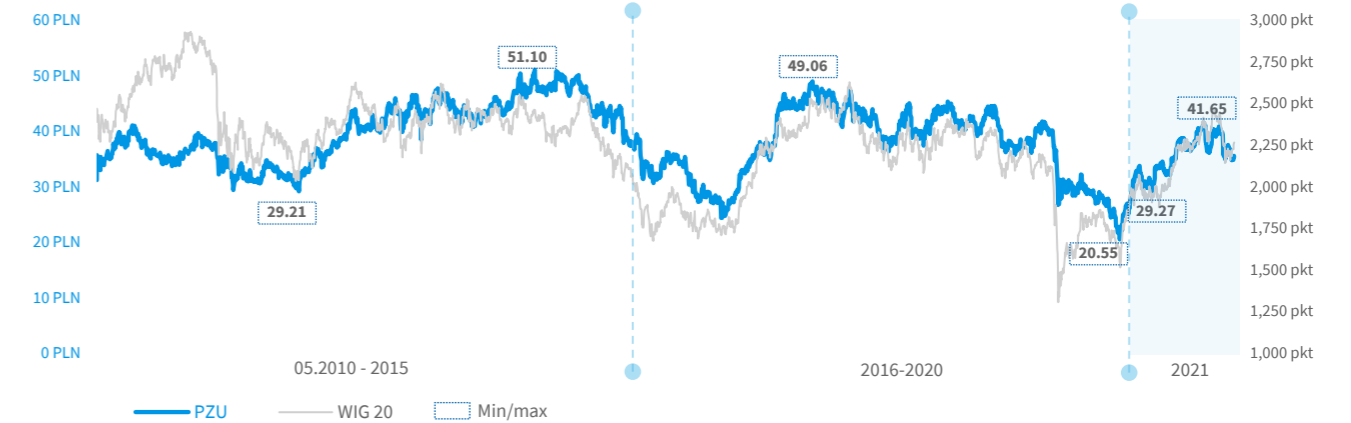
## Quick Response (QR) kody - linki do relacji video z konferencji wynikowych

- R Publikacja raportu rocznego za 2020 rok
- I Publikacja raportu za I kw. 2021 roku
- II Publikacja raportu za II kw. 2021 roku
- III Publikacja raportu za III kw. 2021 roku



The maximum price per share of PZU stock in 2021 was PLN 41.65 (at closing prices) and the minimum price was PLN 29.27. In 2020, these prices were PLN 41.80 and PLN 20.55, respectively.

## PZU's min/max share prices (from May 2010 to 2021)

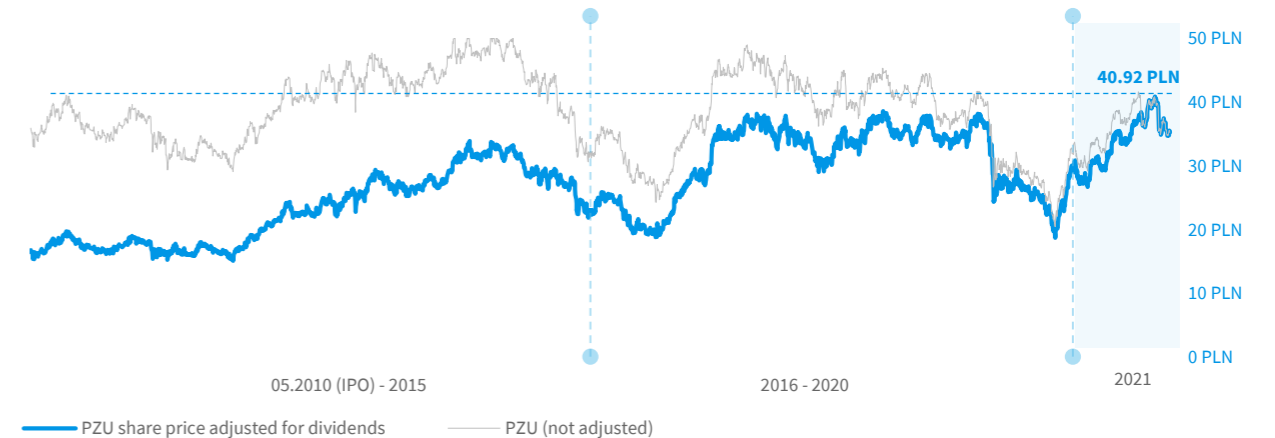


Source: [www.infostrefa.com](http://www.infostrefa.com), [www.msci.com](http://www.msci.com)

Considering the dividends paid<sup>2</sup>, on 4 November 2021, the PZU share price reached the historic high of PLN 40.92, beating the previous maximum from the end of January 2019 by 5.9%.

<sup>2</sup> In accordance with the methodology applied by Stooq <http://stooq.pl/pomoc/?q=9&s=pzu.e>

## PZU's share price adjusted for dividends paid from May 2010 to 2021



Source: [www.stooq.pl](http://www.stooq.pl)

## Capitalization

The stock market value (capitalization) of PZU at the end of 2021 was PLN 30.5 billion, placing it 9th (down 4 positions y/y) in terms of market price among Polish companies listed on the WSE. The lower position was associated mainly with the sudden increase in prices of banks listed on the WSE. PZU's share in WSE's total trading volume was 5.9% (6th place).

After adjustment of the PZU share price for the dividends paid out from IPO, the theoretical capitalization at the end of 2021 would amount to PLN 56.1 billion.

## Liquidity

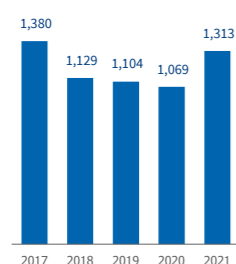
In 2021, PZU's shares were highly liquid. The average daily spread of PZU's stock was 7 bps compared to the average spread of 16 bps for the 20 most liquid companies. The average

turnover of PZU's stock per session was PLN 73.9 million, i.e. up 6% y/y. The annual share turnover for the whole 2021 was PLN 18.6 billion, which was 61% of PZU's total capitalization at the end of the year.

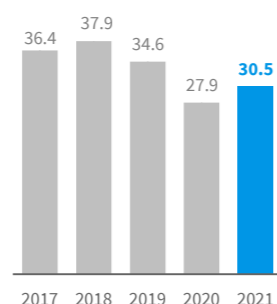
The largest daily share turnover was recorded during the session on 13 October 2021 (7.2 million shares worth PLN 287.7 million). The session closed without a change vs. the previous day price.

The largest daily share price increase was recorded during the session on 9 March 2021 (+5.23%). The share turnover was PLN 160.6 million.

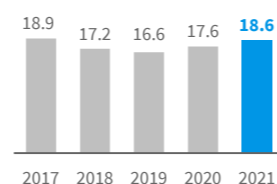
Capitalization of WSE in PLN bn (domestic and international companies)



Capitalization of PZU in PLN bn



PZU share turnover in PLN bn



Source: [www.infostrefa.com](http://www.infostrefa.com)

## Ratios (2017-2021)

PZU's stock*	2017	2018	2019	2020	2021
<b>P/BV</b> Market share price / book value per share	2.6x	2.5x	2.1x	1.5x	1.8x
<b>BVPS (PLN)</b> Book value per share	16.3	17.3	18.7	21.7	3,9
<b>P/E</b> Market share price / Earnings per share	12.6x	11.8x	10.5x	14.6x	9.2x
<b>EPS (PLN)</b> Net profit (loss) / number of shares	3.4	3.7	3.8	2.2	3.9

\*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

## Statistics concerning the PZU share price adjusted for dividends paid

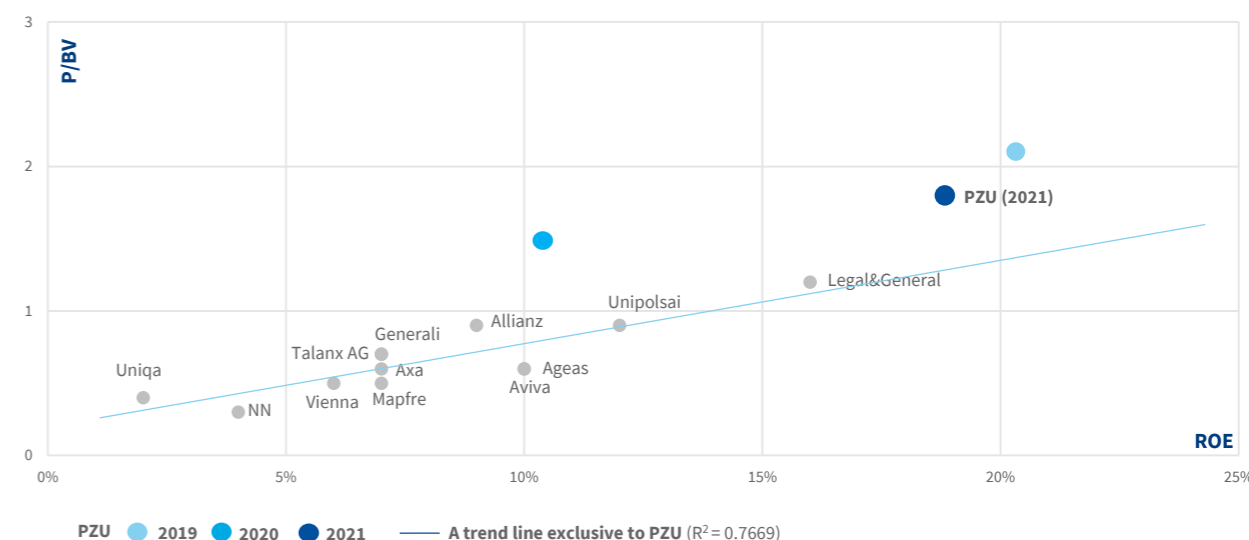
	2017	2018	2019	2020	2021
Closing price on the last trading session of the year (PLN)	62.94	67.18	66.11	58.44	64.93
Capitalization at the end of the period (PLN m)	54,354	58,015	57,091	50,468	56,072

Source: [www.infostrefa.com](http://www.infostrefa.com)

PZU's stock-related statistics	2017	2018	2019	2020	2021	2017-2021
Maximum price (PLN)	49.06	47.34	45.39	41.80	41.65	
Minimum price (PLN)	32.82	36.31	35.79	20.55	29.27	
Closing price on the last trading session of the year (PLN)	42.16	43.90	40.03	32.36	35.35	
Average session price (PLN)	42.53	41.48	40.61	30.06	35.86	
Trading volume (PLN m)	18,902	17,183	16,620	17,588	18,565	
Average turnover per session (PLN m)	75.6	69.6	67.0	69.8	73.9	
Number of transactions (units)	985,515	926,486	928,493	1,523,449	1,353,198	
Average number of trades per session	3,942	3,751	3,744	6,045	5,391	
Trading volume (units)	448,832,864	415,380,500	408,999,167	595,296,291	517,939,229	
Average trading volume per session (shares)	1,795,331	1,681,702	1,649,190	2,362,287	2,063,503	

Source: [www.infostrefa.com](http://www.infostrefa.com)

## PZU's valuation compared to the peer group (2021)



Source: PZU (2019, 2020, 2021) – reported data; other companies – 2021 annual forecasts (Bloomberg); PZU share prices at year-end



## 7.3 Banking sector on the Warsaw Stock Exchange

### Context in the banking sector

In 2021, the WIG Banks index<sup>3</sup> was one of the strongest sector indices on the WSE, increasing by 81.3% y/y. The correlation between the WIG Banks index and the WIG20 index decreased to 77% (-11 p.p. y/y). The beta coefficient (in relation to WIG20) increased to 1.17, or by 0.04 y/y. The significant change in these indicators resulted from the excellent performance of the WIG Banks index (+81.3%) compared to the main WIG20 index (+14.3% y/y).

In 2021, the strongest growth was experienced by Alior Bank, which is part of the PZU Group, which increased by 222.3% y/y. In the corresponding period, the other bank in the PZU Group, i.e. Pekao, increased by 99.7% y/y (this without the dividend paid out in 2021 at PLN 3.21 per share).

The bull market in the banking sector in 2021 was very dynamic and unexpected. In 2020, most investors were convinced of the increasing risk related to the deterioration of Polish economy due to the COVID-19 pandemic, which was to lead to an increase in provisions for non-performing loans. As a result, in 2020 WIG Banks was the weakest sector

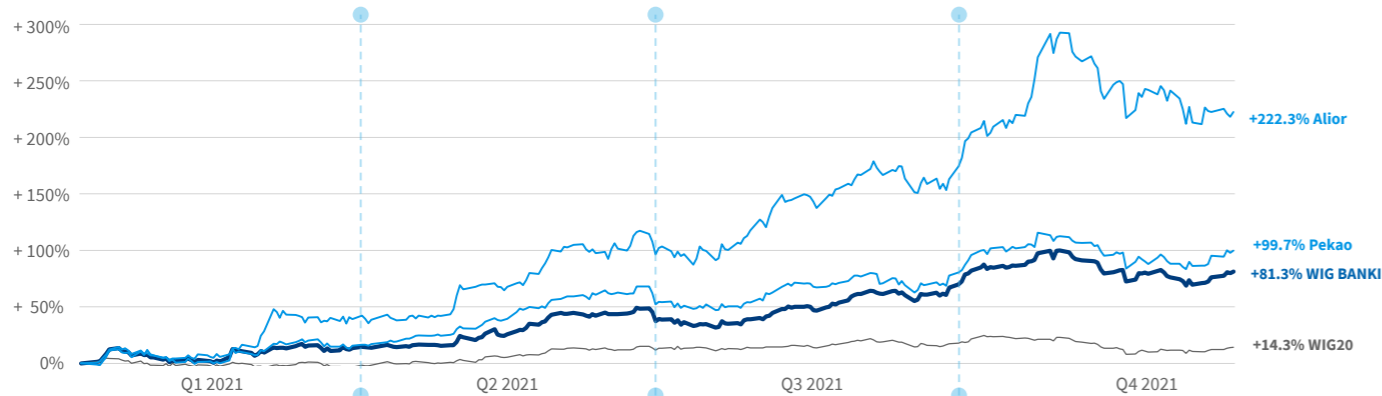
<sup>3</sup>It is an income-based index (when it is calculated, it accounts for the prices of the underlying shares and the income from dividends and subscription rights).

index, declining by almost 30% y/y. The year 2021 brought a very different scenario altogether. Economic recovery led to increased lending and transaction activity, which, combined with a broad range of optimization efforts and digitalization of operations, resulted not only in a more optimistic view of the sector's future, but also in measurable financial results. According to the NBP, after 12 months of 2021, the net profit of the banking sector rose to PLN 8.9 billion compared to a loss of 0.3 billion at the end of 2020.

The increase in the valuation of banks was also driven by expectations of interest rate increases in response to a dynamic rise in inflation. In Q4 2021, the NBP<sup>4</sup> increased the main interest rate from the historically lowest level of 0.1% to 1.75%, which was higher than the pre-pandemic rates – a promise of significantly higher profits on interest margins for banks.

<sup>4</sup>[https://www.nbp.pl/home.aspx?f=/statystyka/pieniezna\\_i\\_bankowa/naleznosci.html](https://www.nbp.pl/home.aspx?f=/statystyka/pieniezna_i_bankowa/naleznosci.html)

### WSE-listed banks in 2021



Source: [www.infostrefa.com](http://www.infostrefa.com)

<p><b>PLN</b> Dividend yield on PZU shares amounted to: <b>10.8%</b></p> <p>Dividends per share paid in 2021 were: <b>3.5 zł</b></p> <p>Earnings per share: <b>3.9 zł</b></p>	<p>Dividend per share paid by Bank Pekao in 2021 was: <b>PLN 3.21</b></p> <p><b>PLN</b></p>	<p>The P/E ratio (price / earnings): <b>9.2x</b></p> <p><b>PLN</b></p> <p>P/BV (price / book value): <b>1.8x</b></p>
<p>The average value of trading in PZU shares per session was <b>PLN 74 million</b></p> <p>and the average number of transactions per session: <b>5.4 thousand</b></p>	<p>The percentage of foreign investors in PZU's shareholder structure at the end of 2022: <b>32.8%</b></p> <p>with North American investors holding: <b>13.2%</b></p>	
<p>Number of remote meetings for institutional investors: <b>70</b></p> <p>Number of remote conferences and roadshows: <b>12</b></p>	<p>Number of recommendations issued for PZU shares in 2021: <b>23</b></p> <p>average target price at the end of December 2021: <b>PLN 40.8</b></p>	<p>Share of domestic investors in PZU's shareholding structure: <b>67.2%</b></p> <p>including OFE: <b>17.6%</b></p> <p>and TFI: <b>4.1%</b></p>
<p>S&amp;P Global Ratings financial strength rating and credit rating: <b>A- (stable)</b></p>	<p>PZU's market value at the end of 2021 was: <b>PLN 30.5 bn</b></p> <p>Bank Pekao: <b>PLN 32.0 bn</b></p> <p>Alior Bank: <b>PLN 7.1 bn</b></p>	<p>Individual investors' share in PZU's shareholding structure at the end of 2021 amounted to: <b>8.8%</b></p>

## 7.4 PZU's investor relations

Striving to achieve the greatest possible transparency of the PZU Group's business, the Management Board of PZU has regularly undertaken various investor relations activities aimed at ensuring equal access to information in accordance with the internally-adopted

"Principles for PZU to Conduct its Information Policy for Capital Market Participants."



