2022

Management Board's report on the activity of the PZU Group in H1 2022

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Don't print if you don't need to.

Beata Kozłowska-Chyła, Ph.D. Hab.
President of the PZU Management Board

Dear Shareholders,

Together with the management boards of the companies forming the PZU Group, I hereby convey to you our H1 2022 report.

During the period under discussion there was a persistently heightened level of uncertainty on the financial markets due to the emergence of new challenges to economic stability. Since 24 February of this year, namely, from the outset of Russia's aggression against Ukraine, we have been operating in unprecedented conditions against the backdrop of the most recent decades. The effects of the pandemic that continue to exert a global and domestic influence have been multiplied by the repercussions of the largest armed conflict since World War II. Above all, one should enumerate the sharp growth in the prices of energy carriers and food on the global markets and the more profound supply chain difficulties. This has contributed to a clear acceleration in the pace of inflationary growth which has directly translated into economic slowdown across all of the significant markets around the world.

The PZU Group's operations focused on implementing the adaptative processes that were launched based on the strategy adopted for the period from 2021 to 2024. Our extensive capital stability coupled with broad diversification of our lines of business have enabled us to maintain sound financial results even in these exceptional and challenging times. The PZU Group's net profit attributed to the equity holders of the parent company during the first half of 2022 was PLN 1.48 billion in comparison with the PLN 1.63 billion in H1 2021. This was largely related to non-recurring events, especially having in mind the necessity of adapting the level of provisioning in the insurance and banking segments. Despite that, the return on equity (ROE) generated in the first half of the year of 18.5% is a very robust result when compared with the European insurance industry. Once again, we have delivered a result that surpasses our strategic ambitions (17.4%).

Stable dividend policy

The effectiveness and resilience of our business model in which the various business segments make it possible to balance the consolidated results poise us to maintain high dividend payments. In 2022 the PZU Group will disburse 1.7 bn PLN in dividends at 1.94 PLN per share. At present, that implies a dividend yield of 6.5%. In that manner PZU's cumulative dividend per share from the date of the IPO in 2010 will be 31.5 PLN. As it strives to deliver on its capital and dividend policy the PZU Group maintains a strong capital position, as evidenced by its high Solvency II solvency ratio – 207%. The A- rating with a stable outlook awarded by the S&P rating agency is one of the highest in the Polish financial sector and testifies to the Group's sound condition.

Growth segments

In H1 of this year the PZU Group increased the gross written premium to PLN 12.6 billion, or 2.5% compared to the corresponding period of the previous year. Above all, this was the result of the sales of non-life insurance in Poland rising by 6.9% year on year (in Q2 alone sales climbed 7.7% y/y), while maintaining a robust level of profitability – in H1 2022 the combined operating ratio was 88.8%. We posted the largest growth in the non-motor insurance segment, especially in corporate insurance (growth of +18.5% y/y). The growth in the motor insurance segment should also be emphasized despite the persistently unfavorable situation on the market for compulsory motor TPL purchased by the operators of motor vehicles. This is largely the result of the strong growth in the gross written premium on motor own damage insurance, not just on account of the renewals of policies and premium growth but also due to new sales underpinned by the expansion of products and services as part of the driver's ecosystem.

During the reporting period we once again experienced dynamic growth in the demand for private medical services. The health pillar's revenue in H1 2022 climbed 15.6% year on year to PLN 652 million. We grew the revenue generated by medical centers and through the sales of health insurance and subscriptions. This was possible thanks to maintaining the stream of investments in the product and infrastructural areas. Among other things, we expanded our individual subscription offers to include new options – partner, parent and family packages and new prevention packages. In addition, through Alior Bank we have given customers access to payments in the e-Installments system, we have rolled out medical bundles and related banking services for Bank Pekao's customers. At the same time, we are constantly expanding the network of PZU Zdrowie's proprietary medical centers (in Q2 of this year we opened new centers in Łódź and Gdańsk) and partner centers.

The result on investing activity has grown considerably at the PZU Group level. The growth of 14.4% y/y posted in H1 2022 is largely the effect of the increase in the interest income of the Group's banks Pekao and Alior driven by the series of interest rate hikes. Our investment policy has prepared the PZU Group well for any possible market turbulence. The portfolio's safe composition mainly consisting of debt instruments provides for a stable level of income. The high interest rate environment will exert a positive impact on the portfolio's profitability as maturing bonds can be renewed at higher yields.

The strengthening of TFI PZU's market position merits attention. Even though the overall market saw net outflows of PLN 20 billion in H1 2022, TFI PZU was the sole fund management company to report positive net sales in every month in this period. It continues to be the leader in this respect (net sales was PLN 340 million). TFI PZU's net asset value of PPK at the end of Q2 of this year stood at PLN 1.8 billion, signifying growth of 100% during the year.

Consistent strategy execution

Notwithstanding external circumstances the PZU Group has maintained the full capacity to develop its business and pursue its strategic ambitions. In the second quarter of this year, we continued to develop the various integrated ecosystems. We rolled out even more exceptional products and services on the market. They include comprehensive insurance dedicated to housing associations and cooperatives, extending the Cash portal offering forming an element of the benefits ecosystem and adding mortgage loans, construction and mortgage loans and personal accounts in Bank Pekao. We also ran intensive aftersales activities bearing fruit in the form of robust results, among others, in the mass non-motor insurance segments (residential and tourist insurance campaign with the participation of Iga Świątek, the world's best tennis player) and motor insurance (comprehensive motor TPL+MOD+ADD+assistance).

We are invariably the leader of innovation in the financial sector as confirmed by the two awards received in June of this year in the global prestigious competition entitled "The Efma-Accenture Innovation In Insurance Awards 2022" awarded for our AI solutions: mobile app supporting skin cancer prevention and our tool supporting surveyors handling agricultural losses.

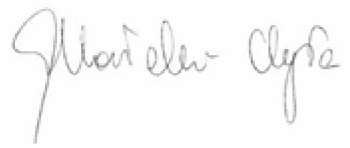
This was also a period of intensive activity in terms of sustainable development. In Q2 2022 the PZU Group signed an agreement to co-finance the construction of wind farms for a total amount of nearly PLN 270 million. Formally, we also took over the PZU Park building – our new headquarters in Warsaw and we started the relocation process. This is an important part of executing our ESG strategy in environment (due to the environmentally-friendly technologies employed in the building and the major reduction of CO_2 emissions), corporate social responsibility and governance (thanks to creating a more ergonomic working environment and adapting the building to a new hybrid working model) and reducing costs (in part by bringing employees together in a single venue from three different locations in the capital city).

The PZU Group has also retained its leadership position in corporate social responsibility. We are pursuing a number of innovative activities that are complementary to our mission and business profile. In Q2 of this year we started to accept grant applications in the "PZU Good Team" prevention program which supports the sports activities of more than 70 thousand children and teenagers. We are involved in the "Healthy Life" health prevention project under the honorary patronage of the President and his wife to enable citizens to take advantage of preventive tests and doctor consultations in mobile health zones. We have also continued to provide support to refugees from war-torn Ukraine, which includes the employees of our Ukrainian companies and their families.

A reliable partner in uncertain times

The magnitude of the challenges we are facing as part of the western world, the state, society, the business community and individual citizens has no frame of reference in recent history. The resources the PZU Group has at its disposal, our stated objectives and our capacity to achieve them as we have demonstrated in past quarters and years do allow us, however, to act with cautious optimism. The latter half of 2022 will certainly be challenging for the global and Polish economy alike. Nevertheless, I have confident that the PZU Group is well prepared to face these opposing forces, maintain its market position and properly tend to the security and benefits of our stakeholders. Motivated by the trust placed in us, we will do our utmost to continue to develop the best solutions for our clients and efficiently build shareholder value.

Respectfully,



Beata Kozłowska-Chyła, Ph.D. Hab.
President of the PZU SA Management Board

#1	22 m	98%	A- / stable***	PLN 25.9 bn	STRONG BALANCE SHEET
largest insurance and banking group in CEE*	clients in five countries	most recognizable brand in Poland**	stable business model based on strong foundations	market capitalization	Solvency II at a safe level

Market position of PZU Group companies

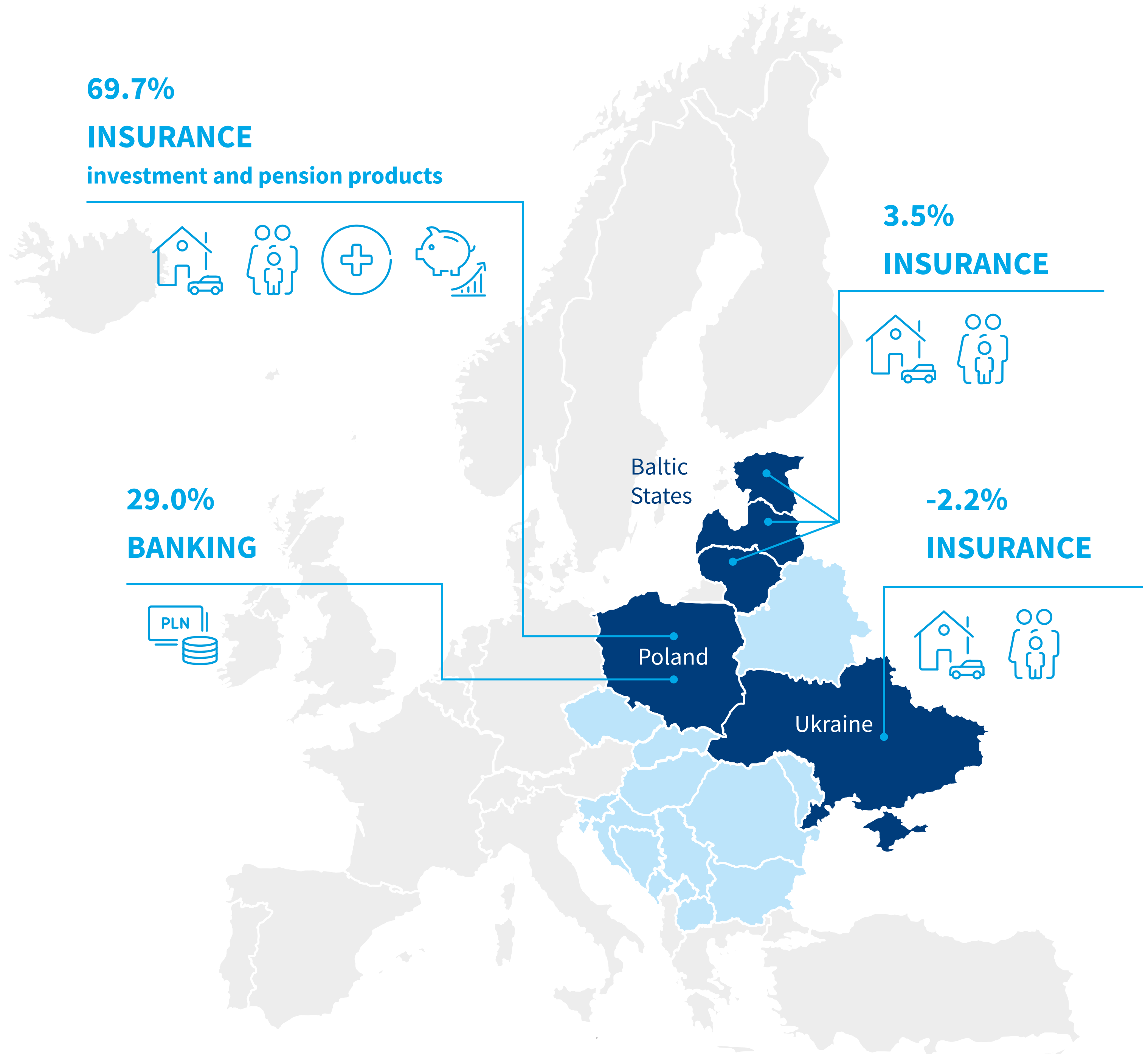
non-life insurance

life insurance

market position in terms of assets in management

market position in terms of assets

market position in terms of revenue from medical activities



Percentage share in the operating result (adjusted for PZU's shares in banks in 1H 2022)

*By assets
**Supported awareness of PZU brand, Kantar study, Brand tracking, 1Q 2022

***S&P rating, confirmed on June 28, 2022

Gross written premium

PLN 12.6 bn

Net insurance claims and benefits

PLN 7.1 bn

Net profit (attributable to holders of the parent company)

PLN 1.5 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

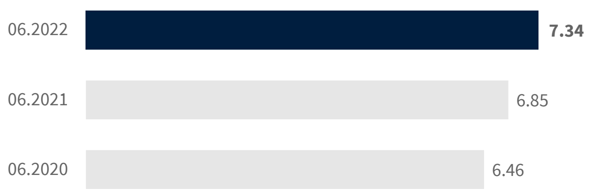
ROE	Solvency II	Dividend	Climate neutrality
18.5% 06.2022 + 0.2 p.p. vs. 06.2021	**207%**[1] 03.2022 - 14 p.p. vs. 2021	**DPS PLN 1.94** 2021	
17.4%	≥200%	Dividend Payout Ratio 50% - 100%	Achieving net zero target in own operations (Scope 1 i 2)[2]
2024 target	2024 target	2024 target	2024 target

[1] Data not audited or reviewed by a statutory auditor
[2] 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

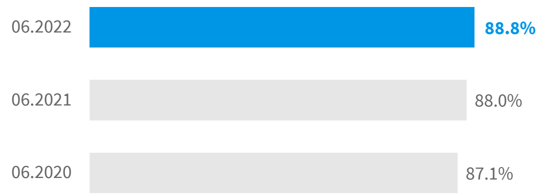
INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

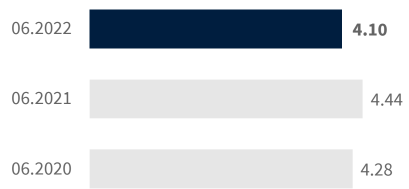


Combined ratio – COR

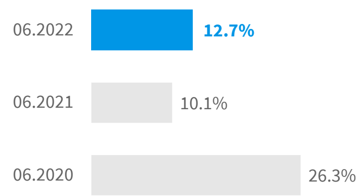


Life insurance in Poland

Gross written premium (PLN billion)



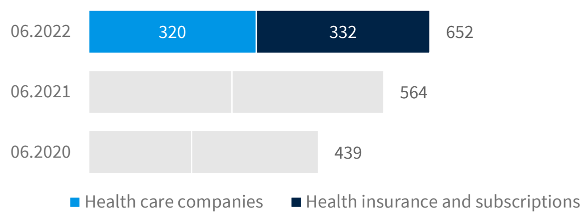
Group and continued* insurance operating margin



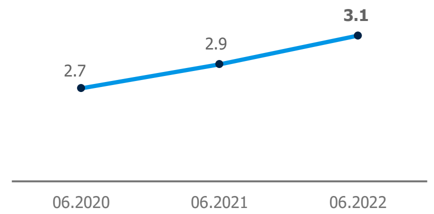
* Individually continued insurance

HEALTH

Revenues (PLN m)

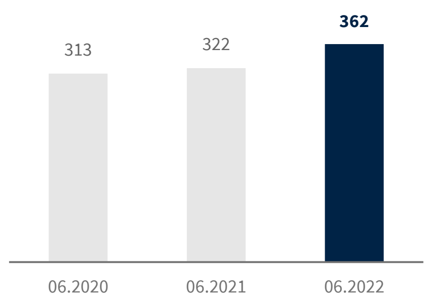


Number of agreements (m)

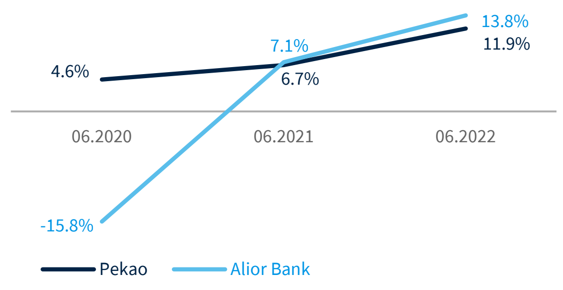


BANKING

Banking assets in the PZU Group (PLN bn)

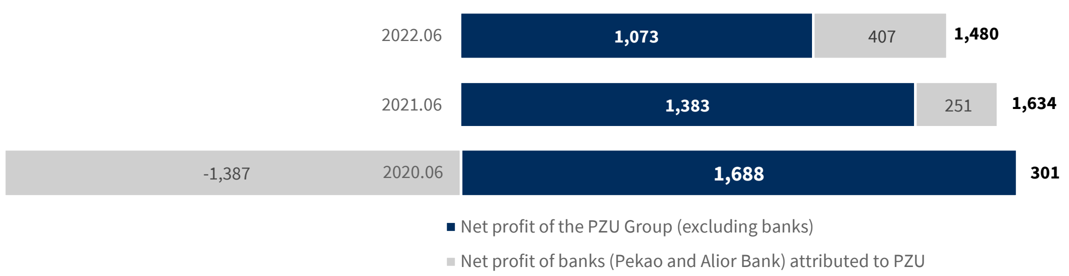


ROE (return on equity)



* based on reports and presentations of Bank Pekao and Alior Bank.

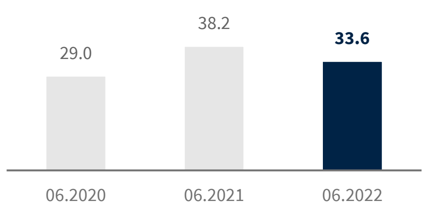
Contribution of banking activity to net profit attributable to the parent company (PLN m)*



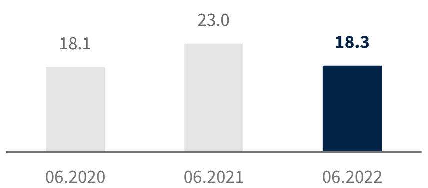
* excluding consolidation adjustments

INVESTMENTS

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

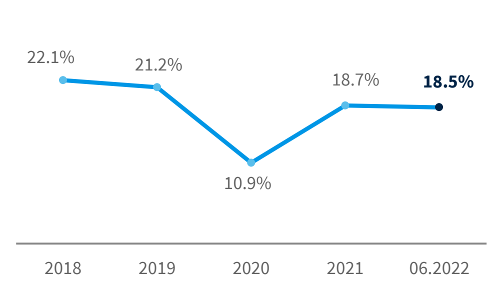


Assets of clients of TFI Pekao and TFI Alior (PLN bn)



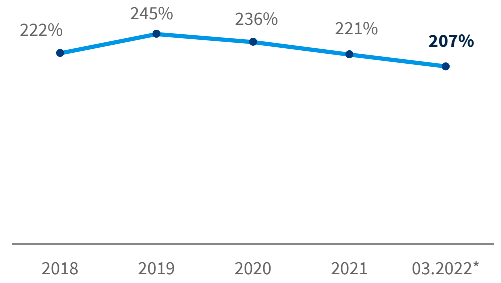
SELECTED RATIOS

ROE (Return on equity)*



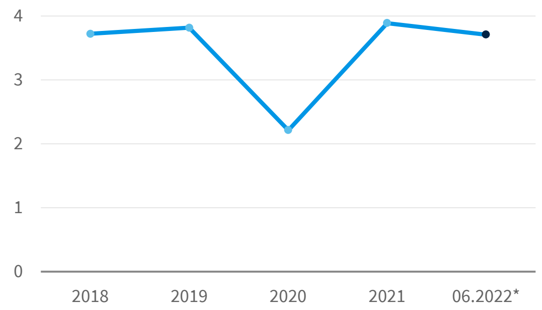
*ROE attributed for the parent company

Solvency II*



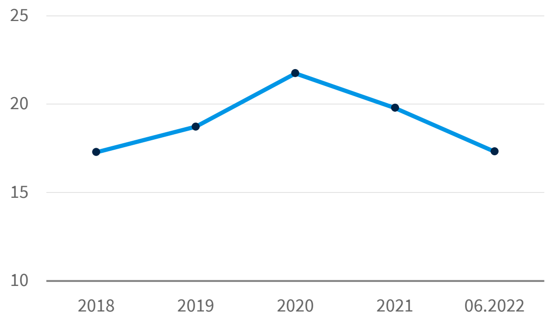
* Data as of 03.2022 are not subject to audit or review by the auditor

EPS (earnings per share) PLN

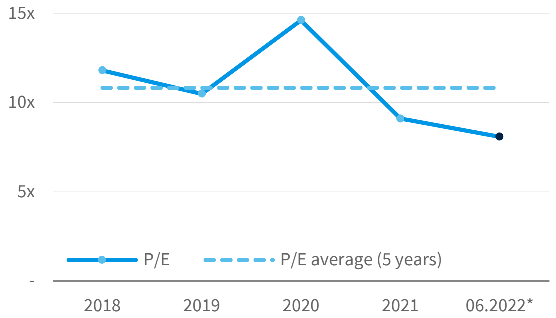


*Trailing data (12 months)

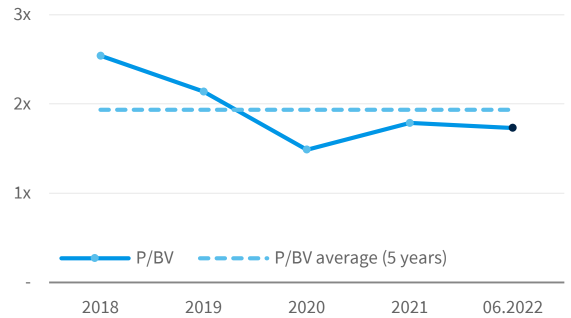
BVPS (book value per share) PLN



P/E (price to earnings per share)



P/BV (price to book value)



*Trailing data (12 months)

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 10. Attachment: Glossary of terms and Alternative Performance Measures

Group's consolidated highlights* for H1 2020-2022 (in PLN m)

	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
A) PZU GROUP NET OF ALIOR BANK AND PEKAO			
Gross written premiums	11,691	12,342	12,647
Net result on investing activity including interest expenses	830	1,317	(52)
Net insurance claims and benefits	(7,291)	(8,070)	(7,116)
Acquisition expenses	(1,647)	(1,704)	(1,876)
Administrative expenses	(905)	(857)	(893)
Operating profit	2,195	1,786	1,470
Net profit attributable to equity holders of the parent company	1,688	1,383	1,073
B) Impairment of goodwill (Alior Bank, Bank Pekao) and intangible assets (Alior Bank)	(1,343)**	-	-
C) BANKS: ALIOR AND PEKAO			
Net profit attributable to equity holders of the parent company	(44)	251	407
(A+B+C) NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**301**	**1,634**	**1,480**
Total assets	376,645	391,305	429,936
Equity attributable to the owners of the parent company	16,976	16,879	14,969

* restated data for years 2020-2021
** including an impairment write-down of goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), and a write-down of assets arising from the acquisition of Alior Bank (i.e., trademark and customer relations after taking into account the impact of deferred income tax and minority interest) in the amount of PLN 42 million

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 18.5%. 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-
/STABLE/
Financial strength rating and credit rating awarded to PZU by S&P

As at the end of Q1 2022, the solvency ratio (calculated according to the standard Solvency II equation) was 207%[1].

S&P Global Ratings last reviewed the rating on June 28, 2022. The financial strength rating, credit strength rating and rating outlook for PZU and PZU Life remained unchanged. At the end of June 2022, PZU's market capitalization was PLN 25.9 billion.

[1] not subject to audit or review by the statutory auditor

2022 Calendar

24 MARCH
Annual report for 2021

19 MAY
Interim report for Q1 2022

28 JUNE
S&P affirms PZU's rating at A- with a stable outlook

29 JUNE
PZU's Ordinary Shareholder Meeting

25 AUGUST
Interim report for H1 2022

01 SEPTEMBER
Extraordinary Shareholder Meeting of PZU

- SEPTEMBER
Completion of the move to the new PZU Headquarterslocation: PZU Park, Rondo Daszyńskiego 4, Warsaw

20 OCTOBER
Dividend payment date

24 NOVEMBER
Interim report for Q3 2022

Nowa siedziba Grupy PZU

Rondo Daszyńskiego 4, Warszawa

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:

1.1 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 430 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, 9,0 thousand tied agents and agencies, 3.1 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 21 strategic partners.

In addition, the PZU Group's clients in Poland have access to Bank Pekao's distribution network (624 branches) and Alior Bank's distribution network (582 branches, including 170 traditional branches, 7 Private Banking branches, 13 Corporate Banking Centers and 392 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 672 agents, 20 multiagencies and 419 brokers. PZU also cooperates with 6 banks and 12 strategic partners. In Ukraine insurance products are distributed through nearly 172 agents and in cooperation with 26 multiagencies, 36 brokers and 10 banks.

1.2 Brand

PZU is the most recognizable brand in Poland. It is spontaneously mentioned by 80% of Poles. Aided brand awareness is at the level of 98%[1]. Even though it is associated mainly with insurance, the PZU Group umbrella contains several brands. They differ in terms of the visual systems used, target groups and business models.

The main brand used is the PZU corporate brand. This brand is used to identify the PZU Group itself, most of its companies operating on the Polish market (PZU, PZU Życie, PTE PZU, TFI PZU, PZU Pomoc, PZU Zdrowie, PZU Centrum Operacji), as well as some of the international companies – the Ukrainian companies, 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 TUW PZUW. However, their logos look similar to the corporate brand. These companies also use similar visual identification systems.

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

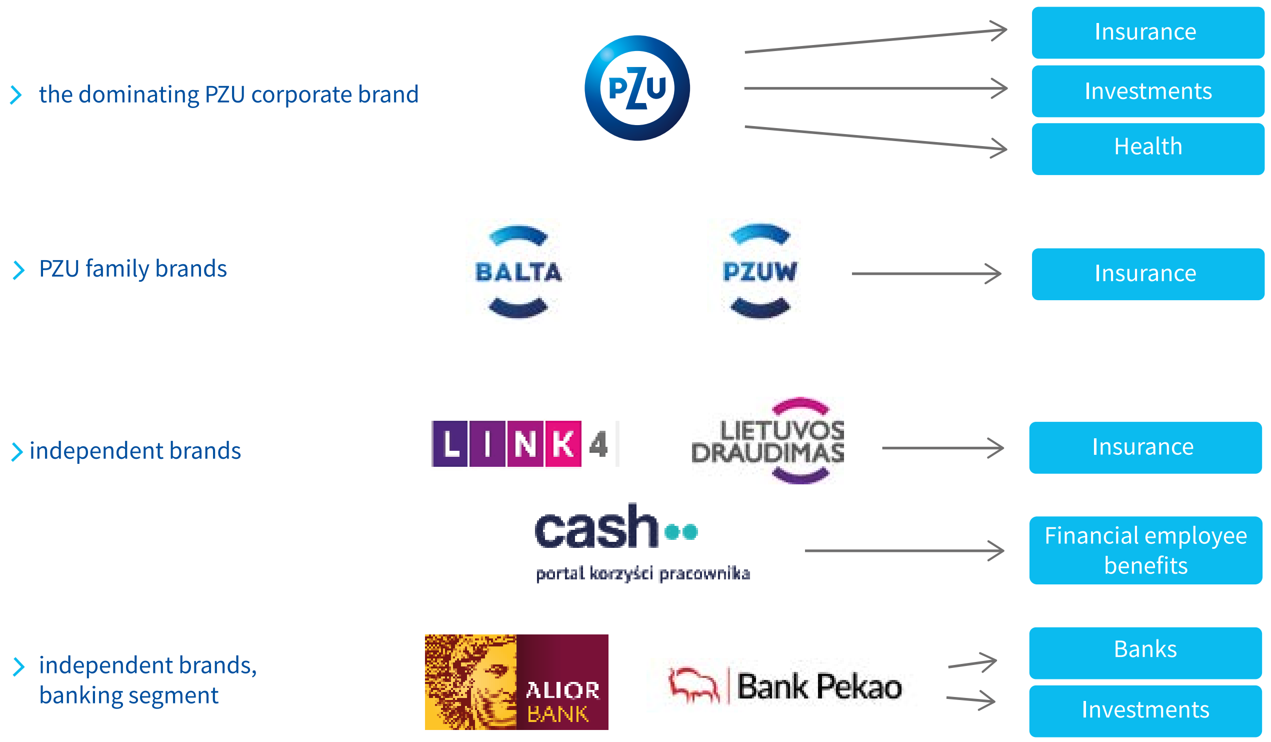
The independent brands that joined the PZU Group in 2015 and 2017 are Alior and Pekao bank brands, respectively. Both are the leading banks with regard to brand awareness in the category of banks according to the study by Kantar Millward Brown.

In 2020, in addition the Cash brand joined the PZU Group's architecture. It denotes a company under the name PZU Cash managing the website offering financial employee benefits.

[1] Kantar, Brand tracking, Q1 2022

[2] Kantar, Brand tracking, Q1 2022

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



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.

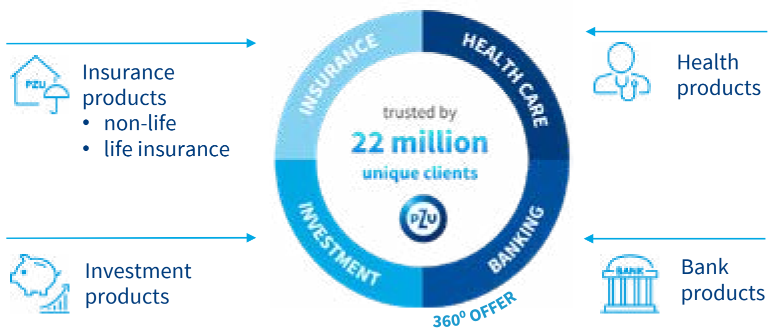
Modern product and service ecosystems

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.

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 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.

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[1]
- Continuation of the process of digitalizing insurance, banking, investment and health products and services
- Advanced analytics
- Process optimization

Innovation Lab
Corporate Innovation Awards

AI[2] 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

1) 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
2) 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.

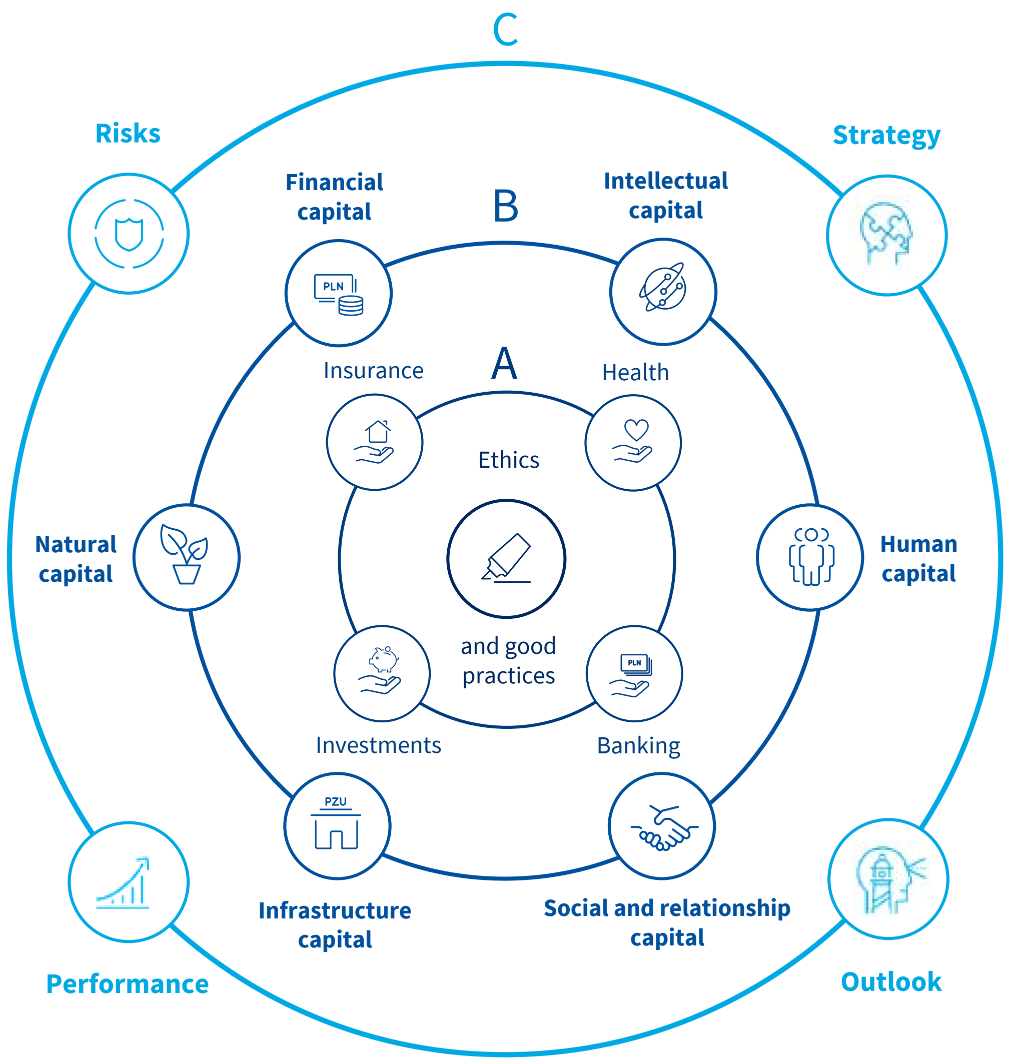
Business activity, with insurance as the key element, is at the core of PZU Group's value creation model. The offer is supplemented by health, banking as well as investment and pension products.

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



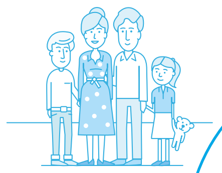
situations, such as illness or death of a family member, loss of home due to fire, flood or other disasters. This offers additional protection, which provides the sense of stability and safety. Through its activities, PZU also affects the natural environment. Because of its size and market position, 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.

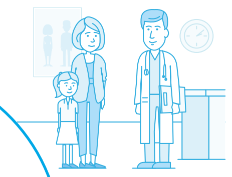
The PZU Group is also the leader in the insurance market of the Baltic States (Lithuania, Latvia, Estonia). It also conducts insurance activities in Ukraine.

Poland is the Group's core market, where it generates 90.3% of its revenue (measured by gross written premium). The insurance activity in the Baltic States and in Ukraine generates 9.7% 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 2,300 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

1803
Establishment of the first insurance company on Polish soil

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

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

1998
Formation of Powszechne Towarzystwo Emerytalne PZU (PTE PZU) – management of pension funds and programs

1999
Creation of Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) – management of mutual funds

2002
Launch of operations on the Lithuanian insurance market

2005
Launch of operations on the Ukrainian insurance market

2010
PZU's debut on the Warsaw Stock Exchange (WSE)

2012
Rebranding

2014
Signing of the contract to acquire AAS Balta, AB Lietuvos Draudimas, Codan A/S and LINK4. Launch of the PZU Zdrowie brand

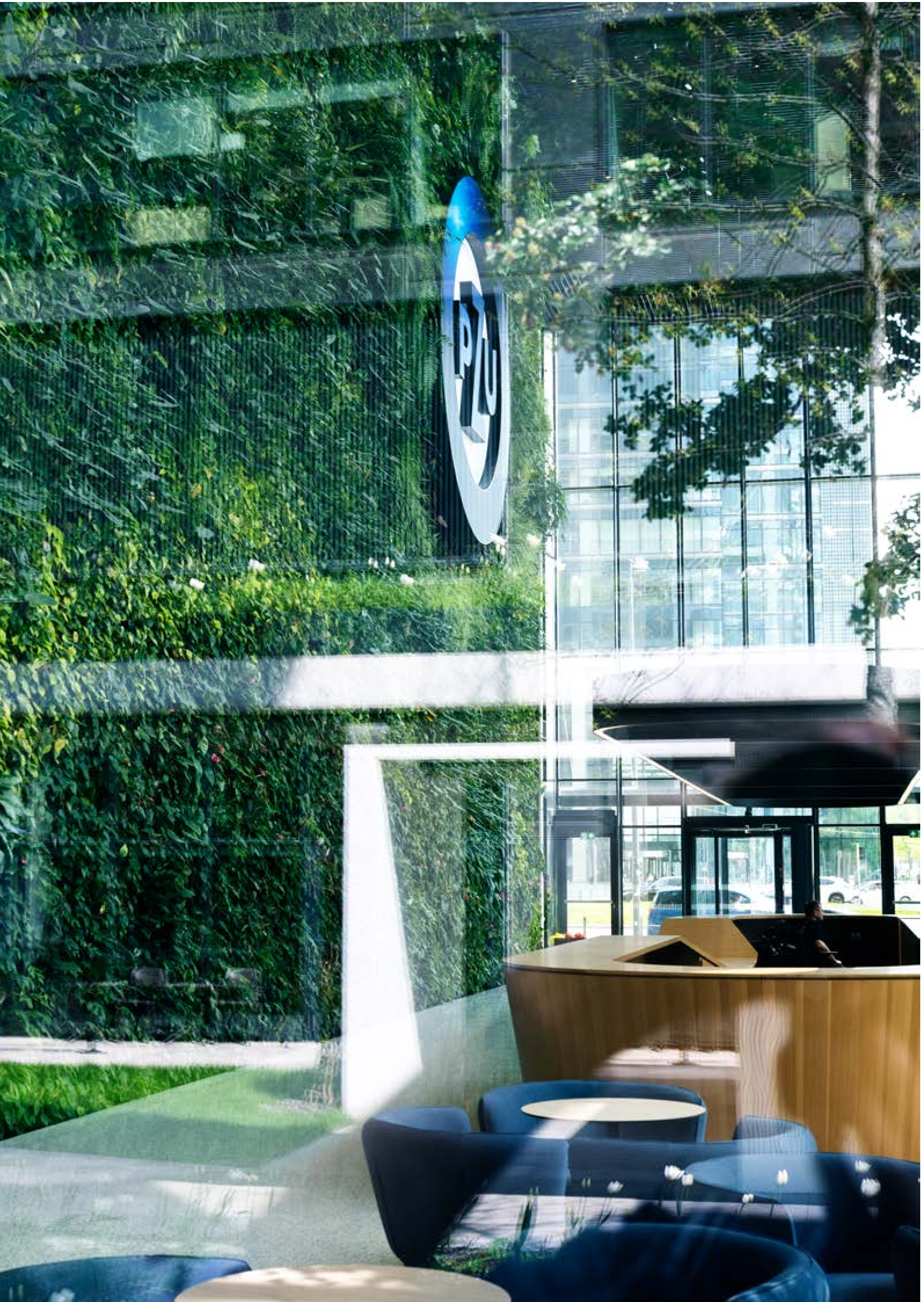
2015
Agreement to acquire shares in Alior Bank Establishment of Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW)

2017
Finalization of the acquisition of shares in Bank Pekao

2019

2020

2021
PZU Group strategy "Potential and growth" for 2021-2024



2.

External environment

Russia's armed aggression against Ukraine became a significant uncertainty factor in 2022 due to the triggering of geopolitical tensions and increased volatility in financial markets. Additionally, a significant increase in the inflation rate caused by the rising prices of commodities and food coupled with disruptions in supply chains, along with the forecasted slowdown in economic growth, have created a tough environment for the PZU Group to operate in.

In this chapter:

2.1 Main trends in the Polish economy

Gross Domestic Product

In Q1 2022, GDP grew by 8.5% y/y. Household consumption during this period increased by 6.6% y/y and investment by 4.3% y/y. The GDP growth rate was driven largely by the increase in inventories (which added a whopping 7.7 percentage points to the annual GDP growth rate), offset to a certain extent by net exports (-3.8 p.p.).

However, data on economic activity in the second quarter indicate a deceleration of growth compared to the first quarter. In Q2, sold industrial output was greater by 11.3% than one year before, compared to 16% y/y in Q1 2022. The growth rate of construction and assembly output in Q2 of this year was on average 9.3% greater than the year before, compared to 23.2% in Q1 2022. Retail sales in Q2 of this year increased by 9.0% compared to the same period last year, the same on a year-on-year basis as in Q1 2022. The decrease in the annual growth rate of the Polish economy in real terms was largely caused by the heavy supply shocks following the Russian aggression against Ukraine. According to the Statistics Poland's quick estimate, real GDP declined in the second quarter in quarter-over-quarter terms (seasonally adjusted), although owing to the high rate of growth in the last five quarters and the favorable starting point, the GDP growth rate (not seasonally adjusted) in y/y terms was 5.3%.

Labor market and consumption

In H1 of this year, the average monthly gross wage in the corporate sector increased in nominal terms by 12.7% y/y. However, with the high rate of increase in consumer prices, the purchasing power of this wage was only 0.9% greater than the year before.

The average employment rate in the enterprise sector increased by 2.3% y/y in H1 if this year. At the end of June, the number of registered unemployed and the registered unemployment rate were lower than in the corresponding period of 2021. At the end of Q2, the registered unemployment rate was 4.9%. The seasonally adjusted economic unemployment rate (according to Eurostat, based on the harmonized methodology for EU countries) in June 2022 stood at 2.7%, clearly below the average for the European Union (6.0%) and the euro area (6.6%).

Despite the favorable situation of employees on the labor market, consumer sentiments deteriorated significantly in June of this year. This was caused directly by the increase in inflation and uncertainty about the outlook for the economic situation of households. Despite the significantly worse consumer sentiment and the declining purchasing power in real terms, the growth rate of household consumption in Q2 should remain level, partly due to a greater volume of purchases related to the influx of refugees from Ukraine.

Inflation, monetary policy and interest rates

Despite the introduction of the "Anti-Inflation Shields", CPI inflation in H1 increased significantly, having reached 15.5% y/y in June of this year compared to 8.6% y/y in December 2021. The prices of consumer goods and services increased 10.4% compared to December 2021 (Statistics Poland data). This was largely driven by the strong increase in the prices of energy carriers – especially gas and fuel prices. Food prices also ascended significantly, although this increase was suppressed in H1 of this year by the reduction of the VAT rate to zero for most products in this portion of the CPI basket. The favorable situation in the labor market and the persistently strong domestic demand favored the transfer of increasing costs on the producers' side to the final prices of goods and services charged to households. In these circumstances, the major increase in costs (including labor costs) and production prices translated into an increase in consumer prices. The increase in the inflation rate was also driven by increases in domestic electricity, natural gas and heat tariffs. The increase in inflation was experienced on a global scale. It was boosted by the clash of strong post-pandemic growth in demand with the limited supply of production factors coupled with supply chain disruptions – both due to the pandemic and the additional heavy supply shocks caused by the outbreak of the armed conflict in Ukraine. The supply shocks, in addition to the price increases, also prompted producers to accumulate their inventories.

The strong increase in CPI inflation above the NBP's inflation target (2.5%) led to significant hikes in the NBP rates in H1 of this year. Since the beginning of this year, the base NBP interest rate has been increased by a total of 425 bps. The NBP reference rate at the end of Q2 was 6.0%.

Public finance

According to the Statistics Poland notification of 22 April 2022, the deficit of the general government sector in 2021 was 1.9% of GDP, and the sector's debt was 53.8% of GDP. The growth in income, which contributed to the strong reduction in the deficit, was caused by the good economic situation and the high growth of consumer prices, which in total translated into a nominal GDP growth rate significantly greater than that assumed in the State Budget Act for 2021.

The government's actions aimed at mitigating the consequences of inflation, including changes in the tax system, and the provision of support to Ukrainian refugees will be a significant burden for the general government sector throughout this year. Moreover, among the factors limiting the sector's impact is the reduction of the lower PIT rate (from 17% to 12%) starting in July of 2022. The sector's deficit forecast in the Convergence Program Update (APK 2022) will increase to 4.3% of GDP in 2022, while the sector's debt will stand at 52.1% of GDP (data according to the ESA2010 methodology).

2.2 External environment in the Baltic States and Ukraine

Lithuania

Geopolitical tensions in Europe caused by Russia's armed conflict against Ukraine have significantly ramped up the degree of economic uncertainty and instability of the external environment. It is apparent from the April data that the downward trend in exports to the markets of the aggressor countries only intensified: exports of Lithuanian goods to Belarus and Russia decreased by 39.8% and 50.9%, respectively (compared to the March data). In April, exports of goods to Ukraine slumped by 65.3%. As a result of the hostilities, the price rises of energy and commodities picked up momentum in February, causing inflation to grow faster: in May 2022, the annual inflation exceeded 18.0%. The high inflation rate, the application of EU energy sanctions against Russia and a potential response by Russia dampen the expectations of economic operators and suppress economic activity in Lithuania. Industrial output declined in April along with the rate of growth in retail trade. It is currently expected that, due to geopolitical tensions, Lithuanian GDP will grow at a lower rate in 2022 than the year before, at 1.6%.

The high inflation rate was driven by increases in global energy prices, food commodity prices and food production prices in export markets, disruptions in the supply chains of other commodities and industrial goods, aggravated by the armed conflict in Ukraine, and global imbalances in demand and supply of commodities and products.

The labor market improved in Q1 2022 despite the armed conflict in Ukraine, which did not cause any noticeable adverse consequences. Employment grew fueled by the strong demand in the labor market and rising wages, while the rate of unemployment declined. Along with the increase in employment, Lithuania's rate of unemployment declined to 6.3% in Q1 and was 1.2 p.p. lower than the year before. In Q1 2022, demand for employees continued to grow and remained at a historically high level. Both the private sector and the public sector coped with a shortage of labor. Above all, there were vacancies in public administration and defense, finance and insurance, information and communications, and transport. The continuing strong demand for workers and their insufficient supply contribute to a rapid growth in wages, which in turn drives up the rate of inflation and suppresses the economy's growth potential.

Despite the armed conflict in Ukraine, many factors will continue to support the rapid increase in wages in Lithuania this year. The strong demand for and shortage of skilled workers, the government's decisions on salaries paid to public sector employees, the significantly higher minimum monthly wage (by 13.7% to EUR 730) and the increased inflationary expectations are likely to affect wages. It is predicted that in 2022 the rate of growth in salaries and wages will reach 13.2%.

Latvia

In Q1 2022, Latvia's GDP grew by 6.4% y/y (seasonally adjusted data). It was the country's fourth consecutive growth quarter. However, a negative impact of the armed conflict in Ukraine on the Latvian economy is expected, largely due to the country's trade exposure to Russia, especially Latvia's strong dependence on Russian gas imports. Certain consequences of the hostilities are already noticeable in the soaring energy and food prices, the supply chain disruptions, the influx of refugees and the increased pressures on the state budget.

The lifting of restrictions related to the COVID-19 pandemic translated into a rebound of travel volumes and contributed to the recovery of sectors related to the provision of tourism and catering services, which returned to their pre-pandemic levels. In Q1, they recorded an increase by 83.8% compared to the corresponding period of the previous year. In Q1 2022, household expenditures on hotel and catering services, leisure and cultural activities increased significantly, by 92% and 50.5%, respectively, compared to the corresponding quarter of last year. Increases were also recorded in industrial processing sectors (manufacture of finished metal products by 12.9%, manufacture of non-metallic raw materials by 19.5%, manufacture of chemicals and chemical products by 42.0%), agriculture and fishery. At the same time, the construction sector suffered a decline by 8.4% as a result of both unfavorable weather conditions and increasing construction costs coupled with the tense political situation translating into unstable logistics processes.

According to Statistics Latvia, consumer prices in the country rose by 19.3% y/y in June, having accelerated sharply from 16.9% in the previous month. This was the highest inflation rate in the country's history, driven predominantly by the rising prices of housing goods and services (39.9%), food and non-alcoholic beverages (22.1%), transport (32.2%), and restaurant and hotel services (14.1%).

Compared to Q1 of the previous year, salaries and wages increased by 13.2% in Q1 2022. The largest increase in salaries and wages was recorded in the group of services related to culture, entertainment and leisure (by 29.3% y/y), information and communication (by 17.7% y/y), and professional, scientific and technical activities (by 16.7% y/y).

Estonia
According to the Bank of Estonia, the country's economy kicked off the year with a strong rate of growth, which was followed by deceleration. It was caused not only by the ongoing armed conflict, but also by the full utilization of production resources at the end of last year, which caused the deepening of supply-side constraints preventing further rapid growth. The outbreak of the war in February 2022 and its far-reaching consequences additionally confined the outlook for the Estonian economy, partly due to the closing of certain export markets, the disruption of supply channels and the increasing commodity prices. Although the sanctions against Russia have resulted in sharp price increases, the broader impact on the economy is not expected to begin to become apparent until the second half of the year.

In June, the inflation rate reached 21.9%. The price level was 2.7% higher than last month. In recent months, inflation in Estonia has been the highest in the euro area as a whole, largely due to the major increases in energy prices, inevitably leading to gradual increases in the prices of many other products and services, coupled with the rapid growth in household incomes and demand, additionally stimulated by funds withdrawn from the second pillar of the pension system and increased spending by the state.

According to the latest forecast by the Bank of Estonia, the country's economy will grow 1.5% this year and 1.9% next year, remaining under a strong influence of the armed conflict in Ukraine which broke out in February.

Ukraine
The hostilities related to Russia's aggression against Ukraine led to an unprecedented decline in the Ukrainian economy. As at June 2022, areas covered by ongoing hostilities or under Russian occupation accounted for 20% of last year's Ukrainian GDP. According to data published by the National Bank of Ukraine, in 2022 the country's GDP may shrink by more than a third.

In addition to the decline in current output, the armed conflict significantly weakened the potential of the country's economy. Russia's invasion resulted in a sudden decline in exports, largely due to the blockade of Ukrainian Black Sea ports and the destruction of transport and industrial infrastructure. Imports plummeted due to a decline in domestic demand, disruptions in logistics and supply chains, and restrictions on the purchase of foreign currencies to pay for imports.

The armed conflict resulted into an accelerated inflation, the rates of which differ depending on the commodity group and region. In May, it reached 18% on an annual basis. At the beginning of June, the Board of the National Bank of Ukraine raised the reference rate by 15 percentage points from 10% to 25%.

Additionally, rating agencies have changed Ukraine's ratings:
- as of August 19, 2022, according to S&P Global Ratings, Ukraine's long-term and short-term foreign currency sovereign ratings are at CCC+/C, respectively;
- as of August 17, 2022, according to Fitch Ratings for long-term foreign currency obligations is at CC.

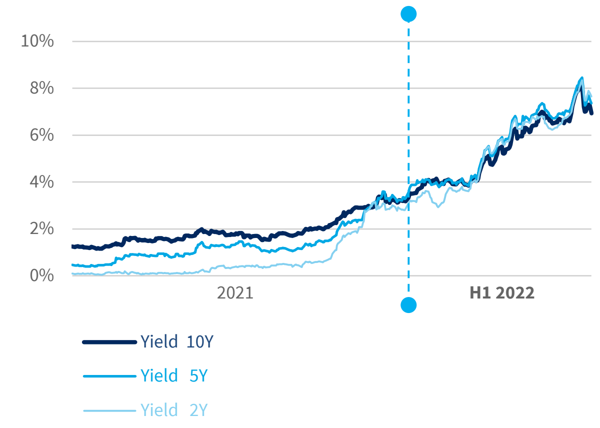
2.3 Situation on financial markets

The situation on the financial markets in H1 2022 was shaped chiefly by geopolitical tensions, including the armed conflict between Russia and Ukraine and its consequences for the Polish and global economies. The market situation was affected by the increasing inflation, the tightening of monetary policy in Poland, the tightening of monetary policy in the United States and the prospects of the euro area following suit. At the beginning of H1 of the year, fears seemed to prevail on the financial markets that inflation might get out of the central banks' control, which in turn was pushing up a spiral of expectations for interest rate hikes. At the end of H1 of the year, however, concerns about a slowdown in economic growth, prompted largely by the decline in the purchasing power of households and the strong increase in uncertainty, following the price shock caused by the armed Russian aggression against Ukraine, intensified. In these circumstances, the course of the COVID-19 pandemic exerted a declining impact on financial markets.

Bond market
In H1 2022, the whole Polish yield curve clearly moved upwards. The yields on annual bonds increased from 3.47% at the end of 2021 to 6.75% at the end of June 2022, for 2-year bonds from 3.35% to 7.65%, for 5-year bonds from 3.99% to 7.36 %, and for 10-year bonds from 3.71% to 6.94% (data from Refinitiv Datastream). The spread versus 10-year German bonds that at the end of 2021 was 388 basis points, increased to 557 basis points at the end of March (data from Refinitiv Datastream). The increase in the yields on Polish treasury bonds was related to the strong increase in inflation and inflationary expectations as well as the tightening of the NBP's monetary policy. The NBP reference rate between the end of 2021 and the end of June 2022 increased by 425 bps, to 6.0%.

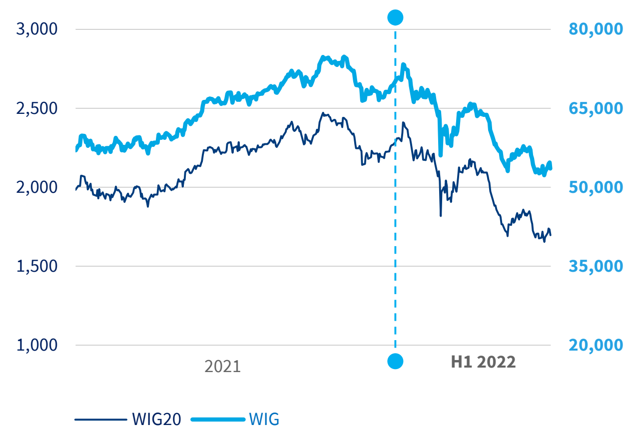
The situation on the core markets also contributed to the increased yields on Polish bonds. In the face of the rising inflation, the United States central bank raised interest rates in March and signaled additional room for further increases. The Fed also began to gradually reduce its total balance sheet value by limiting the reinvestment of assets, which additionally contributed to a tightening of monetary policy. Faced with inflation on the rise, the European Central Bank also changed its attitude. At the end of H1, the ECB announced interest rate hikes in July and September, including an increase in the deposit rate to at least zero (from the negative level of -0.50% which remained there for 11 years).

Treasury bond yields (Refinitiv Datastream data)



Equity market
In H1 2022, the indices of the Warsaw Stock Exchange declined. The WIG20 and WIG indices fell by 25.2% and 22.7%, respectively (Warsaw Stock Exchange, Refinitiv Datastream data). This was caused predominantly by the armed conflict in Ukraine, which exerted an unfavorable impact on investor sentiments, especially on the markets of Central and Eastern Europe.

WIG and WIG20 indices (Warsaw Stock Exchange data)

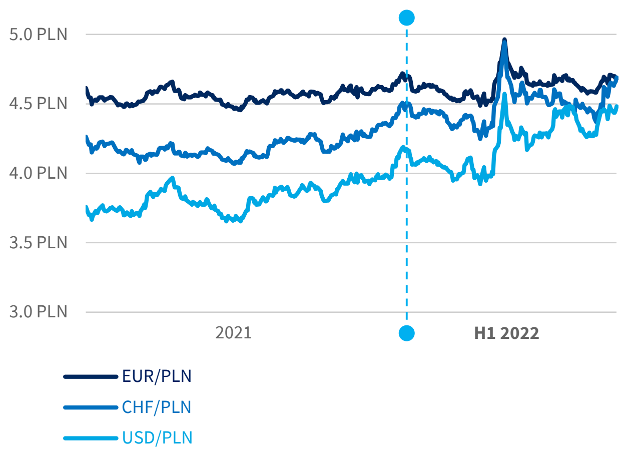


Currency market

The euro exchange rate expressed in PLN increased from 4.60 at the end of 2021 to 4.68 at the end of Q2 2022 (NBP data). For a brief period, after the outbreak of the armed conflict, the euro exchange rate reached the psychological level of PLN 5 on 7 March (average exchange rate 4.96 compared to 4.54 on 23 February). The actions taken by the NBP, especially the major reference rate hikes along with the accompanying communication pointing to the determination of the Monetary Policy Council to suppress inflation and strengthen the Polish zloty, contributed to the calming of the market situation and the declining trend in the EUR/PLN exchange rate in H1 2022.

The euro to USD exchange rate fell from 1.13 at the end of 2021 to 1.04 at the end of June 2022 (the EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). The appreciation of the US dollar is the result of the earlier commencement of the cycle of rate hikes in the United States and the country's better economic outlook in relation to the euro zone in the face of the consequences of the armed conflict in Ukraine. The increase in the attractiveness of the US dollar on global markets also translated into an increase in the exchange rate of the American currency against the Polish zloty, which rose in the first half of 2022 from 4.06 as at the end of December 2021 to 4.48 in June 2022 (NBP data). The Swiss franc exchange rate increased from PLN 4.45 at the end of 2021 to PLN 4.69 at the end of Q2 2022 (NBP data).

PLN exchange rate (NBP data)



2.4 Factors that may affect the conditions of operations and the PZU Group's activities in H2 2022

Due to the scope of the PZU Group's business (insurance sector in Poland, Baltic States and Ukraine, mutual and pension funds sector, banking), the main factors that will shape the environment in which the PZU Group will operate and may exert a direct impact on the Group's growth and financial performance in the medium term, in particular in H2 2022, may be divided into 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 will exert an adverse impact on economic growth, primarily due to the increased level of uncertainty and the increase in food, 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 even further. Increased uncertainty may, in turn, exacerbate sentiments among investors. The increase in gas, oil and food prices – depending on the magnitude and persistence of this growth – will also possibly push the inflation rate even higher.

The increase in risk aversion, on a regional and global level, due to the Russia-Ukraine armed conflict may result in an outflow of foreign capital, further decreases in stock market indices and the continued depreciation of the Polish zloty. It may also contribute to a further increase in bond yields, although in this context monetary policy measures will also play a significant role. If the National Bank of Poland comes to the conclusion that a serious risk of an increase in medium-term inflation remains, the Monetary Policy Council may decide to raise interest rates again, which would hamper demand in the economy even further compared to current forecasts. 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.

Other threats that may materialize include the possible return of the COVID-19 pandemic in Poland and the scale of constraints affecting economic activity as a result of introducing 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 continued pressure on increases in the prices of commodities, components and finished products. The imbalance between supply and demand amid persistent disruptions in logistics chains translates into higher prices of goods, materials and labor in an environment affected by high rates of CPI inflation.

In addition to these factors, which indirectly, through the operation of the economy, affect the PZU Group's business, there are other factors that directly impact the PZU Group's operations and will play a particularly important role in H2 2022.

One of them will be the risk of a persistently high rate of inflation. Inflation increases in the number of future claims paid under policies issued. For instance, in motor insurance, it translates into increasing repair costs due to more expensive parts and labor costs. It also creates a problem for customers affected by 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.

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. On the other hand, administrative solutions aiming to mitigating the costs of interest rate hikes incurred by households (such as loan moratorium periods) will result in reducing the profits of the banking sector. The relatively high level of inflation and the need to bring it down make the scenario of the NBP lowering the interest rates already in 2022 unlikely.

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 increase in the yields on bonds marked to market in the portfolios of banks and insurers results in their lower nominal value. The consequences of this for insurance companies depend on the difference in the duration of assets and liabilities.

Polish economy highlights	2019	2020	2021	2022*
Real GDP growth in % (y/y	4.7	(2.2)	5.9	4.5
Individual consumption growth in % (y/y	4.0	(3.0)	6.1	4.8
Growth of gross fixed capital formation in % (y/y)	6.1	(4.9)	3.8	4.0
Consumer price index in % (y/y, annual average)	2.3	3.4	5.1	15.5
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	6.3	5.4	5.1
NBP's base rate in % (end of period)	1.50	0.10	1.75	6.50

* Forecast of 25 July 2022
Source: Statistics Poland /PZU's Department of Macroeconomic Analyses

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 armed conflict between Russia and Ukraine, the current account deficit and the risk of postponing the disbursement of European funds under the National Reconstruction Plan and fears of a global slowdown in economic activity – the risk of depreciation 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, further 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.

On 17 June 2022, Article 8 of the Act of 2 December 2021 Amending the Road Traffic Law and Certain Other Acts came into force and introduced a change in the Act on Mandatory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau, enabling insurance companies to tie the amount of motor insurance premium rates to various types of traffic misdemeanors or offenses and the penalty points attached to them.

On 18 July, new recommendations were published by the Polish Financial Supervision Authority (KNF), scheduled to enter into force on 1 November 2022. The KNF requires insurers to ensure that the premiums they collect from drivers cover at least the costs of claims paid and their business expenses.

The business on the life insurance market related to unit-linked funds has been affected by the decision of the Polish Financial Supervision Authority of 15 July 2021 – which entered into force on 1 January 2022 – on prohibitions on marketing, distribution and sale of insurance-based investment products – life insurance contracts if they are unit-linked (product intervention). 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. 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.

The following rulings issued by the Supreme Court may also affect insurance activity:

- On 13 January 2022, in case no. III CZP 61/22, the Supreme Court adopted a resolution according to which the beginning of the limitation period for a claim brought up by a consumer who is the insured or policyholder for the refund of undue benefits related to the insurer's collection of fees during the term of a unit-linked life insurance contract which did not constitute the costs of insurance protection, resulting from unlawful contractual clauses, may not begin before the date when the consumer found out or should have reasonably found out about the unlawful nature of such contractual clauses;
- On 14 January 2022, in case no. III CZP 7/22, the Supreme Court adopted a resolution according to which the liability of the insurance company resulting from a contract for compulsory third party liability insurance for motor vehicle owners also covers damage caused by the operation of equipment installed in the vehicle, even if the vehicle itself did not serve the purpose of a transportation device at the time of the damage;
- On 20 January 2022, in case no. III CZP 9/22, the Supreme Court adopted a resolution that the perpetrator of a traffic accident and the insurance company with which such perpetrator is bound by a motor vehicle third party liability insurance contract for damage associated with the movement of such vehicle are liable to the road administrator for damage caused by a spill of engine fluids on the road;
- In case no. I SNN/c78/21, the Supreme Court agreed with the Prosecutor General's extraordinary complaint against the final non-appealable judgment issued by the Regional Court in Szczecin and referred the case for re-examination. According to the Supreme Court, there is no doubt that indemnification due from the insurer under a third party liability contract for damage to a motor vehicle is not limited to the equivalent of the expenses incurred for the repair of the vehicle, but in each case must also cover the necessary and economically justified costs of repair as the equivalent of the hypothetical costs of restoring the vehicle to its previous condition.

In the context of banks, among the key developments in H2 2022 was the introduction of loan moratorium periods. In connection with the Act of 7 July 2022 on Crowdfunding for Business Ventures and Providing Aid to Borrowers, mortgage borrowers have been offered the option to suspend repayments of up to 8 mortgage installments in 2022 and 2023 by obtaining a moratorium period. In connection with the loss of interest income resulting from this legislative solution, banks have established provisions for this purpose in the amount of 50% to 85% of the full impact of moratorium periods, depending on the assumed degree of participation by the borrowers. Both the actual degree of participation by eligible customers and the interest rates applicable on the date of the respective loan installment will exert a significant impact on the financial performance of distinct banks and the whole banking sector.

The Act also requires lenders to make additional contributions to the Borrowers Support Fund in the total amount of PLN 1.4 billion by 31 December 2022. The exact date of payment and the amount of contribution due from each lender separately will be determined by a resolution of the Board of the Borrowers Support Fund. The full impact of the Act on the Borrowers Support Fund is likely to materialize in H2 2022.

The issue of foreign currency mortgage loans also remains significant. In the absence of a final systemic solution of this issue, the largest impact on the banking system will be exerted by court rulings handed down in lawsuits concerning specific loan agreements. A number of events (among others, a CJEU ruling) prompted an increasing group of borrowers to bring their claims to court. This will have a strong adverse impact on the performance of banks, in particular banks with a large portfolio of these types of loans. So far, the main area of impact were the provisions recognized by banks in connection with the anticipated legal risk – they had a strong, negative impact on the sector's results, especially in the last two years. According to most forecasts, the total costs for the sector may reach tens of billions of Polish zloty but are difficult to estimate and may be spread over time. Much will depend, among other factors, on the actual number of lawsuits filed (how many borrowers elect to litigate), interpretations adopted by national courts in individual cases, reactions of national regulatory institutions and steps taken by the banks themselves. Also, a scenario cannot be ruled out in which the CHF loan problem will be eventually solved by the adoption of appropriate legislative measures. Because the exposure of the PZU Group's banks to foreign currency loans is minor compared to other banks operating in Poland, the direct impact of this risk on the Group will be limited.

Moreover, the performance of the banking sector in 2022 has also been significantly affected by the resolution of the Board of the Bank Guarantee Fund (BFG) of 22 February 2022. The BFG Board set the total level of banks' contributions to the BFG 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 by 66% compared to 2021 and by 16.6% compared to 2020.

The increased regulatory burden on financial institutions was caused to a certain extent by **regulations adopted due to the increased degree of awareness in the areas of sustainable financing, climate change and environmental issues**.

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 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, the following 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.

Since 10 March 2021, 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, has been in force (SFDR). Entities covered by the regulation include insurance companies that offer insurance-based investment products. The regulation imposes new obligations on financial institutions in terms of transparency and disclosure of their approach to managing risks to sustainable development as part of their investment activities and investment decision-making processes.

On 6 April 2022, the European Commission adopted the technical standard to 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 (SDFR), clarifying the content, methods and presentation of information related to sustainability indicators, products promoting the environmental and/or social aspect (Article 8 of the SFDR) and products aimed at sustainable investment (Article 9 of the SFDR). The document constitutes a key guidance on the scope and presentation of the disclosures required by the SFDR. These regulations are scheduled to enter into force on 1 January 2023.

At the level of European Union legislation, attention should also be paid to the publication in the Official Journal of the EU, on 24 June 2022, of European Commission Delegated Regulation 2022/975 deferring the date of entry into force of amendments to PRIIPs Key Information Documents from 1 July 2022 to 1 January 2023. It will give life insurance companies some additional time necessary for the adaptation of their investment products subject to the PRIIPs Regulation (unit-linked contracts and life and endowment contracts with profit sharing) to the necessary amendments to Key Information Documents for their existing PRIIPs.

Among **other regulations** that may affect the PZU Group's operating conditions, it should first be noted that on 16 May 2022, after more than two years of being in force, the state of epidemic caused by SARS-CoV-2 virus infections in the territory of the Republic of Poland was lifted.

In turn, as a result of Russia's invasion against Ukraine, on 16 April 2022, the Act on Special Solutions to Counteract Support for Aggression against Ukraine and Serving to Protect National Security came into force. The Act governs, at the national level, various aspects of the application of EU regulations imposing sanctions on Russian and Belarusian entities. The Act has also introduced Poland's own sanction regime: the minister in charge of internal affairs keeps a list of entities to which the measures provided for in the Act are applicable. Failure to abide by the sanctions imposed on the entities included in the list may result in a fine of up to PLN 20 million if imposed by the Head of the National Tax Administration Authority. This Act, along with EU sanction regulations (and those adopted by the United States and the United Kingdom), points to the increasing significance that companies must attach to the recognition and implementation of various types of sanctions in their business in order to avoid the risk of penalties due to non-compliance.

On 12 April 2022, amendments to the Commercial Company Code were published in the Journal of Laws (scheduled to enter into force on 12 October 2022). Contrary to previous expectations, the Act will be of limited application to the PZU Group in terms of the operation of Group companies due to the exclusions provided for therein. On the other hand, the functioning of the PZU Group will certainly be affected by the strengthening of the role played by the supervisory board, as provided for in the Code. The powers of the supervisory board will include examination of all documents of the company, review the company's assets and requesting that the management board (and the company's employees or associates) prepare or submit any information, documents, reports or clarifications regarding the company, in particular its activities or assets, as the supervisory board may see fit.

On 30 June 2022, the most important provisions of the Act of 2 December 2021 Amending the Civil Code, the Code of Civil Procedure and Certain Other Acts, specifying the rules for the running of limitation periods in respect of claims, came into force. The Act has changed the legal effect of the submission of a call for a settlement attempt. Instead of interrupting the limitation period, such submission will now merely suspend its course. Also in the case of claims covered by a mediation contract, the suspension will last for the duration of the mediation process. Following the completion of the conciliation or mediation process, as the case may be, the limitation period will continue to run. The call for a settlement attempt was an instrument that was relatively often resorted to in order to extend the limitation period for claims. From the company's point of view, this change is expected to increase the certainty of legal transactions.

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 speed of changes and the increase in insurance awareness in the aftermath of both the COVID-19 pandemic and Russia's aggression against Ukraine, climate change, demographic changes and the level of competition in the product groups that form the core of the Group's business.

During the pandemic, customer expectations changed much more significantly over the course of several months than they did during the prior several decades. Although the pandemic seems to be subsiding, the rapid pace of change has stayed.

In life insurance, the most visible consequence of the pandemic visible to insurers was an increase in mortality. In turn, the restrictions that were imposed with a view to decreasing the number of new infections also reduced the overall provision of medical services. Patients postponed their scheduled appointments and treatments for other, initially unspecified, dates. Although already 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, potentially exacerbated by other, more dangerous and contagious mutations of the coronavirus.

The 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 non-life insurance segment that is of key significance to the market, namely in the motor own damage and motor third party liability insurance segment, the lifting of travel restrictions (introduced during the COVID-19 pandemic) and the increase in herd immunity have brought about an increased volume of traffic on the roads and the return of the loss ratio to its pre-pandemic levels. Such phenomena affect the profitability of this line of non-life insurance business.

It seems that in the near future the motor insurance segment will require the preparation of an offering that will provide the insurers' response to the changing preferences and behaviors of their customers. Policies the price of which will depend on the style or frequency of driving ("pay how you drive"/"pay as you drive") are expected to play an increasingly important role. However, this will depend on the broader context of changes taking place on a European scale. The increased environmental awareness of customers coupled with their interest in new trends (such as micromobility) are changing expectations towards insurance offerings.