### PZU's shareholder structure

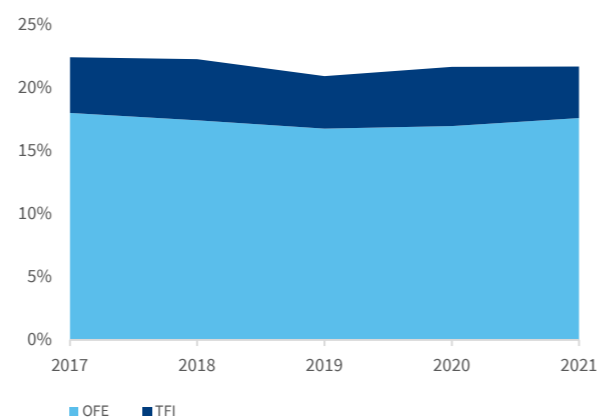
As at 31 December 2021, the State Treasury of the Republic of Poland held a 34.2% stake in the share capital and votes, and funds managed by Nationale-Nederlanden PTE held a 5% stake (according to PZU's current report No. 17/2021). The remaining 61% stake was held by shareholders below the 5% threshold each.

According to a survey carried out at the end of 2021, PZU's shareholder structure was stable in terms of the breakdown of stakes and geographies. The largest stakes, as in previous years, were held by investors from Europe, with Polish investors dominating.

At the end of 2021, the share of open-end pension funds and mutual fund management companies remained at similar levels to those in the corresponding period of 2020: it stood at 17.6% and 4.1%, respectively.

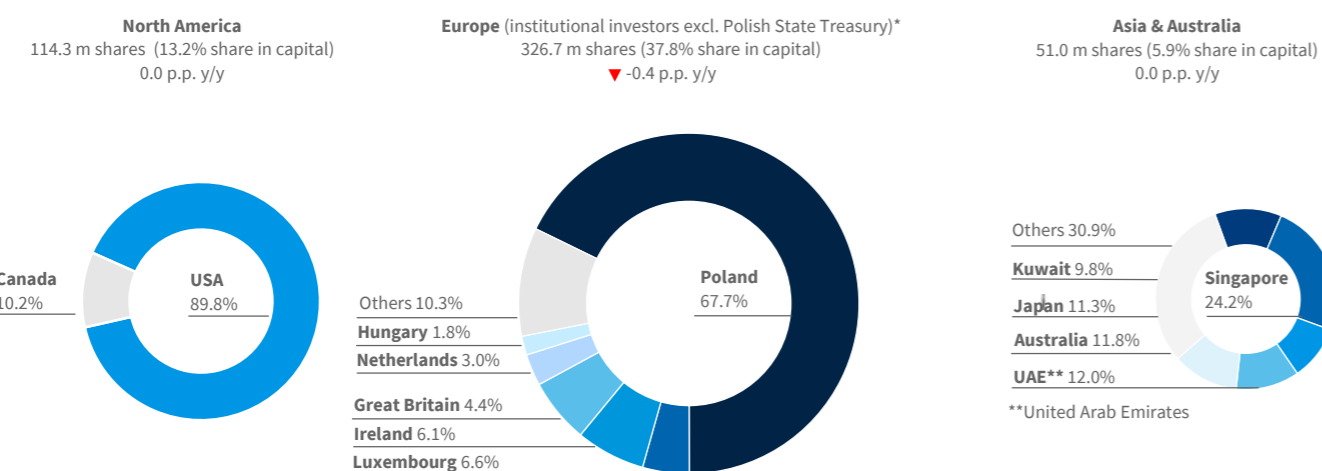
The percentage of retail investors in PZU's shareholder structure increased slightly by 0.4 p.p. y/y to 8.8% at the end of 2021. The high percentage of individual investors was maintained on the entire main market of the WSE. In H1 2021 it was 24%, i.e. twice as much as in 2019.

### Open-end pension funds and fund management companies in PZU's shareholder structure



Source: PZU

### Composition of PZU's shareholders by geography

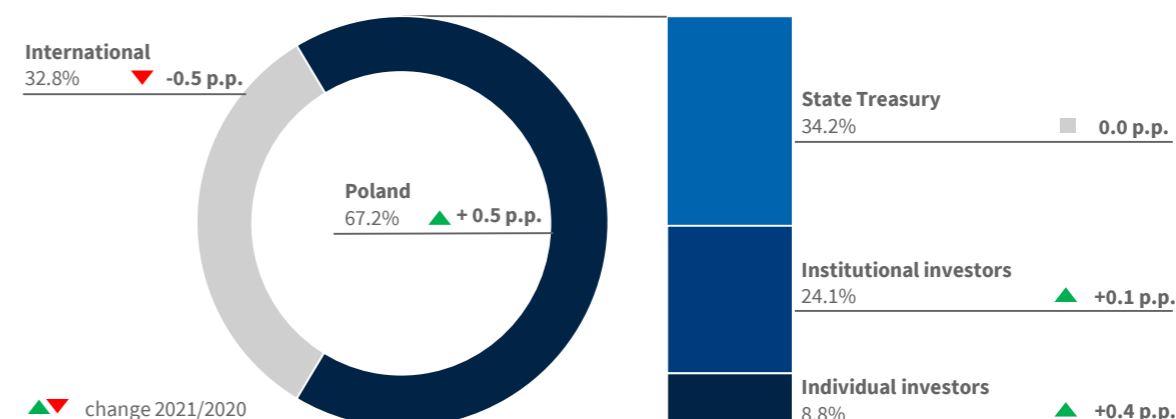


▲ change 2021/2020

\* Polish State Treasury - 295.2 m shares (34.2% share in capital)

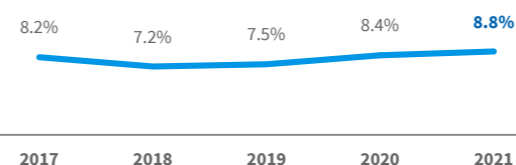
Source: PZU

### PZU shareholder structure - main investor groups



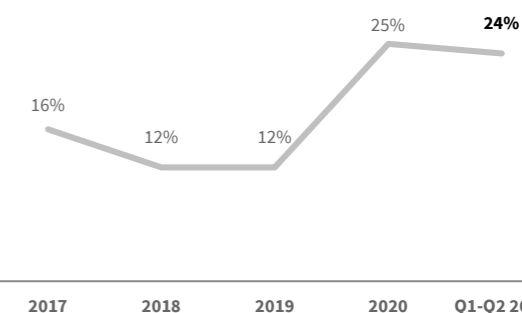
Source: PZU

### Percentage of retail investors in PZU's shareholder structure



Source: PZU

### Percentage of retail investors in trades on the main market of WSE



Source: [www.gpw.pl](http://www.gpw.pl)

### Communication with capital market players

In 2021, all corporate events held with capital market participants in mind were transmitted live in the form of a webcast (with simultaneous translation into English). Quarterly financial performance was presented and discussed by the PZU Group's Management Board 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/relacje-inwestorskie/do-pobrania>

The most important events, achievements and plans were presented once again in the form of an online Annual Report at [raportroczny2020.pzu.pl](http://raportroczny2020.pzu.pl). Users have been provided with a comprehensive tool enabling a multi-directional analysis of corporate and macroeconomic events as well as financial

results. The report included interactive infographics, animations and video clips, which offered a succinct presentation of the PZU Group's activity in 2020.



More than insurance  
Discover the new PZU



25	MARCH	QR
Presentation of financial results for 2020		
25	MARCH	QR
Presentation of the PZU Group Strategy in 2021-2024		
27	MAY	QR
Presentation of financial results for Q1 2021		
16	JUNE	QR
Ordinary Shareholder Meeting		
26	AUGUST	QR
Presentation of financial results for Q2 2021		
12	OCTOBER	QR
Extraordinary Shareholder Meeting		
18	NOVEMBER	QR
Presentation of financial results for Q3 2021		

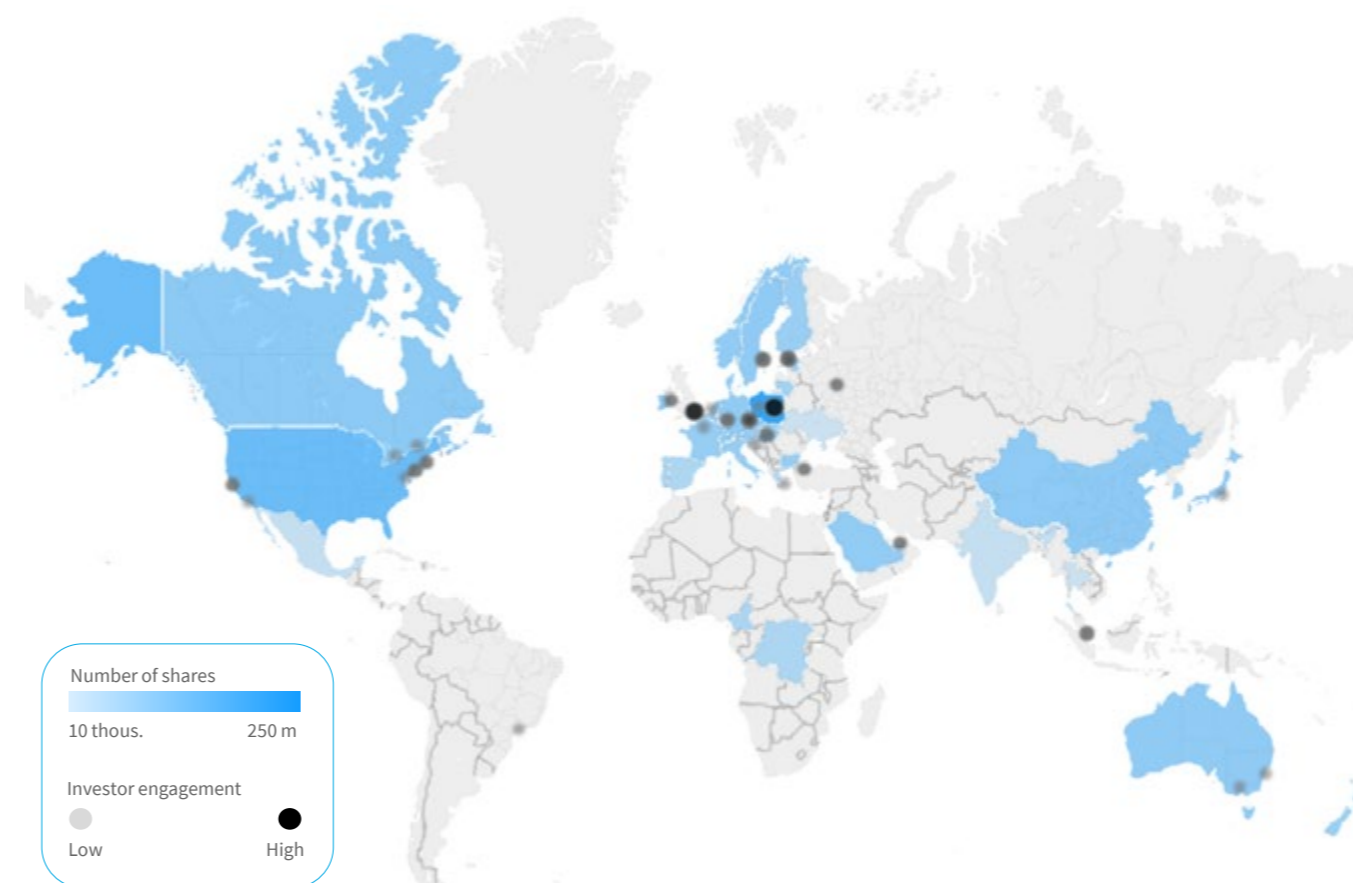
### Activities targeting institutional investors

The COVID-19 pandemic has permanently affected the way in which we communicate with institutional investors. Since early 2021, almost all meetings were held remotely via audiovisual messaging applications.

PZU's representatives participated in 10 conferences and 2 non-deal roadshows held online by global investment banks

and brokerage houses in Poland. We observed an increase in the number of group meetings. In total, more than 70 individual and group meetings were held, which gathered a total of 145 managers and analysts representing mutual funds, pension funds and other asset management firms. The largest interest in PZU's activity was shown by investors from financial centers in Warsaw, London, Prague, Tallinn and Stockholm.

Locations of the head offices of institutional investors participating in remote meetings with PZU's representatives (marked on the map as "interested investors")



\* Investors' interest was marked on the basis of the number of investor meetings in 2021 and the country of origin of the investors; shareholding structure (excluding the State Treasury) at the end of 2021

Source: PZU

## Activities addressed to retail investors

Following on its commitment of continuous contact with retail investors, PZU provided them in 2021 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 (remote) meetings with investors, which enabled them to ask questions to PZU's representatives. The latter included in particular:

- 25th WallStreet conference (the 11th, in which PZU participated) organized by the Polish Association of Individual Investors as an online event. The participants of the event had the opportunity to talk with the PZU Management Board Member in charge of the Finance Division and the Director for Investor Relations.
- chats dedicated to retail investors, organized after each publication of quarterly financial results and after the announcement of the strategy, hosted by the Member of the PZU Management Board in charge of the Finance Division.

## Loyalty program for retail investors

In early September 2021, PZU launched a loyalty program for retail investors: [mojeakcje.pzu.pl](https://mojeakcje.pzu.pl). Investors have the opportunity to receive

- 10%, and after one year of participation – 20% discount for the insurance of: a vehicle (TPL, MOD, ADD Max), home, travel, crop, accident;

- 100% discount for annual basic membership or 50% discount for annual extended membership in the Polish Association of Individual Investors;
- access to specially prepared materials about PZU's fundamental analysis.

## 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 2021, including in the Best Annual Report 2020 contest organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków):

- special award "The Best of the Best" (for the third time);
- special prize for the **best integrated annual report** in the Banks and Financial Institutions category.

## IR strategy for 2022

The main objectives of PZU's investor relations function in 2022 (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 of 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 equal access to information;

- ensure sell-side research coverage, in particular among international investment banks;
- 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.

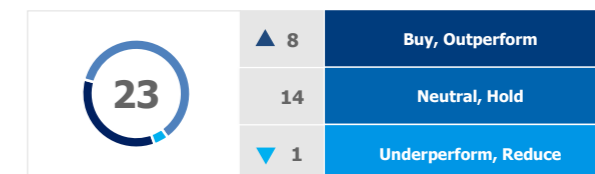
PZU's new investor relations initiatives for 2022:

- extend the scope of non-financial reporting with additional elements related to climate change;
- increase the degree of integration in the online report;
- develop the loyalty program for retail investors;
- measure and report any Taxonomy-related issues.

## 7.5 Analysts' recommendations regarding PZU's shares

In 2021, 13 domestic and international financial institutions issued PZU stock recommendations. Sell side analysts published 23 recommendations, i.e. 2 less than in 2020. 96% of all recommendations issued in this period were either positive or neutral.