Another effect of the pandemic is a higher level of customer awareness 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. At the same time, insurers should 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[1], which are already influencing and will continue to influence the transformation of the insurance and banking industries over the long term.

The heightened geopolitical tensions, the intensified digital connectivity and the large degree of harm caused by cyberattacks have changed the way of thinking about such threats. Today, more than ever, policyholders are aware of the increased potential of falling victim to a cyberattack. Since Russia's invasion against Ukraine, cyberattacks against enterprises and government agencies have increased significantly. This may translate into an increase in cyber insurance claims due to cases of business interruption and data leaks. And although cyber insurance currently accounts for a small percentage of all policies in the market, it may be expected to grow rapidly in the new context.

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.

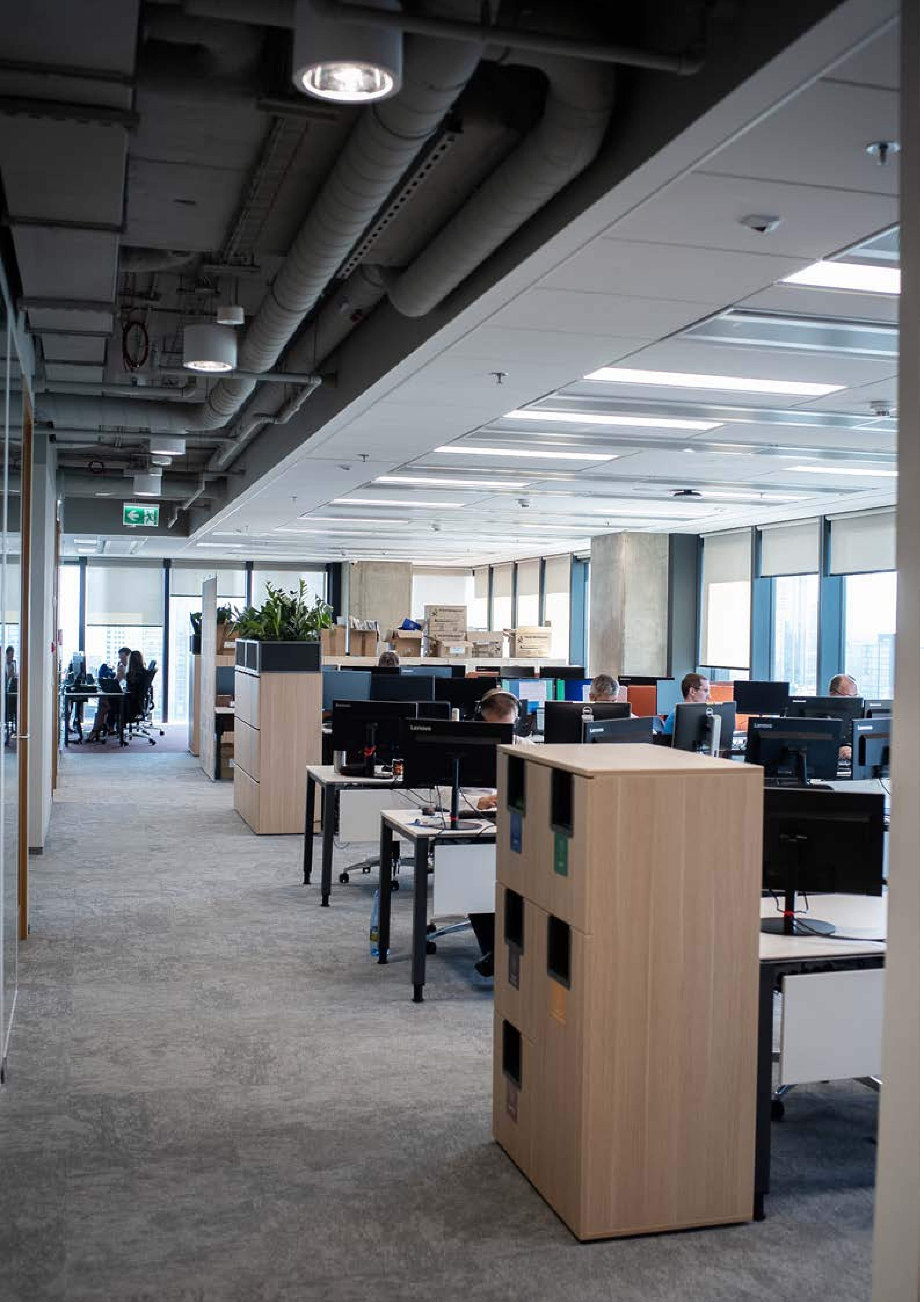
At the same time, insurers and financial institutions are increasingly expected to take responsibility for delivering a just transition to a low-emission economy. This influences the development of "green" insurance and loan offerings for, among others, large corporations and smaller businesses, supporting 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.

Intensification of activities aimed at mitigating the effects of climate change, in particular decarbonization, including in the face of the ongoing war in Ukraine, has gained even greater significance. The departure from coal requires significant capital expenditures and creates a large need for protection as new risks emerge along with the occurrence of dramatic changes and, accordingly, the need for businesses to be insured.

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 increasingly more often meet customer expectations and include products intended 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 lifestyle 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 group insurance and building thematic ecosystems for customers, will influence the direction of insurers' business models and their product offerings.

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



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:

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.

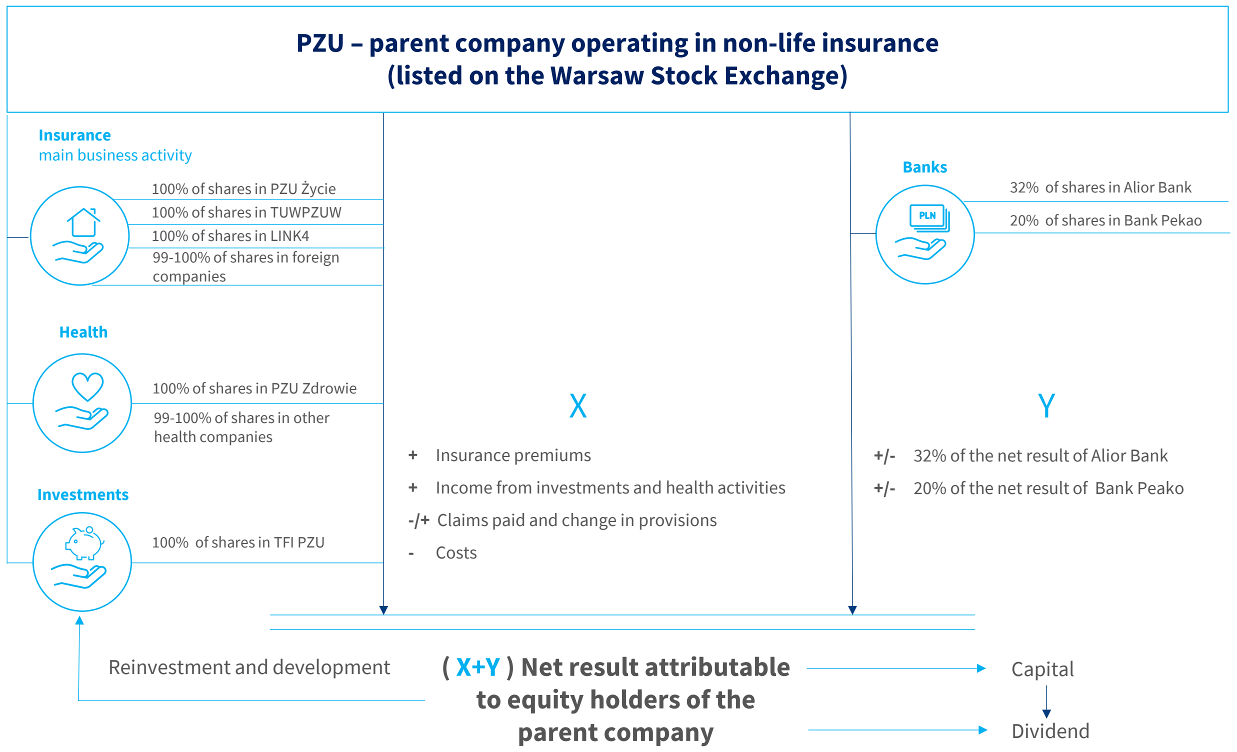
The core PZU Group companies include:

- 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



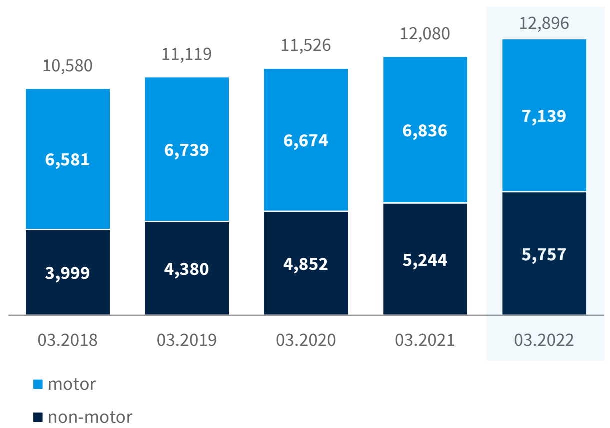
3.2 Insurance

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

Non-life insurance market in Poland

The non-life insurance market in Poland, measured by gross written premium, increased in the first quarter of 2022 by PLN 817 million (+6.8%) in comparison to the corresponding period of the previous year.

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



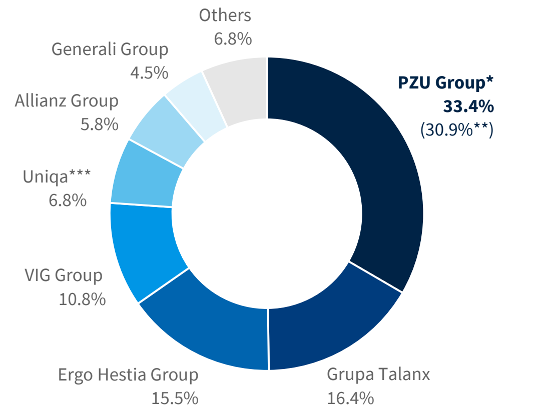
Source: NF's Quarterly Bulletin (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2022, Rynek ubezpieczeń 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018

Total written premium on direct business increased by PLN 827 million (+7.7% y/y), while written premium on indirect business decreased by PLN 9.7 million (-0.7% y/y). The market growth was driven primarily by an increase in gross written premium in the non-motor insurance area (by PLN 514 million, or +9.8% y/y) coupled with an increase in gross written premium in the motor insurance area (by PLN 304 million, or +4.4% y/y).

The increase in gross written premium in the motor insurance area resulted primarily from the rapid growth in motor own damage insurance (up by PLN 255 million, or +10.7% y/y). The increase in gross written premium in motor TPL insurance, the most important category for the overall market (PLN 4.5 billion representing 34.9% of the overall premium in non-life insurance in Q1 2022), was more moderate (+PLN 49 million y/y, or +1.1% y/y). The market grew as a result of the higher volume of sales generated by dealers and the weaker price-targeted actions by competitors resulting from the deteriorating profitability of the portfolio and a slight decrease in the value of financing by lease companies.

In non-motor insurance, the increase in gross written premium was affected mostly by the higher volume of sales of insurance against fire and other damage to property (up PLN 406 million, or 15.9% y/y, of which PLN 365 million was attributable to indirect business), liability insurance (up PLN 70 million, +8.1% y/y) and assistance (up PLN 63 million, +16.5% y/y). A decline occurred only in accident and sickness insurance (down PLN 65 million, -9.3% y/y) and legal protection insurance (down PLN 3 million, -13.5% y/y).

Non-life insurance undertakings – percentage of gross written premium in Q1 2022 (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] 1/2021
* 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

After Q1 2022, the PZU Group held a 33.4% share in the non-life insurance market (30.9% on direct business) compared to 34.0% in the corresponding period of 2021 (31.7% on direct business). Despite the slight decline, it maintained a high profitability of the portfolio.

The technical result of the on-life insurance market declined by PLN 164 million to PLN 580 million in Q1 2022. This resulted chiefly from the decline in the technical result in insurance against fire and other damage to property by PLN 205 million (effect of an increase in the loss ratio on the portfolio) and in motor TPL insurance by PLN 42 million, while the result on motor own damage products increased by PLN 64 million and the result on accident and sickness insurance was up by PLN 22 million y/y.

The technical result margin for the whole market was 4.5%, which was its lowest level since Q3 2017. After Q1 2022, the PZU Group's technical result (PZU together with LINK4 and TUW PZUW) accounted for more than half of that of the overall market (the PZU Group's technical result was PLN 295 million while that of the overall market was PLN 580 million).

In Q1 2022, the whole non-life insurance market generated a net result of PLN 370 million, signifying a decrease by PLN 399 million in comparison with the corresponding period of 2021.

The total value of the investments made by non-life insurance undertakings at the end of Q1 2022 (net of the investments made by subordinated entities) was PLN 69,902 million, down 1.1% compared to the end of 2021.

The non-life insurance undertakings in total estimated their net technical provisions at PLN 64,312 million, signifying 2.8% growth compared to the end of 2021.

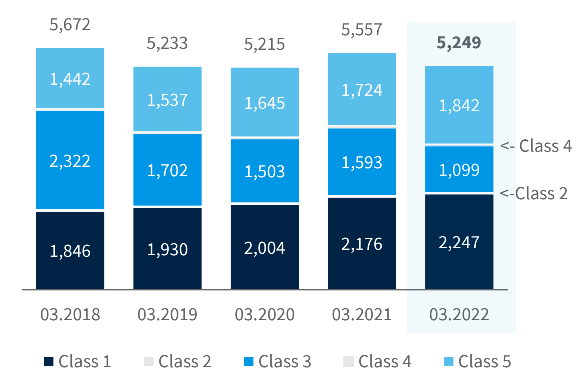
Life insurance market in Poland

After Q1 2022, Poland's life insurance market measured by gross written premium was worth PLN 5,249 million, down 5.5% compared to the corresponding period of the previous year. Total written premium on sales of insurance products with a periodic premium increased by PLN 142 million (+3.2% y/y), while sales of insurance products with a periodic premium decreased by PLN 450 million (-41.3% y/y) as a result of amendments to regulations applicable to insurance products of an investment nature and the resulting changes in market conditions.

Gross written premium in periodic premium products increased both in life insurance (class I) and in accident and sickness insurance (class V).

The decrease in written premium on single-premiums products was largely related to investment products (PLN -434 million, -72.6% y/y), the reasons for which may be attributable to changes in the situation on the capital market and in the legal and macroeconomic environment. 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. Following the sharp slowdown in sales in 2018, a gradual rebound of the single-premium volumes had been observed since H2 2020, yet a collapse occurred again in Q1 2022, predominantly in products offered in cooperation with banks, and was caused chiefly by the entry into force, on 1 January 2022, of the recommendations issued by the Polish Financial Supervision Authority in July 2021 prohibiting the marketing, distribution and sales of insurance-based investment products related to a unit-linked fund and fulfilling the criteria indicated by the Polish Financial Supervision Authority (pertaining to product profitability from the client's perspective or investment policy).

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

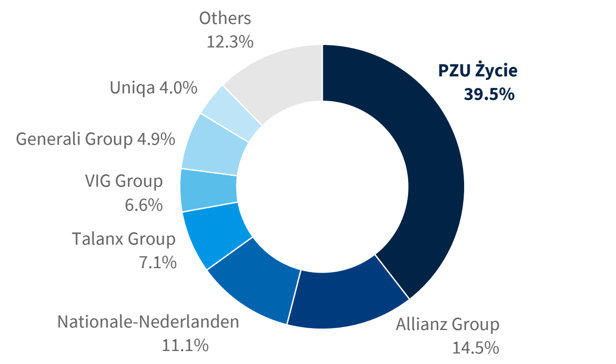


Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2022, Rynek ubezpieczeń 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018

The outcome of these market changes was the expanding significance of periodic premium that constitutes PZU Życie's competitive edge on the market. During Q1 2022, premium with this payment form was 3.2% higher compared to the same period in 2021, with a compound average growth rate of 2.9% for the last 5 years. Despite the declining periodic premium in unit-linked life insurance (by PLN 60 million y/y), the protective premium in classes I and V increased (by PLN 202 million y/y) in both group and individually purchased insurance.

At the same time, market concentration measured by the periodic gross written premium remained high. Compared to the previous year, the sequence of the five largest market players did not change, even though their combined share fell to 74.5%.

Life insurers – percentage of periodic gross written premium in Q1 2022 (%)



Groups: Talanx – Warta, Europa, Open Life; VIG – Compensa, Vienna Life; Allianz – Allianz, Aviva, Santander-Allianz, NATIONALE-NEDERLANDEN - NATIONALE-NEDERLANDEN , METLIFE
* 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] 1/2022

The total technical result generated by life insurers in Q1 2022 was up PLN 7 million (+1.3% y/y) from the corresponding period of 2021 to PLN 534 million. Increases occurred both in life insurance classes (class I) and in annuity products (class

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

Gross written premium vs. technical result	1 January – 31 March 2021			1 January – 31 March 2022		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Written premium	4,107	12,080	7,973	4,310	12,897	8,586
Technical result	303	743	440	295	580	285

* It contains LINK4 and TUW PZUW
Source: KNF's Quarterly Bulletin (www.knf.gov.pl), Rynek ubezpieczeń [Insurance Market] 1/2022

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

Gross written premium vs. technical result	1 January – 31 March 2021			1 January – 31 March 2022		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Written premium	2,254	5,557	3,304	2,072	5,249	3,177
Technical result	221	527	307	198	534	336
Profitability	9.8%	9.5%	9.3%	9.6%	10.2%	10.6%

Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 1/2022, PZU Życie's data

IV). Despite the significant increase in the technical result in the life insurance class (class I) by PLN 89 million as a result of a decrease in claims and benefits due to a lower number of deaths, it remained negative at PLN -105 million.

In this same period, life insurers generated a net result of PLN 401 million, representing a PLN 36 million (9.9%) increase y/y, or 9.9%, as a result of a lower income tax than in the corresponding period of 2021.

The total value of the investments made by life insurance companies at the end of Q1 2022 was PLN 39,619 million, signifying a 0.1% decline compared to the end of 2021. The weak investment performance of the funds translated into a lower net asset value of life insurance in which the policyholders bear the investment risk (down 8.0% to PLN 43,132 million).

In Q1 2022, PZU Życie wrote 39.5% of gross written premium of all life insurance undertakings, signifying a decline versus the last year's market share (by 1.1 p.p.). Even though PZU Życie's gross written premium payable periodically was higher than the year before, other insurance undertakings recorded a higher rate of growth. As regards single-premium produces, PZU Życie recorded a decrease in written premium, as did most other insurers.

At the same time, PZU Życie continued to be the leader in the periodic premium segment. In Q1 2022, it generated 43.2% of these types of premiums, signifying a small decrease (by 0.8 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 1.2% y/y, while the other market players posted a 4.7% y/y growth rate. PZU Życie recorded increases in accident and sickness insurance (class V) and life insurance (class I), as did the other market participants.

PZU Życie's share in just the life insurance segment (class I) for periodic premiums at the end of Q1 2022 was 53.0% when measured by gross written premium and 55.6% 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 61.1% for agreements executed in group form and 35.0% for individual agreements (measured by gross written premium).

PZU Życie's technical result accounted for over 37% of the result generated by all life insurance undertakings, while, the margin on PZU Życie's technical result on gross written premium was lower than the overall margin generated by other companies offering life insurance (9.6% versus 10.6%).

Insurance markets in the Baltic States and Ukraine

Lithuania

According to the Bank of Lithuania, in the first six months of 2022, gross written premium collected by non-life insurance companies totaled EUR 434 million, representing an increase by 24.0% compared to the same period the year before. The main driver of market growth was motor third party liability insurance, which accounted for one third of the market value. Sales of motor third party liability insurance exceeded the levels attained before the pandemic – gross written premium increased by 5.9% compared to the first half of 2019.

Premiums written in non-life insurance grew very rapidly – by 25.2% y/y. An equally rapid rate of growth was recorded in sales of health insurance, where written premium increased by 41.9% y/y.

As at the end of May 2022, 11 companies were operating in Lithuania's non-life insurance sector, including 7 branches of insurance undertakings based in other EU member states.

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 maintains the position of Lithuania's largest insurer in terms of gross written premium in the non-life insurance segment. As at the end of May 2022, the company's market share was 28.3%. In turn, the total market share of top four insurers in the non-life insurance market was 80.9%.

Gross written premium generated from life insurance, according to data published by the Bank of Lithuania, totaled EUR 137 million in the first five months of 2022, having increased by 9% compared to the corresponding period the year before. This increase was driven by the growth in sales of products with a regular premium (+8.8% y/y), caused mainly by a boost in the volume of new sales on the market in 2021. Sales of single-premium insurance products increased by 12.6% y/y.

Unit-linked insurance products accounted for the largest share in the life insurance market: 68.8%, coupled with the highest rate of growth in written premium (+12.9%). Traditional life insurance accounted for 11.1% of written premium, with a decrease in sales by 9.4% y/y.

New sales increased by 3.5%. The war in Ukraine exerted an adverse impact on growth in sales, with three entities having posted a decrease in new sales, followed by a positive rate of growth in sales reported by all companies after February.

Unit-linked remains the main product on the market, making up 80.5% of new business. Protection insurance accounts for 8.1%, riders for 10.6%, while traditional life insurance makes up only 0.8% of written premium on new business.

New sales of unit-linked products increased by 10.7%. In turn, decreases were recorded in written premium on riders (-12.9% y/y), term products (-5% y/y) and endowment insurance (-75.4% y/y).

As at the end of June 2022, 8 companies were operating in Lithuania's life insurance sector. This market is highly concentrated: as at the end of May 2022, the top three players raked in a total of 62.7% of the sector's gross written premium.

Swedbank was the largest life insurance company in Lithuania in terms of total gross written premium, with a 22.3% market share. The runners-up were Compensa (21.6%) and Aviva (18.8%).

Latvia

The Latvian non-life insurance market recorded a gross written premium of EUR 124 million in Q1 2022. Motor insurance accounted for the largest share in the market. Motor TPL insurance accounted for 17.5% of the market while motor own damage accounted for 20.8%. Also health insurance (30.5% market share) and property insurance (17.9% market share) held an important position in the product mix.

In Q1 2022, the market grew by EUR 16 million compared to the corresponding period of the previous year (+15.1%). The biggest growth was achieved in health insurance – by EUR 5 million +15.9% y/y). A significant increase was also recorded in motor and property insurance. Sales of motor third party liability insurance grew by EUR 3 million (+15.3% y/y), sales of motor own damage insurance swelled by EUR 3 million (+13.3% y/y) and sales of non-life insurance products increased by EUR 3 million (+13.7% y/y). Travel insurance volumes increased noticeably, having recovered from the losses caused by the COVID-19 pandemic. In Q1 2022, this increase totaled EUR 2 million, or 129.7% compared to the same period last year.

In Q1 2022, there were 10 insurance companies operating on the Latvian non-life insurance market, the top four of which held 72.2% of the market.

Estonia

During the first six months of 2022, gross written premium collected by non-life insurance companies operating on the Estonian market totaled EUR 230 million, representing an increase by 14.8% compared to the same period in 2021. Lietuvos Draudimas' Estonian branch generated EUR 35 million in written premium and accounted for a 15.3% market share. This signified an increase by 0.8 p.p. y/y and gave the company third place in the ranking.

The market growth was driven largely by major increases in travel insurance (+125% y/y, up by EUR 6.2 million compared to the corresponding period of the previous year), health insurance (+129%, up by EUR 4.7 million) and motor insurance (the third party liability and mass motor own damage insurance segments increased by 13%, or EUR 5.7 million, and 17.5%, or EUR 5.8 million, respectively, hand in hand with the corporate motor own damage insurance segment – by 16.1%, or EUR 4.6 million).

In the sales mix of non-life insurance products, motor insurance accounted for 53% (of which motor insurance and motor third party liability insurance made up 31% and 22%, respectively, of the overall market share) in H1 2022. Property insurance ranked next with a market share of 17%.

As at the end of June 2022, there were 13 companies operating in Estonia's non-life insurance sector (including 5 branches of foreign insurers), of which the top four held a combined share of 66.8% of the country's market.

Ukraine

As of the end of June 2021, 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. As at the end of June 2022, 129 insurance companies active on the country's market (compared to 142 insurance companies in Ukraine at yearend 2021).

In 2021, the Ukrainian non-life insurance market recorded a 9.1% increase in gross written premium compared to the previous year, having reached UAH 43.8 billion.

As a result of the armed conflict with Russia, sales of non-life insurance products declined significantly in H1 2022. People living in the occupied territories chose not to extend their insurance contracts. Sales of certain types of insurance (such as aviation insurance) was suspended due to the suspension of all activity in this sector. At the same time, sales volumes of certain types of insurance, such as the Green Card, increased. Significant declines in sales were recorded in traditional distribution channels: branches, car dealerships and travel agencies due to the suspension of their business.

The provision of reinsurance services was suspended, which delivered an additional blow to Ukrainian insurers. At the end of April, the consent was issued to make settlements with non-residents for nuclear risk reinsurance, the Green Card, civil aviation risks, property risks of telecommunications networks and infrastructure. This had not been possible before due to the restrictions imposed on cross-border money transfers. As regards other risks, it is still impossible to carry out any settlements. Moreover, due to the high degree of risk, some international companies have been denying Ukrainian insurers the possibility of executing reinsurance contracts.

According to data published by the National Association of Ukrainian Insurers, it is estimated that after the first five months of 2022, the non-life insurance market showed a negative rate of growth of -16.8% compared to the same period the year before. PZU Ukraine ranks 8th in terms of written premium among all non-life insurers that are members of the National Association of Ukrainian Insurers.

In 2021, the Ukrainian life insurance market recorded a 17.2% increase in gross written premium compared to the previous year, having reached UAH 5.9 billion.

The outbreak of the armed conflict caused most companies operating on the Ukrainian life insurance market to temporarily suspend sales of new insurance contracts. For some insurers, this suspension was also due to the loss of reinsurance cover. During the first two months of the armed conflict, the main focus was on ensuring the continuity of processes for the existing portfolio of insurance contracts, improving the operation of the Contact Center and keeping the accounting and reporting systems running. In April and May, some players announced the resumption of new sales on special terms and the continuation of cooperation with banks in sales of life insurance to borrowers and credit card holders.

According to data published by the National Association of Ukrainian Insurers, after the first five months of 2022, the market experienced a negative rate of growth of -13.3% compared to the same period in 2021. As at the end of June 2022, there were 13 life insurance undertakings doing business in the country. PZU Ukraine Life ranks 4th in terms of written premium among all life insurers that are members of the National Association of Ukrainian Insurers.

3.2.2 Activity and product offering of the 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 meet expectations voiced by clients, the PZU Group has consistently extended its offering for both retail and corporate clients. As a result, it has been able to retain its high market share.

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. As at the end of Q2 2022, as in previous years, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance contracts and its premium stated as a percentage of total gross written premium.

Faced with changing market conditions, PZU realigned its offering in 2022 to clients' interests and needs by rolling out new products and innovative solutions.

PZU's activities in the mass insurance segment:

- update of the PZU AUTO Assistance coverage, a unique benefit offered under the Super option. The benefit includes verification of the technical condition of the vehicle before purchase in a situation where the insured's vehicle has been damaged in an accident and the insured decides to purchase another vehicle. Moreover, the Super Truck option has been extended with the service of towing a roadworthy trailer or semi-trailer when the vehicle pulling the trailer or semi-trailer has been involved in an accident, broken down or been stolen;
- extension of the PZU Auto coverage with PZU Motor Tires insurance, previously offered separately, within a group of simple products;
- unification of the rules for determining the value of partial or total loss in accordance with the Motor Own Damage option purchased by the customer as part of the insurance contract. The repair costs to determine whether the damage is total will be calculated in the manner chosen by the customer when deciding to purchase the optimal, service or partner option. The amendment, agreed with the Insureds' Ombudsman, is intended to reduce the risk of misinterpretation of the insurance terms by customers;
- extension of the PZU Wojażer coverage with benefits related to the COVID-19 epidemic, replacing the clause used previously. The benefit consists of a refund of the costs of accommodation and meals and the arrangement and coverage of the costs of the insured's relocation to his or her country of permanent residence (if the insured is unable to use the originally intended transport option) and a refund of the costs of organized leisure if the insured is unable travel (due to suddenly falling sick with COVID-19 or being referred or having his or her travel partner referred to quarantine or confinement);
- update of the price list for the valuation of buildings under PZU Gospodarstwo Rolne [PZU Farm] insurance to reflect the current price level in the construction sector;
- introduction of a new PZU product for homeowner associations and housing cooperatives targeted at the owners or tenants of homes or apartments. The insurance cover includes, in addition to standard risks such as fire, theft and third party liability insurance, also risks characteristic and specific to this sector, such as: directors and officers liability insurance (D&O) for homeowner associations or housing cooperatives, clauses providing for a refund of the costs of evacuation of residents and their property, and a data protection clause (cybersecurity/GDPR);
- amendments to the General Terms and Conditions of Insurance for the PZU Education accidental death and dismemberment product, including:
  - extension of the list of serious illnesses, including with post-COVID-19 PIMS-TS,
  - introduction of an additional benefit for accidents during school trips,
  - increased limits of assistance services, including assistance by a psychologist to PLN 2,000 and private lessons to PLN 1,200,
  - update of medical definitions in accordance with current medical knowledge.

Most of the changes in the corporate insurance segment, on which PZU focused its attention, were aimed at increasing the appeal of the dedicated offering for fleet clients and lease companies and improving the effectiveness of collaboration with intermediaries.

Major new products included:

- deployment of the PZU iFleet prevention program. The program supports risk management in fleets using innovative software. The PZU iFleet system consists of three main modules: fleet management, insurance management and safety management. Firstly, PZU iFleet is a system for classic fleet management, with records of vehicles, drivers and various types of costs as well as support for, among others, fuel cards and maintenance services. The second

element is insurance management. The system provides access to data on insurance policies and claims reported under MOD and TPL policies and enables users to report and monitor claims from the application level. The third and most important element are preventive measures aimed at improving the fleet's safety, for instance through e-learning courses, knowledge bases and suggesting preventive measures commensurate with the risks typical of the specific client;
- popularization and continued development of the Risk PRO program, including by expanding PZU LAB ESTo (PZU LAB Enterprise Safety Tools) with smart sensors monitoring the current safety status, for example monitoring the opening and closing of emergency exit doors, temperature, pressure, vibration and smoke sensors, and integrating it with thermal imaging cameras,
- extension of the PZU Auto offering with a new scope of motor own damage insurance for the owners of electrical vehicles that covers damages to chargers, including a wallbox and charging wires and the battery.

In financial insurance, PZU is unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the construction industry and the science and innovation sector, in consideration of the restrictions related to COVID-19 and the military operations in Ukraine. On an ongoing basis, PZU also monitors and identifies risks related to the current geopolitical situation.

In H1 2022, the most important changes to the offering included:
- amendments to the applications for the execution of a periodic guarantee agreement and model mandate contracts for granting insurance guarantees, adapting them to the needs of customers and at the same time to the current geopolitical situation with regard to valuation rules in the event of an increased risk related to transactions;
- update of the General Terms and Conditions of Insurance in the GAP financial loss insurance for customers of Alior Leasing and Pekao Leasing;
- continuation of cooperation with banks in offering mortgage repayment insurance, both with PZU Group companies and other entities.

In H1 2022, PZU cooperated with 8 banks and 9 strategic partners. PZU's business partners are leaders in their respective industries and they have client bases offering the possibility of extending the PZU's offering with additional innovative products geared towards those clients. By actively cooperating with PZU Group's banks, i.e. Bank Pekao and Alior Bank, PZU continues the implementation of a comprehensive offering using the banks' distribution networks. This cooperation has allowed PZU to steadily expand the offering and volume of sales of insurance products linked to bank products, including insurance coverage for cash loans and mortgage loans as well as standalone products (unrelated to other financial products).

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

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 multiagencies, 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 June 2022, 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. The recognition enjoyed by LINK4 on the market and among its employees is confirmed by the title of the Top Brand of 2022 in the direct motor insurance segment. LINK4 was also awarded the Golden Customer Laurel for the quality of service to individual customers in the insurance sector. Moreover, LINK4 was awarded the Best Quality Employer 2022 title for the third time. The award granted by Centralne Biuro Certyfikacji Krajowej places LINK4 invariably among the best employers in Poland.

In H1 2022, 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:
- making the Auto Assistance offering more attractive by increasing the limits for the towing service after an assistance event in all insurance options (by 300 km) and by the benefit of renting a substitute car in the Auto Assistance Plus option;
- changes in the Travel insurance offering, in particular:
  - unification of the provisions (with motor accidental death and dismemberment insurance) dealing with determination of the percentage of health detriment and benefit for the insured's death,
  - simplification of the process of handling claims and benefits by removing provisions on determining permanent dismemberment based on a medical opinion and assessment of medical documentation or the interview itself.

Activity and product offering – TUW PZUW

Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW) focuses predominantly on cooperation with large enterprises, medical centers (hospitals and clinics), ecclesiastical institutions and local government units.

TUW PZUW offers flexible insurance programs customized to the needs of insureds in terms of the scope and cost of insurance cover. This is favored by the mutual insurance arrangement, which enables contracts to be negotiated without the need to announce tender procedures. On the basis of mutuality, entities insured with TUW PZUW are also members of the Company, and their number has been growing gradually over the last several years. Within the framework of TUW PZUW, members form mutual benefit societies, putting together entities with a similar business profile and associated risks.

The success of H1 2022 at TUW PZUW is the creation of a mutual benefit society for over 500 companies from the water supply and sewage removal sector.

Promising prospects have also been created by the establishment of the Ignacy Mościcki Memorial Mutual Benefit Society for companies from the electricity and heat sectors. Their cooperation concerns the new and fastest growing health insurance segment at TUW PZUW.

In addition to insurance cover, TUW PZUW is also involved in a number of risk mitigation projects. They include a training program for physicians and medical personnel, resumed by TUW PZUW on a large scale after the period of restrictions related to the COVID-19 pandemic. The purpose of the program is to improve the knowledge and skills of physicians and staff of insured hospitals to ensure the best possible care for patients and at the same time to prevent undesirable events that might result in insurance claims. A novelty in the field of obstetrics is training in diagnosing perinatal hypoxia, which is one of the most commonly occurring problems related to childbirth. The "Good patient relations" training program also covers such issues as the proper keeping of medical records and the protection of personal data, nosocomial infections, liability for damage caused during the COVID-19 pandemic and good patient relations. Almost 2,500 participants from almost one hundred medical facilities have already benefited from the e-learning program "Hospital Plus" organized by TUW PZUW.

TUW PZUW is also involved in developing newly created products. They include the following:
- an innovative solution for groups of hospitals, known as 'umbrella insurance,' which provides them with additional insurance cover in the event that the guarantee sum resulting from the compulsory insurance has been exhausted. The hospitals affiliated with TUW PZUW under a mutual benefit society may jointly purchase additional insurance for all of them for a lower amount than they would have to pay if they purchased their policies separately;
- third party liability insurance for members of the governing bodies of a medical treatment entity;
- travel insurance for ecclesiastical institutions;
- "Polisa na biznes" business risk insurance for franchisees. This is an innovative product that supports smaller entrepreneurs for whom financial security is a key factor considered when making decisions to launch their own business;
- "Power of the Wind" insurance for wind farms and "Power of the Sun" insurance for photovoltaic installations. These policies are 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.

TUW PZUW is the largest mutual insurance company in Poland and one of the fastest growing in the world. It makes a significant contribution to the promotion and development of mutual and cooperative insurance the share of which in the European insurance market – according to the report "European Mutual Market Share 2020", prepared by the Association of Mutual Insurers and Insurance Cooperatives in Europe and the International Cooperative and Mutual Insurance Federation – has increased to a record level of 33.4%.

At the same time, TUW PZUW is also the only mutual insurance company in Poland and one of four Polish insurers boasting an international financial strength rating. Its high rating score, at the A- level with a stable outlook, awarded by the renowned agency Standard & Poor's, is an indicator of the Company's strength and reliability.

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:

- extension of the offering with new additional insurance bundles for corporate customers with the use of the currently implemented PZU Life Insurance Plus product. These additional bundles are micro-contracts enabling the customer to individually expand the basic cover and thus better adjust the scope of cover to specific needs. The new product platform enables up-selling of additional bundles to most group insurance products from the PZU Życie portfolio;
- update of the GTCI of pension insurance in connection with KNF's position on the presentation of fees in unit-linked life insurance contracts. The change pertained to the PZU Życie IRA insurance and the Pogodna Jesień insurance;
- developing new insurance for hospital treatment as a result of illness. The new insurance, which is an extension of the Individual Group Insurance Continuation offering, will provide clients with financial support in the event of hospitalization in connection with key lifestyle diseases;
- preparing an offer for senior citizens who previously could not be covered under selected riders – the offer applies to selected riders available for individual protection insurance and protection and unit-linked insurance.

PZU Życie cooperated actively with 4 banks, including the PZU Group's member banks, providing a comprehensive insurance offering for their clients. The cooperation with Bank Pekao and Alior Bank allows PZU Życie to gradually expand the offering and volume of sales of insurance products linked to bank products.

In January 2022 PZU Życie launched in Bank Pekao and Alior Bank new unit-linked products compliant with the KNF's product intervention requirements.

In H1 2022, PZU Życie reported a negative impact on investment product sales, which was the result of overlapping adverse factors related to the geopolitical situation and volatility in the financial markets. PZU Życie assumes that the low level of sales of unit-linked products may continue in the following quarters of 2022.

Due to the rapid and steady increase in interest rates set by the National Bank of Poland and the rising level of inflation, since the beginning of the year there has been a decrease in the growth rate of sales of insurance offered with loans in proportion to the number of loans sold at banks. Rising inflation and further NBP rate hikes could cause sales to slow even further. The lending market is also adversely affected by the regulations imposed by KNF as of 01 April 2022 (calculating creditworthiness with an interest rate increased by 5 p.p., taking into account higher living expenses).

Starting in August 2022, PZU Życie plans to launch a new single premium endowment insurance with a guaranteed sums insured throughout the term of insurance at Bank Pekao and Alior Bank. These products are PZU Życie's response aimed to take advantage of the current market and macroeconomic potential associated with the high interest rates.

Activity and product offering in the Baltic States and Ukraine

Lietuvos Draudimas

Lietuvos Draudimas is the largest and the most experienced insurer, the leader of the Lithuanian insurance market and the largest insurance undertaking in the Baltic States. Every third resident of Lithuania chooses insurance in Lietuvos Draudimas. During the first six months of 2022, the company focused on automating and streamlining its remote claims handling processes.

The most important activities included:

- in the area of property of retail clients – the compensation disbursement process has been automated in cases where the client accepts the calculated valuation of damage. Private property claims are automatically registered in the TIA system when reported through the self-service portal. The new functionality has shortened the cycle of handling these claims;
- in the area of motor insurance – in mid-February 2022, the payment tool was integrated with the repair service provider Carglass. Once a car window glass is replaced or repaired, the payment details (including the invoice), are uploaded from the Carglass system and – if the established TIA rules are met – a semi-automatic payment is created. This solution significantly shortens the claims handling process, as in most cases there is no need to manually enter data to process payments. Currently, all semi-automatic payments are authorized by customer service staff, but once the final phase of the project is completed in the second half of the year, these payments will be fully automatic;
- in addition, also in the area of motor insurance, further automation of claims handling has progressed. Since April 2022, claims adjusters have been able to use the automatic payout function if the client accepted the calculated amount. This functionality works as part of the self-service portal www.savasld.lt and improves the efficiency of the process, bypassing in most cases the need to manually enter data to process the disbursement.

PZU Lithuania Life

The first six months of 2022 were full of events at the company. In January 2022, a new product "For those who love life" was introduced to the new PZUlife sales system. The product offers the broadest life insurance protection on the market.

February saw the update and implementation of the new sales system – PZUlife. The new system is based on new technologies, streamlining sales processes and expanding self-service.

In the first half of 2022, work also progressed on upgrading the LICOSS sales system and further development of the self-service (among other things, the login and identification process was improved).

AAS Balta

A wide range of insurance products, excellent customer service and well-thought out investments in brand promotion activities have allowed AAS Balta to maintain its leading position in the Latvian non-life insurance market in terms of sales volume and to significantly strengthen its leading position in terms of client recognition and brand reputation.

Actions taken in the first half of 2022:

- further development of the digital Academy of Safety platform, where Balta clients can expand their knowledge of prevention and safety. In 2022, further development work is planned and the platform's content is expected to be enriched with topics related to both safety of property (including cars) and safety while traveling. Cooperation with external partners, such as the police, is planned to continue;
- during H1 2022, an online application for handling pet insurance claims was launched in response to suggestions from Balta's clients. The app has been appreciated by clients and now 90% of them use the app to file pet insurance claims;
- in the first half of the year, Balta launched an app and a web-based solution for calling a roadside assistance service with the option to track the service's arrival (similar to taxi apps).

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

Lietuvos Draudimas – branch in Estonia

In January 2022, Lietuvos Draudimas' Estonian branch implemented two solutions to automate the claims handling process:

- a process that allows for automatic invoice confirmation and payment process;
- launching a self-service portal for reporting claims, which is directly linked to the company's claims handling system.

In March 2022, the sales structure was changed. The aim of the change is to streamline the customer service process, covering all sales channels and strengthening PZU Estonia's sales capabilities.

Also in March 2022, a new MOD motor insurance package for cars older than 8 years was introduced on the online platform. This package will only be available through the online and regional sales channel.

In June, a cooperation agreement was signed with Veho, the main dealer for Mercedes Benz cars in Estonia.

PZU Ukraine

In H1 2022, a number of changes were made to the insurer's product offerings, adjusting the offerings to the difficult and rapidly changing market situation. These measures included updating the forms for property insurance contracts under wartime conditions by adding additional caveats;

- introducing changes in the conditions for estimating property risks, including, among other things, the prohibition of insuring facilities located in the territory of active hostilities;
- suspension of sales of property, liability and financial risks insurance products;
- developing a new voluntary insurance program for gun owners;
- introduction of special conditions in MOD motor insurance in connection with martial law.

PZU Ukraine Life

Since the outbreak of the armed conflict, PZU Ukraine Life has maintained full continuity of operations. At the beginning of the war, the priority task was to ensure the handling and administration of the existing portfolio of insurance contracts and to continue the work of the claims handling department.

In the first half of 2022, the customer service process at the Life Contact Center changed significantly. Before the main form of contact with clients had been phone calls, accounting for more than 62% of all contacts. By 2022, the percentage has decreased by more than two times and email and Chatbot Life have become the preferred form.

3.2.3 Factors, including threats and risks, that may affect the operations of the insurance area in H2 2022

Property 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 problems in global supply chains (the impact of the sanctions against Russia and military action in Ukraine) translating into a lack of availability of components for the production of cars and limited availability of spare parts;
- reduced demand for voluntary insurance due to a significantly higher inflation rate, higher unemployment and a decline in employment;
- 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 in Poland

The main risk factors include:

- 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;
- 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 the insured;
- 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 from outside the insurance industry, including the operators of large client bases or insurtechs.

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:

- the escalation of geopolitical tensions, in particular the Russia-Ukraine armed conflict, which has a direct impact on the possibility of conducting insurance activity in Ukraine. In the face of the attack by the armed forces of the Russian Federation and the declaration of martial law by Ukraine, the Ukrainian companies of the PZU Group implemented appropriate procedures prepared for such a situation. A crisis management team with the participation of management board members and senior managers and representatives of the Ukrainian subsidiaries is operating in the Polish head office of PZU, it is monitoring the situation on an ongoing basis and making decisions on preventive measures;
- deceleration of economic growth – 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;
- reduced demand for voluntary insurance due to a significantly higher inflation rate;
- increase in the prices of spare parts affecting claims handling expenses;
- 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;
- introduction of additional regulations or financial burdens on insurance undertakings.

3.3 Medical care

3.3.1 Situation on the health market

The outbreak of the coronavirus pandemic has significantly affected the operation of almost all sectors of the economy. Restrictions on the activities of many industries, the introduction of restrictions holding back social and economic activity, and increased uncertainty have resulted in a recession reaching 2.2% of GDP in real terms in 2020. As a result, the private healthcare market in 2020 recorded a decline of 6% in nominal terms (in real terms, taking into account inflation in the sector, the decline was higher, reaching 10% y/y), which translated into a figure of PLN 54.9 billion (EUR 12.3 billion).

The private healthcare market grew at a faster pace in 2021 than in 2020. The reasons for the higher market growth were:
- A clearly better-than-expected performance of the Polish economy in the second half of 2021. The recovery in private consumption was particularly strong, with growth of more than 6% for the whole 2021, compared to the expected less than 5%;
- Strong employment growth, linked to an increase in labor force participation among Poles. Employment grew by more than 1%, relative to the expected stagnation;
- Clearly higher overall inflation (CPI). Although medical inflation rose (3.3% vs. the projected 3.5%), overall inflation rose to markedly higher levels. This phenomenon, along with low unemployment and strong employment growth, has led to increased wage pressures. In the face of these facts, average gross monthly wages rose by as much as 9.6%, compared to the 7% projected a year ago.

Health market development prospects[1]

The health market is a dynamically developing and prospective business area. According to forecasts by PMR, a market research and analysis firm in Central and Eastern Europe, the value of the total private healthcare market will grow at a compound annual growth rate (CAGR) of 6.6% between 2022 and 2027 in the base case scenario. Segments related to providing services directly to patients (FFS, subscriptions, insurance) will grow faster than the overall market (CAGR of 8.3%). Slower growth in the overall market will be associated with weaker growth in patient spending on medicines and parapharmaceuticals[2] (5.4%), which account for more than half of the private healthcare market in Poland.

PMR predicts that the most significant factors affecting the value of the market in the private medical care sector, especially medical subscriptions and health insurance in 2022-2027, will be the macroeconomic environment, i.e. slowing GDP, slowing consumption and slowing investments as a result of high inflation. In 2023, PLN 160.2 billion were budgeted in the state budget to finance public health care, equivalent to 6.25% of GDP.

In 2020, the FFS sector was hit hardest by the coronavirus pandemic, with its market share falling more than 5 p.p. y/y. In 2021, the segment recorded the highest nominal value growth among all segments of the private healthcare market. PMR expects the same to happen in 2022, impacted by medical inflation and patients returning for treatment after the pandemic (real growth will be 2.5% y/y). Due to the segment's "recovery" from the pandemic, the FFS segment's share of the private healthcare market in 2027 is expected to be virtually the same as in 2019 (36.1% in 2019 vs. 36.0% in 2027).

1 PMR Report entitled "Private Health Care Market in Poland 2022 – market analysis and growth forecasts for 2022-2027"
2 The "medicines and parapharmaceuticals expenses" category includes: (1) patient spending on medicines (reimbursed, non-reimbursed Rx and OTC), dietary supplements and other products at pharmacies, and (2) patient spending on OTC medicines and dietary supplements outside of pharmacies (at convenience stores, including grocery stores, gas stations, drugstores, herbalists, herbal and medical stores, specialty supplement stores , sporting goods stores and others), including online sales at e-stores (including e-pharmacies) and sales platforms

According to the CAWI institute's survey of a sample of more than 2,000 Polish men and women in 2021, the percentage of people using private health care services was, respectively: specialist consultations – 38%, dentistry – 33%, laboratory and diagnostic tests – 30%, visiting a family doctor/GP/internist – 18%, rehabilitation and physiotherapy – 11%. Services paid on an FFS basis should remain dominant, although their share of private spending on medical services is expected to decline over the forecast horizon relative to 2019 (76.1% vs. 75.0% in 2027). However, this does not indicate a bad outlook for this segment – demand will remain strong over the forecast horizon, although it may vary depending on the medical specialization.

PMR expects medical subscriptions and insurance to become increasingly popular as a more cost-effective form of private medical services than FFS for regular health care users. This trend has been reinforced as a result of the pandemic, and will be further stimulated by a significant increase in general inflation and medical inflation, since such products temporarily "protect" the patient from increases in the price of medical services.

Medical subscriptions and health insurance are projected to account for 23.4% of the value of private spending on medical services in 2027 (compared to 20.7% in 2019).

According to PMR, the key indicators for the private healthcare market in Poland in 2022 are as follows:
- the total value of the market will be PLN 68.6 billion, of which the value of the market excluding medicine and parapharmaceuticals expenses is approx. PLN 31.5 billion;
- the nominal growth rate of the market is 14.6% y/y, without spending on medicines and parapharmaceuticals, with this part of the market included, the growth rate drops to 11% y/y;
- the year-on-year price growth rate for outpatient services is as high as 13.8%;
- the price index for medical services is 11% y/y (the effect of wage pressures due mainly to macroeconomic factors;
- the year-on-year growth rate of salaries in private healthcare is as high as 18%, which is mainly due to wage claims of white staff, including nurses, physical therapists, physiotherapists, hygienists and dental assistants.

3.3.2 Activity and product offering

PZU Zdrowie is one of the largest nationwide medical operators. The PZU Zdrowie medical network has 130 own outlets, including diagnostic imaging labs, and 2,300 partner centers in 600 cities in Poland. It has its own 24-hour medical hotline, mojePZU patient portal and Telemedicine Center. It provides health care in the form of insurance and subscriptions for companies and private clients. PZU Zdrowie medical centers are also available to patients without packages.

The Health Area consists of the activity of the PZU Zdrowie medical operator and health insurance. The area is an integral part of the PZU Group's business model and is one of its most important growth areas. In 2021, revenues generated by the Health Area increased by 24.7% year-on-year. At the end of June 2022, there were more than 3 million in-force health contracts in the PZU Group.

The activities of the medical operator PZU Zdrowie include:
- service of health products in the form of insurance (life and health insurance and non-life health insurance, and non-insurance products – PZU, PZU Życie and TUW PZUW products);
- sales and service of non-insurance products (occupational medicine, group and individual medical subscriptions, partnerships and prevention programs);

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

- building its own medical infrastructure of a uniform standard (medical centers, diagnostic laboratories and its own Telemedicine Center) to ensure the best possible access to the services provided and meet revenue targets.

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 health offering

Non-insurance offering (packages, subscriptions)

In 2022, PZU Zdrowie continued to develop its group and individual medical care offering to pursue its strategy as a comprehensive medical operator. The key activities included:

- expanding the consumer subscription offer introduced in late 2021 to include new options – partner, parent and family packages;
- providing clients with e-Rata payments through Alior Bank;
- implementing more preventive packages (prepaid packages of medical services for one-time use at PZU Zdrowie facilities) – there are now 22 of them on offer and they are targeted at various health problems.
- implementation of an additional service to the medical subscription – "hotline" operating 24/7 and guaranteeing immediate teleconsultation in cases requiring rapid medical intervention;
- implementation of a medical product for Bank Pekao clients, i.e. a dedicated range of medical packages that is only available in conjunction with bank products;
- introduction of a medical subscription add-on package "COVID Prevention" – post- COVID prevention program to diagnose and rule out COVID-19-related complications.

Insurance offering

PZU Zdrowie, in addition to offering its own health products, acts as a medical operator handling PZU Group insurance products. In 2022, PZU Zdrowie continued the implementation work on the PZU Na Życie Plus product. With the new offering, employers can provide their employees and their families with insurance coverage, along with medical care, in a single multifaceted contract and a single sales process. The product has been available for purchase as of 1 July 2022.

Development of medical infrastructure

- Two new PZU Zdrowie outlets were launched in May:
  - PZU Zdrowie Łódź Ogrodowa Medical Center

In early May, PZU Zdrowie launched a new multispecialty medical center in the center of Łódź. It is located in the Ogrodowa 8 Office passage, between the Manufaktura Shopping Center and Piotrkowska Street. On the 1,000 sqm ground floor, care is provided by specialists for adults and children in more than 30 fields. The strengths of the new facility are its expert medical staff, wide range of diagnostics and occupational medicine service. Łódź patients have at their services specialists in many fields: for adults – 22 types of specializations (including surgeon, diabetologist, endocrinologist, gynecologist, gastrologist, ophthalmologist, orthopedist, urologist); for children – 11 specializations (including allergist, dermatologist, nutritionist, cardiologist, laryngologist);

  - Centrum Medyczne PZU Zdrowie Gdańsk Marynarki Polskiej

In late May, PZU Zdrowie opened its own facility in the revitalized Gdańsk Shipyard area. A multispecialty medical center with a wide range of diagnostics and medical consultations, as well as an occupational psychology clinic, has been established in a new building at 195 Marynarki Polskiej Street. The new PZU Zdrowie medical facility, located in the Palio Cavatina retail and office complex, replaces the one previously operating at 20 Jana Pawła II Street. It will be available to both existing and new patients under the National Health Fund, company subscriptions or individually. Specialists offer consultations in allergology, endocrinology, gynecology, neurology, ophthalmology, orthopedics, otolaryngology, rheumatology and urology. In addition, free primary care, cardiology, dermatology and diabetes consultations are provided under the National Health Fund. Gdańsk patients will have the necessary diagnostic tests performed on site, including ultrasound, X-ray, ECG, and videodermatoscopy;

- Work is underway to prepare the opening of a new facility in Kraków, scheduled for the second half of 2022;
- 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;
- The acquisition of the diagnostic imaging laboratory of NZOZ Grupa Medical in Grójec was completed;
- 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 (cue to the abolishment of admission limits since July 2021);
- 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.

Development of innovative solutions

PZU Zdrowie is constantly looking for innovative solutions that can deliver value to patients, doctors and the PZU Group. Areas of exploration and analysis include, among others, the use of advanced telemedicine systems, artificial intelligence, virtual reality and digital therapies. Activities deserving special attention are described below.

Cardiomatics pilot in PZU Zdrowie cardiac diagnostics

It is a software to improve cardiac diagnostics under a pilot program supports the work of physicians at several PZU Zdrowie medical centers in Warsaw. The solution from the Polish company Cardiomatics, which is based on artificial intelligence, speeds up the receipt of test results and helps effectively analyze and interpret ECGs. It is a state-of-the-art cloud-based software for automating the analysis of ECG signals. It is a CE IIa medical-grade device, functioning on the basis of accurate artificial intelligence algorithms, the effectiveness of which has been confirmed, among others, in clinical trials. The software is used by more than 1,000 medical professionals in more than 15 countries, including Switzerland, Germany, the UK and Poland. More than 150,000 patients have already been diagnosed using Cardiomatics.

Artificial intelligence in stroke diagnostics

A continuation of the pilot from the previous year. PZU Zdrowie's diagnostic imaging network continues its collaboration with Polish startup BrainScan to support stroke diagnostics in computed tomography scans. The solution supports the radiologist's work and allows automatic recognition of life-threatening lesions. It involves almost immediate recognition of life-threatening conditions by running the images through an algorithm that generates a preliminary diagnosis and marks the examination with a special marker, so that the time to perform the initial description in the case of a stroke is reduced to just 2-3 minutes. This allows a team of neurologists to begin the treatment and diagnostic process almost immediately. Monthly, approx. 1,000 head CT scans at 10 hospitals are initially diagnosed using AI. Development work is underway to roll out the solution to include other examinations and scale up the operations.

Membership of the AI in Health Coalition

PZU Zdrowie continues its activities as part 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. In May 2022, the Coalition published a "White Paper on AI in Clinical Practice" – the outcome of the work of its members and a report on the Polish medtech sector, "Top Disruptors in Healthcare."

Autenti pilot

With an eye on green measures and process efficiency, PZU Zdrowie has been using Autenti's digital signature to handle documents exchanged between PZU Zdrowie and selected partner centers through the platform since 2022. The solution is used to sign documents remotely and enables qualified signatures to be produced in a matter of minutes. In addition to streamlining internal processes, an additional benefit of the solution is the reduction of paper used.

Health promotion, sponsorship and CSR

In the first half of 2022, PZU Zdrowie engaged in aid activities in Ukraine, as well as educational and sponsorship projects related to promotion of prevention, medical technologies and patient experience, among others.

In solidarity with Ukraine

Following the outbreak of the armed conflict in Ukraine, PZU Zdrowie has engaged in a number of initiatives to help its citizens:

- cooperation with the Ministry of Health in organizing the First Contact Center Platform in Ukrainian;
- creation of a PZU Zdrowie hotline in Ukrainian;
- provision of free medical care at medical centers and extensive bilingual communication to patients;
- medical supplies for a surgical hospital in Rivne, Ukraine;
- support of PZU Zdrowie physicians at the Hospital Emergency Ward in Tomaszów Lubelski and at reception points in Tomaszów and Lubycza Krolewska;
- participation in the information fair “Good Morning Ukraine!” at the ICE Kraków Congress Center.

Health industry conferences

PZU Zdrowie representatives took part in major industry events in the fields of health care, insurance and medical technology:

- Health Challenges Congress in Katowice (3-4 March 2022): debates “Digitalization in the service of patients” and “Digital transformation in medicine”;
- FinTech & InsurTech Digital Congress in Warsaw (25 March 2022): debate “How is technology changing the role of home care in the health care system?”;
- European Economic Congress in Katowice (25-26 April 2022): debates “New technologies in the medical sector” and “Polish health care and the war in Ukraine – from the PCP to the hospital.”
- Banking & Insurance Forum in Warsaw (21 April 2022): debate “Health and life insurance – a new look”;
- Three Seas Congress in Lublin (6-7 June 2022): debate “Growing Europe – Business and Health of the Three Seas Region”;
- European Financial Congress (9 June 2022): debate “Insurance 2030”;
- AI in Health Conference (14 June 2022): a case study of collaboration between PZU Zdrowie and Cardiomatics.

Educational activities

- Providing patronage to the 3rd edition of the “Top Disruptors in Healthcare” Report on Polish medical startups, released by the AI Health Coalition and the Polish Federation of Hospitals. The report was premiered at the AI in Health Conference, also sponsored by PZU Zdrowie.
- Providing patronage to the competition of the Editorial Board of Puls Medycyny “Supertalents in Medicine”, promoting the achievements of young Polish doctors.
- Summer Senior Academy – a proprietary project of PZU Zdrowie, implemented in cooperation with the National Institute of Silver Economy, launched on 29 June. It is a series of webinars aimed at mature people on preventive health care and patient education. There will be 10 meetings with PZU Zdrowie experts held in July and August.
- Providing patronage to the Postgraduate Management Studies for Local Governments at the Faculty of Management at the University of Warsaw, established in cooperation with the Adam Smith Center. PZU Zdrowie employees held a block of classes on the topic of “Public health – private medical care versus employee health care.”
- PZU Zdrowie made its debut in the Best Practices Report of the Responsible Business Forum. It features 10 of projects completed by PZU Zdrowie in 2021.
- PZU Zdrowie in UN Global Compact Network Poland's “Green Hospitals” report, dedicated to ESG in medical care – showcased PZU Zdrowie's state-of-the-art medical centers and other practices that support ecology.

Local promotion of prevention

Field activities to promote health and healthy lifestyles, organized or co-organized by PZU Zdrowie:

- Healthy Life project – launched on 3 June, a joint project of the PZU Group, the Ministry of Health, the Ministry of National Assets and the National Health Fund, under the patronage of the Presidential Couple, which aims to promote awareness of preventive health care in Polish society. As part of the project, PZU Zdrowie medically supports the Mobile Health Zone, which visits smaller towns;
- Health Town in Wrocław – PZU Zdrowie Health Zone with free consultations (April);
- Charity run “Five for Bartek” in Kielce (May);
- Intergenerational Patriotic March-Run for Health in Kielce (May).
- Children's Day at the Rymanow-Zdrój Health Resort (June).

New website zdrowie.pzu.pl

A new PZU Zdrowie website was launched in June, now operating at the address: zdrowie.pzu.pl. The purpose of the change was to add new functionalities and bring the site in line with the requirements of content positioning (SEO) and campaigns in the search engine (SEM) as well as user experience (UX) practices. The new elements of the site include: a streamlined search engine for medical centers, a “For the Patient” section, a “Blog” advice section, and “For the Media” and “About Us” tabs, as well as an English-language version of the site.

Medical hotline

In addition to standard patient services, the PZU Zdrowie Medical Hotline is the operator of the following Ministry of Health projects. In January-June 2022, the hotline implemented the following range of services to support the public sector:

24/7 support of the Contact Center for people infected with COVID-19

- 30 thousand patients took 983 thousand tests, of which 11 thousand generated an alert requiring the Concat Center's response and 300 Emergency Medical Team Calls.

Referrals for COVID-19 tests

- Nearly 90 thousand referrals for COVID-19 tests were issued.

40 Plus Prevention

- Nearly 150 thousand questionnaires qualifying patients aged 40 and above for free preventive medical testing, completed from January to June 2022.

First Contact Center Platform

- 85 thousand callers served and 38 thousand teleconsultants carried out from January to June 2022 by the night-time and holiday medical assistance center available outside the working hours of primary health care facilities, that is from Monday to Friday from 6:00 p.m. to 8:00 a.m. and 24 hours a day on weekends and public holidays.

3.3.3 Factors, including threats, that may affect the operations of the health area in H2 2022

The main risk factors include:

- the demand for specialist physicians exceeds the supply, which may slow down growth and affect our margins;
- inflationary pressures from partner centers network and 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 the limited ability to provide such services in selected medical centers only – medical personnel may prefer/accept only facilities that meet higher employee compensation expectations;
- 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;
- relatively high saturation of the market in larger cities and also staff shortages and lack of customer potential in smaller towns may reduce our growth rates;
- potential modification of the valuation of outpatient specialist care services by the National Health Fund may cause significant changes in the financial results generated by medical centers;
- more aggressive policy of developing networks of their own
- facilities by individual players in the long term may result in the domination of medical operators in local markets and limitations on patient choice.

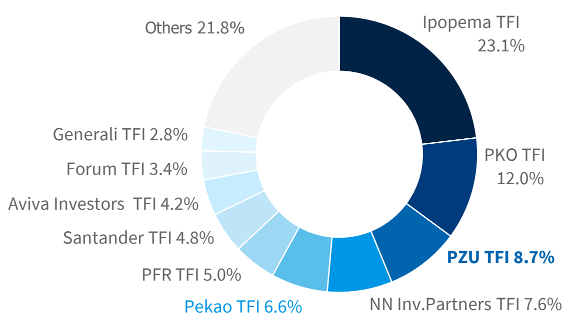
3.4 Investments

3.4.1 Mutual funds and pension funds markets

Mutual funds and pension funds markets

As at the end of June 2022, assets under management of domestic mutual funds were nearly PLN 262.3 billion, compared to PLN 301.5 billion at the end of 2021, representing a decrease by 13%. More than half of the nearly 40 billion decline in assets was attributable to a negative balance of sales at more than PLN 20 billion.

Mutual fund management companies – share in assets; balance as at 30 June 2022 (in %)



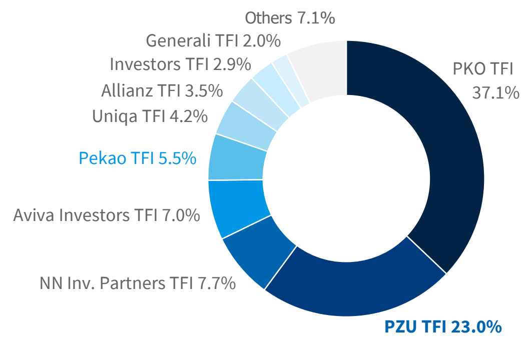
Source: IZFiA

After a difficult last quarter of 2021 for the mutual fund market, the first weeks of 2022 heralded a rebound of client sentiment toward funds, especially debt funds. This was due to the stabilization of bond yields during the period, which had a positive impact on debt fund valuations. The peaceful period for the market did not last too long – Russia's attack on Ukraine resulted in the realization of negative scenarios regarding the developments in the geopolitical arena, which caused a decline of the prices of most assets in the period just after the outbreak, while adding further elements of risk to the assessment of the economic outlook worldwide in the context of an attempt to curb inflation without negatively affecting economic growth. The combination of negative events and phenomena resulted in the worst period for financial asset valuations in terms of the last few decades, which put enormous pressure on fund participants resulting in market redemptions of more than PLN 20 billion.

Employee Capital Schemes

The net asset value of the target date funds operated under the Employee Capital Schemes by mutual fund management companies totaled over PLN 7.7 billion as at the end of June 2022. Thanks to the relative ubiquity of this form of savings accumulation, despite the decline in the value of assets in the financial markets in H1 2022, assets accumulated in ECS funds increased by PLN 1.2 billion as a result of high regular inflows (nearly 2.4 billion in the 6-month period).

Employee Capital Schemes – share in assets by TFI, as at 30 June 2022 (in %)



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

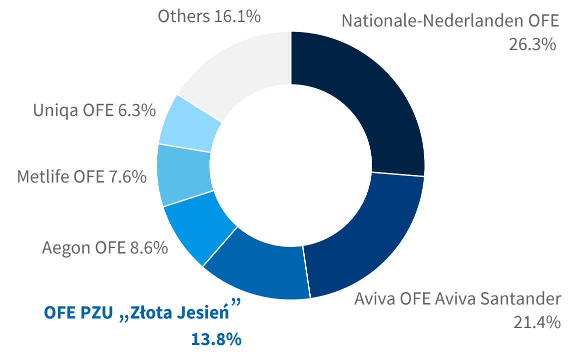
In such a difficult market environment, TFI PZU was the only company to have a positive sales balance in each month of H1 2022, and additionally, on a six-month basis, it recorded the highest balance of inflows of all local companies, nearly PLN 340 million.

This was made possible by several factors. First, being the market leader in long-term savings (EPS and ECS), TFI PZU has steady inflows from this part of the business. Second, clients of the inPZU.pl platform have a different behavior than the average client. In a difficult period, outflows and inflows in the online channel have balanced out. This confirms that passive fund offerings have gained a following of informed clients. A third important factor is the presence of traditional TFI PZU funds at selected distributors for affluent banking clients. Thanks to consistent sales support work, outflows in this part of the business were at levels below the company's market share.

Pension funds market

At the end of June 2022, the net asset value of open-end pension funds was PLN 150 billion, down 20% versus the end of 2021. The decline in assets was heavily influenced by the armed conflict between Russia and Ukraine.

Open-end pension funds – share in net assets; balance as at 30 June 2022 (in %)



Source: KNF, monthly data on the OFE market, data for June 2022

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;
- The Higher Pension Package, which includes Individual Retirement Security Accounts (IRSA), Individual Retirement Accounts (IRA) and Employee Savings Plans (ESP).

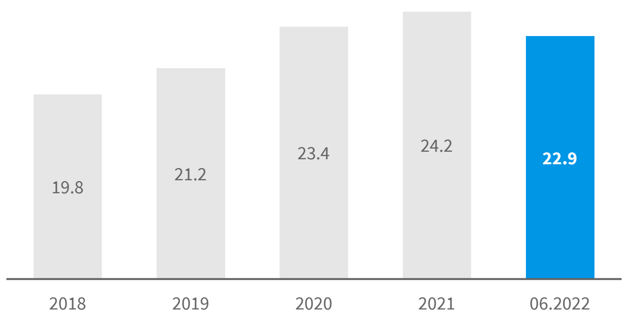
At the end of June 2022, TFI PZU had 55 funds and sub-funds in its portfolio, including 9 ECS sub-funds and 5 life-cycle funds.

In the first half of 2022, TFI PZU introduced a new method of client identification – video verification – on the inPZU.pl website. In the retirement and savings product segment, a new product was introduced, the Higher Pension Package, which combines three pension products that are well-known on the market: the Individual Retirement Security Account (IRSA), the Individual Retirement Account (IRA) and the Employee Savings Plan (ESP), based on passive and life-cycle funds.

TFI PZU also offers the managed account service under development.

At the end of June 2022, TFI PZU had net assets under management totaling PLN 22.9 billion, signifying a decrease of PLN 5.4%, in comparison to the end of 2021. Despite the positive sales balance in January-June 2022, the decline in the valuation of assets in the financial markets caused a decrease in TFI PZU's assets. In the first half of 2022, TFI PZU ended with a mutual fund market share of 8.72%. Accordingly, TFI PZU reached the status of one of the three largest mutual fund management companies in Poland.

TFI PZU's net assets (in PLN billion)



Source: IZFiA

TFI PZU recorded the largest asset growth in ECS sub-funds: ECS inPZU PZU 2035 (PLN +86.3 million); ECS inPZU PZU 2040 (PLN +78.5 million); ECS inPZU PZU 2030 (PLN +76.8 million); ECS inPZU PZU 2025 (PLN +59.1 million); ECS inPZU PZU 2045 (PLN +51 million). On the other hand, in percentage terms, the largest increases were recorded by the sub-funds: ECS inPZU 2065 (up 58.6%), ECS inPZU 2025 (up 36.1%), ECS inPZU 2030 (up 34.8%), ECS inPZU 2035 (up 32%), ECS inPZU 2060 (up 31.4%), ECS inPZU 2040 (up 30.9%), ECS inPZU 2045 (up 24%).

TFI PZU funds with the largest decline in net assets at the end of June 2022 are: PZU Stabilnego Wzrostu Mazurek (PLN -360.0 million), PZU Papierów Dłużnych POLONEZ (PLN -299.3 million), PZU Sejf+ (PLN -222.2 million), PZU Akcji KRAKOWIAK (PLN -172.9 million) and inPZU Obligacje Rynków Wschodzących (PLN -74.4 million).