## Statistics related to the recommendations published in 2021

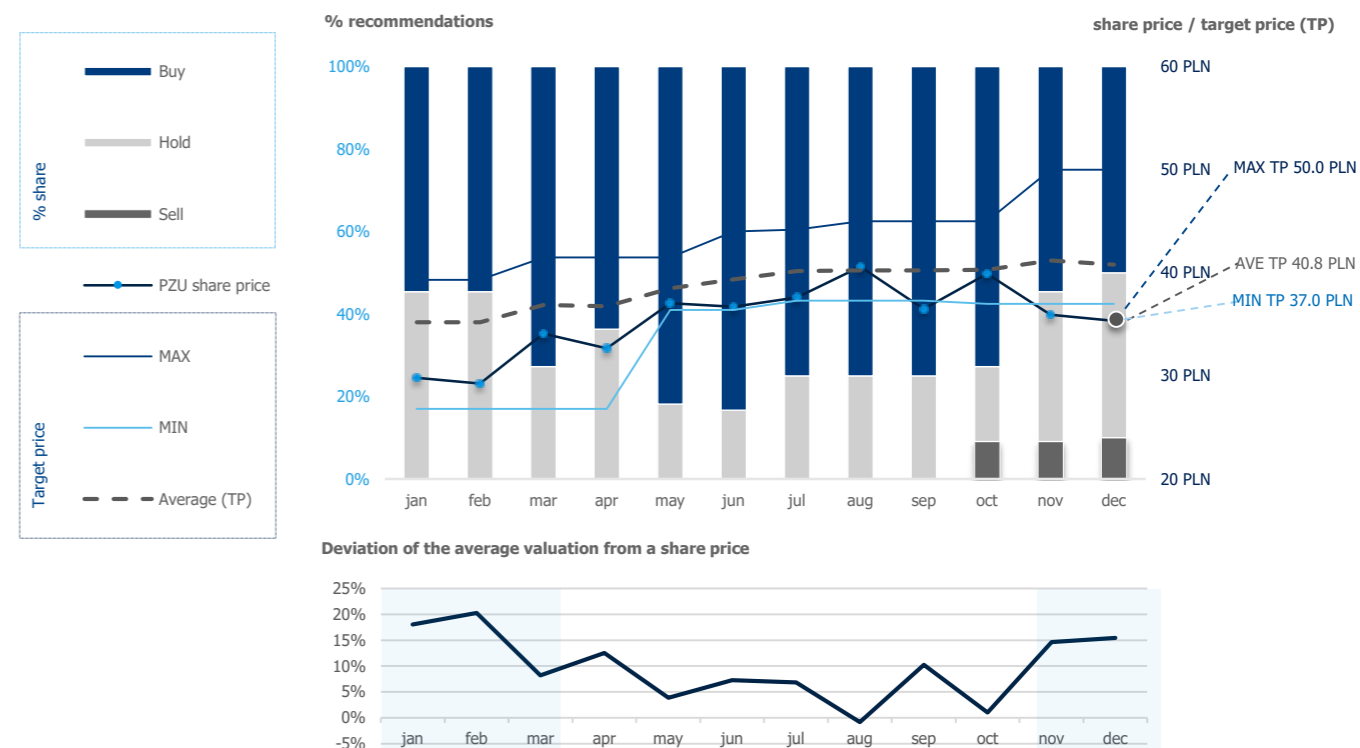


Source: analysts' recommendations; company

The difference between the target prices according to analysts' recommendations and the PZU share price in 2021 was 10% on average and was much smaller than it was in 2020 (34%). The change was caused mainly by improved sentiments on global stock markets. The main reason was that investors were much calmer in their assessment of new reports on the development of the COVID-19 pandemic, which in 2020 caused sharp declines in global and local indices.

At the end of the year, the average price per PZU share in the recommendations was 15% higher than the market price.

## Analysts' expectations concerning PZU's share price in 2022 based on recommendations in effect at the end of December 2021



Source: analysts' recommendations; company

**Moje Akcje PZU**

Program Moje Akcje PZU

Sprawdź, jak wiele możliwości da Ci uczestnictwo w programie Moje Akcje PZU. W naszym programie lojalnościowym czekają na Ciebie specjalne benefity. Zarejestruj się, aby z nich skorzystać.

Partnerzy programu:

- Bank Pekao
- Stowarzyszenie Inwestorów Indywidualnych



## Statistics on target prices according to recommendations

	31 December 2020	31 December 2021	Change	Price variance between the recommendations and the share price at the end of 2021 (PLN 35.4)
Highest target price	39.3	50.0	27.2%	41.4%
Average of the target prices	34.7	40.8	17.6%	15.4%
Median of the target prices	36.1	40.1	11.1%	13.4%
Lowest target price	26.8	37.0	38.1%	4.7%

Source: analysts' recommendations; company

## Institutions issuing recommendations for PZU's stock (as at 31 December 2021)

Institution	Analyst	Contact details
Autonomous Research	Youdish Chicooree	+44 207 776 3442 <a href="mailto:ychooree@autonomous.com">ychooree@autonomous.com</a>
Citi	Andrzej Powierża	+48 22 690 35 66 <a href="mailto:andrzej.powierza@citi.com">andrzej.powierza@citi.com</a>
Erste Securities	Łukasz Jańczak	+48 22 257 57 54 <a href="mailto:lukasz.janczak@erstegroup.com">lukasz.janczak@erstegroup.com</a>
HSBC	Thomas Fossard	+33 1 56 52 43 40 <a href="mailto:thomas.fossard@hsbc.com">thomas.fossard@hsbc.com</a>
Ipopema	Marta Czajkowska-Bałdyga	+48 22 236 92 31 <a href="mailto:marta.czajkowska-baldyga@ipopema.pl">marta.czajkowska-baldyga@ipopema.pl</a>
JP Morgan	Samuel Goodacre	+44 207 134 6720 <a href="mailto:samuel.goodacre@jpmorgan.com">samuel.goodacre@jpmorgan.com</a>
mBank	Michał Konarski	+48 22 697 47 37 <a href="mailto:michal.konarski@mdm.pl">michal.konarski@mdm.pl</a>
PKO BP	Jaromir Szortyka	+48 22 580 39 47 <a href="mailto:jaromir.szortyka@pkobp.pl">jaromir.szortyka@pkobp.pl</a>
Raiffeisen Centrobank	Oliver Simkovic	+43 1 51520 706 <a href="mailto:oliver.simkovic@rbinternational.com">oliver.simkovic@rbinternational.com</a>
Trigon	Maciej Marcinowski	+48 22 4338 375 <a href="mailto:maciej.marcinowski@trigon.pl">maciej.marcinowski@trigon.pl</a>
Santander	Kamil Stolarski	+48 22 586 81 00 <a href="mailto:kamil.stolarski@santander.pl">kamil.stolarski@santander.pl</a>
UBS	Michał Potyra	+27 11 322 7320 <a href="mailto:michal.potyra@ubs.com">michal.potyra@ubs.com</a>
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 <a href="mailto:marta.jezewska-wasilewska@wood.com">marta.jezewska-wasilewska@wood.com</a>

## 7.6 PZU Group's Capital and Dividend Policy

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

In accordance with the Policy, the PZU Group endeavors to do the following:

1. manage capital effectively by optimizing the usage of capital from the Group's perspective;
2. 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 organic growth and acquisitions;
3. ensure sufficient financial means to cover the Group's liabilities to its clients.

The **capital management policy** rests on the following principles:

1. manage the PZU Group's capital (including excess capital) at the level of PZU;
2. sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
3. maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
4. ensure funds for growth and acquisitions;

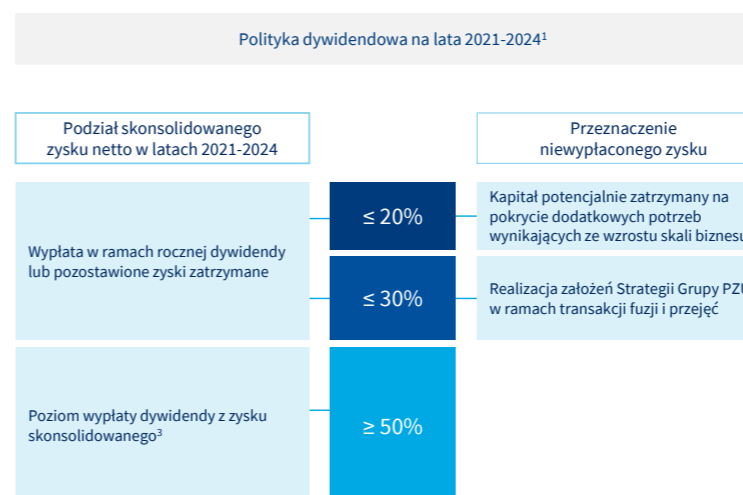
5. maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
6. PZU will not issue any new shares for the duration of this Policy.

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

The PZU and PZU Group's **dividend policy** rests on the following principles:

1. 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;
2. the dividend amount proposed by the parent company's Management Board which PZU pays for the respective financial year is determined on the basis of the PZU Group's consolidated financial result attributable to equity holders of the parent company, where:
  - a. nie więcej niż 20% powiększy zyski zatrzymane (kapitał zapasowy) na cele związane z rozwojem organicznym i innowacjami oraz realizacją inicjatyw wzrostowych;
  - b. no less than 50% is subject to payment as an annual dividend;
  - c. the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if significant expenditures

## PZU Group's Dividend and Capital Policy



## Główne założenia

- Pozostaniemy **spółką dywidendową**, generującą ponadprzeciętny zwrot z kapitału.
- Będziemy **rocznie wypłacać dywidendę na poziomie od 50 do 100%** skonsolidowanych zysków rocznych Grupy PZU<sup>6</sup>.
- Utrzymamy **współczynniki wypłacalności na poziomie nie niższym niż 200%** dla Grupy PZU, PZU oraz PZU Życie (wg Wypłacalność II).
- Zapewnimy **utrzymanie wskaźnika dźwigni finansowej** na poziomie nie wyższym niż 25%.
- Zapewnimy **środki na rozwój i akwizycje** w najbliższych latach.
- Zapewnimy **utrzymanie nadwyżki funduszy własnych konglomeratu finansowego ponad wymogi** z tytułu adekwatności kapitałowej.

<sup>6</sup> PZU's net profit attributable to the parent company  
Source: PZU

are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

- with a reservation that:

3. according to the Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of the parent company and the PZU Group following the declaration of payment or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the Capital Policy of the PZU Group and PZU (items 2 to 5);
4. when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

## Dividend

On 6 October 2021, PZU paid out a dividend of more than PLN 3 billion, i.e. PLN 3.5 per share. A detailed sequence of key related events is presented below.

- [16 December 2020 – KNF's recommendation on paying dividends from the profits generated in 2020](#)

The KNF's recommendation on the dividend policy of insurance and reinsurance undertakings allowed insurance companies to:

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

provided that the criteria set by KNF have been fulfilled.

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

KNF also pointed out that, when deciding on the level of dividends, insurance 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.

- [11 May 2021 – Motion of the PZU Management Board regarding the distribution of the profit generated in 2020 and the amount transferred from the supplementary capital created from the profit generated in 2019](#)

In connection with the aforementioned recommendation of the KNF, the PZU SA Management Board recommended distribution of the profit generated in 2020 (and the amount transferred from the supplementary capital created from the profit generated in 2019). The proposed dividend amount was PLN 3 billion, i.e. PLN 3.5 per share.

On 12 May 2021, the Supervisory Board issued a positive opinion on the Management Board's motion and recommended the Ordinary Shareholder Meeting of PZU to accept the profit distribution and the payment dates included in the proposal.

- [16 June 2021 – Ordinary Shareholder Meeting's resolution on the distribution of PZU's net profit](#)

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

## KNF's stance on the dividend policy in 2022

On 9 December 2021, KNF adopted a position on the dividend policy of insurance companies, reinsurance companies and insurance and reinsurance companies in 2022([download](#)).

The Commission permitted a dividend to be paid out only by the companies that meet all of the following criteria for distributions from the 2020 and 2021 profits:

1. They have received a good or satisfactory SREP risk score for 2020;
2. In the various quarters of 2021 they reported no shortage of own funds to cover the capital requirement (defined as the maximum of the minimum capital requirement (MCR) and the solvency capital requirement (SCR));

3. In 2021 they were not covered by a short-term financial plan or the remedial plan.
4. As at 31 December 2021, the level of own funds, without deducting the expected dividends, was at the level of at least 175% of the capital requirements for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section I and at

least 150% of the capital requirements for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section II.

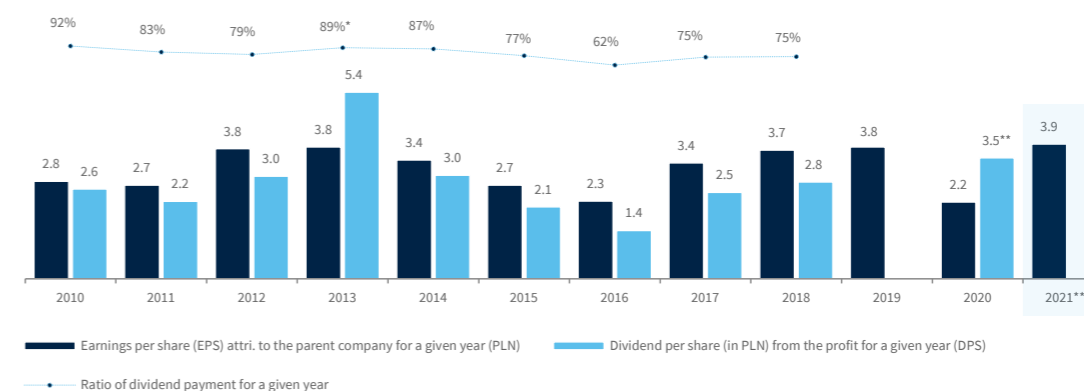
The undertakings satisfying the above criteria may pay a dividend in the maximum amount of 100% of the profit generated in 2020 (this including dividends already paid out

## Dividend paid by PZU for 2017-2021

	2017	2018	2019	2020	2021
Consolidated profit attributable to the parent company (in PLN m)	2,895	3,213	3,295	1,912	3,336
Individual net profit of PZU (in PLN m)	2,459	2,712	2,651	1,919	2,028
Dividend paid for the year (in PLN m)	2,159	2,418	**	3,022	***
Dividend per share for the year (PLN)	2.50	2.80	**	3.50	***
Dividend per share on the date of record (PLN)	1.40	2.50	2.80	**	3.50
Ratio of dividend payout to consolidated profit attributable to the parent company	74.6%	75.3%	**	**	***
(a) Movement in the share price y/y	26.9%	4.1%	(8.8)%	(19.2)%	9.2%
(b) Dividend yield during the year (%) *	4.2%	5.9%	6.4%	**	10.8%
(a+b) Total Shareholder Return (TSR)	31.2%	10.1%	(2.4)%	(19.2)%	20.1%

\* Dividend yield calculated as the dividend (as at the dividend record date) in relation to the share price at the end of the previous reporting year  
 \*\* in 2020, the Ordinary Shareholder Meeting of PZU allocated no portion of the profit to the disbursement of a dividend (in accordance with KNF's recommendation of 26 March 2020) In 2021 the Ordinary Shareholder Meeting of PZU decided to distribute the 2020 profit increased by the amount transferred from supplementary capital created from the net profit generated for the year ended 31 December 2019  
 \*\*\* 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 2021 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)  
 \*\*\* 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. On 16 December 2020, the Polish Financial Supervision Commission decided to restore the possibility of making dividend payments up to 100% of the profit generated in 2019 and 50% of the profit generated in 2020. On 12 May 2021, the Supervisory Board issued a positive opinion on the Management Board's motion to the Ordinary Shareholder Meeting to pay out a dividend of PLN 3.5 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 2021 Source: PZU

from the 2020 profit) and 50% of the profit generated in 2021, however the coverage of capital requirements (after deducting the expected dividends from own funds) as at 31 December 2021, and for the quarter in which the dividend was paid, will be at the level of at least 175% for undertakings operating in section I and at least 150% for undertakings operating in section II. The undertakings satisfying 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 2021 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, hence the possible further adverse consequences for the insurance, reinsurance and insurance-and-reinsurance undertakings.

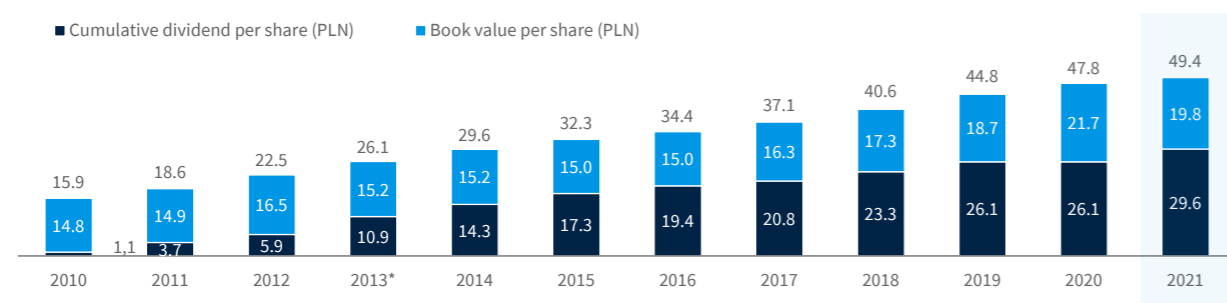
Up to the date of preparing this report on the activities of the PZU Group, the PZU Management Board has not adopted a resolution concerning the proposed distribution of profit for 2021. A report containing audited information on PZU's solvency ratios and financial standing on a standalone basis will be published Q2 2022.

## Dividend distributions and PZU's total shareholder return (TSR) (May 2010-2021)



Source: PZU

## PZU's book value per share and gross accumulated dividends per share in PLN (2010-2021)



\* in 2013 a dividend was paid from excess capital (PLN 2 per share)  
Source: PZU

## 7.7 Debt financing of PZU, Bank Pekao and Alior Bank

### PZU

#### Subordinated bonds – 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.

On 15 February 2022, PZU's Management Board adopted a resolution to apply to PZU's General Shareholders Meeting for an issue of subordinated bonds on the domestic market. The contemplated issue is closely related to the Company's planned early redemption of the subordinated bonds described above. The new issue would be for subordinated bonds on the domestic market with parameters similar to those of the previously issued and redeemed bonds and with a total nominal value of no more than PLN 3 bn (say: three billion zloty) ("Bonds") whose proceeds would be treated as tier 2 own funds according to the Act on Insurance Activity and the requirements of Solvency II regulations.

### Bank Pekao

#### Covered bonds

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+).

At the end of December 2021, the carrying amount of the covered bonds issued by the Bank was PLN 2.3 billion (including EUR 49.9 million in the original currency), which represents roughly a 9.5% market share in the market for covered bonds issued by mortgage banks operating in Poland.

The liabilities by virtue of covered bonds (mortgage and public bonds) with a maturity of up to 1 year accounted for 8.1%, from 1 to 3 years for 31.8%, from 3 to 5 years 27.7% and above 5 years 32.5% of the total carrying amount.

#### 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.

As at 31 December 2021, the carrying amount of the bonds issued by Pekao Bank Hipoteczny was PLN 300.3 million. In 2021, the Bank did not issue any new bond series and at the same time it redeemed three bond series with a total nominal value of PLN 340 million.

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 2021 were PLN 3.9 billion.

### Alior Bank

In 2021, in respect of its own bonds, Alior Bank did not conduct any issue or early redemption operations. On 31 March 2021, Alior Bank redeemed on time G series bonds with a nominal value of PLN 192.9 million. On 29 April 2021, Alior Bank redeemed on time B series bonds (of the former Meritum Bank ICB S.A.) with a nominal value of PLN 67.2 million. On 6 December 2021, Alior Bank redeemed on time I and I1 series bonds with a total nominal value of PLN 183.3 million.

#### Bank Securities

In 2021, Alior Bank carried out a subscription of 13 series of Bank Securities (BPWs) with a total nominal value of PLN 341 million and USD 1.5 million, including:

- 6 series of Bank Securities under the 1st Issue Program with the nominal value of PLN 137.7 million and USD 1.5 million.

- 7 series of Bank Securities under the 2nd Issue Program based on the base prospectus with a total nominal value of PLN 203.6 million.

February 2021 was the first time when Alior Bank offered Bank Securities based on a base prospectus approved by the Polish Financial Supervision Authority on 31 December 2020. The Bank Securities were offered in a public offering to individual (including Private Banking) customers with an eligible investment profile and to corporate clients. The issues of Bank Securities offered 100% protection of capital on maturity. The value of potential interest to be paid out depends mainly on the levels of share baskets, which are the underlying instrument for the individual series of Bank Securities. In 2021, 45 Bank Securities issues were completed, with the best closing at 12%.

## 7.8 Rating

### PZU

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

### Poland's rating

Country	Currently		Previously	
	Rating and outlook	Last change	Rating and outlook	Updated on
<b>Poland</b>				
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

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.

In the most recent update of the rating dated 3 November 2021, S&P affirmed the financial strength and credit strength ratings for PZU and its main subsidiaries at "A-". The rating remained unchanged (stable). In its justification, the agency pointed to a good growth outlook and a stable capital position.

### Poland's rating

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

### PZU rating

Company name	Currently		Previously	
	Rating and outlook	Last change	Rating and outlook	Updated on
<b>PZU</b>				
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
<b>PZU Życie</b>				
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
<b>TUW PZUW</b>				
Financial strength rating	A /Stable/	6 April 2020	A- /positive/	14 June 2019

Source: S&P Global Ratings

### Bank Pekao

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 Pekao, the agency prepares its ratings based on publicly available information and review meetings.

On 23 September 2021, Fitch Ratings informed the Bank about a change in the Bank's rating outlooks in the form of "long-term IDR" and "domestic long-term rating" from negative to stable and that all ratings remained at their current levels.

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

On 29 January 2022, S&P Global Ratings announced that it maintained the ratings at the previous level and a stable rating outlook of Bank Pekao. According to S&P, the rating reflects the bank's strong business position and the high level of customer trust due to the fact that the bank has strong State-related shareholders, PZU and PFR.

Rating (Fitch)	Pekao Bank	Poland
Issuer's long-term rating (IDR)	BBB+	A-
Issuer's short-term rating (IDR)	F2	F1
Viability rating	bbb+	-
Support rating	5	-
Minimum support rating	No support	-
Outlook	Stable	Stable



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 Ratingj	A-2	A-1
Standalone rating	bbb+	-
Outlook	Stable	Stable
<b>S&amp;P Global Ratings (counterparty rating in the event of forced restructuring)</b>		
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	-

On 7 January 2021, the Moody's Investor Service rating agency reported that it upheld the long-term deposit rating at A2, the short-term deposit rating at P-1 and a stable outlook for long-term deposit ratings. At the same time, Moody's lowered the bank's Baseline Credit Assessment (BCA) and the Adjusted Baseline Credit Assessment (Adjusted BCA) to baa2 from

baa1 and the Counterparty Risk Rating (CRR) to A2 from A1. The long-term Counterparty Risk Assessment (CRA) was also reduced, to A2(cr) from A1(cr). The short-term CRR and CRA counterparty ratings were kept at the levels of P-1 and P-1(cr), respectively.

Moody's Investors Service Ltd. (oceny niezamawiane przez bank)	Bank Pekao	Polska
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

On 8 December 2021, Fitch Ratings changed Alior Bank's rating outlook from negative to stable and affirmed the awarded ratings.

On 24 June 2021, S&P Global Ratings changed Alior Bank's rating outlook from negative to stable.

On 8 December 2021, the agency affirmed the ratings it had granted previously.

Fitch Ratings	Alior Bank	Poland
Issuer's long-term rating (IDR)	BB	A-
Issuer's short-term rating (IDR)	B	F1
Viability rating	bb	-
Government Support Rating (GSR)	ns	-
Outlook	Stable	Stable

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

## 7.9 Calendar of PZU's major corporate events in 2022

### Investor contact




Magdalena Komaracka, CFA  
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 2021

 **MAY**  
Quarterly report for Q1 2022

 **AUGUST**  
Interim report for H1 2022

 **NOVEMBER**  
Quarterly report for Q3 2022



## 8.

### Corporate governance

We appreciate that the leader's role is to set the highest standards for the entire industry.

We discharge this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is how we can make sagacious changes to contribute to the world that surrounds us.

**In this chapter:**

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. PZU's share capital and its shareholders; shares 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. Compensation paid to members of supervisory and management bodies
9. Diversity policy

## 8.1 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). They 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](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”. The document entitled Best Practices of WSE Listed

Companies 2016 adopted by the Supervisory Board of the Warsaw Stock Exchange (WSE) on 13 October 2015 was in effect up to 1 July 2021. On 29 March 2021, the Supervisory Board of WSE adopted a resolution introducing the “Best Practices of WSE Listed Companies 2021”, which came into effect on 1 July 2021. It 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](http://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 respect to relations between insurance and 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 Best Practices of the PZU Group 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 KNF 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”

Until 1 July 2021, 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 allowed shareholders to participate in a Shareholder Meeting using means of electronic communication, in particular via the following:

- real-time transmission of the Shareholder Meeting;
- bilateral communication in real time 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 in real time, however 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 and recommendations of the Best Practices of WSE Listed Companies 2016 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.

In connection with the coming into force of the “Best Practices of WSE Listed Companies 2021” on 1 July 2021, PZU applies all the rules included in that document, with the exception of:

- Rule 2.1., according to which the Company should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals; with regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.
- Rule 2.2., according to which decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according

<p><b>3</b></p> <p>Supervisory Board committees: audit committee, nomination and compensation committee, strategy committee</p>		<p><b>18%</b></p> <p>Women constitute 18% of the PZU Supervisory Board</p>
<p><b>45%</b></p> <p>Women constitute 45% of the Management Boards in PZU and PZU Życie</p>	<p>PZU has been a signatory of the diversity charter</p> <p><b>since 2013</b></p>	<p><b>863,523,000</b></p> <p>ordinary shares with a nominal value of PLN 0.10 each forming PZU’s share capital</p>
<p>Long-term and stable shareholder</p> <p><b>34.19%</b></p> <p>the percentage of the PZU shareholder structure held by the State Treasury</p>	<p>In the face of the war in Ukraine</p> <p><b>the Crisis Management Team in the Polish PZU HQ</b></p> <p>was monitoring the situation and decided on preventive actions and aid for the employees of the Ukrainian PZU companies and the Ukrainian citizens.</p>	<p><b>PZU Group’s Code of Best Practices</b></p> <p>is a set of ethical standards and standards of conduct according to which all PZU Group employees should conduct themselves</p>
<p><b>15</b> Supervisory Board meetings</p> <p><b>11</b> Audit Committee meetings in 2021</p>	<p>Daily application of <b>ETYKA</b></p> <p><b>The Best Insurance Practices</b></p> <p>laying down the principles according to which insurance sector companies as institutions of social trust should conduct themselves</p>	<p>Endorsement and application of</p> <p><b>Corporate Governance Rules for Regulated Institutions</b></p> <p>in accordance with the 2015 declaration</p>

to the goals of the established diversity policy referred to in principle 2.1.

- Rule 2.11.6, according to which the supervisory board report should contain information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in rule 2.1.

In respect to the above rules, PZU notes that it has no diversity policy in place in respect to age and gender for the Company's Management Board and Supervisory Board, adopted by the Company's Supervisory Board and Shareholder Meeting, respectively, however it plans to take action to develop and adopt such documents in the future.

PZU also points to the following issues:

- the gender diversity condition for the minority share of no less than 30% is satisfied in the PZU Management Board;
- PZU has applied best practices promoting diversity and is committed to equal treatment of its employees; moreover, the issues related to activities aimed at ensuring gender equality, appropriate working condition and respect for employee rights are regulated in the Human Rights Policy in the PZU Group adopted by a resolution of the PZU Management Board;
- 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;
- 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.
- implementation of this rule in respect to criteria such as: education, knowledge and experience, is effected pursuant to the Rules for assessment of suitability of the PZU Supervisory Board and Audit Committee adopted by the PZU Shareholder Meeting and the Rules for assessment of suitability of PZU Management Board members adopted by resolution of the PZU Supervisory Board. Information on the assessment of PZU Supervisory Board members and candidates for

PZU Supervisory Board members is presented to the PZU Shareholder Meeting.

- Rule 4.1. according to which the Company should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed.

With respect to this rule, PZU notes that the shareholders of PZU have not notified the Company of any expectations regarding the need and rationale for organizing an e-Shareholder Meeting. Moreover, PZU believes that there are many technical and legal factors that may affect the proper course of the shareholder meeting if an e-Shareholder Meeting is introduced. The legal doubts pertain to the ability to identify shareholders and check the legitimacy of participants in the shareholder meeting. The risk of the occurrence of technical difficulties, e.g. with the internet connection or possible external interference in the IT systems may disrupt the work of the shareholder meeting and evince doubts concerning the efficacy of the resolutions adopted during its course. The appearance of these risks may affect the proper application of this rule to a full extent.

Detailed information on the status of PZU's application of the rules laid down in the Best Practices of WSE Listed Companies 2021 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 rules laid down in the Best Practices of WSE Listed Companies 2021 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:

- The Company is committed to proper communication with stakeholders, conducting a transparent and reliable information policy, which includes posting all information of importance for investors on its website. It 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;

- The Company makes it possible to review its financial results included in the interim report as soon as possible after the end of the reporting period;
- The Company posts information on the goals of its strategy, including the ESG strategy, on its website;
- The Company sets aside administrative and financial resources required to ensure efficient operation of the Company's Supervisory Board;
- Members of the PZU Management Board and Supervisory Board strive to apply the rules applicable to them to the fullest possible extent, which include:
  - in 2021, functions on the PZU Management Board were the main area of the professional activity of PZU Management Board Members,
  - a consent from the PZU Supervisory Board is required for PZU Management Board Members to hold positions in corporate bodies outside of the PZU Group,
  - Supervisory Board members devoted the time necessary to perform their duties.
  - The PZU Supervisory Board Chairman does not combine this function with that of chairperson of the Audit Committee operating within the PZU Supervisory Board,
  - the required number of PZU Supervisory Board Members meet the independence criteria laid down in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision and have no actual and material relations with any shareholder holding at least 5% of the total vote in the Company;
- The Company maintains effective internal control, risk management and compliance systems as well as an effective internal control function, corresponding to its size and type and scale of operations, operating in accordance with the requirements of Chapter 3 of the Best Practices of WSE Listed Companies 2021;
- PZU makes every effort to ensure that the Company's Shareholder Meetings are held in compliance with the requirements set forth in Chapter 4 of the Best Practices of WSE Listed Companies 2021, except for recommendation 4.1, as described above;
- PZU has internal regulations in place that guarantee compliance with the rules contained in Chapter 5 of the Best Practices of WSE Listed Companies 2021 regarding conflicts of interest and transactions with related parties.
- PZU complies with the rules on remuneration as set forth in chapter 6 of the Best Practices of WSE Listed Companies 2021.

## 8.2 Financial statements control system

### Internal control system

PZU has an internal control system (ICS) in place, adjusted to the scale of its operations and its organizational structure. Its purpose 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 pertaining to 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 PZU 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.

As part of its cooperation with PZU Group entities, PZU analyzes information that it receives regularly from these entities concerning the organization of the internal control system, internal control conducted and evaluation of the internal control system, in order to improve unified standards for the operation of an effective internal control system.

### 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 carried out by 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 a shared organizational structure of the Finance Division in the PZU and PZU Życie Head Offices, which is 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, it is 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.

Consolidation packages forwarded by banks are also reconciled with their published stock exchange disclosures.

The organization and the process of preparing the financial statements are regularly reviewed by the internal audit function.

### 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 Managing Director on Audit, who heads the Internal Audit Department, reports functionally to the Audit Committee and organizationally directly to the Management Board President;
- the appointment and dismissal of the Managing Director for Audit must be consulted with 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 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 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.

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 upon a recommendation of the Audit Committee, reviews interim standalone and consolidated financial statements, audits annual standalone and consolidated financial statements and annual solvency and financial condition reports required by the Solvency II Directive (for PZU and the PZU Group).