Changes in the asset value of individual funds were driven predominantly by:
- active sales of funds as part of Employee Capital Schemes;
- active sales of funds as part of Employee Pension Plans;
- interest rate hikes by central banks and the emergence of competitive bank deposit rates;
- high inflation, resulting in a decline in the valuation of debt assets;
- deep correction of equity assets both in Poland and abroad.

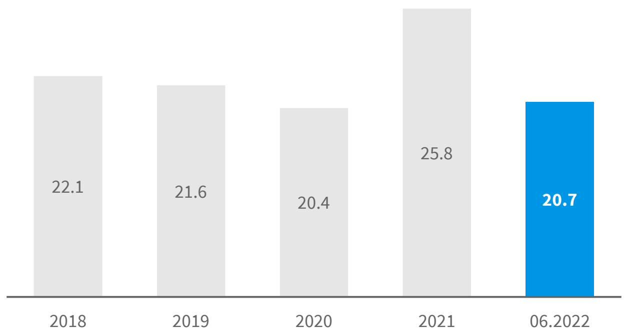
TFI PZU is also one of the leaders of the Employee Capital Schemes market. This result is attributable to, among others, the broad support that TFI PZU offers to employers in deployment and service of ECS. They may use a free online service for remote conclusion of ECS management and operation agreements and daily service of ECSs.

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 June 2022, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:
- the fund had 2,252,361 members, or 15.0% of all participants in open-end pension funds;
- net assets stood at PLN 20.7 billion, i.e. 13.8% of the total asset value of open-end pension funds operating in Poland.

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



Source: KNF

At the end of June 2022, DFE PZU held 40.6 thousand IKZE accounts, in which assets worth PLN 450.4 million were kept. The fund kept the leading position in the voluntary pension fund segment. The value of assets fell by PLN 42.2 million (-8.6%) in the first 6 months of 2022.

3.4.3 Factors, including threats and risks, which may affect the operations of mutual funds, Employee Capital Schemes and pension funds in H2 2022

Mutual funds

The condition and performance of the market for mutual funds and Employee Capital Schemes will depend mainly on the following:
- geopolitical situation – primarily the Russia-Ukraine military conflict;
- macroeconomic situation (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 the escalation of the military conflict in Ukraine and/or 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;
- significant competitiveness of bank deposits and the newly introduced State Treasury savings bonds.

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 Russia-Ukraine military conflict 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 H1 2022, the sector's result were supported by net interest income, which was increasing given the interest rate hike cycle continued by the Monetary Policy Council. On the other hand, the deteriorating economic outlook, which was caused among others by the Russian military invasion of Ukraine, an increase in inflation and acceleration of the monetary tightening path, started to have an adverse effect on the demand for lending, which translated to limited acquisition, in particular on the mortgage market. The sector also faces new challenges, namely the announced participation of banks in the support for borrowers, but also the materialization of risks associated with foreign currency loan portfolios. In H1 2022, the sector's capital position remained stable, even though the rising yield of Treasury bonds on financial markets had an adverse effect on the valuation of the bond portfolio and the level of capital in banks. At the end of May 2022, there were 30 commercial banks, 501 cooperative banks and 35 branches of credit institutions operating in Poland. The banking network comprised a total of 5,137 branches, 2,534 offices, agencies and other customer service outlets and 2,872 representative offices (including partner centers). Therefore, the banking network comprised a total of 10,543 outlets, i.e. 242 fewer outlets than at the end of the previous year.

Headcount in the banking sector at the end of May 2022 fell to 142.5 thousand people and was 0.5 thousand (0.4%) lower than at end of 2021.

In the period from January to May 2022, the banking sector generated net profit of PLN 12.9 billion, compared to PLN 5.8 billion in the corresponding period of the previous year, up PLN 7.1 billion. The largest positive impact on the increase in the net result was exerted among others by the following factors: net interest income (up by PLN 11.8 billion y/y) and net commission income (up by PLN 1.0 billion y/y). The bank's increased operating costs (PLN +2.7 billion) contributed negatively to the result.

The margins improved in the period from January to May 2022. Given the higher interest rates, the net interest margin (NIM)[3] continued to increase over the entire period, reaching 2.53% at the end of May, compared to 2.05% at the end of May 2021.

3 NIM - a ratio of net interest income from 12 successive months to average interest-bearing assets in the same period from 13 successive months.

Yields remained lower than before the pandemic, even though they clearly increased in H1. Return on equity (ROE)[4] in May 2022 was 6.7%, compared with 1.0% in corresponding period in 2021. ROA rose from 0.09% as at the end of May 2021 to 0.51% as at the end of May 2022. The R/I ratio[5] fell from 26.82% in May 2021 to 19.65% in May 2022. The y/y increase in operating income, with costs kept under control, reduced the C/I ratio[6] in the whole sector from 62.67% in May 2021 to 54.19% in May 2022.

At the end of May 2022, the net asset value of the banking sector was PLN 2,652 billion, up 3.1% from December 2021.

The growth of loans in the non-financial sector in the first five months of 2022 improved as compared to the end of the previous year, supported by demand from households, but also from businesses as a result of the continued economic recovery after the COVID-19 pandemic. The potential for stronger growth was restricted by the outbreak of the armed conflict across the eastern border, accelerating inflation and rising interest rates. In May 2022, the value of loans in the non-financial sector amounted to PLN 1,153 billion, up 2.2% from December 2021.

At the end of May 2022, deposits of the non-financial sector were PLN 1,536 billion, down 0.8% compared to December 2021. In the structure of deposits, corporate deposits remained the fastest growing category, but the rate decreased slightly. Household deposits grew at a noticeably slower pace than a year ago.

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR1 Regulation, totaled PLN 211 billion at the end of March 2022, down 8.6% versus the end of March 2021.

In Q1 2022, the sector's capital situation remained stable. The banking sector's total capital ratio at the end of March 2022 was 18.57%, while the Tier I capital ratio at the end of the period was 16.61%.

4 ROA and ROE – the ratio of the total financial result earned over 12 successive months to, respectively, average assets and average equity in the same period from 13 successive months.
5 R/I ratio – the ratio of write-offs and provisions (provisions + impairment or reversal of impairment) to income (total net operating income) – a 12-month rolling average.
6 C/I ratio – the ratio of costs (operating expenses + depreciation and amortization) to income (total net operating income) – a 12-month rolling average.

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. From 2017 Bank Pekao has been part of the PZU Group.

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

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 Bank. 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 Bank 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 Q1 2022, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

New products and services

In H1 2022, Pekao Bank focused on introducing new solutions in Pekao24, PeoPay and PeoPay Kids electronic banking and offered the following possibilities to its clients:

- individual clients and sole proprietorship may now open a bank account by using the mObywatel application in a process based on a selfie;
- remote support for credit cards – clients may set and change the card's PIN, block it temporarily or fully, or order a new one;
- submission of new applications for social benefits;
- BLIK service for the youngest clients in the PeoPay Kids app;
- payments for parking in paid parking zones;
- purchase of public transport tickets;
- adding accounts kept in other banks:
- extension of a loan term;
- partial repayment of a housing loan ans suspension of principal and interest installments of a housing loan;
- certificate on an overdraft (full repayment and closure of the overdraft and the current debt amount);
- closure of a savings account;
- submitting a notification about a client's death.

The Bank has prepared a special offer for Ukrainian citizens, simplifying the account opening procedure for individual clients - one identification document will suffice. Fees for fund transfers from Poland to banks in Ukraine, as well as from Ukraine to Poland have been waived, both for transactions made by individual clients and by corporations. The Bank also waived the fees for keeping the Przekorzystne account, for handling the card for the account and for withdrawing cash in ATMs in Poland and abroad. There is no foreign exchange margin and fees for transactions made using the account card abroad.

In H1 2022, Pekao Bank introduced promotions as part of the Mastercard Bezcenne Chwile loyalty program; clients earned additional points that they can exchange for rewards. The clients who recommended Przekorzystne Konto account to their family members and friends were able to receive a bonus up to PLN 100.

For business clients, the promotion "Business account and a card for 2 years for 0 PLN" was introduced. Clients running a sole proprietorship who open a business account in addition to the waiver of account and card fees for two years, can also receive a bonus of up to PLN 2 thousand. Business clients were also offered a service named “Accounting with the Bison”, in which clients can obtain accounting and financial management services. The service is available in several bundles; for new clients, the Business Bundle is free for the first 30 days.

In H1 2022, the bank launched the Credit Card with the Bison. It’s a credit card with a subscription model, available in three packages to choose from. As the card is issued, the client may choose the suitable package: standard, gold or platinum. The card is free in the standard package. The package can be changed and customized free of charge without replacing the card, which is made in the environmental spirit, with 99% of materials having been recycled.

Bank Pekao continued to expand its bancassurance offering in cooperation with the PZU Group. Two products were implemented: a new unit-linked product “Premium II World of Investments” and an insurance bundle for the new Credit Card with the Bison.

In April 2022, the bank started selling mortgage loans and personal accounts in the innovative employee benefits platform named Cash. In cooperation with PZU Cash, the bank offered its clients with a remote process of applying for a mortgage loan, in which only the signing of the contract takes place at a branch.

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 portal.

As at 30 June 2022, the net asset value of Pekao TFI mutual funds (including PPK) was PLN 17.4 billion, down PLN 4 billion, i.e. 18.6% in comparison to the end of June 2021.

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 Polish clients. 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 Q1 2022, Alior Bank was the 8th largest bank in Poland in terms of the value of its assets.

New products and services

In 2022, Alior Bank continued the implementation of innovative solutions to guarantee its clients maximum convenience and self-banking from anywhere and at any time. The bank is committed to providing more and more functionalities facilitating the use of self-service channels by individual and business clients.

From the very launch of the “More than a Bank” strategy until mid-2022, Alior Bank implemented a number of non-financial services in its mobile application, 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,
- Dark Mode and Customization of the Payments and Services tab in Alior Mobile.

In H1 2022, the bank launched a number of activities to support clients from Ukraine. With refugees from Ukraine in mind, the processes were simplified, dedicated products were created and the digital channels were translated into Ukrainian. The newly-created Alior Bank Foundation also coordinated activities associated with the establishment of the Alior Bank Assistance Center located in the center of Warsaw where refugees can get comprehensive help.

Alior Bank continues to develop services for its young clients. The Junior account offer for children aged 13-17, which was launched in 2021, in 2022 was made available from the mobile app and online level (previously it was available in the bank’s outlets only). In its offer for parents, the bank expanded the existing package of online services for family benefits. In H1 2022, Alior Online offered the possibility of applying for the Family Care Capital, nursery benefits, in addition to the Family 500+ and Good Start 300+ programs that were already available at Alior Online.

Alior Bank also created a special offer for customers who are planning to buy an apartment or a house. As part of the “Your Own M” program, clients can take out a mortgage loan on promotional terms. The bank is also adjusting its deposit offering to provide its clients with attractive forms of investing funds in a high interest rate environment.

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) and new payment methods. In 2022, the contactless payment offer was extended with payments with Xiaomi devices. The Xiaomi Pay service is available after installing a Mi Fitness on an Android or iOS phone and adding any debit or credit MasterCard card issued by Alior Bank. Alior Bank’s mobile payment offer already supports Apple Pay, Google Pay™, BLIK, Garmin Pay, Fitbit Pay and SwatchPay!. A client may tokenize more than one payment card on a single device.

The bank is also taking developing its offer for business clients. In 2022, Alior Bank added accident insurance (ADD) and health care insurance from PZU to its offer for business clients. Entrepreneurs who have or open a business account with the Bank can insure themselves, their family members, their company’s employees and family members.

The development of the credit offering targeted at business customers investing in green energy sources was continued. Alior Bank has also launched a special price offer for a thermal modernization loan and a loan with a thermal modernization and renovation bonus from BGK, thus supporting thermal modernization projects for buildings. As part of a promotional campaign, the preparation fee for Bizneskredyt for current operations, investments and environmental purposes was reduced to 0%. The advantages of the promotional offer also include high financing amounts – up to PLN 1 million for micro-businesses and up to PLN 3 million for small businesses, quick loan approval time, namely 20 minutes from the moment of application, without any down payment or collateral.

Through cooperation with the Polish Entrepreneurship Foundation (Polska Fundacja Przedsiębiorczości), Alior Bank provided free-of-charge online training for users of the zafirmowani.pl portal. The training courses concern various aspects of business activity. They include topics such as: preparation of a business plan, financial management, human resources, implementation of the sales process and marketing activities. They also discuss current changes in legal and tax regulations. In addition to training and expert advice, the zafirmowani.pl portal also provides many other tools to help entrepreneurs develop and promote their business on the market.

We also partnered with WeSub to offer holders of a business Mastercard z Plusem debit card with a 10% discount on equipment rental. Clients who take advantage of the promotion will receive access to the Alior NieSklep RentUp platform. Through a subscription agreement with WeSub, customers can choose equipment for their company and use it after paying a deposit with their z Plusem card.

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 Factors, including threats and risks, that may affect the operations of the banking area in H2 2022

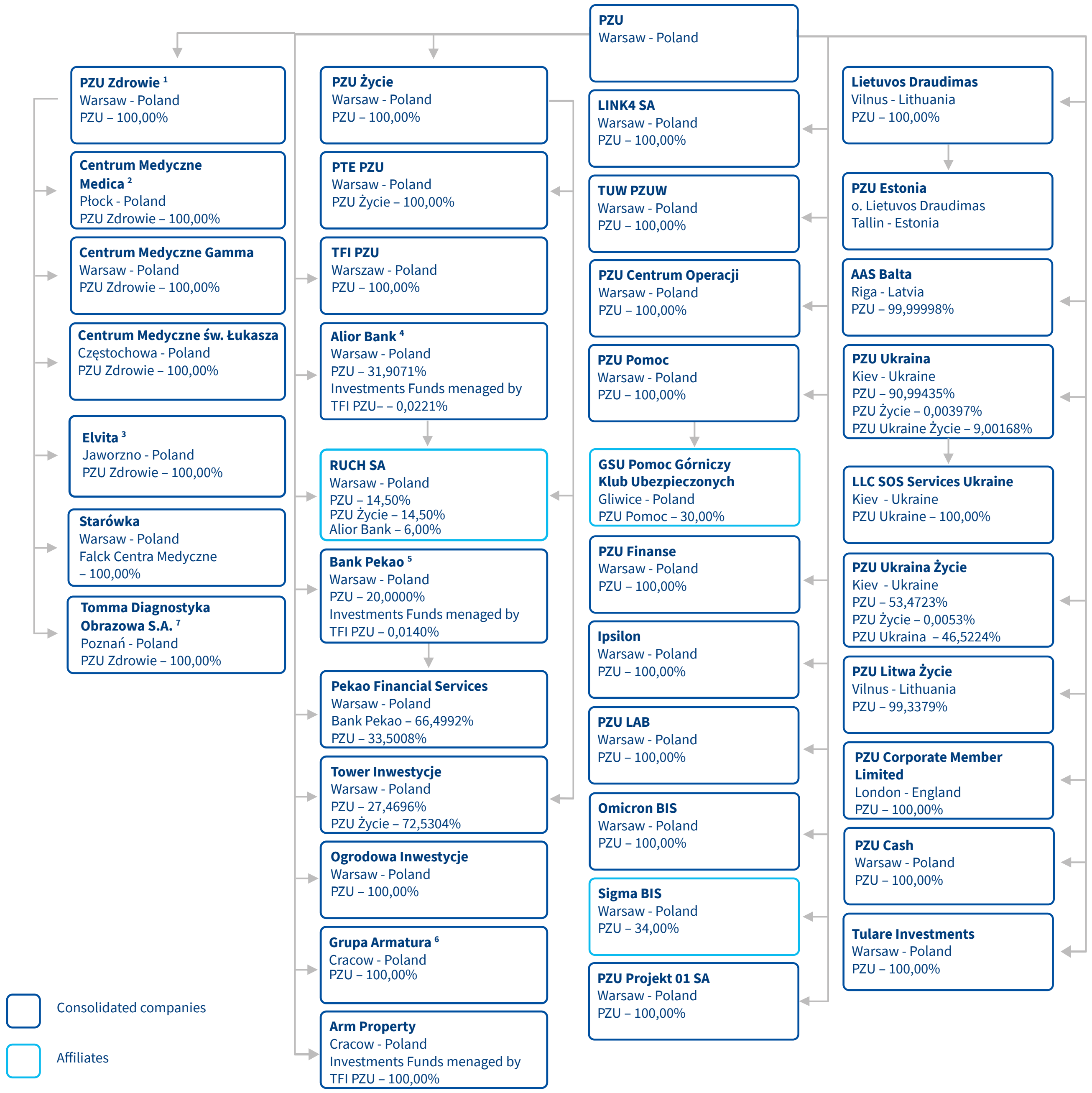
The main risk factors include:

- 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 fiscal and regulatory environment:
  - including, in particular, the tax on certain financial institutions, the high own capital requirements, the BFG charges, the costs of further adjustments to a plethora of regulatory solutions (including MIFID II, GDPR, PSD II, MREL).
  - the Act of 7 July 2022 on Crowdfunding for Business Ventures and Providing Aid to Borrowers (Journal of Laws of 2022, Item 1488; mortgage borrowers were offered the option of taking "Credit Holidays", a moratorium period to suspend repayments of up to 8 mortgage installments in 2022 and 2023. In connection with the loss of interest income resulting from this legislative solution, banks have established provisions for this purpose in the amount of 50% to 85% of the full impact of moratorium periods, depending on the assumed degree of participation by the borrowers. The actual degree of participation by eligible customers and the interest rates applicable on the date of the respective loan installment will exert a significant impact on the financial performance of distinct banks and the whole banking sector.
  - the above Act also assumes that the contribution to the Borrowers Support Fund (FWK) will be increased The full impact of the Act on the Borrowers Support Fund will materialize in H2 2022.

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.

Structure of the PZU Group (as at 30 June 2022)



[1] PZU Zdrowie has the following branches: CM FCM in Warsaw, CM Tarnow, CM Our Health in Warsaw, CM Medicus in Opole, CM Cordis in Poznan, CM in Warsaw, CM in Krakow, CM in Poznan, CM in Wroclaw, CM Gdansk Abrahama, CM Artimed in Kielce, CM Warsaw Chmielna, CM in Radom, CM in Łódź
[2] The Centrum Medica Group includes the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. with its seat in Ciechocinek
[3] The Elvita Group includes the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA - Jaworzno III Sp. z o.o., Przedsiębiorstwo Usług Medycznych PROELMED Sp. z o.o. based in Łaziska Górne
[4] Alior Bank Group includes, among others: 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 August 5, 2021 - 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.
[5] The Bank Pekao Group includes Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing Sp. z o.o. (which owns 100% of 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 January 16, 2020 - Centrum Bankowości Bezpośredniej Sp. z o.o.), Pekao Investment Management SA (which owns 100% of Pekao TFI SA), Krajowy Integrator Płatności SA
[6] The Armatura Group includes the following companies: Armatura Kraków SA, Aquaform SA (from July 15, 2022 - AQ SA), Aquaform Ukraine TOW
[7] The Tomma Group includes the following companies: Tomma Diagnostyka Obrazowa S.A., Bonus Diagnosta Sp. z o.o. (which holds 100% of the shares in Aura Medic Południe Sp. z o.o.)

The structure scheme does not include investment funds and companies in liquidation and bankruptcy.

The following changes transpired in the structure of the PZU Group in H1 2022 up to the date of publication of these financial statements;

- as a result of the deal struck in January 2022, in the shareholder structure of PZU's affiliate, 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 – 90.994354%;
  - PZU Życie – 0.003967%;
  - PrJSC IC PZU Ukraine Life Insurance - 9.001678%;
- On 5 January 2022, Aquaform RO SRL was deleted from the Trade Register. The Company was liquidated on 20 January 2022;
- On 17 March 2022, PZU signed a preliminary agreement to purchase a 100% equity stake in Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna (“TFI Energia”) from Polska Grupa Energetyczna Spółka Akcyjna;
- On 31 March 2022, Bonus Diagnosta Sp. z o.o. purchased a 100% equity stake in Aura Medic Południe Sp. z o.o.
- On 15 July 2022, PZU purchased 100% of shares in TFI Energia SA.

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 H1 2022, the company cooperated with 830 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 H1 2022, over 2.1 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). We constantly seek 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 inwestycje

The company’s line of business is to invest available funds in real estate development initiatives, in particular in the construction of commercial properties.

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 financial products (cash loans and savings) in the form of an employee benefit. It operates through the Cash lending portal. The platform offers products of Alior Bank, Bank Pekao and the PZU Cash product (Mini Cash). The Cash portal is an innovative solution on the Polish market that enables employees to benefit from attractive financial products with installments paid from their salaries. The offer is targeted at employees of those companies that have established cooperation with PZU Cash.

PZU Corporate Member Limited

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

Armatura Kraków

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

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

4.

PZU Group 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:

4.1 PZU Group Strategy in 2021-2024

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.

The strategy was built taking into account the PZU Group’s operating philosophy, which is based on four main values:

- stability – the strong PZU brand with traditions and a strong capital standing measured by a Solvency II ratio;
- innovation – using latest technologies and advanced analytics to automate and improve efficiency of processes;
- integrity – conducting business in an ethical manner, fulfilling commitments and developing a compliance culture;
- responsibility – caring for the needs of customers and employees and consciously managing its own environmental impact.

In response to social and environmental challenges, sustainability is an integral part of the Strategy. The document identifies the course of action in three areas:

- #Trusted Partner in the Green Transition – supporting a low-carbon economy and sustainable transformation;
- #better quality of life – encouraging the public to live a sustainable and safe lifestyle;
- #responsible organization – building a modern organization managed in a responsible manner.

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. 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.

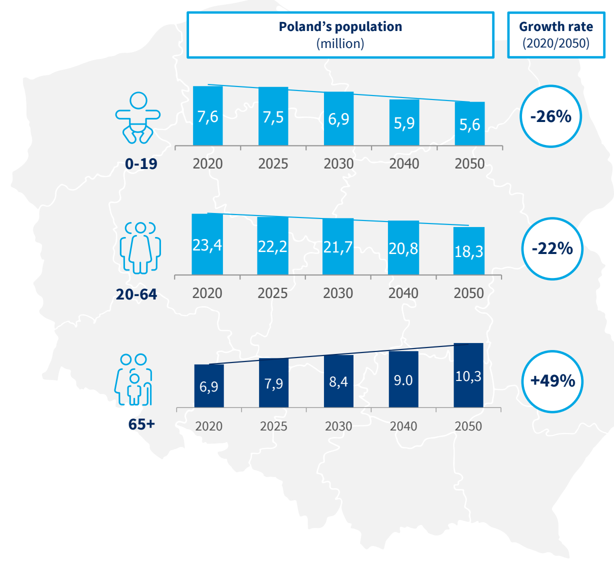
A new macroeconomic phenomenon, which was particularly visible in H1 2022, is the weakening of the Polish zloty and the intensification of inflationary impulses (prices of oil and gas, and food), which was measurably influenced, among other things, by the outbreak of the armed conflict in Ukraine. According to Statistics Poland, the inflation in June 2022 increased by 15.5% compared to the June 2021. The high prices of goods and services translate into rising costs of claims paid, both for repair materials and services, resulting in a decline in profitability, primarily for motor products.

Due to the ongoing armed conflict, safe conduct of business in Ukraine has become impossible, and the implementation of the adopted strategy by the companies in Ukraine, is fraught with multiple risks. Due to the ongoing armed struggle and the suspension of operations of many companies, interest in insurance is secondary. The situation beyond Poland's eastern border has also had an impact on the weakening of the Polish currency, which means a deterioration of the trade balance, a higher cost of servicing foreign debt, and therefore an increase in the price of imported products for consumers. This translates into a deterioration in the situation of both companies purchasing goods from abroad and households.

Digitalization and digitization
The trend of technological development and digitalization, which was dominant in recent years, will continue. This trend will bring about numerous opportunities, which can be exploited by the Group. As data analysis tools, machine learning, artificial intelligence, chatbots, virtual assistants, data mining are developed and the possibilities of integrating sales channels (omnichannel approach) emerge, the PZU Group will be able to satisfy needs of its clients faster and more effectively.

Increased awareness and impact of climate change
ESG factors and risk mitigation for sustainability are playing an increasingly important role in business operations. 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; increasing revenues in the Health area to PLN 1.7 billion, i.e. by 80%.

PZU Group Strategy in 2021-2024

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%.

The increase of benchmark interest rates in 2022 translates into higher profitability for banks, but also a sharp decline in interest in loans among consumers and businesses. Rising loan installments, but also rising prices, including gas and fuel prices, are expected to weaken the condition of households, which may consequently translate into limited demand for insurance products. The achievement of the target level of the banks' contribution to net result may be negatively affected by the cost of so-called loan moratoria.

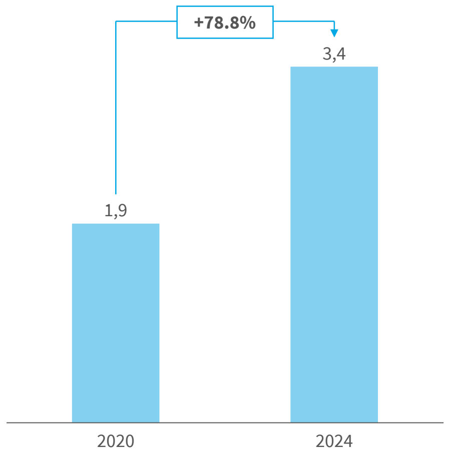
- **Maintaining cost discipline**

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.

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

The Strategy stipulates that 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 approx. PLN 3.4 billion. This signifies an increase by almost 80% versus 2020.

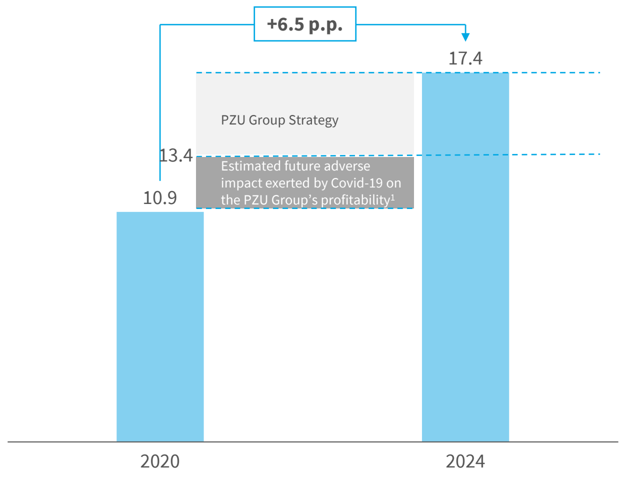
Net profit attributable to the parent company (PLN billion)



- **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) (%)



[1] Estimated temporary future impact on insurance business

- **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.

Dividend policy in 2021-2024

Distribution of consolidated net profit in 2021-2024		Allocation of retained earnings
Disbursement of the annual dividend or retained earnings	≤ 20%	Capital possibly retained to cover the additional needs stemming from growth in the magnitude of business
	≤ 30%	Achievement of the targets in the PZU Group's Strategy through mergers and acquisitions
Level of dividend payout from consolidated profit[2]	≥ 50%	

[2] PZU's net profit attributable to the parent company

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. It will enable the Group to develop a top quality offering responding to real client needs. By harnessing the potential of databases, it will be possible to personalize the offering, as well as provide coordinated care of relationship managers at each stage of the process 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

1. We will achieve **further growth on every market** where we operate
2. We will deliver an **increase in gross written premium** on insurance activity
3. We will materially **grow revenue in our health business**
4. We will be a **leader on the asset management market generating high returns** on our own portfolio and on savings and investment products
5. We will leverage the **potential in the PZU Group's banks**
6. We will maintain the **cost effectiveness** in the business we run post-Covid-19
7. Our ambition is to **bolster the PZU Group's potential to generate a high level of net profit**
8. We will deliver **high business profitability**
9. We will ensure a **predictable and attractive model for generating shareholder value** and a **safe solvency ratio**

LEVERAGING THE PZU GROUP'S POTENTIAL

10. We will generate **benefits ensuing from the potential and scale** of being the largest insurance and banking group in Central and Eastern Europe
11. We will give clients a **comprehensive product offering** thanks to the synergies afforded by the PZU Group by **taking advantage of various distribution channels**
12. **We will revolutionize the approach to health care** by becoming the most comprehensive medical advisor for our clients

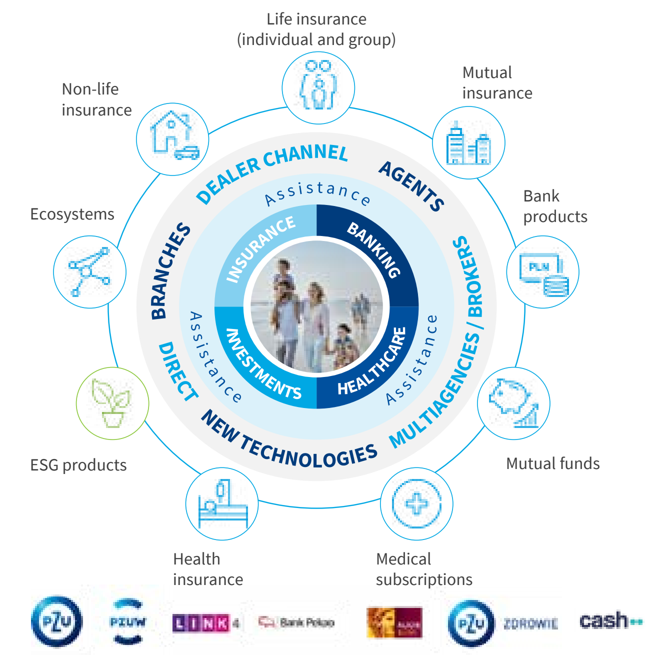
INNOVATIVE FINANCIAL GROUP

13. We will leverage **new technologies in all operating areas**

SUSTAINABLE GROWTH

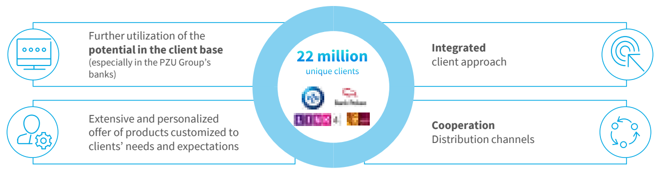
14. We endorse **sustainable** development: we will be an active participant in the green energy transformation

PZU Group Strategy in 2021-2024



- **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.



- **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 control and audit in full 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 emphasizes building health awareness and preventing diseases. The offering will include top quality personalized medical 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.

Area 3 – Innovative financial group

The PZU Group leverages 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** - upport 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's performance places the Group among the most profitable institutions in Poland and Europe. However, the measure of the PZU Group's business success consists not only of its financial results but also of generating them in a sustainable manner, which is the Group's commitment to shareholders and clients. 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. The PZU Group understands that financial capital is not the only type of capital needed to do business and generate robust results, so it places natural, intellectual, human and social capital on an equal footing. The "Balanced Growth" ESG Strategy for 2021-2024 sets out the ambitions of PZU and PZU Życie pertaining to reduction of the environmental impact, social responsibility and corporate governance. The key performance indicators of the ESG Strategy have become an integral part of the PZU Group's strategy. The Group's companies have implemented selected elements of the ESG Strategy, adapting them to the specific context of their respective operations.

PZU Group Strategy in 2021-2024

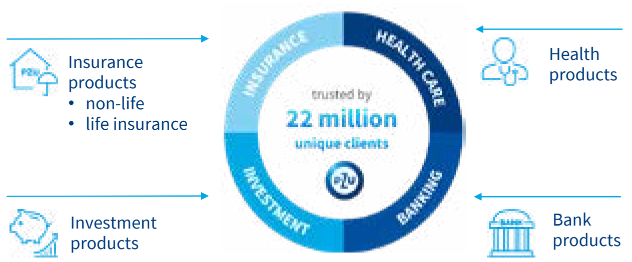
	#Trusted Partner in green transformation	#Better quality of life	#Responsible organization
	We support the development of a low-emission economy, contributing to sustainable transformation	We encourage communities to adopt a sustainable and safe lifestyle	We build a modern organization, which is managed responsibly
Our ambitions	→ PZU Group developing an insurance offer supporting climate and energy transformation → Responsible investor supporting safe and sustainable transformation → Green organization operating on the basis of sustainable decision-making and governance processes	→ Responsible partner supporting safety in local communities → Trustworthy guide to a sustainable lifestyle	→ Employer promoting responsible leadership and responsible attitudes among Employees → Trusted Partner in business promoting the sustainable development idea
Sustainable development goals	7, 9, 12, 13, 15	3, 4, 11	5, 8, 10, 12

4.4 Strategy operationalization

- **Building the most comprehensive offer on the market**

The 360° offer is 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.

In H1 2022, PZU introduced a new comprehensive insurance for condominium associations, housing cooperatives and social housing associations - PZU for Condominium Associations and Cooperatives. TFI PZU, in turn, added seven new funds to the passive investment portfolio available to inPZU users. The offering has been expanded to include six equity funds and one inflation bond fund. The new products are thematic funds that allocate resources to strictly-defined areas, such as renewable energy (inPZU Akcje Sektora Zielonej Energii), gold (inPZU Akcje Rynku Złota), or real estate (inPZU Akcje Sektora Nieruchomości).



- **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).

A new solution in PZU's offering is PZU iFleet, a state-of-the-art fleet management system that consists of three cooperating and complementary modules: fleet management, insurance management and safety management - prevention. The key function of PZU iFleet is fleet management, with records of vehicles, drivers and various types of costs, as well as support for, among others, fuel cards and maintenance services. In addition, the PZU iFleet system supports insurance management - access to data on current MOD and TPL policies and claims for the client and insurance intermediary, as well as reporting claims from the application level. The third module of the system is the prevention module, which aims to improve the safety of the fleet - on the basis of the damage history and its analysis, the fleet manager will obtain information on what preventive measures should be implemented to reduce the number and severity of damages.

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

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

- **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 goal of building the Benefits Ecosystem is to create new interactions with clients based on their everyday life activities such as physical activity, healthy lifestyle, sports, health, family, safety.

The ecosystem consists of a set of advanced digital tools targeted at both employers and individual customers.
To institutions, the ecosystem offers functionalities for managing non-salary benefits, engaging the community of their employees and for handling applications and service processes, while end users obtain access to various types of benefits: products and services of the PZU Group, such as PZU Sport or PZU Cash, and numerous products offered by external partners.

Ecosystem – drivers

It is an extensive ecosystem that provides comprehensive assistance, including support when buying or selling a car, checks of a vehicle's technical condition, possible repairs and legal assistance, discounts on services from the Group's partners, or arranging a replacement car. All the services are be available at a single point of access, through safe and user-friendly digital tools. Other Ecosystem services include such as providing repair history, access to loyalty programs, tire service, glass service, etc. The new platform for drivers is available to anyone, 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

New to the market and attractive products

- PZU Sport – sport and recreation subscription
- CASH – loans with attractive terms repaid directly from the salary
- Combined sport, recreation and medical packages and other packaged solutions involving insurance, physical activity and health blended with the services of external partners

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.