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

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

Fee payable to the audit firm auditing PZU's financial statements (PLN 000s)	1 January – 31 December 2020	1 January – 31 December 2021
compulsory audit of the annual financial statements / consolidated financial statements	945	994
other assurance services, including a review of financial statements/consolidated financial statements	939	988
tax advisory services	-	-
other services	-	-
<b>Total</b>	<b>1,884</b>	<b>1,982</b>

Fee charged by the entity authorized to audit the PZU Group's financial statements (PLN 000s)	1 January – 31 December 2020	1 January – 31 December 2021
audit of financial statements	8,698	9,345
other assurance services	4,901	5,718
<b>Total</b>	<b>13,599</b>	<b>15,063</b>



## 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.

## 8.4 PZU's share capital and shareholders

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10 and did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

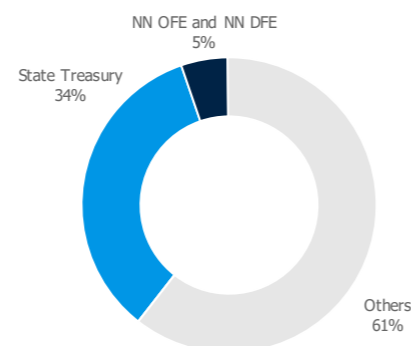
On 24 November 2015 the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date for splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

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

As at 31 December 2021 and as at the date of publication of this report, PZU shareholders holding significant equity stakes were:

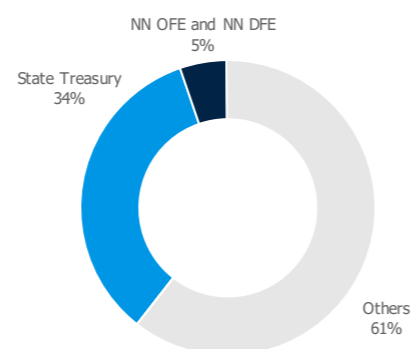
- The State Treasury of the Republic of Poland that holds 295,217,300 shares constituting 34.19% of PZU's share capital and giving it the right to 295,217,300 votes at the Shareholder Meeting;
- Funds managed by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne SA: Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open-end Pension Fund) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (Voluntary Pension Fund) that held 45,167,000 shares at PZU's Extraordinary Shareholder Meeting held on 12 October 2021, constituting 5.2305% of PZU's share capital and giving it 45,167,000 votes at the Shareholder Meeting. The PZU Management Board does not have any information about executed agreements as a result of which changes may transpire in the future in the equity stakes held by its shareholders to date.

### PZU's shareholder structure as at 31 December 2021 as at 31 December 2021



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

### PZU's shareholder structure as at 31 December 2021 as at 31 December 2020



Source: Current Report, 25/2021 (data rounded to the nearest integer)

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 2013-2021, PZU did not have any employee stock programs in place.

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

- in accordance with § 20 sec. 5 of the Articles of Association, half of Supervisory Board Members appointed by the Shareholder Meeting are elected from among persons proposed by the shareholder specified in § 37 sec. 2 of the Articles of Association, that is the shareholder who, on the date of adoption of the Shareholder Meeting resolution introducing this right holds the largest stake in the Company's share capital; this right is vested in the shareholder until its stake in the Company's share capital drops below 20%; in accordance with § 37 sec. 4 of the Articles of Association, upon expiration of the shareholder's right referred to in § 37 sec. 2 of the Articles of Association, this right is shifted to another shareholder then holding the largest stake in the Company's share capital, provided that this shareholder holds at least 20% of the share capital;
- in accordance with § 20 sec. 7 of the Articles of Association, the State Treasury has the right, in line with Article 354 § 1 of the Commercial Company Code, to appoint and dismiss one Supervisory Board Member by way of a written statement submitted to the Company's Management Board; 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, pursuant to § 16 sec. 5 of the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining

the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of 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 conveying this Activity Report, only Tomasz Kulik, Member of the PZU Management Board held 2,847 PZU shares, which the Company reported in current report 23/2018. No changes have transpired since the date of conveying the 2020 consolidated financial statements (i.e. 25 March 2021) with respect to members of the Management Board and Supervisory Board or PZU 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 2021, item 1983, 2140), namely:
  - from Article 75(4) – shares encumbered with a pledge, until the date of its expiration, may not be traded, except in a situation where the acquisition of such shares takes place in the performance of an agreement on the establishment of financial security within the meaning of the Act of 2 April 2004 on Certain Forms of Financial Security,
  - from Article 77(4) – temporary limitations on the acquisition or disposal of shares in the period between the notification of the intention to announce a public tender offer and the end of the public tender offer, applicable to the entities and to the extent specified therein,
  - from Article 88a – temporary limitations on the direct or indirect acquisition of or subscription for shares in a public company by an entity required to perform the obligations specified in Article 73(2) and (3) of the Act or Article 74(2) and (5) of the Act, which in the company in question exceeded the threshold of the total number of votes specified in these regulations – until the date of fulfillment of such obligations;
- limitations arising from Article 362 of the Commercial Company Code, regarding the prohibition of the acquisition of treasury shares by the issuer, except for the cases specified therein and limitations on the acquisition of the parent company's treasury shares by a subsidiary company or a subsidiary cooperative and persons acting on their behalf;
- limitations pertaining to the closed period referred to in Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) and insider dealing within the meaning of the provisions of MAR;
- possible objection by the regulatory authority, in the form of a decision, to the acquisition of or subscription for shares or rights attaching to shares in a domestic insurance

undertaking in a quantity ensuring the achievement or exceeding of, as the case may be, one-tenth, one-fifth, one-third, one-second of the total number of votes at the Shareholder Meeting or of a stake in share capital – in accordance with Article 90(1) of the Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2021, item 1130, 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 2021, item 1933, 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).

## 8.5 Rules for amending PZU'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.

## 8.6 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 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 deadline required by law;
- 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.

According to 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 2021

In 2021, the Ordinary Shareholder Meeting and the Extraordinary Shareholder Meeting of PZU were 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;
- issuing an opinion on the PZU Supervisory Board Report on Compensation of PZU Management Board and Supervisory Board Members for 2019-2020;
- PZU adopting the Rules for assessment of suitability of the PZU SA Supervisory Board and Audit Committee and the PZU SA Supervisory Board's report on the results of assessment of suitability of the PZU Supervisory Board and Audit Committee and confirmation of the results of the suitability assessments conducted by the PZU Supervisory Board.

The adoption of the Rules for assessment of suitability of the PZU SA Supervisory Board and Audit Committee was to implement in PZU the Methodology of assessment of

suitability of members of corporate bodies of regulated entities addressed by the Polish Financial Supervision Authority to financial market entities, including insurance companies. The methodology contains a presentation of assumptions for a model suitability assessment process of the management board members and supervisory board members of the financial market, including the prerequisites for conducting the assessment process, the assessment criteria, the supporting tools and effects of the assessment in respect to:

- primary assessment of candidates for members of corporate bodies;
- secondary assessment of members of corporate bodies, and
- collective assessment of the corporate bodies.

The agenda of the Extraordinary Shareholder Meeting contained an item on changes in the composition of the Supervisory Board.

## 8.7 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 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 in composition of the PZU Supervisory Board in 2021

As at 1 January 2021, the following persons sat on the PZU Supervisory Board:

- 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.

On 7 June 2021, Maciej Łopiński submitted his resignation from serving in the capacity of Chairman of the PZU Supervisory Board and from membership in the Supervisory Board.

Accordingly, from 8 June 2021 the Supervisory Board's composition was as follows:

- 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.

On 16 June 2021, the PZU Ordinary Shareholder Meeting appointed Paweł Mucha to the Supervisory Board. On the same day, the Supervisory Board appointed Paweł Mucha the Chairman of the Supervisory Board.

Accordingly, from 16 June 2021 the Supervisory Board's composition was as follows:

- Paweł Mucha – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Robert Śnitko – Supervisory Board Secretary;

### PZU's Supervisory Board composition as at 31 December 2021

Name	Period of acting in the capacity of a PZU Supervisory Board Member
Paweł Mucha	Supervisory Board Chairman since 16 June 2021 (on the Supervisory Board since 16 June 2021)
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
Elżbieta Mączyńska-Ziemacka	Supervisory Board Member since 24 May 2019
Krzysztof Opolski	Supervisory Board Member since 24 May 2019
Radosław Sierpiński	Supervisory Board Member since 12 October 2021
Józef Wierzbowski	Supervisory Board Member since 26 May 2020
Maciej Zaborowski	Supervisory Board Member since 7 January 2016

- 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.
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- Elżbieta Mączyńska-Ziemacka – Supervisory Board Member;
- Krzysztof Opolski – Supervisory Board Member;
- Radosław Sierpiński – Supervisory Board Member;
- Józef Wierzbowski – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

On 11 October 2021, Mr. Tomasz Kuczur tendered his resignation from membership in the PZU SA Supervisory Board, effective as of 11 October 2021.

On 12 October 2021, the Extraordinary Shareholder Meeting of PZU appointed Radosław Sierpiński to the PZU Supervisory Board.

Accordingly, from 12 October 2021 the Supervisory Board's composition was as follows:

- Paweł Mucha – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Robert Śnitko – Supervisory Board Secretary;
- Marcin Chludziński – 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 server in their capacity, i.e. for 2022.

Paweł Mucha, Robert Śnitko, Robert Jastrzębski, 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).





**Paweł Mucha**

Supervisory Board Chairman

On the Supervisory Board since 16 June 2021.

Attorney-at-law, graduated from the Faculty of Law and Administration at the Adam Mickiewicz University in Poznań. Social adviser to Andrzej Duda, the President of Poland and Adviser to Adam Glapiński, the President of the National Bank of Poland. From 2016 to 2020 he was the Secretary of State in the Office of the President of the Republic of Poland and from 2017 to 2020 the Deputy Head of the Office of the President of the Republic of Poland. Councillor (radny) of the Zachodniopomorskie Voivodeship assembly. He has gained experience in supervisory and control authorities in providing legal services to businesses, including companies of vital importance for the state economy, individuals and organizational units of local governments. From July 2010 to December 2016 he ran an independent legal practice. In 2016 he was entered in the list of non-practicing attorneys. University teacher.



**Paweł Górecki**

Supervisory Board Deputy Chairman

On the Supervisory Board since 8 February 2017

Doctor of juridical science and attorney-at-law Graduated from the Faculty of Law, Administration and Economics of the University of Wrocław. He attended numerous training courses and workshops in law of evidence, civil and penal law and management of public entities. He has authored several dozen peer-reviewed papers on the subject of law published by Polish and international journals. 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

On 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. University teacher, advisor to the Management Board of Totalizator Sportowy Sp. z o.o. 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, the 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 (an 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

Graduated from the Faculty of Law and Administration at the University of Warsaw. In 2001 he was granted a doctoral degree in juridical science and in 2009 a habilitated Ph.D. degree. Affiliated with the Faculty 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 Faculty 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, an Award from the Rector of the University of Warsaw for activity that contributes to growth and improves the recognition of the University of Warsaw. Since 2015, Head of the Laboratory of Polish 20th Century Law and since 2019 Head of the History of Administration Department. Member of: among others, the editorial committee of the journal "Studia z Dziejów Państwa i Prawa Polskiego" [Studies in the History of Polish State and Law] (2015), the editorial team of the journal "Zeszyty Naukowe Biura Analiz Sejmowych" [Scholarly Papers of the Sejm Analysis Office] (2016) and the program board of the "Marketing i Rynek" [Marketing and Market] journal (2019).



**Elżbieta Mączyńska-Ziemacka**

Supervisory Board Member

On the Supervisory Board since 24 May 2019

Graduate of the Faculty of Economics at the University of Warsaw. Professor of economic science. The 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. In 2005-2021 the President of the Polish Economic Society, currently the honorary president. Member of the Supervisory Board of Polski Bank Rozwoju S.A. in 1996-1998 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 established by the President of the Republic of Poland.

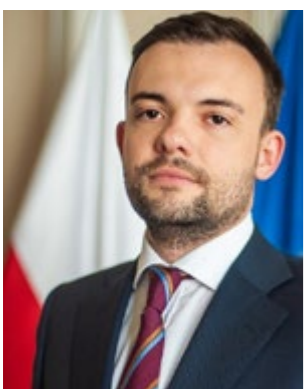


## Krzysztof Opolski

Supervisory Board Member

On the Supervisory Board since 24 May 2019

Ordinary professor, habilitated doctor of economic sciences. Former 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*. [Economy. Market, Economic System, Society]. The concept author and head of numerous post-graduate studies, including “Strategic audit in public and private institutions”, “Economic efficiency of businesses”. Chief Editor of the journal “MAZOWSZE – Studia Regionalne” [“MAZOVIA – Regional Studies”], member of the Editorial Board of the journal “Bezpieczny Bank” [“Safe Bank”] journal, a member of the Academic Councils of the “Central European Economic Journal” and “E-Finanse” [“E-Finances”]. 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. He is a published author of numerous books and academic articles on finance and management.



## Radosław Sierpiński

Supervisory Board Member

On the Supervisory Board since 12 October 2021

President of the Medical Research Agency. Prime Minister’s Plenipotentiary for the Development of the Biotechnology Sector and Poland’s Independence in Blood Derivative Products. Physician and manager, specializing in medical management, clinical research, HTA and science management. He has extensive research and development experience in biotechnology and has extensive contacts with international scientific and health management institutions.



## 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

Graduated from the Faculty of Law and Administration 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:

- 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 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 Rules and Regulations 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 the net amount of PLN 500,000 thousand annually;
- executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee;
- executing a donation or other agreement having a similar effect, the value of which exceeds PLN 20,000 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements;
- executing a debt release agreement or another 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.

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 management boards or supervisory boards 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 2021

The Supervisory Board held 14 meetings in 2021 at which it adopted 142 resolutions. It also adopted 8 resolutions between meetings by 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 2021, 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 2021–2024 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 2021 were held in the hybrid form – some Supervisory Board Members participated in the meetings on site and some remotely.

During regular meetings held in 2021 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.

### Audit Committee

The Audit Committee was appointed by a Supervisory Board resolution of 3 June 2008.

## Attendance of Members in Supervisory Board meetings in 2021

	Attendance at meetings	Number of meetings over the time of performing the mandate
Maciej Łopiński (until 7 June 2021)	7	7
Paweł Mucha (from 16 June 2021)	6	6
Paweł Górecki	13	14
Robert Śnitko	14	14
Marcin Chłudziński	12	14
Agata Górnicka	14	14
Robert Jastrzębski	14	14
Tomasz Koczur (until 11 October 2021)	12	12
Elżbieta Mączyńska-Ziemacka	14	14
Krzysztof Opolski	14	14
Radosław Sierpiński (from 12 October 2021)	2	3
Józef Wierzbowski	14	14
Maciej Zaborowski	13	14

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;
- providing advice and issuing opinions within the scope of the Supervisory Board's powers relating to the activities specified in the four items above and to the extent permitted by the prevailing provisions of law and the Company's internal regulations;
- 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;
- 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 2021

The following persons sat on the Audit Committee as at 1 January 2021:

- Krzysztof Opolski – Committee Chairman;
- Marcin Chłudziński – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2021 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 Chłudziński, 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. He discharged the function of director of the Sectoral, Local and Game Taxes at the Ministry of Finance. Currently he is an advisor to the Management Board of Totalizator Sportowy Sp. z o.o.

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 General Counsel to the Republic of Poland. He has experience on supervisory positions in commercial law companies.

### Activity of the Audit Committee in 2021

In 2021, the Audit Committee held 11 meetings.

Key issues addressed by the Audit Committee in 2021:

- discussion of the risk report for Q4 2020 and for Q1-3 2021;
- discussion of the annual report on the Internal Audit Department's activity in 2020;
- discussion of the findings of external inspections conducted in PZU in 2020;

- discussion on the report on the Internal Audit Department's activity in Q4 2020 and Q1-3 2021;
- submission of recommendations to the PZU Supervisory Board on approving the Strategy in the risk management area;
- discussion of the draft audit plan for 2022;
- assessment of PZU's financial statements and the PZU Group's consolidated financial statements for the year ended 31 December 2020, and the Management Board report on the activity of the PZU Group and PZU in 2020, with the report on non-financial information;
- discussion on the results of PZU and the PZU Group for 2020, the H1 2021 and Q1 and Q3 2021;
- assessment of the PZU Management Board's motion to the Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2020;
- discussion of the additional report for the Audit Committee;
- acceptance of the Audit Committee's report on its activity in 2020;
- review the draft PZU Supervisory Board report on its assessment of PZU's financial statements for the year ended 31 December 2020, the consolidated financial statements of the PZU Group for the year ended 31 December 2020, the Management Board report on the activity of the PZU Group and PZU in 2020 and the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2020;
- extension of the order for KPMG Audyt 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 2023;

- discussion of the Financial Plan of PZU and the PZU Group for 2021;
- discussion of the Financial Plan of PZU and the PZU Group for 2022;
- issuing recommendations to the Supervisory Board on the assessment of the solvency and financial condition report of PZU for the year ended 31 December 2020;
- 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 2020.

The Audit Committee adopted resolutions on the acceptance of the permitted services to be provided by PZU's auditor, KPMG Audyt 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, in particular, issuing opinions and presenting

recommendations to the Supervisory Board with regard to its decisions made with regard 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.

### Changes in the composition of the Nomination and Compensation Committee in 2021

As at 1 January 2021, the composition of the Nomination and Compensation Committee was as follows:

- Robert Jastrzębski – Committee Chairman;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Tomasz Kuczur – Committee Member;
- Maciej Łopiński – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member.

In connection with the resignation of Maciej Łopiński from the Supervisory Board, on 7 June 2021 his membership in the Nomination and Compensation Committee also ceased.

As of 8 June 2021, the composition of the Nomination and Compensation Committee was as follows:

- Robert Jastrzębski – Committee Chairman;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Tomasz Kuczur – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member.

### Attendance of members in Audit Committee meetings in 2021:

	Attendance at meetings	Number of meetings over the time of performing the mandate
Krzysztof Opolski	11	11
Marcin Chludziński	9	11
Robert Śnitko	11	11
Maciej Zaborowski	10	11

On 16 June 2021, the Supervisory Board established the following composition of the Nomination and Compensation Committee:

- Robert Jastrzębski – Committee Chairman;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Tomasz Kuczur – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member;
- Paweł Mucha – Committee Member.

In connection with the resignation of Tomasz Kuczur from the Supervisory Board tendered on 11 October 2021, effective on 11 October 2021, his membership in the Nomination and Compensation Committee also ceased.

On 12 October 2021, the Supervisory Board established the following composition of the Nomination and Compensation Committee:

- Robert Jastrzębski – Committee Chairman;
- Paweł Górecki – Committee Member;
- Agata Górnicka – Committee Member;
- Elżbieta Mączyńska-Ziemacka – Committee Member;
- Paweł Mucha – Committee Member;
- Radosław Sierpiński – Committee Member.

As at 31 December 2021 the composition of the Committee did not change.

Robert Jastrzębski, Paweł Mucha and Elżbieta Mączyńska-Ziemacka submitted representations that they met 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 2021

In 2021, 6 meetings were held.

Key issues addressed by the Nomination and Compensation Committee in 2021:

- defining the Management Objectives for the Company’s Management Board Members for 2021;
- conducting a recruitment procedure for a new Member of the PZU Management Board;
- discussing a Report on implementation of the Compensation Policy for the PZU Management Board and Supervisory Board Members;
- submitting a recommendation to the PZU Supervisory Board on giving consent to pay Members of the PZU Management Boards of deferred variable compensation

- under management services provision agreement for 2017, 2018 and 2019;
- assessing the attainment of Management Objectives for 2020 and variable compensation of PZU Management Board Members for 2020;
- discussing the PZU Supervisory Board Report on Compensation of PZU Management Board and Supervisory Board Members for 2019-2020;
- discussing an amendment to the “Rules for assessment of suitability of the PZU SA 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 amendment to the Rules for assessment of suitability of the PZU Management Board;
- assessment of suitability of PZU Management Board Members (individual and collective assessment);
- discussing the amendment to the Rules and Regulations of the PZU Supervisory Board’s Nomination and Compensation Committee.

### 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 2021

As at 1 January 2021, the composition of the Strategy Committee was as follows:

- Robert Śnitko – Committee Chairman;
- Marcin Chłudziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2021 the composition of the Committee did not change.

### Activity of the Strategy Committee in 2021

In 2021, 6 meetings were held.

Key issues addressed by the Strategy Committee in 2021:

- discussing the quarterly reports on the implementation of the PZU Group Strategy “New PZU”;
- discussing the summary of the implementation of the PZU Group Strategy “New PZU”;
- discussing the ESG Strategy for 2021-2024;
- recommending adoption of the new PZU Group Strategy in 2021-2024 to the Supervisory Board;
- discussing the half-year report on the implementation of the PZU Group Strategy in 2021-2024.

Most Committee meetings were attended also by the remaining Supervisory Board Members.

### Attendance of Members in Nomination and Compensation Committee meetings in 2021

	Attendance at meetings	Number of meetings over the time of performing the mandate
Robert Jastrzębski	9	9
Paweł Górecki	8	9
Agata Górnicka	9	9
Tomasz Kuczur (NCC member until 11 October 2021)	8	8
Maciej Łopiński (NCC member until 7 June 2021)	3	3
Paweł Mucha (NCC member from 16 June 2021)	5	5
Elżbieta Mączyńska-Ziemacka	9	9
Radosław Sierpiński (członek KNiW od 12 października 2021 roku)	1	2

## Attendance of members in Strategy Committee meetings in 2021

	Attendance at meetings	Number of meetings over the time of performing the mandate
Robert Śnitko	6	6
Marcin Chludziński	5	6
Agata Górnicka	6	6
Robert Jastrzębski	6	6
Maciej Zaborowski	3	6

## 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 2021, 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 2021:

As at 1 January 2021, the composition of the Management Board 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.

On 7 June 2021, Marcin Eckert submitted his resignation from being a PZU Management Board Member.

Accordingly, as of 8 June 2021, the Management Board composition was as follows:

- Beata Kozłowska-Chyła – President of the Management Board;
- Ernest Bejda – 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 20 July 2021, the Supervisory Board appointed Krzysztof Kozłowski to the position of Management Board Member, effective as of 4 August 2021.

Accordingly, as of 4 August 2021 and as at 31 December 2021, the Management Board composition was as follows:

- Beata Kozłowska-Chyła – President of the Management Board;
- Ernest Bejda – Management Board Member;
- Małgorzata Kot – Management Board Member;
- Krzysztof Kozłowski – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member;
- Krzysztof Szypuła – Management Board Member.

On 4 February 2022, Krzysztof Szypuła tendered his resignation from the PZU Management Board.

Accordingly, as of 5 February 2022, the Management Board composition was as follows:

- Beata Kozłowska-Chyła – President of the Management Board;
- Ernest Bejda – Management Board Member;
- Małgorzata Kot – Management Board Member;
- Krzysztof Kozłowski – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

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 2021:

- Aleksandra Agatowska;
- Bartłomiej Litwińczuk;
- Dorota Macieja.

On 4 February 2022, Krzysztof Szypuła was appointed to the position of a PZU Group Director in PZU.

The following persons served as PZU Group Directors in PZU Życie in 2021:

- Krzysztof Kozłowski (as of 4 August 2021);
- Ernest Bejda (until 24 August 2021).

## 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. On 10 February 2021, the Supervisory Board approved the amendments to the Rules and Regulations of the Management Board.

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:

- adopting 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;
- the Company granting sureties and guarantees, excluding guarantees and sureties which constitute insurance operations within the meaning of the Act of 11 September 2015 on Insurance and Reinsurance Activity;
- the Company contracting credit facilities, the Company contracting or providing loans – excluding loans granted from the Company Social Benefits Fund and taking into account deviations specified in investment activity rules, introduced by the resolution referred to in § 4 item 19 of the Rules and Regulations of the Management Board;
- 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 2021 the PZU Management Board held 59 meetings. Due to the COVID-19 pandemic meetings were held in the mixed format – on-site and using means of direct remote communication, or using means of direct remote communication exclusively. 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 2021 the PZU Management Board adopted 368 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.

The following page presents the responsibilities of the Board Members who are on the Board in 2021.





## The scopes of responsibilities of the Management Board Members in office in 2021:

Name (Management Board composition at yearend 2021)	In the PZU Group	Scope of responsibilities (at yearend 2021)
Beata Kozłowska-Chyla	President of the PZU Management Board since 2 October 2020 /acting President of the PZU Management Board from 12 March to 1 October 2020	audyt wewnętrzny, compliance, strategia Grupy PZU, analizy strategiczne, komunikacja korporacyjna, reasekuracja
Aleksandra Agatowska	Member of the PZU Management Board from 24 October 2019 to 19 February 2020 / PZU Group Director in PZU from 25 March 2016 to 23 October 2019, reappointed to the position of a PZU Group Director at PZU as of 20 February 2020 President of the PZU Życie SA Management Board since 15 February 2021 / acting President of the PZU Życie Management Board from 19 February 2020 to 14 February 2021 / Member of the PZU Życie Management Board since 25 March 2016	PZU and PZU Życie: marketing, sponsoring, prevention, customer experience management, 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 Member of the PZU Życie Management Board since 25 August 2021 / PZU Group Director in PZU Życie from 4 May 2020 to 24 August 2021	PZU and PZU Życie: security, procurement, insurance operations, claims handling, assistance, remote client service, process digitalization, analyses and process efficiency
Krzysztof Kozłowski	Member of the PZU Management Board since 4 August 2021 PZU Group Director in PZU Życie since 4 August 2021	PZU and PZU Życie: corporate management and corporate governance in the PZU Group, administration, project management PZU: business development in the PZU Group
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
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, multi-agent and broker channels), remote sales, retail distribution strategy, retail sales support, sales analyses PZU: retail sales (dealer channel) PZU Życie: agency sales, corporate sales
Maciej Rapkiewicz	Member of the PZU Management Board since 22 March 2016 Member of the PZU Życie Management Board since 25 May 2016	risk
Dorota Macieja	Member of the PZU Życie Management Board since 15 March 2017 PZU Group Director in PZU since 15 March 2017	sustainable development, customer communication, real estate

Name (Management Board composition at yearend 2021)	In the PZU Group	Scope of responsibilities (at yearend 2021)
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: assurbanking, bancassurance, strategic partnership programs, corporate business development PZU: corporate sales PZU Życie: bank protection products, investment products, sales of investment products
Krzysztof Szypuła	Member of the PZU Management Board from 10 September 2020 to 4 February 2022 Member of the PZU Życie Management Board since 10 September 2020	PZU and PZU Życie: IT, innovation, digital services, development of mobile applications, management of health products, CRM, strategic management of product offering, underwriting PZU: mass products and insurance program management, tariff actuarial services PZU Życie: group and individual products management, tariff actuarial services
Bartłomiej Litwińczuk	Member of the PZU Życie Management Board since 19 August 2016 PZU Group Director in PZU since 19 August 2016	HR, advisory services and legal services

## In 2021, there were the following standing committees, in which Management Board Members and PZU Group Directors worked:

### PZU Pricing Committee

Purpose	defining the pricing policy in accordance with PZU's strategy
Tasks	<ul style="list-style-type: none"> <li>defining the pricing strategy and tactics through formulation of guidelines</li> <li>for the PZU Head Office organizational units responsible for tariff setting in product groups or insurance products as regards prices and assumptions pertaining to product profitability;</li> <li>monitoring pricing-related actions undertaken by directors authorized by the Management Board;</li> <li>monitoring the key ratios for key insurance products, including profitability levels and loss ratios;</li> <li>taking a stand on other key issues which influence</li> <li>product profitability and tariff-setting mechanisms.</li> </ul>

## Data Governance Committee

Purpose	coordination of Data Governance management processes at PZU and PZU Życie
Tasks	<ul style="list-style-type: none"> <li>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;</li> <li>defining the Data Governance strategy;</li> <li>approving the draft Data Governance Policy and recommending its adoption to the Management Board;</li> <li>approving the draft Solvency II Data Quality Management Policy and recommending its adoption to the Management Board;</li> <li>controlling and enforcing the rules laid down in the Data Governance Policy and Solvency II Data Quality Policy;</li> <li>monitoring the data quality level and efficiency of the processes associated with data quality on the basis of annual Data Quality Coordinator’s reports;</li> <li>issuing 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;</li> <li>resolving major disputes associated with data quality presented by the Data Governance Coordinator;</li> <li>accepting assignment of the Company’s business units and organizational units to the Data Owner’s role;</li> <li>making decisions on waiving the rules laid down in the Data Governance Policy and Solvency II Data Quality Management Policy.</li> </ul>

## Innovations Committee

Purpose	coordination and management of overall issues associated with innovations at PZU and PZU Życie
Zadania	<ul style="list-style-type: none"> <li>reviewing and issuing guidelines regarding the PZU Group’s Innovation Strategy;</li> <li>defining innovation search areas;</li> <li>managing the portfolio of potential and current innovations, in particular making decisions recognizing purchased items as innovations and giving consent to purchases in accordance with the internal acts in place in PZU and PZU Życie;</li> <li>approving the rules and regulations of competitions and resolving competitions associated with innovations.</li> </ul>

## Investment Committee

Purpose	taking, and issuing opinions on, investment decisions; defining exposure limits in PZU and PZU Życie; making decisions to accept risk in financial insurance in PZU
Tasks	<ul style="list-style-type: none"> <li>making investment decisions on: <ul style="list-style-type: none"> <li>individual transactions to the extent defined in the attachment to the “Investment activity rules and regulations”,</li> <li>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;</li> </ul> </li> <li>issuing opinions on investment decisions; <ul style="list-style-type: none"> <li>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,</li> <li>issuing opinions on investment decisions on the request of the Management Board Member overseeing the Investment Division;</li> </ul> </li> <li>defining exposure limits in individual entities or groups of entities up to PLN 600,000,000 through setting credit limits and concentration limits;</li> <li>making decisions on accepting risks in financial insurance – to the extent specified in a resolution adopted by the PZU Management Board setting out the powers to accept risk in financial insurance.</li> </ul>

## Cost Committee

Purpose	coordination of actions aimed at reducing the costs of PZU and PZU Życie, in particular fixed costs of insurance activity, in accordance with the PZU Group strategy
Tasks	<ul style="list-style-type: none"> <li>identification of the areas of operation of PZU and PZU Życie in which it is possible to reduce the costs and obtain savings, in particular with regard to fixed costs;</li> <li>defining the cost strategy through formulation of guidelines for business units and organizational units;</li> <li>monitoring the level of costs in individual areas of activity of PZU and PZU Życie;</li> <li>taking a stand on key issues associated with cost cuts;</li> <li>regular monitoring of the effects of implemented cost optimization solutions and evaluation of attainment of the objectives set for task forces;</li> <li>deciding on submission of requests for special bonuses for task force members.</li> </ul>

## PZU Group Risk Committee

Purpose	coordination and supervision over PZU, PZU Życie and PZU Group’s risk management system and processes
Tasks	<p>excluding the tasks and decisions within the powers of PZU and PZU Życie governing bodies and other committees operating in PZU and PZU Życie’s organizational structures:</p> <ul style="list-style-type: none"> <li>monitoring the solvency of PZU, PZU Życie and the PZU Group;</li> <li>supervising the risk management system and processes for the following risks: <ul style="list-style-type: none"> <li>actuarial risk;</li> <li>market risk;</li> <li>credit risk;</li> <li>operational risk, with special focus on IT and security risk;</li> <li>compliance risk;</li> </ul> </li> </ul> <p>with regard to their monitoring, assessment and making decisions on their acceptance or mitigation;</p> <ul style="list-style-type: none"> <li>supervision resulting from establishing the PZU Group as a financial conglomerate, in particular over: <ul style="list-style-type: none"> <li>capital adequacy of the financial conglomerate and the strategy to proceed in that regard;</li> <li>the material intra-group transaction area;</li> <li>financial conglomerate risk concentration area;</li> <li>risk management area and internal control area;</li> </ul> </li> <li>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).</li> </ul>

## Investment Risk Committee

Purpose	decision-making regarding market, credit and concentration risks in PZU and PZU Życie on: (i) permissible sizes of individual risks; (ii) policies and methodologies for management of individual risks
Tasks	<ul style="list-style-type: none"> <li>issuing opinions on draft internal regulations, rules or decisions presented to the Management Board, including: <ul style="list-style-type: none"> <li>credit and concentration risk management policy;</li> <li>market risk management policy;</li> </ul> </li> <li>presenting recommendations to the Management Board regarding the maximum allocation of capital to risks;</li> <li>making pertinent decisions, including: <ul style="list-style-type: none"> <li>defining the division of the maximum capital allocation to individual risks between the Company’s organizational structures and investment management entities;</li> <li>approving documents pertaining to risk management policies and methodologies;</li> <li>approving the investment objectives and guidelines or investment limitations regarding risk limits for the Company’s organizational structures and investment management entities;</li> <li>defining credit and concentration limits in individual entities or groups of entities above PLN 600,000,000;</li> <li>setting exposure limits and limitations for individual types of financial insurance.</li> </ul> </li> <li>monitoring the implementation of the Management Board’s decisions.</li> </ul>

## Sponsorship, Prevention and CSR Committee

**Purpose** ensuring correct execution of PZU and PZU Życie's sponsorship, prevention and corporate social responsibility (CSR) activities and supervision over these areas and ensuring consistency of actions

- Tasks**
- 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 PZU and PZU Życie 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**
- 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**
- 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-Liability Management 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 of PZU and PZU Życie

- Tasks**
- 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, and adopting recommendations for Management Boards or organizational structures at PZU and PZU Życie,
    - issuing opinions on the investment strategy,
    - recommending the levels of technical rates,
    - recommending efforts increasing the level of own funds and increasing liquidity;
  - making decisions on:
    - 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:
      - approving the model asset allocation for the given year and deviation limits within the investment strategy approved by the Management Boards of PZU and PZU Życie,
      - approving the investment objectives and guidelines or investment limitations and benchmarks for the organizational structures of PZU and PZU Życie 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**
- oversight over the operation of the business continuity management system in PZU and PZU Życie;
  - crisis management in PZU and PZU Życie

- Tasks**
- Tasks pertaining to oversight over business continuity management system:
- current oversight over the business continuity management system in PZU and PZU Życie 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.
- Tasks pertaining to crisis management:
- assessment, analysis and projection of the effects of occurring events, in particular financial and non-financial losses and impact on the activity of PZU and PZU Życie;
  - monitoring the internal and external environment of PZU and PZU Życie, 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 PZU and PZU Życie, including with its Management Board, other PZU Group entities, and the PZU Group spokesperson regarding external information campaigns.