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 made 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 – health

In the health area, the PZU Group offers 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 include 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

ECOSYSTEM FOR HEALTH

Individual health needs of different clients, among others:	Medical care **solutions**	Individual health needs of different clients, among others:
Prophylactics	Subscriptions	Sleep
Mental health	Insurance	Healthy nutrition
Medicines	Fee-for-service medical services (FFS)	Sport
Medical care	Financing of medical services	Beauty

from assistance in traveling to see a physician, delivering medicines, organizing physical therapy, to household repairs or participation in sports classes and courses.

- **Introducing an integrated approach to all distribution channels**

In order to improve contacts with clients, the PZU Group is taking steps to introduce an omnichannel solution. It entails development of hybrid service paths in the service and sales process. 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% 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 approx. 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.

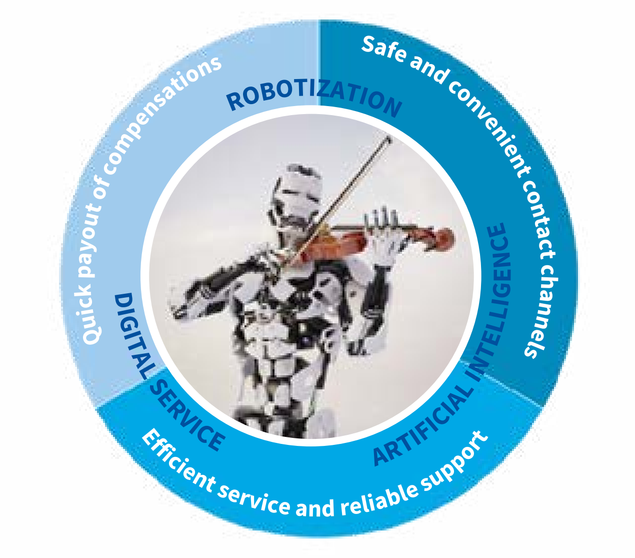
As part of PZU's cooperation with the Group's banks, Bank Pekao clients receive insurance in a package with their credit card: shopping, online transactions and travel insurance. Thanks to these products clients can be reimbursed for goods purchased with a credit card in case of damage, destruction or loss. PZU also provides clients who pay for online purchases by card with reimbursement for the purchase of goods if the delivered goods are, for example, defective or not in accordance with the order, and the client has problems recovering the money from the seller. The bank's clients are given the opportunity to choose from 3 available packages: Standard, Gold and Platinum, which can be changed flexibly in the PeoPay mobile application. The Gold and Platinum packages provide clients with travel insurance in Poland and abroad, as well as additional benefits from Bank Pekao to facilitate travel.

Omnichannel approach

- We will develop capabilities in the area of smooth change of channels in the sales and service process
- We will provide a personalized offer

Activation of the branch potential | **Modern Agent** | **Cooperation with multiagencies and the dealer channel** | **Development of the digital channel** | **Affinity, Bancassurance** | **New sources of value in the corporate segment**

- **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.

PZU, as the first insurer in Poland, has provided its clients with an innovative tool that uses artificial intelligence (AI) to handle motor claims. The AI assistant will make a preliminary repair estimate based on photos sent by the client through the provided application, which will greatly improve the claim valuation process. This is another innovative solution based on advanced artificial intelligence algorithms. PZU has used AI-backed tools to handle several hundred thousand motor claims worth several billion zlotys.

- **Comprehensive, efficient and friendly customer service**

The PZU Group keeps 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.

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 portal's user base continues to grow, with nearly 2.9 million users at the end of H1 2022.

- **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.

PZU is the third-largest operator in the private medical services market and has 3 million in-force health contracts. In H1 2022, PZU Zdrowie's offerings were expanded to include, among others, family and partner packages. The packages can be purchased on the mojePZU portal, where patients will also conveniently schedule appointments and tests. PZU Zdrowie has also provided an installment payment option for clients who purchase medical packages on the mojePZU portal. The new method allows clients to pay for the medical provider's services using credit offered by Alior Bank. In addition, PZU, together with the Ministry of Health, the Ministry of State Assets and the National Health Fund, has launched the "Healthy Life" project. As part of the project, in the coming months, Mobile Health Zones will be available, offering free medical examinations and consultations. The project aims to raise awareness of the importance of healthy lifestyles and prevention.

- **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.

- **Sustainable growth – "Balanced Growth" ESG Strategy**

As part of its ESG Strategy, the PZU Group is taking actions that strengthen its leadership position and are in line with the principles of sustainable development. The PZU Group treats environmental, climate, social and management factors equally. PZU conducts activities in 3 main areas (#trusted partner of green transition, #improved quality of life, #responsible organization).

#Trusted Partner in the Green Transition

Increase of the current exposure to investments supporting climate and energy transition by 500 m PLN in 2021-2024

The PZU Group conducts its investment activities while respecting the principles of sustainable development. Sustainable investment policy PZU and PZU Życie specifies the general rules for investing funds, taking into account ESG factors. PZU and TFI PZU are investing in the development of onshore wind power. By June 2022, the Companies invested nearly PLN 420 million in projects to build or expand wind power plants. In addition, TFI PZU has launched the inPZU Akcje Sektora Zielonej Energii [inPZU Green Energy Sector Equities] in its offer of passive funds to enable everybody to invest in an index consisting of the leading companies in the RES industry.

Assessment from the ESG perspective of 55% of the biggest corporate insurance clients from sectors sensitive to ESG risks

PZU Group is expanding its insurance offerings that supports decarbonization and the process of changing the energy mix. The PZU Group offers green products for both corporate and retail clients. PZU offers clients two insurance products, the PZU Wind Power and PZU Solar Power. The policies protect wind and solar power plants in the event of a failure, damage or destruction. TUW PZUW marketed insurance for corporate clients called "Power of the Wind" for wind farms and "Power of the Sun" for photovoltaic installations. For retail clients, farms and SMEs, PZU offers the PZU Eko Energia product.

PZU is developing methodologies for evaluating corporate clients for ESG factors. The PZU Group supports clients on the road to climate neutrality and develops product-related programs that support clients in sustainable business development. The PZU LAB EST system is a tool that monitors selected parameters related to the environmental impact of enterprises. The System is currently being expanded with additional sensors to monitor, among other things, greenhouse gas emissions. The activities implemented in the Risk Pro prevention program reduce the risk of fire, which translates into a reduction in the emission of fire gases into the atmosphere and a reduction in environmental damage.

Achieving CO2 neutrality in own operations (scope 1 and 2)

The PZU Group continues its multi-directional efforts aimed at reducing its own Scope 1 and 2 emissions. These are, among others, purchase of energy from renewable sources, installing own installations for renewable energy production (photovoltaic panels) and purchase of energy from suppliers characterized by lower emission rates. PZU and PZU Życie compensate for emissions to the extent that they cannot be reduced.

In addition, with the aim of reducing its direct environmental impact, the PZU Group is moving its Head Office to the greenest building in Warsaw, which, among other things, will significantly reduce its carbon footprint.

The PZU Group integrates ESG factors into its management of individual risk categories, and conducts scenario analyses of the impact of climate change on business operations.

#better quality of life

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

Social involvement has always been an important topic for PZU. For many years, the company has led initiatives to improve the safety and quality of life of Poles. One of the latest initiatives is PZU's Good Team Program, which promotes activity among children and young people. PZU's Good Team has already been joined by 30 clubs and associations that provide sports activities for more than 25,000 children.

In the social area, the PZU Group is focusing on employee issues, including maintaining the good health and well-being of its employees. The ##DobryStan (#WellBeing) strategy, is a comprehensive program to take care of the good of employees. It has been developed based on an analysis of labor market trends, as well as consultations with leaders and employees. #DobryStan (#WellBeing) provides employees with tools that help them balance personal and professional life, collaborate in multi-generational teams and work effectively in a hybrid system.

In June 2022 the move of PZU's Head Office to the new greenest office building in Warsaw began. The Generation Park Y building at Rondo Daszyńskiego has received the prestigious Prime Property Prize 2021 in the "Green Building" category. The PZU Group's new headquarters is an investment in its employees, providing them with the highest standards when it comes to working conditions, comfort and safety. A friendly work environment will promote employee well-being and be an important part of the implementation of the target hybrid work model with a package of relevant tools and programs to improve the quality of life of employees. With the new headquarters, employees previously scattered in different locations will work in one place, which is very well connected to other parts of the capital. Due to the building's characteristics and environmental advantages, the move is an important element in the implementation of the PZU Group's ESG Strategy.

#responsible organization

Giving consideration to ESG targets in the company's strategic objectives and incorporating ESG requirements into 70% key procurement processes

Since 2021, PZU and PZU Życie directors responsible for the pursuit of the ESG Strategy saw the Group's ESG goals included in their annual objectives. The degree of attainment of these goals translates into value of their variable compensation for the given year. Owing to the setting of the ESG goals, the whole organization is involved in the pursuit of the ESG strategy. Sustainable development has been embedded into the company's operating endeavors. ESG goals are also assigned to the Management Boards of subsidiaries.

The PZU Group has an awareness of its impact on the procurement market and its responsibility for shaping the top business standards in its environment. PZU expects suppliers to adhere to sustainable standards and principles. To reinforce the importance of ESG in supplier relations, the scope of supplier audits being conducted is being expanded to include topics related to human rights, employee rights and environmental protection.

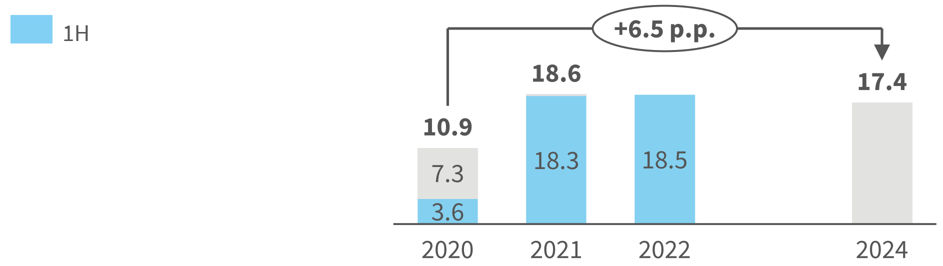
Sustainability initiatives are an important part of the PZU Group's operations. Since May 2022, PZU has been a member of the United Nations Global Compact i.e. the largest UN initiative bringing together sustainable business. In April 2022, PZU joined the UNEP/GRID-Warsaw "Together for the Environment" Partnership, after joining the Climate Leadership program for climate leaders in February. PZU has also joined the Ministry of Development and Technology's Partnership for the Implementation of the Sustainable Development Goals in Poland and is a signatory to the "Agreement for the Development of Offshore Wind Power in Poland" and the "Sector Agreement for the Development of the Hydrogen Economy". These are projects initiated by the Ministry of Climate and Environment.

The PZU Group is monitoring its progress on the road to sustainability. The measurable result of these efforts is the participation in ESG ratings and the scores achieved. In addition, the Group participates in the rankings that evaluate companies in terms of ESG. In June 2022, PZU's actions were recognized in the 16th edition of the Ranking of Responsible Companies. This is the only ranking of companies operating in Poland evaluated for the quality of their management of sustainability aspects. This year, PZU scored 94 out of 100 points, which earned it third place in the overall and industry rankings. The ranking evaluated the strategic approach, operations and performance of ESG indicators. It also checked the level of implementation of sustainable management declarations and policies and the development of products with positive social and environmental impacts.

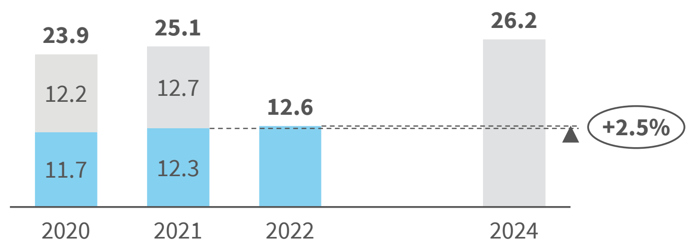
4.5 Metrics

Financial measures and strategy execution

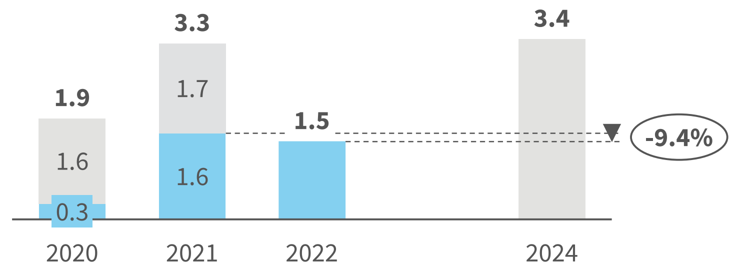
ROE (%)



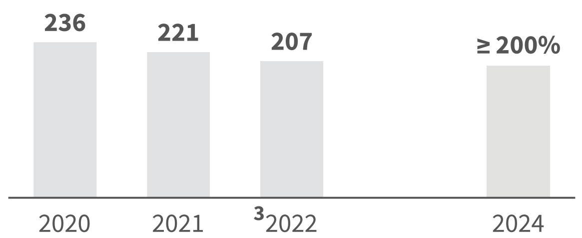
GROSS WRITTEN PREMIUM[1] (BN PLN)



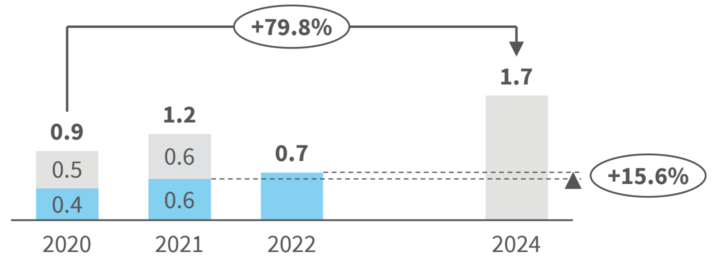
NET PROFIT[2] (BN PLN)



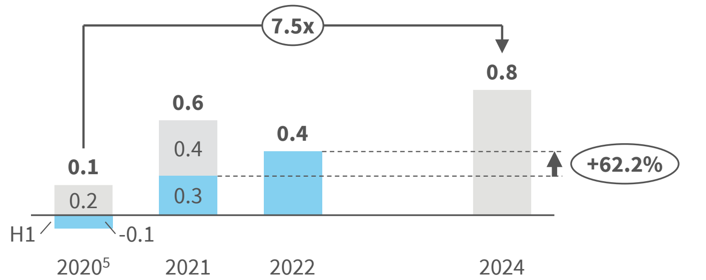
SOLVENCY II RATIO(%)



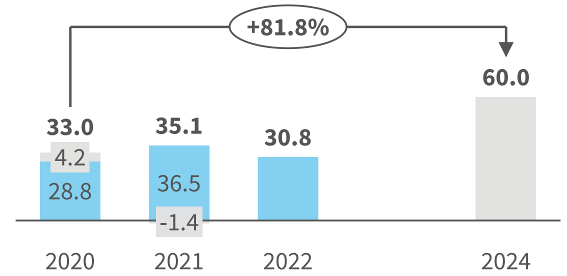
HEALTH PILLAR REVENUES (BN PLN)



BANKS' CONTRIBUTION TO PZU GROUP'S NET RESULT[2] (BN PLN)



ASSETS UNDER MANAGEMENT[4] (BN PLN)



[1] Gross premiums written of PZU Capital Group; [2] Net profit attributable to owners of the parent company; [3] Data as of March 31, 2022, not subject to audit or auditor's review, indicator in accordance with the FSC circular letter to insurance companies dated 16.04.2021; [4] External client assets under management of TFI PZU, Pekao TFI and Alior TFI; [5] Excluding goodwill impairment on acquisition of Bank Pekao and Alior Bank

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_2 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 entity (ROE) at 18.5%.
Decrease in profit attributed to equity holders of the parent entity to PLN 1.48 billion.
Gross written premium down 2.5% year on year.

In this chapter:

5.1 Key factors affecting the financial results achieved

In H1 2022, the net profit attributable to the PZU Group's parent company shareholders was PLN 1,480 million, compared to PLN 1,634 million in the corresponding period of 2021 (down 9.4%). Net profit reached PLN 2,868 million, i.e. PLN 381 million more than in H1 2021, and profit before tax stood at PLN 4,071 million, compared to PLN 3,361 million in the corresponding period of the previous year.

The net result rose 98.8% compared to last year, net of non-recurring events[1] and net income attributable to shareholders of the parent company by 63.5% compared to last year.

The operating profit in H1 2022 was PLN 4,088 million, up 21.3% compared to the result generated in the corresponding period of 2021.

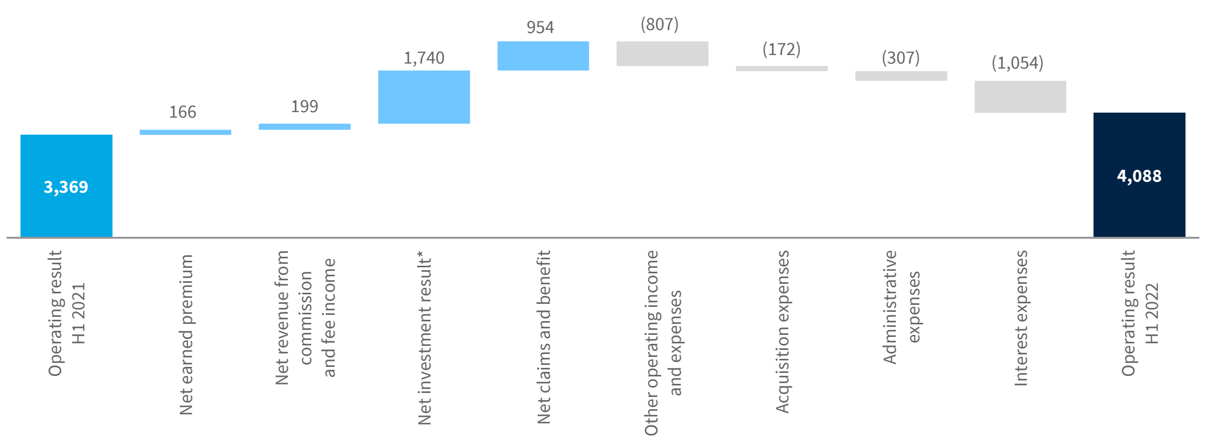
Key contributors to operating profit included in particular:

- higher gross written premium, especially in non-motor insurance in the mass client segment and corporate client segment, MOD insurance and growth of sales in the Baltic companies;
- higher results related to banking activities including an increase in the net interest and commission income partly offset by non-recurring effects – costs related to the accession of Bank Pekao and Alior Bank to the Protection System in the amount of PLN 636 million and a provision recognized by Pekao for the legal risk of foreign currency mortgage loans in the amount of PLN 419 million;
- higher profitability in group and individually continued insurance on account of the decreased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance, partially offset by an increase in technical provisions for older versions of individually continued products, consisting of recognition of the expected effect of higher indexations in next 12 months;
- higher operating result in the corporate client segment due to the lower loss ratio in the motor insurance portfolio (motor own damage), partially offset by the decline in profitability of non-motor insurance;
- slightly lower result on individual insurance, despite a significant decline in sales of investment products;
- lower profitability in the mass insurance segment, largely as a result of the higher loss ratio on non-motor insurance (in particular in insurance against fire and other damage to property) and higher acquisition expenses;
- a decline in the result in foreign insurance segments, including mainly companies in Ukraine due to the recognition of asset impairment charges as a result of the assessment of the impact of the Russian Federation's invasion of Ukraine on February 24, 2022 on the PZU Group's operations, business continuity, financial position and going concern, and due to the downgrade of Ukraine's rating.;
- lower performance on investing activities, excluding banking activity, including as a result of last year's one-off effect of an increase in the valuation of shares in a logistics company following its IPO.

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

- increase in gross written premium by 2.5% to PLN 12,647 million. It affected mainly the mass client segment, in terms of natural catastrophe insurance and other property insurance mainly as a result of higher sales of subsidized crop insurance and motor insurance as a result of increased MOD sales. In the corporate client segment, the PZU Group achieved higher sales of insurance against fire and other damage to property and insurance for various financial risks and guarantees, and increased sales in the Baltic companies. The increases were partially offset by the lower sales in the individual life insurance segment, including investment products in the bancassurance channel. After consideration of the reinsurers' share and the movement in the provision for unearned premiums, net earned premium was PLN 11,683 million, up 1.4% in relation to the corresponding period of 2021;
- 14.4% increase in investment income which, after factoring in interest expenses[2], amounted to PLN 5,441 million, as compared to PLN 4,755 million in H1 2021. Particularly significant was the increase in deposit income generated from banking operations and was due to the increase in interest income of both banks as a result of a series of interest rate hikes. This effect was partially offset by provisions for legal risk related to mortgage loans in foreign currencies by Bank Pekao. Investment income excluding banking activity dropped by PLN 1,369 million compared to the year before due to last year's effect of an increased valuation of shares in a logistics company following its IPO and a decline in investment performance on the portfolio of assets covering investment products. 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 lower level of claims and benefits paid, which amounted to PLN 7,116 million, i.e. 11.8% less than in H1 2021. The decrease was particularly in life insurance as a result of a decrease in the loss ratio from deaths of policyholders and co-insureds in the group protection portfolio and in continued insurance and a decrease in the unit-linked life insurance technical provisions, both as an effect of lower sales of these products (lower inflow of new investment premiums) as well as lower results on investment activity in comparison to the results generated last year;
- acquisition expenses higher by 10.1%, having increased to PLN 1,704 million in H1 2021 from PLN 1,876 million. This increase was mainly due to the shift in the mix of products and sales channels in the mass client segment, including a higher share of the multiagency channel;
- increase in administrative expenses by 9.0%, to PLN 3,719 million, compared to PLN 3,412 million in H1 2021. In the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value), administrative expenses increased by PLN 268 million; in the insurance activity segments in Poland, administrative expenses increased by PLN 40 million, which resulted from, among others, increased personnel costs associated with the payroll pressure, intensified sponsorship and brand image enhancement activities, increased real estate operating costs as a result of indexation of lease prices and utilities, the move to the new headquarters, and aid support related to the situation in Ukraine;
- movement in the negative balance of other operating income and expenses – to PLN 2,211 million, compared with PLN 1,404 million in H1 2021. It was mainly related to one-off effects in the banks – the payment of PLN 636 million to the aid fund in connection with the accession of Alior Bank and Bank Pekao to the Bank Protection System. At the same time, the BFG fees and the burden of the levy on financial institutions increased in total from PLN 947 million in H1 2021 to PLN 1,130 million in H1 2022 (this is the result of an increase in taxable assets, not the tax rate).

Operating result of the PZU Group in H1 2022 (in PLN m)



*excluding interest expense

1 Non-recurring events include: a lower result related to an increase in technical provisions for older versions of individually continued products, consisting of the recognition of the expected effect of higher indexations in next 12 months; costs related to Alior Bank and the Bank's accession to the Bank Protection System; a provision recognized by Bank Pekao for the legal risk of foreign currency mortgage loans, Impairment of financial assets and receivables in Ukrainian companies and, last year, a higher result from investing activities as a result of the IPO of a logistics company in the portfolio of a mutual fund managed by TFI PZU.

2 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

Key data from the consolidated profit and loss account	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
	PLN million	PLN million	PLN million
Gross written premiums	11,691	12,342	12,647
Net earned premium	11,452	11,517	11,683
Net revenues from commissions and fees	1,505	1,687	1,886
Net investment result*	4,149	4,952	6,692
Net insurance claims and benefits	(7,291)	(8,070)	(7,116)
Acquisition expenses	(1,647)	(1,704)	(1,876)
Administrative expenses	(3,335)	(3,412)	(3,719)
Interest expenses	(806)	(197)	(1,251)
Other operating income and expenses	(2,971)	(1,404)	(2,211)
Operating profit (loss)	1,056	3,369	4,088
Share in net profit (loss) of entities measured by the equity method	(1)	(8)	(17)
Profit (loss) before tax	1,055	3,361	4,071
Income tax	(747)	(874)	(1,203)
Loss on discontinued operations	(4)	-	-
Net profit (loss)	304	2,487	2,868
Net profit (loss) attributable to equity holders of the parent company	301	1,634	1,480

restated data for 2020-2021
* 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

5.2 PZU Group's income

Premiums

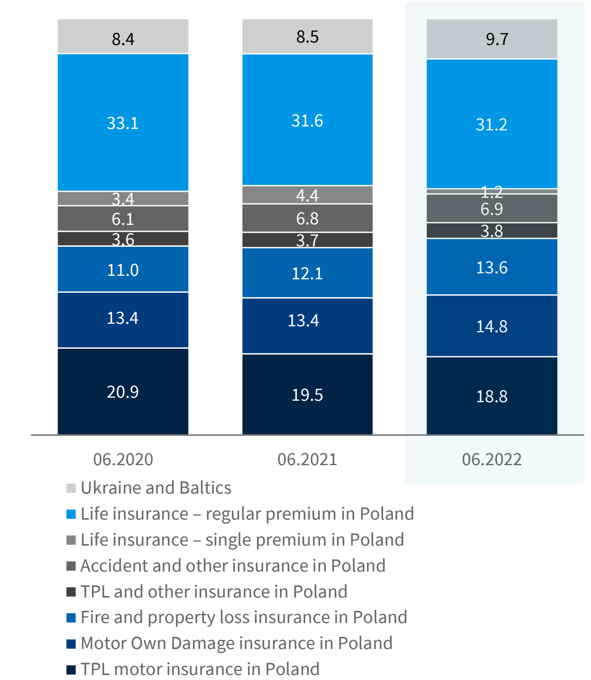
In H1 2022, the PZU Group collected gross premiums of PLN 12,647 million, or 2.5% (PLN 305 million) more than in the corresponding period of 2021. The change in gross written premium (net of inter-segment premiums) was affected primarily by:

- increase of PLN 327 million (+6.1% y/y, to PLN 5,711 million) in sales in the mass client segment in Poland – including natural catastrophe insurance and other property insurance mainly as a result of higher sales of subsidized crop insurance (the impact of a higher pool of subsidies from the state budget than last year), home insurance, small and medium-sized business insurance and motor insurance as a result of increased MOD sales (an increase in the number of insurance policies and average price);
- increase by PLN 169 million (+16.0% y/y, up to PLN 1,224 million) of sales of the foreign companies, mainly in motor, property and health insurance in the Baltic States;
- increase of PLN 148 million (+10.1%, to PLN 1,610 million) in premium written in the corporate client segment – in ADD and other insurance, including an increase in premiums from insurance of various financial risks and guarantees, and higher sales of insurance against fire and other damage to property as a consequence of the acquisition of several high-ticket contracts;

Insurance segments (PLN million), local GAAP	Gross written premium (external)		
	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
TOTAL	**11,691**	**12,342**	**12,647**
Total non-life insurance – Poland (external gross written premium)	6,436	6,846	7,321
Mass insurance – Poland	5,220	5,384	5,711
Motor TPL	2,110	2,088	2,093
Motor MOD	1,243	1,310	1,502
Other products	1,867	1,986	2,116
Corporate insurance – Poland	1,216	1,462	1,610
Motor TPL	333	313	289
Motor MOD	325	348	372
Other products	557	801	949
Total life insurance – Poland	4,275	4,441	4,101
Group and individually continued insurance – Poland	3,513	3,510	3,568
Individual insurance – Poland	762	931	533
Total non-life insurance – Ukraine and Baltic States	903	970	1,148
Ukraine non-life insurance	107	105	83
Baltic States non-life insurance	796	865	1,065
Total life insurance – Ukraine and Baltic States	77	85	76
Ukraine life insurance	38	41	30
Baltic States life insurance	39	44	46

- increase by PLN 58 million (+1.7% y/y, up to PLN 3,568 million) of sales of group and individually continued insurance, in particular health insurance in group or continued form (acquisition of new clients in outpatient insurance and sale of different options of the medicine product;
- decrease of PLN 398 million (-42.7% y/y, to PLN 533 million) in premium written in the individual life insurance segment, including investment products in the bancassurance channel, as a result of a reduction in cooperation with one of the external distributors.

Structure of gross written premium at PZU Group (%)



Net revenues from commissions and fees

In H1 2022, net revenues from commissions and fees amounted to PLN 1,886 million, i.e. PLN 199 million or 11.8% more than in the previous year.

The revenues included primarily:

- net revenues from commissions and fees in the banking business of PLN 1,612 million, up PLN 237 million, or 17.2%, 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 and increased as a result of customer activity and the adaptation of the offering to changing market conditions;
- revenue from pension insurance of PLN 91 million, up PLN 22 million, or 31.9% as compared to the previous year; the increase was applicable to the income from the Insurance Guarantee Fund and the income from management fees;
- revenues and fees received from funds and mutual fund management companies in the amount of PLN 181 million, down PLN 59 million, or 24.6% relative to H1 2021.

Net investment result and interest expenses

In H1 2022, net investment result, including interest expenses but excluding Bank Pekao and Alior Bank, was lower than in the comparable period of previous year, mainly as a result of last year's increase in the valuation of a logistics company's shares as a result of its IPO, 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:

- 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];
- the high performance of the Private Credit portfolio as a result of rising interest rates;
- higher result of the portfolio of Polish treasury bonds, foreign bonds and money market instruments.

Result on other operating income and expenses

The balance of other operating income and expenses in H1 2022 stood at PLN 2,211 million, compared to the negative balance of PLN 1,404 million in the corresponding period of 2021. The change was attributable to the following factors:

- accession of Alior Bank and Bank Pekao to the Bank Protection System, which resulted in contributions to the aid fund of PLN 195 million and PLN 440 million, respectively;
- higher BFG fees – increased from PLN 310 million in H1 2021 to PLN 421 million in H1 2022 due to the return of BFG payments to pre-pandemic levels after a temporary reduction in 2021;
- 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 637 million in H1 2021 to PLN 709 million in the corresponding period of 2022, 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).

5.3 PZU Group's claims paid and technical provisions

Net claims and benefits (taking into account the movement in technical provisions) in H1 2022 reached PLN 7,116 million, i.e. 11.8% less than the year before. This change was driven primarily by:

- decrease in the unit-linked life insurance technical provisions, both as an effect of lower sales of these products (lower inflow of new investment premiums) 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);
- decrease in benefits for the insureds' and co-insureds' death in 2022, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- increase in technical provisions for older versions of individually continued products, consisting of recognition of the expected effect of higher indexations in next 12 months. This expectation is based on the high level of the observed and expected inflation rate;
- increase in the loss ratio in non-motor insurance in the mass client segment, including insurance against fire and other damage to property, mainly as a result of the higher losses caused by weather phenomena (chiefly cyclones, spring frosts and hailstorms);
- growing medical benefits in outpatient health insurance and increase in benefits for riders related to hospital treatment and surgical operation and permanent disability and dismemberment in group and continued insurance as a result of lower benefits last year due to lower activity related to the lower number of reported claims.

5.4 PZU Group's acquisition and administrative expenses

In H1 2022, acquisition expenses increased by PLN 172 million, or 10.1%, in comparison to the previous year, and stood at PLN 1,876 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 H1 2022, PZU Group's administrative expenses were PLN 3,719 million compared to PLN 3,412 million a year ago, i.e. up PLN 307 million. Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) increased by PLN 268 million, due to, among others, higher employee expenses, costs related to marketing activities and IT projects, as well as general inflationary cost increases. In the insurance segments in Poland administrative expenses increased by PLN 40 million, due to continued wage pressures, intensified sponsorship and brand image enhancement activities, increased real estate operating costs as a result of indexation of lease and utility prices, the move to the new headquarters and aid support related to the situation in Ukraine, among other factors.

5.5 Drivers and atypical events affecting the results

H1 2022 saw an increase in technical provisions for older versions of individually continued products, consisting of recognition of the expected effect of higher indexations in next 12 months in the gross amount of PLN 203 million. This expectation is based on the high level of the observed and expected inflation rate.

In addition, the PZU Group's result was burdened in H1 2022 by non-recurring effects related to banking activities, including the costs associated with Pekao Bank and Alior Bank joining the Bank Protection System in the gross amount of PLN 440 million and PLN 195 million, respectively, as well as updating the provision for legal risk related to foreign currency mortgage loans in Pekao Bank in the gross amount of PLN 419 million.

Due to the Russian Federation's invasion of Ukraine on February 24, 2022, PZU's Management Board assessed the impact of this event on the PZU Group's operations, business continuity, financial position and going concern.

As a result of this analysis and due to the downgrade of Ukraine's rating, the PZU Group decided to recognize write-downs in the consolidated income statement for H1 2022, including mainly financial assets and receivables. The impact of these write-downs on the PZU Group's consolidated net income reached PLN 94.0 million.

In the corresponding period of 2021, a higher result on investing activity was recorded due to the IPO of a logistics company held in the portfolio of a mutual fund managed by TFI PZU. In H1 2021, the increase in income on that account amounted to PLN 548.7 million.

5.6 PZU Group's assets and liabilities structure

As at 30 June 2022, the PZU Group's total assets were PLN 429,936 million, up PLN 27,807 million compared to the end of 2021.

Assets

50.6% of the Group's assets (versus 53.5% at the end of 2021) was loan receivables from clients. Their balance reached PLN 217,502 million. It increased compared to the end of 2021 by PLN 2,494 million, mainly due to an increase of the balance of operating, mortgage and investment loans in the business segment. The increases were partially offset by a decline in the volume of loans granted to retail clients.

37.2% of assets (versus a corresponding level at the end of 2021) were investments: financial investment assets, investment properties, FDIs and assets securing liabilities. They totaled PLN 159,843 million and were up PLN 10,452 million versus the end of last year. The increase in the value of investments was associated particularly with Bank Pekao and was related to the higher value of the derivative financial instruments. 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.

2.4% of assets (versus 2.6% at the end of 2021) were non-current assets in the form of intangible assets, goodwill and property, plant and equipment. They amounted to PLN 10,173 million, and were by PLN 152 million lower as compared to the end of 2021. The decrease is attributable to intangible assets in Bank Pekao.