## Initiatives Management Committee

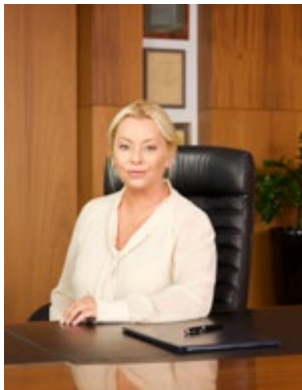
Cel	supervising and setting the directions of the actions as part of Initiatives management in PZU and PZU Życie
Tasks	<p>Key tasks:</p> <ul style="list-style-type: none"> <li>approving the distribution of the budget earmarked for projects to key business areas proposed by the Project Department, in accordance with the project activity rules;</li> <li>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 Business Architect Councils (RABs - the teams that prioritize tasks and implementing Initiatives within the dedicated area and the awarded IT capacity);</li> </ul> <p>Other tasks:</p> <ul style="list-style-type: none"> <li>accepting rules for prioritizing the initiatives developed by the Project Department and the IT Design and Efficiency Department;</li> <li>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;</li> <li>prioritizing the executed projects and making decisions on allocating IT capacity in connection with the priorities;</li> <li>making directional decisions associated with changes of the IT capacity and division of the IT capacity within the current operations of PZU and PZU Życie;</li> <li>making directional decisions associated with changes of the budget earmarked for projects;</li> <li>making decisions on creation, change and liquidation of dedicated areas and RABs together with apportioning IT capacity for them;</li> <li>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;</li> <li>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;</li> <li>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.</li> </ul>

## Functions discharged by Management Board Member and PZU Group Directors in standing committees:

Name (Management Board composition at yearend 2021)	Participation in committee works (at yearend 2021)
Beata Kozłowska-Chyła President of the PZU Management Board	Head of the Crisis Management Team Committee Chairperson: Investment Risk Committee, Asset-Liability Management Committees Committee Deputy Chairperson: PZU Group Risk Committee Committee Member: Initiatives Management Committee
Aleksandra Agatowska President of the PZU Życie Management Board / PZU Group Director at PZU	Deputy Head of the Crisis Management Team Committee Member: PZU Group Risk Committee, Investment Risk Committee, Asset-Liability Management Committees, Initiatives Management Committee

Name (Management Board composition at yearend 2021)	Participation in committee works (at yearend 2021)
Ernest Bejda Member of the PZU Management Board / Member of the PZU Życie Management Board	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-Liability Management Committees, Initiatives Management Committee
Krzysztof Kozłowski Member of the PZU Management Board / PZU Group Director in PZU Życie	Member of the Crisis Management Team for Corporate Matters and Administration Committee Member: Innovations Committee, PZU Group Risk Committee, Initiatives Management 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-Liability Management Committee Committee Member: PZU Group Risk Committee, Investment Risk Committee, Property Sales 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 Committee, Investment Risk Committee Committee Member: Data Governance Committee, Asset-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	Member of the Crisis Management Team for IT Committee Chairperson: PZU Pricing Committee, Innovations Committee, Initiatives Management Committee Committee Deputy Chairperson: Data Governance Committee Committee Member: Investment Committee, PZU Group Risk Committee, Investment Risk Committee, Procurement Committee, Asset-Liability 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: 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)

Graduated from legal studies at the Faculty of Law and Administration of the University of Warsaw. She received her doctoral degree in juridical science, and subsequently the scientific degree of habilitation. She is a lecturer at the Faculty 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 March 2020 / PZU Życie Management Board Member since 25 August 2021 (earlier a PZU Group Director from 4 May 2020 to 24 May 2021)

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.



**Krzysztof Kozłowski**

PZU Management Board Member since 4 August 2021 / PZU Group Director since 4 August 2021

Holds a doctoral degree in juridical science obtained in 2010 from the Faculty of Law and Administration of the Jagiellonian University. Since 2011 he has been an assistant professor at the Constitutional Law Faculty at the Faculty of Law and Administration of the Jagiellonian University. He has authored several dozen scientific publications and participated in overseas residencies, internships and research programs. In 2013 he was entered in the list of non-practicing attorneys. He has also passed the judge exam. From 2013 to 2015 he was an assistant judge of the Constitutional Court. From 2013 to 2015 he was a representative-substitute in the Group of Independent Experts on the European Charter of Local Self-Government of the Council of Europe in Strasbourg. Vice-President of the Management Board of Bank Pekao S.A. overseeing the Strategy Division from April 2020 to August 2021. Chairman of the Supervisory Board in Grupa Azoty Zakłady Chemiczne "Police" S.A. and Polskie Radio – Regionalna Rozgłośnia w Szczecinie "PR Szczecin" S.A.



**Małgorzata Kot**

Member of the PZU Management Board since 10 September 2020 / PZU Życie Management Board 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 Faculty of Finance and Management at the Warsaw School of Economics. He received an MBA from the University of Illinois and completed the Warsaw - Illinois Executive MBA programme. A member of The Association of Chartered Certified Accountants (ACCA) and a graduate of the Advanced Management Program at Harvard Business School in Boston. He has been involved with the financial market since the beginning of his professional career, where he held numerous positions in regulated institutions of the insurance, banking and asset management sectors. He has been working for the PZU Group since 2012, where he holds the position of the Group's CFO and a member of the management board supervising the finance, investment, capital management and investor relations areas. Previously, he was associated with Aviva Group (former Commercial Union) for a long time. Additionally, he is Chairman of the Supervisory Board of TFI PZU.



**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 Faculty of Law and Administration 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 Szpuła**

Member of the PZU Management Board since 10 September 2020 / PZU Życie Management Board since 10 September 2020 oraz PZU Group Director since 4 February 2022  
 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 and PZU Życie he served in the capacity of Managing Director for Product Strategy.



**Aleksandra Agatowska**

President of the PZU Życie Management Board since 15 February 2021 (Acting President of the PZU Życie Management Board from 19 February 2020 to 14 February 2021) / Member of the PZU Życie Management Board from 25 March 2016 / Member of the PZU Management Board from 24 October 2019 until 19 February 2020 and PZU Group Director (from 25 March 2016 to 23 October 2019, and again since 20 February 2020)  
 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  
 Graduated from 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.



**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. 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".

## 8.8 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 of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Some 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%, while the additional compensation does not add up.

### 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 2021, the benefits to which PZU Management Board members are entitled under the variable compensation system for the years 2017-2019 were awarded and paid. This payment was for the non-deferred portion of variable compensation and the first and second tranche of the deferred variable compensation for 2017 and 2018 and the first one for 2019.

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 2021, 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 2020 or 2019 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 000s)	1 January – 31 December 2020		1 January – 31 December 2021	
		including part of variable compensation for 2017 - 2019		including part of variable compensation for 2017 - 2020
<b>Management Board, of which:</b>	<b>13,210</b>	<b>4,227</b>	<b>14,332</b>	<b>5,849</b>
Beata Kozłowska-Chyła	776	-	1,479	465
Ernest Bejda	617	-	1,350	370
Małgorzata Kot	297	-	1,153	173
Krzysztof Kozłowski	n/a	n/a	405	-
Tomasz Kulik	1,567	637	1,788	808
Maciej Rapkiewicz	1,567	637	1,788	808
Małgorzata Sadurska	1,581	651	1,801	822
Krzysztof Szypuła	415 <sup>1</sup>	-	1,153	173
Marcin Eckert	1,321	391	1,316 <sup>2</sup>	645
Aleksandra Agatowska	356	282	94	94
Adam Brzozowski	1,395 <sup>3</sup>	310	711 <sup>4</sup>	454
Elżbieta Häuser – Schöneich	1,395 <sup>5</sup>	310	711 <sup>6</sup>	454
Roger Hodgkiss	318	318	179	179
Paweł Surówka	1,605 <sup>7</sup>	691	404	404
<b>High-level managers (PZU Group Directors), including:</b>	<b>2,480</b>	<b>847</b>	<b>2,370</b>	<b>1,180</b>
Aleksandra Agatowska	384	-	673	267
Bartłomiej Litwińczuk	616	244	705	313
Dorota Macieja	616	244	705	313
Małgorzata Kot	140	-	90	90
Roman Pałac	618 <sup>8</sup>	253	138	138
Tomasz Karusewicz	106	106	59	59
<b>Management Board, of which:</b>	<b>2,007</b>	<b>-</b>	<b>2,134</b>	<b>-</b>
Paweł Mucha	n/a	n/a	112	-
Paweł Górecki	193	-	203	-
Robert Śnitko	188	-	203	-

1 Including remuneration and bonus for function of Managing Director for Product Strategy discharged from 1 January - 9 September 2020

2 Including severance pay of PLN 246 thousand

3 Including non-competition fee of PLN 210 thousand and severance pay of 233 thousand

4 Including non-competition fee of PLN 257 thousand

5 Including non-competition fee of PLN 210 thousand and severance pay of PLN 233 thousand

6 Including non-competition fee of PLN 257 thousand

7 Including non-competition fee of PLN 483 thousand and severance pay of PLN 242 thousand

8 Including non-competition fee of PLN 193 thousand and severance pay of PLN 97 thousand



Compensation and other short-term employee benefits paid by PZU (PLN 000s)	1 January – 31 December 2020		1 January – 31 December 2021	
		including part of variable compensation for 2017 - 2019		including part of variable compensation for 2017 - 2020
Marcin Chłudziński	177	-	187	-
Agata Górnicka	177	-	187	-
Robert Jastrzębski	193	-	203	-
Elżbieta Mączyńska-Ziemacka	177	-	187	-
Krzysztof Opolski	188	-	203	-
Radosław Sierpiński	n/a	n/a	41	-
Józef Wierzbowski	106	-	187	-
Maciej Zaborowski	177	-	187	-
Maciej Łopiński	195	-	89	-
Tomasz Kuczur	177	-	145	-
Alojzy Nowak	59	-	n/a	n/a

Compensation and other short-term employee benefits paid by other PZU Group entities (PLN 000s)	1 January – 31 December 2020		1 January – 31 December 2021	
		including part of variable compensation for 2017 - 2019		including part of variable compensation for 2017 - 2020
<b>Management Board, of which:</b>	<b>892</b>	<b>-</b>	<b>119</b>	<b>119</b>
Małgorzata Kot	224	-	119	119
Krzysztof Szypuła	668 <sup>1</sup>	-	-	-
<b>High-level managers (PZU Group Directors), including:</b>	<b>3,736</b>	<b>1,592</b>	<b>3,325</b>	<b>1,540</b>
Aleksandra Agatowska	784	285	980	370
Bartłomiej Litwińczuk	934	377	1 024	437
Dorota Macieja	934	377	1 024	437
Roman Pałac	921 <sup>2</sup>	390	205	204
Tomasz Karusewicz	163	163	92	92

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries (PLN 000s)	1 January – 31 December 2020	1 January – 31 December 2021
<b>Management Board, of which:</b>	<b>2,626</b>	<b>1,482</b>
Beata Kozłowska-Chyła	118	218
Ernest Bejda	58	155
Małgorzata Kot	90	189
Krzysztof Kozłowski	n/a	44
Tomasz Kulik	156	178
Maciej Rapkiewicz	160	185
Małgorzata Sadurska	241	217
Krzysztof Szypuła	101	136
Adam Brzozowski	214	n/a.
Marcin Eckert	657 <sup>1</sup>	160
Elżbieta Häuser – Schöneich	170	n/a
Paweł Surówka	661 <sup>2</sup>	n/a
<b>High-level managers (PZU Group Directors), including:</b>	<b>699</b>	<b>587</b>
Aleksandra Agatowska	214	214
Bartłomiej Litwińczuk	235	185
Dorota Macieja	209	173
Roman Pałac	39	-
Tomasz Karusewicz	2	15 <sup>3</sup>

1 Including PLN 445 thousand for Advanced Management Program at Harvard Business School  
 2 Including PLN 515 thousand for Advanced Management Program at Harvard Business School  
 3 Overdue benefits from PZU and PZU Życie

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.

1 Including remuneration and bonus for function of Managing Director for Product Strategy discharged from 1 January - 9 September 2020  
 2 Including non-competition fee of PLN 280 thousand and severance pay of PLN 140 thousand



## 8.9 Diversity policy

PZU employs best practices promulgating diversity and it cares about equal treatment for employees.

In 2021, the PZU Group adopted the Human Rights Policy, in which one of the main goals is to build an organization that supports diversity. Respecting human rights is assigned special significance in the pursued organizational culture policy. 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.

Starting in December 2020, all employees have to undergo a new e-learning training course entitled “Countering mobbing and discrimination in the workplace”. In addition to mobbing-related issues, the training provides information on prevention of 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.

“Best Practices of the PZU Group”, 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 Diversity Charter 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.

### Supervisory Board

	31 December 2019				31 December 2020				31 December 2021			
	number of persons		%		number of persons		%		number of persons		%	
	women	men	women	men	wom-en	men	women	men	wom-en	men	women	men
< 30 years old	0	0	0%	0%	0	0	0%	0%	0	0	0%	0%
30 to 50 years old	1	6	9%	55%	1	6	9%	55%	1	6	9%	55%
> 50 years old	1	3	9%	27%	1	3	9%	27%	1	3	9%	27%
Total by gender	2	9	18%	82%	2	9	18%	82%	2	9	18%	82%

### Management Board

	31 December 2019				31 December 2020				31 December 2021			
	number of persons		%		number of persons		%		number of persons		%	
	women	men	women	men	wom-en	men	women	men	wom-en	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	25%	63%	3	4	38%	50%	2	4	25%	50%
> 50 years old	1	0	12%	0%	0	1	0%	12%	1	1	12.5%	12.5%
Total by gender	3	5	37%	63%	3	5	38%	62%	3	5	37.5%	62.5%



## 9. Other

#### Representation by the Parent Company's Management Board on the preparation of standalone and consolidated financial statements and the activity report

To the best knowledge of the PZU Management Board, the PZU Group 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).

#### 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

No agreements significant to the Issuer's business were entered into in 2021.

#### 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 164 thousand PZU shares.

PZU did not hold any treasury shares as at 31 December 2021.

#### Credits and loans extended and taken out

As part of its investment activities in 2021, PZU, PZU Życie and funds managed by TFI PZU made transactions involving debt financing in the form of loans and bonds.

#### Granted and received guarantees and sureties

In 2021 neither PZU nor its subsidiaries issued any sureties for loans or borrowings, or any guarantees - jointly to a single entity or its subsidiary, if the total amount of the existing sureties or guarantees would be material.

Information on off-balance-sheet items as at the end of 2021 is presented in [SECTION 5.6 STRUCTURE OF ASSETS AND LIABILITIES OF THE PZU GROUP](#).

#### 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 2021 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 2021.

As at 31 December 2021, the total value of subjects of litigation of all 284,223 (as at 31 December 2020: 282,352) cases pending before courts, arbitration authorities or public administration bodies at PZU Group companies amounted to PLN 8,516 million (as at 31 December 2020: PLN 8,825 million). Of that amount, PLN 4,723 million (as at 31 December 2020: PLN 4,408 million) relates to liabilities, and PLN 3,793 million (as at December 31, 2020: PLN 4,417 million) of accounts receivable of PZU Group companies.