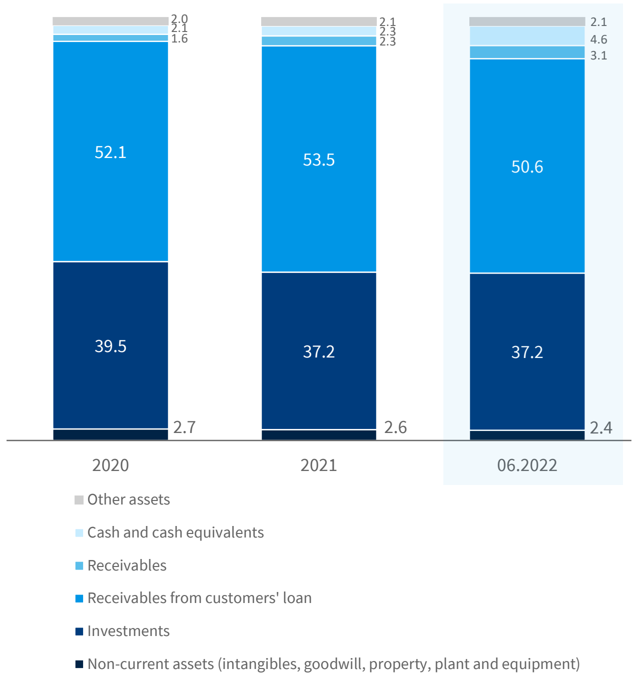
4.6% of assets (versus 2.3% at the end of 2021) were cash and cash equivalents. Their value stood at PLN 19,968 million and was PLN 10,521 million higher than at the end of last year.

This was caused by an increase in the balance of funds accumulated in Poland's central bank by Bank Pekao and Alior Bank.

3.1% of assets (versus 2.3% at the end of 2021) represented the PZU Group's receivables, including receivables under insurance contracts and the current income tax. They amounted to PLN 13,328 million, and were by PLN 3,910 million higher as compared to the end of 2021. 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 2021) were the assets held for sale. In H1 2022 their balance grew by PLN 22 million, to PLN 665 million. It concerned mainly the properties held by real estate sector mutual funds as held for sale.

Structure of PZU Group's assets (in %)



Equity and liabilities

At the end of H1 2022, the PZU Group's consolidated equity reached PLN 35,628 million, which was down PLN 4,366 million versus the end of 2021.

The value of the non-controlling interests decreased by PLN 2,255 million to PLN 20,659 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 earmarking PLN 1,129 million for dividends (including dividends for non-controlling shareholders of PLN 903 million) and the result generated by Alior Bank and Bank Pekao attributable to non-controlling owners of PLN 1,388 million.

Equity attributable to the parent company's shareholders dropped by PLN 2,111 million to PLN 14,969 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 2021, including the allocation of PLN 1,675 million to dividend payout, and PLN 1,480 million in net profit generated in H1 2022 attributable to shareholders of the parent company.

62.5% of the Group's equity and liabilities as at 30 June 2022 were liabilities to clients under deposits. They amounted to PLN 268,729 million, and were by PLN 3,574 million higher as compared to the end of 2021. This resulted from the increase in term deposits of Bank Pekao and Alior Bank by PLN 22,827 million, which was offset by a decrease in current deposits.

As at 30 June 2022, the PZU Group had liabilities arising from own debt securities totaling PLN 7,940 million, including:

- PLN 3,720 million on bonds issued by Bank Pekao and Alior Bank;
- PLN 3,275 million on certificates of deposit issued by Bank Pekao and Alior Bank;
- PLN 945 million on covered bonds issued by Bank Pekao.

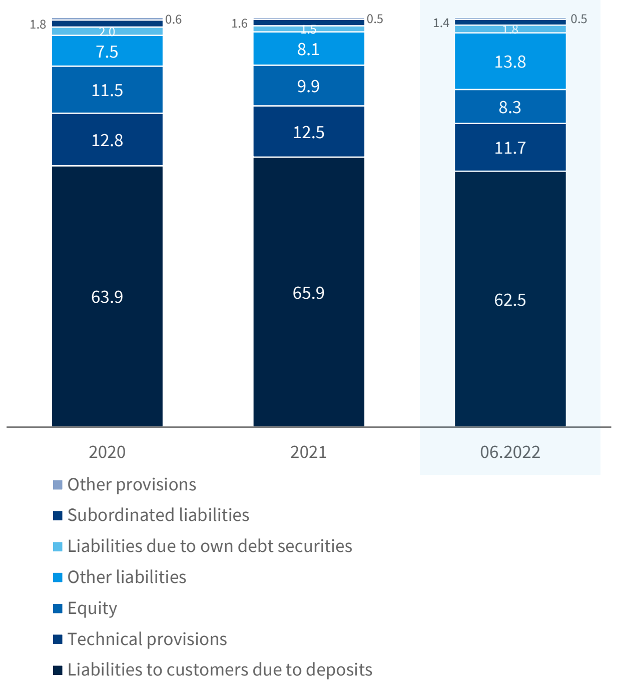
As at the end of H1 2022, the PZU Group's subordinated liabilities amounted to PLN 6,135 million, down by PLN 139 million from the end of 2021. (SECTION 7.3 DEBT FINANCING).

11.7% of equity and liabilities as at 30 June 2022 was the value of technical provisions. It amounted to PLN 50,090 million and was down PLN 83 million versus the end of 2021. This was affected by:

- higher provision for unearned premiums in non-life insurance resulting mainly from developing sales of insurance and entering into several long-term property contracts with high unit values;
- increase in technical provisions for older versions of individually continued products, consisting of recognition of the expected effect of higher indexations in next 12 months. This expectation is based on the high level of the observed and expected inflation rate;
- increase in the provision for outstanding claims and benefits in non-life insurance, mainly in non-life insurance (the impact of the occurrence of mass weather damage) and in motor insurance (the impact of claims inflation);
- lower provisions for policyholder risk in group investment products as a result of negative portfolio investment performance.

6.0% of equity and liabilities as at the end of H1 2022 was other liabilities in the amount of PLN 25,810 million. They were PLN 12,607 million higher as compared to the end of 2021. The balance changed primarily due to liabilities arising from transactions in financial instruments and repurchase transactions and dividend liabilities to shareholders.

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



Cash flow statement

At the end of H1 2022, net cash flows reached PLN 10,380 million, up PLN 7,376 million from the previous year. This growth was recorded in particular in cashflow from financial activity.

Material off-balance sheet line items

The value of contingent liabilities at the end of H1 2022 was PLN 69,805 million, that is PLN 857 million more than at yearend 2021. This was caused predominantly by:

- PLN 4,751 million in contingent liabilities for renewable limits in settlement accounts and credit cards;
- PLN 42,626 million in liabilities from loans in tranches;
- PLN 8,741 million in liabilities in the form of awarded guarantees and sureties;
- PLN 4,393 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.

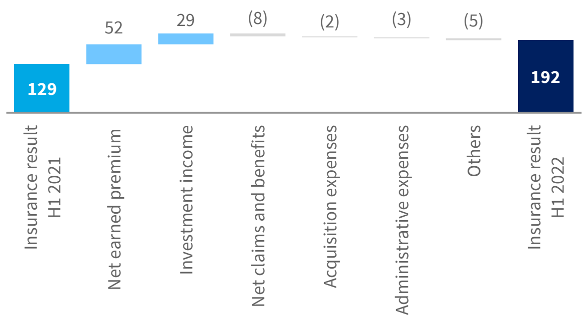
Corporate insurance

In H1 2022, in the corporate insurance segment, the PZU Group generated an operating result of PLN 192 million, signifying a PLN 63 million (+48.8% y/y) increase compared to the corresponding period of 2021.

The result was affected mainly by the following factors:

- 52 million increase in net earned premium (+4.5% y/y) combined with an increase in gross written premium by PLN 147 million (+10.0% y/y) relative to H1 2021. The movement in the PZU Group's gross written premium was driven by:
  - increase in written premiums in ADD and other insurance, including an increase in premiums from insurance of various financial risks and guarantees, mainly as a result of higher sales of profit-loss insurance (including following damage to machinery) and an increase in written premiums in MOD insurance of rail vehicles;
  - increase in sales in insurance against fire and other damage to property as the offshoot of signing several high-value agreements,
  - maintaining the third party liability insurance portfolio's premium written at a broadly unchanged level;
  - lower premiums in motor insurance (-0.3% y/y), resulting from the decrease in motor TPL and increase in MOD – mainly due to declining sales of new vehicles (decrease in registration of new cars in Poland by 12.3% y/y) and the slowdown in the highly competitive lease market (impact of the changes in the geopolitical environment and increasing interest rates);
- increase in net claims and benefits by PLN 8 million (+1.1% y/y), which in addition to the increase in net earned premium by 4.5% translated into an improvement in the loss ratio by 2.1 percentage points to 61.8%. The decrease in the total loss ratio in the corporate insurance segment was driven by the following factors:
  - lower loss ratio in motor insurance, including a significant improvement in motor own damage and a deterioration in motor TPL insurance as a result of the lower frequency of claims, compared to last year, partially offset by an increase in the average claim payment and the depreciation of the PLN against the EUR in foreign currency claims,
  - higher loss ratio in the non-motor insurance portfolio as a result of a deterioration of the loss ratio in the general TPL insurance group (mainly in the medical center insurance portfolio) and in insurance of various financial risks (in the period under analysis there were several events with a high unit value);
- increase of PLN 29 million (+107.4% y/y) in income from investments allocated to the segment according to transfer prices resulting mainly from an increase in the EUR exchange rate against the zloty and higher interest rates. 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 (+0.9% y/y) in acquisition expenses (including reinsurance commissions), which, with the net earned premium 4.5% higher, resulted in an improvement of the acquisition expense ratio by 0.7 p.p. The decrease in the acquisition expense ratio on both the motor and non-motor insurance portfolios is mainly the result of changes in the portfolio structure, including a lower share of motor insurance offered by leasing agencies (characterized by higher commission rates);
- administrative expenses in this segment amounted to PLN 72 million, up by PLN 3 million (+4.3% y/y), than the corresponding period of the year before. The increase is primarily due to an increase in real estate maintenance expenses as a result of the indexation of lease and utility prices and the move to the new headquarters, the implementation of the New Organization Model and IT Work Tools, and the intensification of sponsorship and brand image enhancement.

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



Mass insurance

In H1 2022, the mass insurance segment earned an operating result of PLN 680 million, which was 0.7% less than in the corresponding period last year.

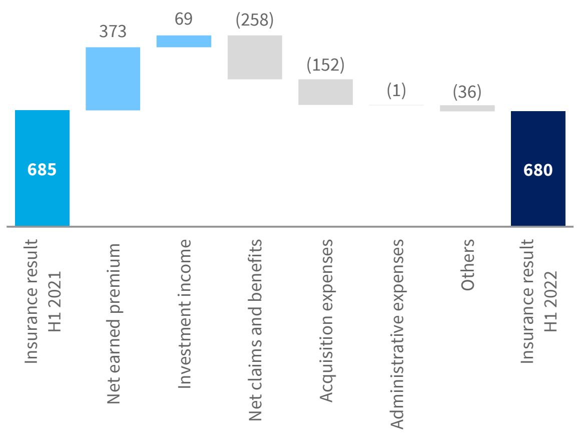
The following factors affected this segment's performance in H1 2022:

- increase in net earned premium by PLN 373 million (+7.6% y/y) combined with an increase in gross written premium by PLN 343 million (+6.4% y/y). The PZU Group posted the following under sales:

- increase in premium written in motor insurance, mainly motor own damage (high growth rate in the number of insurance policies while the average premium increased) and slightly motor third party liability (the impact of an increase in the average premium while the number of insurance policies decelerated). This effect was limited to a certain extent by the decline in the number of registrations of new passenger vehicles (most acutely experienced in the dealership channel);
- higher premiums from the natural catastrophe insurance and other property damage insurance, chiefly subsidized crop insurance (impact of the subsidy pool from the state budget greater than the year before) and building and property insurance. 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),
- increased written premium in third party liability insurance (including, TPL offered for PZU DOM and PZU Firma insurance and professional TPL),
- lower premium in the ADD and other insurance group, chiefly as a result of the declining sales of insurance offered in cooperation with the Group's banks for cash loans and mortgage loans, caused by the lower demand for mortgage loans due to the increasing interest rates and stronger restrictions in calculating creditworthiness. The effect was partially offset by an increase in the premium written in travel insurance and the provision of PZU Auto Pomoc;

- increase of net insurance claims and benefits by PLN 258 million (+8.6% y/y), which, when coupled with net earned premium being up 7.6%, translated into the loss ratio deteriorating by 0.6 p.p. relative to H1 2021. This change was driven mainly by:
  - higher loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of higher than the year before level of losses caused by atmospheric events (cyclones, spring frosts and hailstorms),
  - improvement of the loss ratio in motor insurance, both as a result of a decrease in the loss ratio in motor own damage insurance and higher loss ratio in motor TPL insurance, which was the result of, without limitation, the positive development of claims from previous years, partially offset by the deterioration of the current year's claims ratio (impact of the increase in the average payout, including the depreciation of PLN against EUR, and the higher frequency of claims in TPL);
- increase by PLN 69 million (+38.5% y/y) in investment income allocated to the segment on the basis of transfer prices, compared to the previous year, caused in particular by interest rate hikes and the appreciation of the euro against the Polish zloty. At the level of the PZU Group's overall net result, this effect was partly offset by the changed level of insurance liabilities covered by foreign currency assets;
- rise in acquisition expenses (including reinsurance commissions) by PLN 152 million (+15.1%), to PLN 1,161 million, which, when coupled with the net earned premium being up 7.6%, 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 channel;
- increase of PLN 1 million (+0.3% y/y) in administrative expenses is primarily the result of intensified advertising activities to strengthen the brand image, an increase in property maintenance expenses (indexation of rental prices and utilities), wage pressures and the cost of aid support related to the situation in Ukraine.

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



Group and individually continued insurance

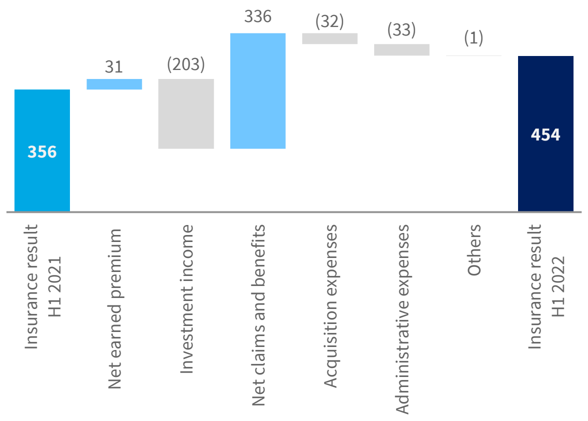
In H1 2022, the operating result in the group and individually continued insurance segment amounted to PLN 454 million, which is 27.5% more than in the previous year.

This result was enhanced largely by the decrease 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 H1 2022:

- rise in gross written premium by PLN 58 million (+1.7% y/y) driven by:
  - acquiring further contracts in health insurance. At the end of June 2022, PZU Życie had more than 2.5 million in-force contracts of this type,
  - increase in the revenues from other riders to group protection products, with the simultaneous pressure of a higher attrition in groups (work establishments),
  - active up-selling of other insurance riders as part of individually continued products;
- increase of PLN 31 million (+0.9% y/y) in net earned premium resulting from the growth of the insurance portfolio and the derecognition of a provision for unexpired risks in the amount of PLN 25 million. This provision of was established to cover the possible shortfall of future premiums (due to the heightened mortality caused by the COVID-19 pandemic), and its derecognition was associated with the lower-than-forecast loss ratio;
- income from investment activity lower by PLN 203 million (-61.9% y/y), composed of income allocated according to transfer prices and income from investment products. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products, and the decline in income was a result of the deterioration in the performance of investment products, including EPS (a third pillar retirement security product);
- retirement security product), and the increase in 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;
- decrease in insurance claims and benefits along with the movement in other technical provisions by PLN 336 million (-11.2% y/y), to PLN 2,666 million. It was a result of:
  - decrease in death benefits for insureds and co-insureds in the current year, corresponding, as follows from Statistics Poland's data, with a lower mortality in the whole population in the period,
  - a decrease in technical provisions in EPS, which was influenced by investment performance lower than in 2021,
  - lower level of child birth claims,
  - increase in technical provisions for older versions of individually continued products, consisting of recognition of the expected effect of higher indexations in next 12 months - this expectation is based on the high level of the observed and expected inflation rate,
  - rising costs of utilization of benefits in ambulatory insurance,
  - higher benefits in the riders related to hospital treatment, surgical operations and critical illness;
- acquisition expenses up PLN 32 million (+17.3% y/y) in the group and individually continued insurance segment. This was caused by the higher fees for insurance intermediaries in group protection insurance related to the stronger sales in the segment of insurance products dedicated to small and medium-sized enterprises;
- increase by PLN 33 million (+10.2% y/y) in administrative expenses, primarily due to rising personnel costs as a result of salary pressures, intensified sponsorship and brand image enhancement activities, increased real estate operating expenses as a result of indexation of lease and utility prices and the move to the new headquarters, upgrading of IT systems and implementation of the New Organization Model and IT Work Tools, and aid support related to the situation in Ukraine. The effect was partially offset by lower project consulting costs (IFRS17, Distribution, mojePZU) and legal services.

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



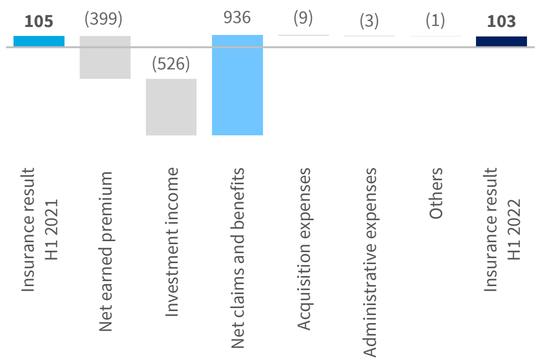
Individual insurance

The operating result in the individual insurance segment in H1 2022 was PLN 103 million and was at a level comparable to the corresponding period of the previous year (PLN 105 million).

Factors affecting this segment's performance in 2022:

- gross written premium lower by PLN 398 million (-42.7% y/y), to PLN 533 million as a result of:
  - decrease in premium generated in investment insurance in the bancassurance channel as a result of restrained cooperation with one of the external distributors and lower rates of growth in products offered in collaboration with PZU Group banks,
  - decline in premiums raised in investment insurance, mainly unit-linked life insurance in the proprietary network and Individual Retirement Accounts,
  - decrease 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,
  - premium growth for protection products offered through the proprietary network;
- income from investment activity lower by PLN 526 million from PLN 151 million in H1 2021 to PLN -375 million in H1 2022, composed of income allocated according to transfer prices and income from investment products. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products, and decrease in investment income 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;
- decrease of insurance claims and benefits together with the change in other technical provisions by PLN 936 million from PLN 829 million in H1 2021 to PLN -107 million in H1 2022. 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;
- acquisition expenses higher by PLN 9 million (+8.7% y/y), to PLN 113 million. The increase in fees paid to intermediaries for sales of protection products in the proprietary and bancassurance channel were partly offset by the lower commissions on sales of unit-linked products in the bancassurance channel;
- increase by PLN 3 million (+7.1% y/y) in administrative expenses, primarily due to rising personnel costs as a result of salary pressures, intensified sponsorship and brand image enhancement activities, increased real estate operating expenses as a result of indexation of lease and utility prices and the move to the new headquarters, upgrading of IT systems and implementation of the New Organization Model and IT Work Tools, and aid support related to the situation in Ukraine. The effect was partially offset by lower project consulting costs (IFRS17, Distribution, mojePZU) and legal services.

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



Investments

Operating income from the investment segment (external operations only) was lower than in the corresponding period last year by PLN 730 million (down from PLN 656 million in H1 2021 to PLN -74 million in H1 2022) primarily due to last year's high valuation of the logistics company's shares recorded during the IPO.

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 2,577 million in H1 2022 and was higher by PLN 1,021 million than in the corresponding period of the year before. The higher result was associated mainly with higher net interest income and net fee and commission income.

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 2,002 million, while Alior Bank's contribution was PLN 575 million. The results of the two banks were affected by non-recurring events, as described below in the individual income statement items.

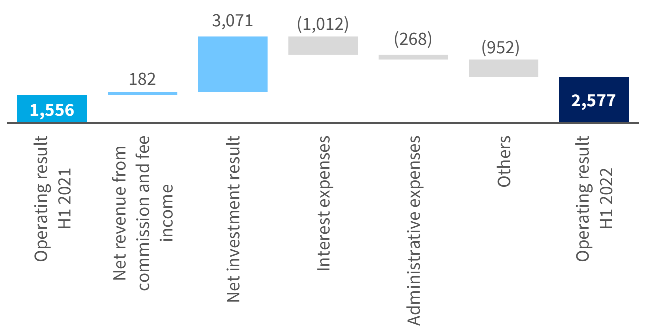
Investment income, being the key component of the banking segment's revenue, increased to PLN 6,597 million (+87.1% y/y). It consists of interest and dividend income, trading result and result on impairment losses. The increase in investment income was mainly due to higher net interest income due to a series of interest rate hikes initiated in October 2021. This effect was partially offset by provisions for legal risk related to mortgage loans in foreign currencies.

The value of allowances for expected credit losses and impairment losses on financial instruments totaled PLN 665 million in Bank Pekao and PLN 473 million in Alior Bank, and was y/y higher by PLN 297 million and lower by PLN 19 million, respectively. The increase in Bank Pekao is part of an additional provision recognized for the legal risk related to foreign currency mortgage loans (the total value of the provision is PLN 419.3 million, the result of write-downs was charged in the amount of PLN 308.7 million, PLN 110.6 million – other operating expenses).

The total portfolio of loan receivables in both banks increased by PLN 2.4 billion (+1.1% y/y) in H1 2022 compared to the end of 2021. In H1 2022, the value of loans granted to retail customers decreased slightly, including mortgage loans, which, given the low rates (for most of 2021), were popular among customers.

The profitability measured by the net interest margin for Bank Pekao was 3.79%, up 149 bps relative to H1 2021, while in Alior Bank it stood at 4.86%, i.e. 121 bps more 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. At both banks, interest margins have increased due to rising interest rates – the rate hike cycle was initiated in October 2021.

Operating result in the banking segment (in PLN m)



The net fee and commission income in the banking segment improved by 11.1% relative to the corresponding period of the 2021 and reached PLN 1,817 million. The main drivers for the improvement in commission income were commissions on foreign exchange transactions, card commissions and bank account fees.

The segment's administrative expenses amounted to PLN 2,815 million, up 10.5% compared to H1 2021. For Bank Pekao and Alior Bank, they totaled PLN 2,025 million and PLN 790 million, respectively. The increase was mainly due to higher employee expenses, higher costs related to marketing activities and IT projects, as well as general inflationary cost increases.

In addition, other contributors to the operating result included other operating income and expenses, including above all the Bank Guarantee Fund fees (PLN 421 million) and the levy on other financial institutions (PLN 546 million). Costs from the payment to the newly established Institutional Protection System (IPS), at Bank Pekao of PLN 440.3 million and at Alior Bank of PLN 195.5 million (the impact on the bank's net result was PLN 128 million, due to the absence of a provision for the BFG deposit guarantee fund contribution of PLN 30 million), as well as the remaining amount of the provision at Bank Pekao for the legal risk of foreign currency mortgage loans, i.e. PLN 110.6 million, were also a significant burden.

The Cost/Income ratio was 38% for both banks (37% for Bank Pekao and 38% for Alior Bank), or 6.8 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 interest income.

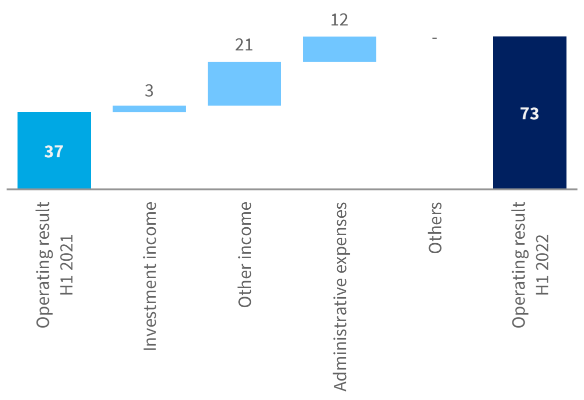
Pension insurance

The operating profit in the pension insurance segment amounted to PLN 73 million in H1 2022, i.e. 97.3% more than in the corresponding period of 2021.

Factors affecting the operating result and its movement:

- other revenue higher by PLN 21 million (+30.0% y/y), to PLN 91 million. It was driven by revenue from the Insurance Guarantee Fund (PLN 16.5 million) and improved revenue from the management fee;
- administrative expenses lower by PLN 12 million (-38.7% y/y), to PLN 19 million. This was attributable partly to the contribution to the Guarantee Fund of PLN 11.7 million in H1 2021;
- increase in investment income by PLN 3 million (+300.0%) to PLN 4 million. Higher revenues are the result of higher interest on bonds on 2022;
- other items remained unchanged relative to H1 2021 and remained at PLN -3 million.

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



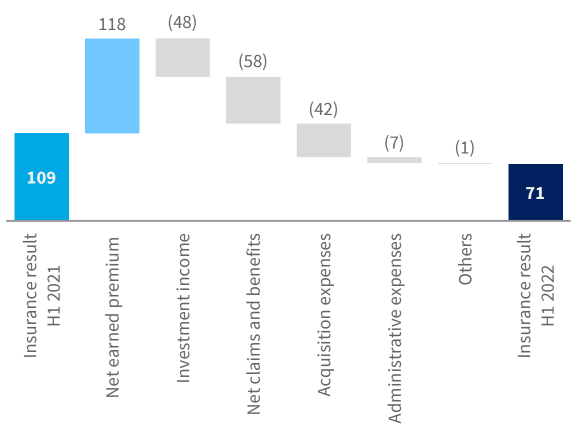
Baltic States

The operating result on the activity in the Baltic States in H1 2022 was PLN 71 million, down by PLN 38 million, or 34.9%, compared to the corresponding period of the previous year.

The following factors affected this result:

- net earned premium higher by PLN 118 million (+14.1% y/y) combined with an increase in gross written premium. Gross written premium totaled PLN 1,111 million and was higher than the year before by PLN 202 million (+22.2% y/y). Sales higher by PLN 200 million (+23.1% y/y) were generated in non-life insurance mainly due to a significant increase in sales of motor TPL and MOD insurance as a result of an increase in insurance rates, and in property and health insurance due to an increase in the number of policies. In life insurance, sales climbed by PLN 2 million (+4.5% y/y);
- investment income lower by PLN 48 million. This is attributable to, among others, a drop in bond valuations resulting from rising interest rates;
- net claims and benefits higher by PLN 58 million (11.3% y/y). In the first half of previous year, the continuing restrictions caused by the COVID-19 pandemic contributed to a lower frequency of losses in motor insurance and to a lower frequency of disbursed health insurance benefits. In H1 2022, the situation gradually returned to the pre-pandemic levels – an increase in both the frequency of losses and the average loss value. The loss ratio in non-life insurance rose 3.1 p.p. to 62.1% compared to the first half of previous year. In life insurance the value of benefits stood at PLN 9 million and was PLN 38 million lower than in the corresponding period of previous year;
- acquisition expenses up 24.7% to PLN 212 million. The rate of growth in expenses was correlated with the rate of growth in sales, and was also affected by changes in the sales structure – the increase in sales value generated by the affinity channel characterized by higher commission charges. The acquisition expense ratio calculated on the basis of net earned premium increased by 1.9 p.p. to 22.2%;
- increase in administrative expenses (by 9.7% y/y) to PLN 79 million. The administrative expense ratio stood at 8.3%, down 0.3 p.p. compared to the first half of the previous year.

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



Ukraine

The Ukraine segment closed H1 2022 with a loss of PLN 44 million. In view of the Russian Federation's invasion of Ukraine on February 24, 2022, PZU's Management Board assessed the impact of this event on the PZU Group's operations, business continuity, financial position and going concern. As a consequence of this analysis and due to the downgrade of Ukraine's rating, an impairment loss of PLN 94 million on financial assets and receivables was recognized.

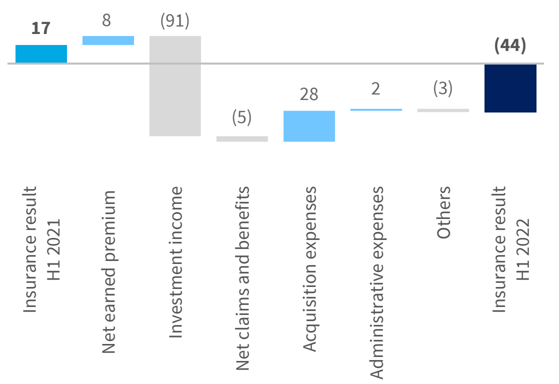
The situation is constantly monitored and future scenarios of developments are considered. Due to the unstable situation in Ukraine, the valuation of assets and liabilities of Ukrainian companies requires many assumptions and is subject to significant uncertainty.

Factors affecting this segment's performance:

- increase in net earned premium by PLN 8 million (+8.0% y/y) combined with a decrease in gross written premium. The gross written premium was PLN 113 million and decreased by PLN 33 million (-22.6% y/y) relative to the corresponding period of the previous year. Since the outbreak of the armed conflict on 24 February, PZU Ukraine's sales processes have been conducted on a limited basis. The offices are closed wherever acts of war are ongoing. Sales are carried out both in the area of renewals and new business in three main business lines: motor TPL, MOD and Green Card insurance, property insurance and personal insurance. The biggest restrictions have been introduced in property insurance – the country has been divided into three zones: red (occupied territories), where contracting is prohibited; blue (territories adjacent to the occupied territories or recaptured from the Russian Federation), where contracting is possible under the strict control of underwriters; and green (western and central parts of the country) with no restrictions on sales. In the first half of 2022, the largest share of sales was accounted for by motor TPL insurance, Green Card, motor MOD insurance and travel insurance. PZU Ukraine Life halted sales in all distribution channels after the war broke out. As of June, the company resumed sales of short-term products with limited risk through the banking channel, and as of July, sales of new business policies with limited risk and sums insured were resumed through the agency and brokerage channels;

- investment income lower by PLN 91 million (from PLN 13 million in H1 2021 to PLN -78 million in H1 2022). Investment income in H1 2022 was charged with an impairment loss;
- net claims and benefits higher by PLN 44 million (12.8% y/y). The declaration of martial law across the nation on 24 February excluded insurers' liability for losses resulting from acts of war. PZU Ukraine made payments from motor TPL and MOD insurance in accordance with the terms of insurance contracts and applicable legislation. In PZU Ukraine Life, benefit payments were made only upon receipt of complete documentation;
- decrease in acquisition expenses to PLN 23 million from PLN 51 million in the first half of the previous year (54.9% y/y);
- administrative expenses decreased by PLN 2 million (-11.1% y/y), to PLN 16 million.

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 H1 2022 remained at the same level as in the corresponding period of last year and amounted to PLN 15 million. The investment result in the segment of investment contracts deteriorated compared to the previous year by PLN 49 million (-490.0% y/y), 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.

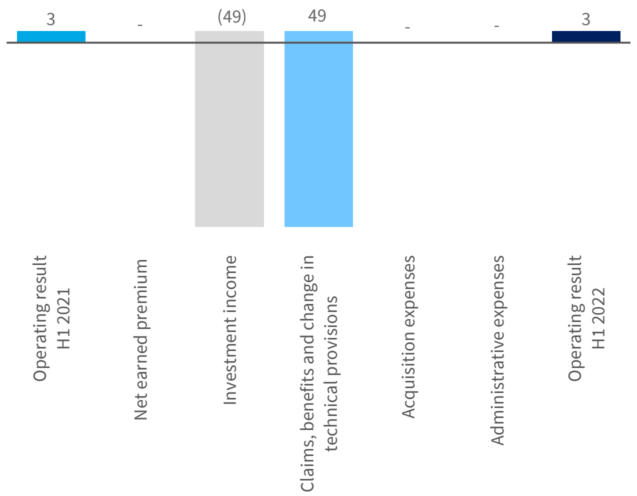
Insurance claims and benefits, coupled with the movement in other net technical provisions fell y/y by PLN 49 million to PLN -28 million, mainly due to the difference in investment income in the unit-linked products as described above (the investment result was negative).

In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses totaled PLN 1 million, signifying no change versus the previous year.

The segment's operating result was at the same level as in the corresponding period of the previous year and amounted to PLN 3 million.

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



Alternative Performance Measures

Selected Alternative Performance Measures (APM) within the meaning of European Securities and Markets Authority Guidelines (ESMA) no. 2015/1415 are presented below.

The 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.

The return on equity attributable to equity holders of the parent (PZU) for H1 2022 was 18.5%, reaching a level 0.2 p.p. higher than obtained in the corresponding period last year with a lower level of equity related to last year's allocation of 2020 profit plus the amount transferred from the supplementary capital created from net profit for the year ended 31 December 2019 to the payment of dividends.

Return on assets (ROA) of the PZU Group for H1 2022 was 1.4%, i.e. 0.1 p.p. higher than in the corresponding period of 2021. The primary cause was the increase in the result on banking activity, including higher net interest and commission income partially offset by non-recurring effects.

Basic performance ratios of the PZU Group	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
Return on equity (ROE) – attributable to equity holders of the parent (annualized net profit/average equity) x 100%	3.6%	18.3%	18.5%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	1.5%	11.7%	15.2%
Return on assets (ROA) (annualized net profit/average assets) x 100%	0.2%	1.3%	1.4%

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.

One of the fundamental measures of operational efficiency and performance of an insurance company is COR (Combined Ratio) calculated, due to its specific nature, for the non-life insurance sector (Section II). This is the ratio of insurance expenses related to insurance administration and payment of claims (e.g. claims paid, acquisition and administrative expenses) to the net earned premium for a given period.