This Report on the Activity of the PZU Group and PZU for 2021 has 265 consecutively numbered pages.

#### Signatures of PZU Management Board Members

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Tomasz Kulik – Management Board Member

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Maciej Rapkiewicz – Management Board Member

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Beata Kozłowska-Chyła – President of the Management Board

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Małgorzata Sadurska – Management Board Member

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Ernest Bejda – Management Board Member

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Małgorzata Kot – Management Board Member

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Krzysztof Kozłowski – Management Board Member

Warsaw, March 23, 2022







**10.**  
Appendix: PZU Group's  
financial data



# Appendix: PZU Group's financial data



Basic amounts of the consolidated profit and loss account (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	22,847	23,470	24,191	23,866	25,080
Net earned premiums	21,354	22,350	23,090	23,024	23,232
Revenue from commissions and fees	2,312	3,355	3,279	3,166	3,544
Net investment income	7,893	9,931	11,298	8,486	9,555
Net claims and benefits	(14,941)	(14,563)	(15,695)	(15,580)	(15,731)
Acquisition costs	(2,901)	(3,130)	(3,363)	(3,317)	(3,572)
Administrative expenses	(5,357)	(6,609)	(6,606)	(6,597)	(6,826)
Interest expenses	(1,350)	(2,046)	(2,129)	(1,134)	(418)
Other operational revenues and expenses	(1,552)	(2,201)	(2,790)	(3,990)	(2,315)
Operating profit (loss)	5,458	7,087	7,084	4,058	7,469
Share in net profit (loss) of entities measured using the equity method	16	(1)	(4)	-	(15)
Gross profit (loss)	5,474	7,086	7,080	4,058	7,454
Net profit (loss), including:	4,185	5,368	5,185	2,530	5,434
Shareholders' profit (loss)	2,895	3,213	3,295	1,912	3,336
Minority profit (loss)	1,290	2,155	1,890	618	2,098
Basic and diluted weighted average number of ordinary shares*	863,519,608	863,347,220	863,285,340	863,332,499	863,344,936
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	3.35	3.72	3.82	2.21	3.86
Net profit of PZU (Issuer)	2,459	2,712	2,651	1,919	2,028
Basic and diluted Issuer's profit per ordinary share (in PLN)	2.85	3.14	3.07	2.22	2.35

\*including shares in consolidated funds  
Data as at 31 December 2017-2019 restated

Assets (PLN million)	2017	2018	2019	2020	2021
Intangible assets	3,443	3,180	3,157	3,206	3,403
Goodwill	3,830	3,871	4,034	2,776	2,778
Property, plant and equipment	3,287	3,184	4,229	4,188	4,144
Investment property	2,355	1,697	1,981	2,493	2,773
Entities measured using the equity method	20	17	11	72	93
Financial assets pledged as collateral for liabilities	1,498	877	933	1,481	1,336
Loan receivables	169,457	182,054	194,868	197,288	215,008
Derivatives	2,351	2,487	3,107	6,339	8,328
Financial assets	108,548	100,788	110,483	139,441	136,954
Receivables	9,096	6,343	5,737	6,246	9,418
Reinsurers' share in technical provisions	1,250	1,512	1,856	2,101	2,540
Deferred tax assets	1,590	2,234	2,313	2,511	3,058
Deferred acquisition costs	1,485	1,546	1,574	1,550	1,573
Other assets	692	562	734	753	633
Cash and cash equivalents	8,239	17,055	7,788	7,939	9,447
Assets held for sale	317	1,147	580	590	643
<b>Total assets</b>	<b>317,458</b>	<b>328,554</b>	<b>343,385</b>	<b>378,974</b>	<b>402,129</b>

Restated data for 2017-2020

# Appendix: PZU Group's financial data



Equity (PLN million)	2017	2018	2019	2020	2021
Share capital	86	86	86	86	86
Supplementary capital	11,824	12,660	13,113	15,848	14,816
Revaluation reserve	157	(65)	294	891	(1,140)
Actuarial profits and losses related to provisions for employee benefits	4	-	1	3	3
Own shares	-	(11)	(7)	(9)	(5)
Other reserve capital	5	18	(324)	295	600
Exchange differences	(73)	(36)	(41)	65	69
Retained profits (losses)	(299)	(940)	(248)	(314)	(685)
Net profit (loss)	2,895	3,213	3,295	1,912	3,336
Appropriations on net profit during the financial year	-	-	-	-	-
Minority interest	22,961	22,482	23,119	24,626	22,914
<b>Total equity</b>	<b>37,560</b>	<b>37,407</b>	<b>39,288</b>	<b>43,403</b>	<b>39,994</b>

Liabilities (PLN million)	2017	2018	2019	2020	2021
Technical provisions	44,558	45,839	47,329	48,471	50,173
Unearned premium and unexpired risk reserve	8,008	8,525	8,885	8,834	9,603
Life insurance provisions	16,060	16,204	16,346	16,309	16,345
Outstanding claims provisions	8,898	9,690	10,298	10,984	11,715
Provision for annuities	5,776	5,981	5,999	6,226	6,371
Provisions for bonuses and discounts for the insured	14	7	9	8	12
Other technical provisions	287	256	214	190	164
Unit-linked technical provisions	5,515	5,176	5,578	5,920	5,963
Subordinated liabilities	5,319	6,061	6,700	6,679	6,274
Own debt securities liabilities	9,610	12,009	9,273	7,532	5,940
Liabilities to banks	5,323	6,044	6,604	9,751	7,470
Liabilities to clients for deposits	198,163	207,635	218,588	241,975	265,155
Derivatives	3,474	3,365	3,018	6,281	11,880
Other liabilities	11,960	8,805	10,599	12,434	13,203
Other provisions	850	854	1,211	1,378	1,206
Deferred tax liability provision	638	486	746	949	806
Liabilities directly associated with assets qualified as held for sale	3	49	29	121	28
<b>Total liabilities</b>	<b>279,898</b>	<b>291,147</b>	<b>304,097</b>	<b>335,571</b>	<b>362,135</b>
<b>Total equity and liabilities</b>	<b>317,458</b>	<b>328,554</b>	<b>343,385</b>	<b>378,974</b>	<b>402,129</b>

One-off events in PZU Group (PLN million)	2017	2018	2019	2020	2021
The effect of a company going public from the logistics industry	-	-	-	-	485
Goodwill impairment charge	-	-	-	(1,301)	-
Write-off of assets created as a result of the acquisition of Alior Bank	-	-	-	(161)	-
Provision for the reimbursement of fees in prepaid consumer credit (CJEU)	-	-	(272)	-	-
Reestimation of reserves for vegetative state compensation claims	-	(148)	-	-	-
Higher than average over the last level of damage caused by weather phenomena (storms) higher than the average over the last 3 years	(170)	-	-	-	-

Operational efficiency ratios	2017	2018	2019	2020	2021
1. <b>Gross claims and benefits ratio (simple)</b> (gross claims and benefits/gross written premium) x 100%	67.3%	63.8%	66.5%	67.5%	64.3%
2. <b>Claims and benefits ratio on own share</b> (net claims and benefits / earned premium on own share) x 100%	70.0%	65.2%	68.0%	67.7%	67.7%
3. <b>Insurance segment activity expense ratio</b> (insurance activity expenses/earned premium on own share) x 100%	21.1%	21.4%	22.3%	22.6%	23.8%
4. <b>Insurance segment acquisition expense ratio</b> (acquisition expenses/premium earned on own share) x 100%	14.0%	14.5%	15.1%	15.3%	16.3%
5. <b>Administrative expense ratio in the insurance segments</b> (administrative expenses/premium earned on own share) x 100%	7.2%	6.9%	7.2%	7.4%	7.6%
6. <b>Combined ratio in non-life insurance</b> (net claims and benefits + insurance activity expenses) / net premium earned on own share) x 100%	89.6%	87.1%	88.5%	88.2%	89.2%
7. <b>Operating profit margin in life insurance</b> (operating profit /gross written premium) x 100%	19.3%	21.3%	20.5%	18.6%	12.7%
8. <b>Cost/Income ratio – banking operations</b>	48.0%	42.3%	40.8%	43.4%	42.2%



Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	2,738	3,097	3,316	3,026	3,283
Net earned premiums	2,005	2,326	2,476	2,365	2,365
Investment income	85	113	100	116	73
Insurance claims	(1,323)	(1,591)	(1,610)	(1,593)	(1,510)
Acquisition costs	(425)	(477)	(519)	(511)	(522)
Administrative expenses	(137)	(131)	(131)	(144)	(142)
Reinsurance commission and share in profits	27	39	43	47	56
Other	(41)	(11)	(32)	33	(26)
<b>Insurance profit</b>	<b>191</b>	<b>268</b>	<b>327</b>	<b>313</b>	<b>294</b>
Acquisition costs ratio (including reinsurance commission)*	19.9%	18.8%	19.2%	19.6%	19.7%
Administrative expenses ratio*	6.8%	5.6%	5.3%	6.1%	6.0%
Claims ratio*	66.0%	68.4%	65.0%	67.4%	63.8%
Combined ratio (COR)*	92.7%	92.9%	89.5%	93.1%	89.6%

\* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	10,068	10,401	10,403	10,244	10,910
Net earned premiums	9,513	10,168	10,261	10,192	10,121
Investment income	482	526	481	525	385
Insurance claims	(6,069)	(6,171)	(6,410)	(6,221)	(6,198)
Acquisition costs	(1,745)	(1,890)	(1,986)	(2,010)	(2,166)
Administrative expenses	(608)	(594)	(651)	(673)	(678)
Reinsurance commission and share in profits	(9)	(6)	3	-	33
Other	(237)	(308)	(249)	(142)	(246)
<b>Insurance profit</b>	<b>1,327</b>	<b>1,725</b>	<b>1,449</b>	<b>1,671</b>	<b>1,251</b>
Acquisition costs ratio (including reinsurance commission)*	18.4%	18.6%	19.3%	19.7%	21.1%
Administrative expenses ratio*	6.4%	5.8%	6.3%	6.6%	6.7%
Claims ratio*	63.8%	60.7%	62.5%	61.0%	61.2%
Combined ratio (COR)*	88.6%	85.2%	88.1%	87.4%	89.0%

\* ratios calculated with net premium earned

Data from the profit and loss account – group and individually continued insurance (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	6,855	6,891	6,966	7,007	7,030
Group insurance	4,878	4,887	4,940	4,958	4,975
Individually continued insurance	1,977	2,004	2,026	2,049	2,055
Net earned premiums	6,854	6,890	6,965	6,956	7,055
Investment income	720	581	668	675	520
Insurance claims and change in other technical provisions net	(5,142)	(4,931)	(5,057)	(5,190)	(5,597)
Acquisition costs	(332)	(349)	(388)	(381)	(394)
Administrative expenses	(587)	(604)	(640)	(632)	(669)
Other	(63)	(44)	(51)	(37)	(45)
<b>Insurance profit</b>	<b>1,450</b>	<b>1,543</b>	<b>1,497</b>	<b>1,391</b>	<b>870</b>
<b>Insurance profit excluding one-off events</b>	<b>1,450</b>	<b>1,543</b>	<b>1,497</b>	<b>1,391</b>	<b>870</b>
Acquisition costs ratio*	4.8%	5.1%	5.6%	5.4%	5.6%
Administrative expenses ratio*	8.6%	8.8%	9.2%	9.0%	9.5%
Insurance profit margin	21.2%	22.4%	21.5%	19.9%	12.4%

\* ratios calculated with gross premium written

Data from the profit and loss account – individual insurance (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	1,664	1,346	1,581	1,712	1,750
Net earned premiums	1,662	1,344	1,579	1,710	1,747
Investment income	419	59	548	465	153
Insurance claims and change in other technical provisions net	(1,672)	(976)	(1,640)	(1,670)	(1,329)
Acquisition costs	(135)	(126)	(139)	(175)	(224)
Administrative expenses	(61)	(69)	(72)	(81)	(86)
Other	(4)	(5)	(5)	(5)	(6)
<b>Insurance profit</b>	<b>209</b>	<b>227</b>	<b>271</b>	<b>244</b>	<b>255</b>
Acquisition costs ratio*	8.1%	9.4%	8.8%	10.2%	12.8%
Administrative expenses ratio*	3.7%	5.1%	4.6%	4.7%	4.9%
Insurance profit margin*	12.6%	16.9%	17.1%	14.3%	14.6%

\* ratios calculated with gross premium written

Data from the profit and loss account - investment contracts (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	44	40	35	33	33
Group insurance	2	2	1	1	1
Individual insurance	42	38	34	32	32
Net earned premiums	44	40	35	33	33
Investment income	18	(14)	16	13	(3)
Insurance claims and change in the balance of other technical provisions net	(50)	(15)	(42)	(37)	(22)
Acquisition costs	(1)	(1)	-	-	-
Administrative expenses	(7)	(5)	(4)	(3)	(2)
Other	-	(2)	-	-	-
<b>Operating profit</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>6</b>	<b>6</b>
Profit margin*	9.1%	7.5%	14.3%	18.2%	18.2%

\*ratios calculated with gross premium written

Data from the profit and loss account - banking activity (PLN million)	2017	2018	2019	2020	2021
Revenue from commissions and fees	2,133	3,115	3,146	3,008	3,426
Investment income	5,897	8,897	8,972	6,248	7,319
Interest costs	(1,249)	(1,904)	(2,013)	(1,074)	(376)
Administrative expenses	(3,743)	(4,989)	(4,850)	(4,782)	(5,077)
Other	(599)	(1,083)	(1,757)	(3,206)	(1,513)
<b>Total</b>	<b>2,439</b>	<b>4,036</b>	<b>3,498</b>	<b>194</b>	<b>3,779</b>

Data from the profit and loss account - pension segment (PLN million)	2017	2018	2019	2020	2021
Investment income	6	5	6	4	4
Other revenues	128	149	142	130	154
Administrative expenses	(44)	(40)	(43)	(56)	(57)
Other	(3)	(7)	(4)	(5)	(5)
<b>Operating profit (loss)</b>	<b>87</b>	<b>107</b>	<b>101</b>	<b>73</b>	<b>96</b>

Data from the profit and loss account - Ukraine segment (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	223	257	335	291	339
Net earned premiums	123	152	217	196	227
Investment result	18	19	33	39	16
Net insurance claims	(56)	(59)	(81)	(76)	(102)
Acquisition costs	(69)	(82)	(118)	(101)	(112)
Administrative expenses	(23)	(25)	(31)	(33)	(39)
Other	18	18	19	29	24
<b>Insurance profit</b>	<b>11</b>	<b>23</b>	<b>39</b>	<b>54</b>	<b>14</b>
Exchange rate UAH/PLN	0.1402	0.1330	0.1502	0.1439	0.1422
Acquisition costs ratio*	56.1%	53.9%	54.4%	51.5%	49.3%
Administrative expenses ratio*	18.7%	16.4%	14.3%	16.8%	17.2%

\* ratios calculated with net premium earned

## Appendix: PZU Group's financial data



Data from the profit and loss account – Baltic states segment (PLN million)	2017	2018	2019	2020	2021
Gross written premiums	1,404	1,592	1,713	1,694	1,867
Net earned premiums	1,248	1,480	1,600	1,643	1,742
Investment result	20	2	38	18	42
Net insurance claims	(773)	(905)	(989)	(965)	(1,082)
Acquisition costs	(275)	(317)	(335)	(340)	(366)
Administrative expenses	(111)	(125)	(133)	(141)	(142)
Other	-	3	4	5	6
<b>Insurance profit</b>	<b>109</b>	<b>138</b>	<b>185</b>	<b>220</b>	<b>200</b>
Exchange rate EUR in PLN	4.2447	4.2669	4.3018	4.4742	4.5775
Acquisition costs ratio*	22.0%	21.4%	20.9%	20.7%	21.0%
Administrative expenses ratio*	8.9%	8.4%	8.3%	8.6%	8.2%

\* ratios calculated with net premium earned

Investment segment (external) (PLN million)	2017	2018	2019	2020	2021
<b>Total</b>	<b>88</b>	<b>(390)</b>	<b>333</b>	<b>323</b>	<b>662</b>

Restated data for 2017-2019



# 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](http://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. Compared to the values reported before 2021, PPE products sold past PZU Życie as UFK and managed by TFI PZU as asset management were also included. 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 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.