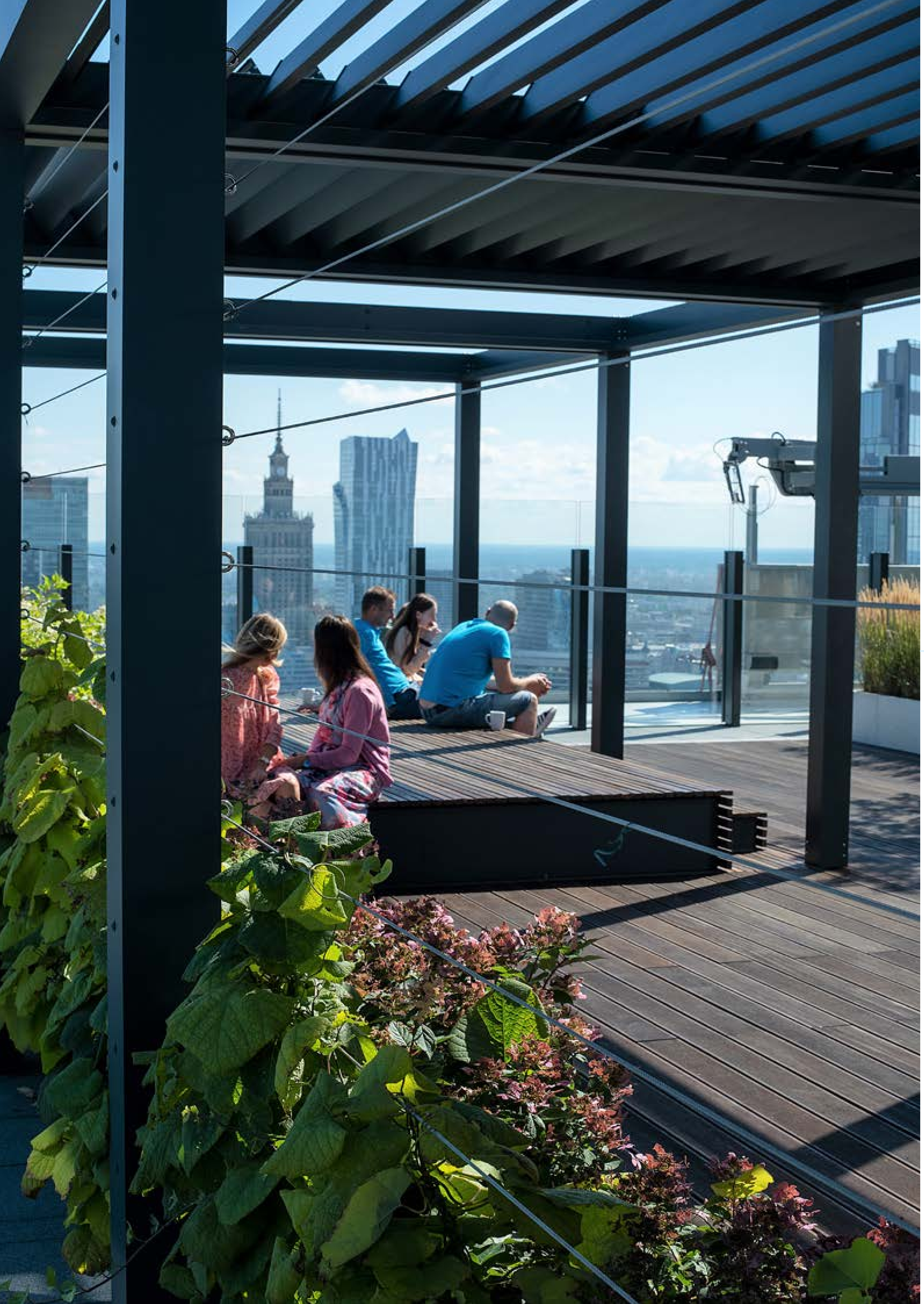
In recent years, the combined ratio (for non-life insurance) of the PZU Group's has been maintained at low levels ensuring high profitability of business.

In H1 2022, it stood at 88.8% and was 0.8 p.p. higher than in the corresponding period of 2021, largely due to the higher acquisition expense ratio in the mass insurance segment, with a higher net earned premium. 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.

	Operational efficiency ratios	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2022
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	65.1%	66.3%	58.4%
2.	**Net claims ratio** (net claims and benefits/net earned premium) x 100%	63.7%	70.1%	60.9%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	22.5%	23.0%	24.8%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	15.1%	15.6%	17.1%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/net earned premium) x 100%	7.5%	7.4%	7.7%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses / net earned premium) x 100%	87.0%	88.0%	88.8%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	24.1%	10.3%	13.2%
8.	**Cost/Income ratio –** banking operations	43.3%	44.4%	37.5%

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 H1 2022, the indicator reached 13.2%, and its increase by 2.9 p.p. in comparison to the corresponding period of 2021 was in particular due to a drop in the loss ratio on account of deaths of the insured and co-insured in the group protection portfolio and in continued insurance.

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 H1 2022, the cost to income ratio in the PZU Group's banking business reached 37.5%, and was lower than in the corresponding period of 2021 by 6.8 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 interest and commission income.



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:

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 process by which distinct risk categories are managed takes into consideration the requirements of sustainable development, also at the level of PZU Group subsidiaries, in compliance with generally applicable laws and as mandated by the PZU Group's pertinent internal regulations, including the ESG Strategy forming an integral part of the PZU Group Strategy.

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 actions; the framework for this process is universal among financial market entities.

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

The consistent split of duties and tasks in the PZU Group and in individual financial sector subsidiaries covers four decision-making levels.

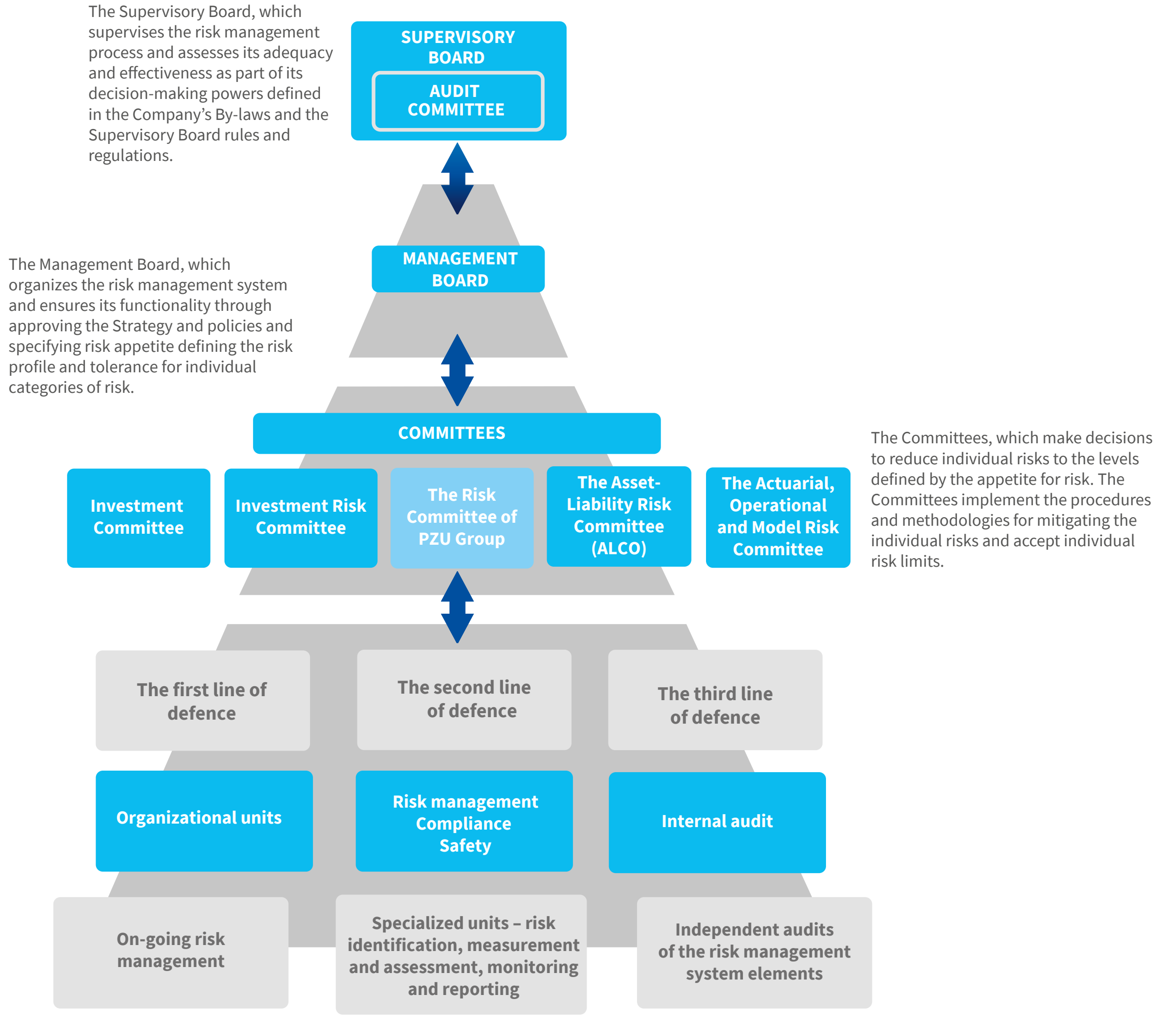
The first three are:

- 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

Diagram of the organizational structure for the risk management system



and decision-making as part of the risk management process, taking into account the limits for individual risks;
- the second line of defense – risk management by specialized units responsible for risk identification, measurement, monitoring and reporting, as well as for limits control;
- the third line of defense – internal audit which conducts independent audits of the individual elements of the risk management system, as well as of control procedures.

In H1 2022, the Actuarial, Operational and Model Risk Committee was established at the PZU Group level. The establishment of a committee dedicated to these risks will enable further development of the PZU Group's risk management system and ensure an accurate and timely flow of information related to actuarial, operational and model risks, which to date have been discussed at the PZU Group Risk Committee's meetings.

6.3 Risk appetite

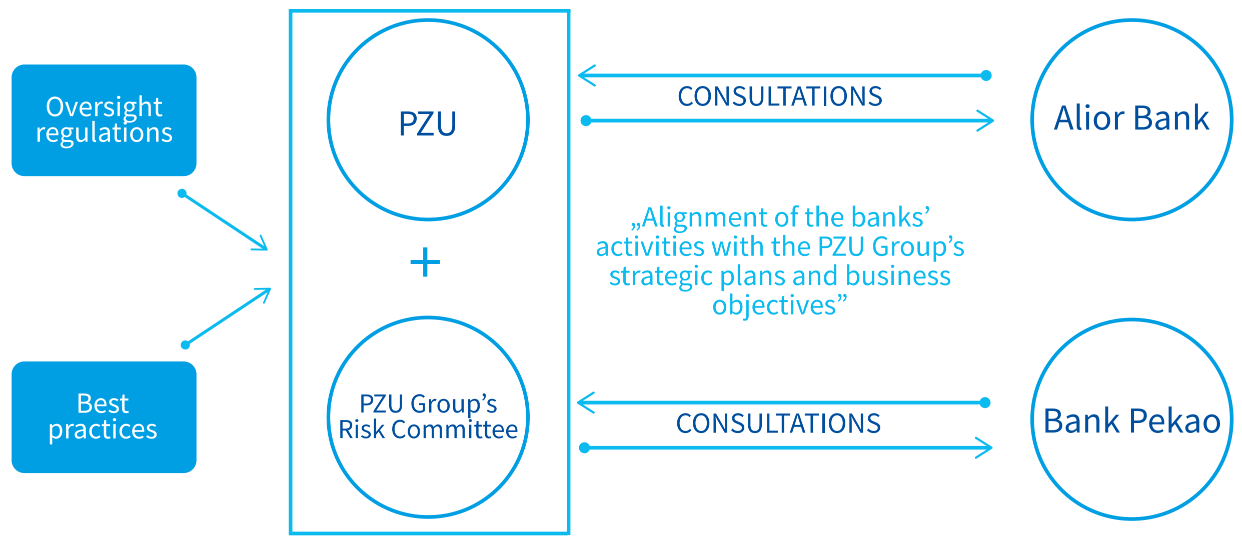
The risk appetite in the PZU Group – the magnitude of risk undertaken to attain its business objectives, where its measure is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year

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



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

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

This involves ongoing reviews of any variances from the assumed parameters, namely limits, thresholds, plans, values from the previous period, recommendations and guidelines issued.

Reporting

Allows efficient risk communication and supports risk management at various decision-making levels.

Management actions

These activities encompass among others risk mitigation, risk transfer, risk avoidance, specifying risk appetite, acceptance of risk tolerance levels, as well as tools which facilitate such activities, i.e. thresholds, reinsurance plans and reviews of underwriting policy.

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.

6.5 PZU Group's risk profile

Major risks in the PZU Group

The major risks to which the PZU Group is exposed include the following: actuarial risk, market (including liquidity) risk, credit risk, concentration risk, operational risk, model risk and compliance risk.

The major risks associated with the operation of Alior Bank and Bank Pekao include the following risks: credit risk (including the risk of loan portfolio concentration), operational risk and market risk (involving interest rate risk, FX risk, commodity price risk and financial instrument price risk) and liquidity risk.

The overall risk of the banking sector entities, taking into account PZU's shares in both banks, accounts for approximately 33% of the PZU Group's total risk (Q1 2022), while the largest contribution is in credit risk.

In H1 2022, elevated risks were identified in selected areas, specifically regarding interest rate risk and liquidity risk. The volatility of interest rates may affect the level of capital adequacy ratios due to the decline in the valuation of debt securities in the portfolios of PZU Group entities. In turn, the significant increase in interest rates in the first half of the year has not translated to date into a deterioration in the credit quality of portfolios held by the PZU Group's banks. However, a moderate increase in the cost of risk is expected to occur in H2 2022, due to another hike in the NBP reference rate amid accelerating inflation and decelerating economic growth.

In H1 2022, 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;
- analyzing the general / specific terms and conditions of insurance or other model agreements with respect to the actuarial risk accepted 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 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.

Market risk, including liquidity risk

Market risk is construed 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.

The volatility of interest rates may affect the level of capital adequacy ratios due to the decline in the valuation of debt securities in the portfolios of PZU Group entities. The interest rate hikes and the turmoil in the financial markets resulting from the armed conflict between Russia and Ukraine translated into an increased utilization of market risk limits in the banks. However, this utilization level remains safe.

The changes sweeping the financial markets have also affected PZU and PZU Życie's portfolios. However, because in accounting terms most of these portfolios are treated as consisting of HTM instruments, the market fluctuations do not affect their value or yields.

Changes in macroeconomic factors affected the level of capital requirements – in H1, the value of capital requirements for market risk changed by-23% and in PZU Życie SA by 3%. There was no indentified risk of exceeding the risk appetite and solvency ratios of both companies indicating their strong capital position.

PZU and PZU Życie also identify increased risks through other measures of market risk, such as VaR. The VaR level for market risk at PZU in H1 2022 decreased by 1% and at PZU Życie decreased by 29%.

Due to ongoing market changes, the insurance market is currently subjected to additional mandatory stress tests imposed by the regulator.

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.

The banking sector, including the PZU Group's member banks, experienced deteriorated liquidity in H1 2022. It was caused predominantly by a further increase in yields on fixed-coupon bonds, which translated in a decline in the value of the banks' debt security portfolios forming their liquidity reserve. Additionally, the deterioration in liquidity was affected by the Monetary Policy Council's decision to increase the reserve requirement starting in late March 2022. Despite these changes, the current liquidity levels of both banks remain high and safe.

Initially, the outbreak of hostilities between Russia and Ukraine resulted in increased cash withdrawals from ATMs and branches, which forced the banks to impose daily limits, especially on withdrawals in foreign currencies. However, this phenomenon quickly subsided and the situation stabilized.

The developments in the market environment in H1 2022 had no material impact on the liquidity risk of the PZU Group's insurance business. In H1 2022, liquidity was kept at a safe level and there were no grounds for taking extraordinary management measures relating to liquidity risk. As part of routine management actions regarding liquidity risk, the PZU Group constantly monitored the level of available liquid funds and the degree of utilization of liquidity limits.

Liquidity risk reporting involves communicating the level of financial liquidity to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

The following measures aim to reduce financial liquidity risk:
- maintaining cash in a separate liquidity portfolio at a level consistent with the limits for the portfolio value;
- maintaining sufficient cash in a foreign currency in portfolios of investments earmarked for satisfying insurance liabilities denominated in the given foreign currency;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU to at most 3 days after a request for cash is filed;
- keeping open credit facilities in banks and/or the possibility of performing sell-buy-back transactions on treasury securities, including those held until maturity;
- centralization of management of portfolios/funds by TFI PZU;
- limits of liquidity ratios in the banks belonging to the PZU Group.

Credit risk and concentration risk

Credit risk is understood as the risk of a loss or an adverse change in the financial situation resulting from fluctuations in the reliability and creditworthiness of issuers of securities, counterparties and all debtors. It materializes in the form of a counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:
- spread risk;
- counterparty default risk;
- credit risk in financial insurance.

Concentration risk is construed 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:
- exposure measures (the amount of the 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.

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.

The PZU Group's banks did not experience a deterioration in the credit quality of their loan portfolios in H1 2022. Still, a moderate increase in the cost of credit risk is expected in H2 2022 due to the continued economic decline, which will be mitigated to a certain extent by the deployment of a public aid tool in the form of changes to the Borrowers Support Fund and repayment moratoria, also known as payment holidays.

The outbreak of the armed conflict between Russia and Ukraine did not directly translate into a deteriorated quality of the loan portfolio. The banks identified specific exposures to clients subjected to high direct risk (resulting from their involvement in business operations or assets held in Ukraine, Russia or Belarus, or economic ties with any of these countries in terms of deliveries or sales) or indirect risk (such as a substantial share of imports or exports or a large share of Ukrainian employees in their workforce). Such exposures were put under close scrutiny. Fortunately, as at the end of H1 2022, this risk did not materialize significantly. The banks implemented specific guidelines restricting the financing of entities at risk of armed conflict, including the ban on increasing credit exposure, the need to supplement the loan collateral to 100% of the debt collection value and the prohibition of applying the simplified processing of loan applications without risk assessment.

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.

In 2022, in PZU and PZU Life, in the face of an attack by the armed forces of the
Russian Federation in Ukraine, a Crisis Staff was established. Crisis Staff. As part of the declared Emergency Situation, ongoing monitoring of the current situation
political and market situation and the introduction of adequate measures directed in particular at:
- ensuring the safety of employees;
- ensuring the continuity of business and the safety of the PZU Group's financial assets;
- implementing additional security measures against cyberthreats and ensuring physical security of facilities.

PZU launched a comprehensive care program for PZU Ukraine's employees and their families evacuated to Poland, involving the provision of accommodation, meals, financial support, medical and legal assistance and a professional activation program.

A task force organized within the structures of the Crisis Management Team conducts ongoing monitoring of the situation of Ukrainian companies, including by pursuing the objectives of the Crisis Management Plan developed by the PZU Ukraine Group companies.

Numerous charitable initiatives are pursued in support of Ukraine and Ukrainian citizens, independently and in cooperation with state administration authorities and PZU Group member companies, including PZU Zdrowie and the PZU Foundation. Among these initiatives are:
- support for Ukrainian citizens at border crossings (handing out power banks, thermal blankets, mattresses, bed sheets and hygiene products);
- support for the hospital in Tomaszów Lubelski and for medical points located in the border region by seconding PZU Zdrowie doctors and medical staff, purchasing medical materials and equipment;
- organization of round-the-clock third-party liability insurance sales points at border crossings;
- purchase and delivery of materials to people in need in Ukraine, such as medicines, food, hygiene products, specialist (infrastructural) products, personal protective equipment, etc.;
- support and coordination of volunteer campaigns organized by PZU employees;
- organization of sporting activities for children from Ukraine under the Good Team initiative.

Additional cybersecurity measures have been rolled out to mitigate risks exposed to an increasing likelihood of materialization. Ongoing monitoring of anomalies involving cyberthreats is underway, including by subsidiaries. Due to the introduction of the third-level CRP alert (CHARLIE-CRP) and the second-level alert (BRAVO) across the country, the Group has been continuously maintaining, since February of this year, an increased level of readiness in the areas of physical security and cybersecurity.

The Crisis Management Team is also ready to take actions related to the risk of infection and spread of COVID-19 within the organization.

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 H1 2022, 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 Compliance Department analyzes and processes Information obtained from the PZU Group Entities, in particular in order to perform the following activities:

- assess compliance risk generated at the PZU Group level and implement the compliance function at the PZU SA Group level;
- prepare and submit to the PZU SA Management Board and Supervisory Board reports and information of a managerial nature pertaining to the effectiveness and adequacy of the compliance function in the PZU Group;
- develop and improve uniform standards for the operation of an effective internal control system in PZU Group Entities;
- develop, improve and promote common training and information dissemination standards.

PZU's Compliance Department is also responsible for:

- issuing guidelines and recommendations in the compliance area, in consideration of the principles of proportionality and adequacy, and monitoring their subsequent implementation;
- providing substantive support and advice to PZU Group members in the pursuit of activities related to the compliance function.

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 (e.g. by KNF or UOKiK), court judgments, contractual penalties and damages,
- intangible, pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored 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 various activities in industry organizations;
- coordination of external control processes;
- monitoring of implementation of recommendations issued following internal audits;
- coordination of the fulfillment of reporting duties imposed by the stock exchange (in respect of PZU) and by other institutions;
- 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 and the Polish Insurance Association;
- supporting cooperation with the Insurance Guarantee Fund;
- 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 on 21 April 2017 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 H1 2022 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 KNF's supplementary supervision 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;
- Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products;
- Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings;
- 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;
- International Financial Reporting Standard 17 "Insurance Contracts" (IFRS 17);
- Act of 9 February 2022 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;
- draft Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014 ("DORA").

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 Reinsurance operations

Reinsurance cover in the PZU Group secures the insurance activity, reducing the consequences of the occurrence of catastrophic phenomena which could adversely affect the financial standing of insurance companies. 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

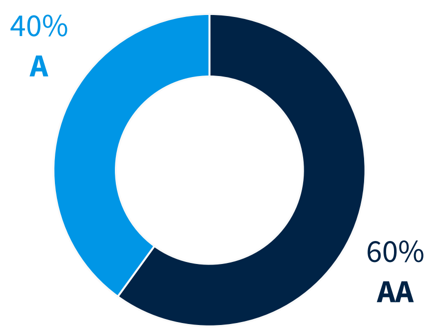
The outward reinsurance treaty entered into by PZU Życie protects the company's entire portfolio against the accumulation of risk and individual policies with higher sums insured.

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

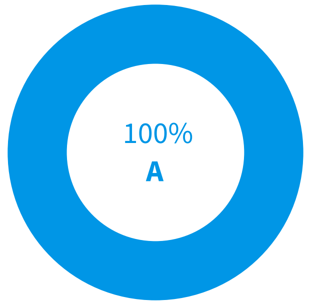
The PZU Group's other insurance companies, i.e. Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate 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 2022: Munich Re, Hannover Re, Gen Re, Swiss Re, Score

Reinsurance premium under PZU Życie's obligatory treaties according to the S&P rating



Main reinsurers in 2022: QBE, Mapfre, Toa Re, Nacional de Reaseguros

6.7 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 and PZU Życie (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 Q1 2022, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 207%.

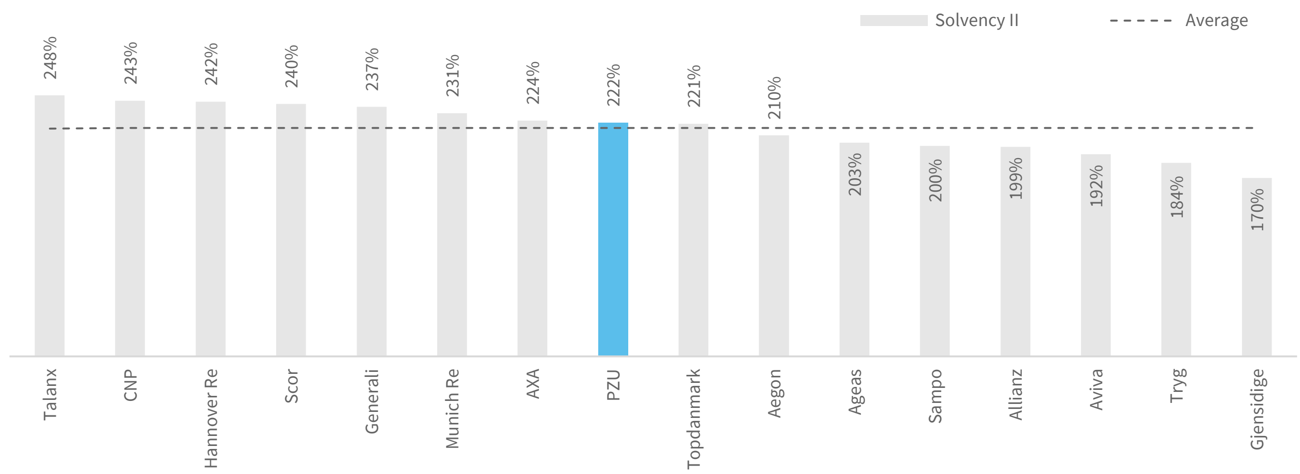
In Bank Pekao and Alior Bank, the capital adequacy ratio and the Tier 1 ratio were computed on the basis of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) and also the various types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

Capital adequacy ratio	2021	Q1 2022*
SCR		
PZU Group	**221%**	**207%**
PZU	247%	232%
PZU Życie	333%	311%
MCR		
PZU Group	358%	326%
PZU	922%	859%
PZU Życie	740%	691%

CRR	2021	H1 2022
Pekao Group – total capital adequacy ratio	17.7%	16.6%
Tier 1	15.8%	14.8%
Alior Bank Group – total capital adequacy ratio	14.2%	14.0%
Tier 1	12.6%	12.6%

* Q1 2022 was neither audited nor reviewed by the Auditor.

The Solvency II ratio for the PZU Group compared to European insurers (as at 31 March 2022)



Source and data: PZU data not subject to audit nor review by the Auditor. The calculation according to the existing methodology, i.e. own funds are adjusted by dividends calculated on the basis of the interim result. Does not take into account the new rules included in the FSA's circular letter to insurance companies dated April 16, 2021, according to which, starting from Q1 2021, the new element of the calculation of the solvency of the company and the group in interim periods is an adjustment for the entire amount of the expected dividend for a given year

7.

PZU on the capital and debt markets

In 2022, PZU will pay out a dividend of PLN 1.7 billion, i.e. PLN 1.94 per share.
- 29 September 2022 – dividend record date
- 20 October 2022 – dividend payment date

In this chapter:

7.1 PZU's share price

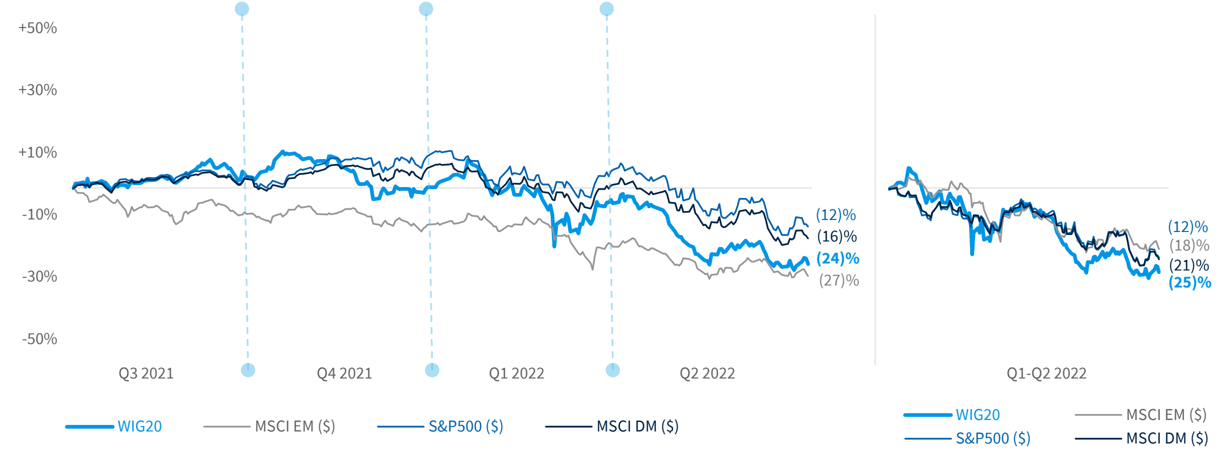
PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation, it has been included in its most important index, namely WIG20, calculated on the basis of the portfolio value of the 20 largest and most heavily traded companies on WSE's main market. PZU also belongs to the following Polish indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, WIG.MS-FIN, CEEplus and WIG ESG (sustainable development index) and the following international indices: MSCI Poland (emerging markets), Stoxx Europe 600 (developed markets) and FTSE Russel mid-cap index (developed markets).

Situation on the financial markets

The year 2022 started out quite calmly. The stock markets continued the behavior marked by the increases of 2021, based on the wave of economic recovery and improving prospects associated with the limitation of negative economic effects of the COVID-19 pandemic. This situation deteriorated rapidly on 24 February 2022 when Russia's armed forces invaded Ukraine. This event triggered a series of adverse political and economic developments across the globe. From the perspective of stock markets, the key factor was the sharp increase in the prices of energy commodities and food, which significantly pushed up inflation, the rate of which was already quite high in 2021. This, in turn, prompted some central banks to adopt various anti-inflationary measures, thus initiating a series of interest rate hikes. As a result, concerns grew about a possible slowdown of the economy and the return of a recession. As a consequence, the outflow of capital from the stock market hit both emerging and developed markets. The MSCI EM (emerging markets) index lost 18.2% in H1 2022, and the MSCI DM (developed markets) index dropped by 21.3%.

Local stock market indices followed the global downtrend. The WIG index, which on 25 June 2021 set an all-time record having reached 68,118.05 points, ended H1 2022 at 53,573.42 points, having declined 22.7% compared to the end of 2021 and 18.9% y/y. Almost all Warsaw Stock Exchange industry indices also dwindled, with the exception of chemicals and utilities.

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



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

PZU stock price evolution versus WIG and WIG20

Source: www.infostrefa.com

PZU's stock*	2018	2019	2020	2021	H1 2022
P/BV Market share price / book value per share	2.5x	2.1x	1.5x	1.8x	1.7x
BVPS (PLN) Book value per share	17.3	18.7	21.7	19.8	17.3
P/E Market share price / Earnings per share	11.8x	10.5x	14.6x	9.2x	8.1x
EPS (PLN) Net profit (loss) / number of shares outstanding	3.7	3.8	2.2	3.9	3.7

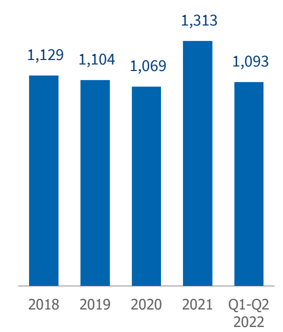
* Calculation on PZU Group data (according to IFRS); share price and book value at year-end; net profit for 12 months; number of PZU shares: 863,523,000

PZU's shares were traded in a price range of PLN 28.9 – PLN 37.8 in H1 2022 (according to closing prices). The standard deviation for PZU's shares in H1 2022 was 25.7%, or 8.27 percentage points more than in the corresponding period of 2021. Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU's share price versus the WIG index for daily changes) was 0.94 or 0.07 lower in H1 2022 than recorded in H1 2021.

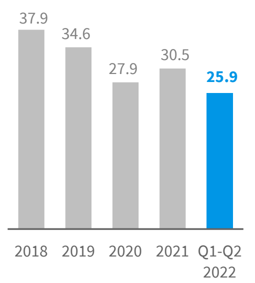
Trading liquidity

PZU's shares were highly liquid in H1 2022. PZU accounted for 5.4% of WSE's overall trading volume (ranking 7th), while its average buy/sell spread for shares was 9 basis points (the mean for the twenty most heavily traded companies was 16 basis points). PZU's market value at the end of June 2022 was PLN 25.9 billion (down 15.2% over the 6-month period from the beginning of 2022). The total capitalization of the Warsaw Stock Exchange (domestic and foreign companies) decreased in this period by 16.8%.

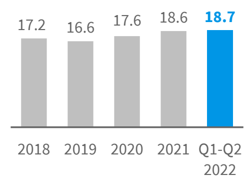
Warsaw Stock Exchange capitalization (PLN billion) (domestic and international companies)



PZU capitalization (PLN billion)



Value of trade in PZU shares (on a moving basis, PLN billion)



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

Stock-related statistics	H1 2021	H1 2022	Change	Q1 2022	Q2 2022	Change
Maximum price [PLN]	38.84	37.82	(2.6)%	37.82	34.59	(8.5)%
Minimum price [PLN]	29.27	28.86	(1.4)%	29.26	28.86	(1.4)%
Closing price on the last trading session [PLN]	36.70	29.98	(18.3)%	33.85	29.98	(11.4)%
Average trading session price [PLN]	33.49	32.91	(1.7)%	34.53	31.23	(9.5)%
Trading value [PLN 000]	8,696,404	8,864,993	1.9%	5,672,212	3,192,781	(43.7)%
Average turnover per session [000s of PLN]	70,702	71,492	1.1%	90,035	52,341	(41.9)%
Number of transactions [units]	714,136	704,982	(1.3)%	441,537	263,445	(40.3)%
Average number of trades per session	5,806	5,685	(2.1)%	7,009	4,319	(38.4)%
Trading volume	258,995,392	270,621,483	4.5%	168,246,811	102,374,672	(39.2)%
Average trading volume per session (shares)	2,105,654	2,182,431	3.6%	2,670,584	1,678,273	(37.2)%
Capitalization at the end of the period [PLN 000]	31,691,294	25,888,420	(18.3)%	29,230,254	25,888,420	(11.4)%

Source: www.infostrefa.com

7.2 Banking sector on the WSE

In H1 2022, the WIG Banks index dropped by 36.9%, which was largely caused by Russia's aggression against Ukraine and the resulting panic on the financial markets. In 2021, the WIG Banks index was one of the strongest sector indices on the WSE, having increased by 81.3% y/y, driven by expectations of an increase in inflation and interest rates.

From a fundamental vantage point, that is based on the ability to generate stronger interest income, the restrictive policy of the National Bank of Poland (NBP) spoke in favor of banks in H1 2022. The Monetary Policy Council (a body operating within the structures of the National Bank of Poland) announced 6 interest rate hikes in Poland in H1 2022. At the end of 2021 the reference rate was 1.75%, but at the end of June 2022 it stood at a whopping 6.00%. However, the pace and extent of these hikes triggered concerns about the possibility to uphold demand for new mortgage and investment loans and about the threat of an increase in the value of unpaid loans on banks' balance sheets. The appreciation of the Swiss franc and the interest rate hike announced by the Swiss National Bank also caused concerns about the need to establish larger provisions for bad Swiss franc loans. The deteriorating economic situation caused the emergence of new risks related to regulatory initiatives, including repayment moratoria, changes to the reference rate serving as the basis for the interest rate on most mortgage loans or an additional tax on banks' profits.

The shares of the PZU Group's banks (Alior Bank and Bank Pekao) accounted for over 10.6% of the trading volume on the Warsaw Stock Exchange's main market at the end of H1 2022. Alior Bank's share price at the end of June 2022 was PLN 27.2, having declined 50.3% since the beginning of the year. In the corresponding period, the price of Bank Pekao's shares fell by 33.2% to PLN 81.5 per share.

On 15 June 2022, the Shareholder Meeting of Bank Pekao made a decision to pay out a dividend for 2021 in the amount of PLN 4.3 per share (PLN 1,128 million in total, or 50% of the 2021 net profit). In 2021, the corresponding value was PLN 3.21 per share (PLN 843 million in total, or 75% of the 2020 net profit).

The correlation between the WIG Banks index and the WIG20 index in H1 2022 was 80% (unchanged y/y). Beta (versus WIG20) was 1.17, i.e. an increase of 0.4 y/y. The P/BV of the WIG Banks index at the end of H1 2022[1] was 0.52 (down 0.11 y/y).

1 https://www.gpw.pl/pub/GPW/statystyki/statystyki_polroczne/20221_GPW.xls

WSE-listed banks

Source: www.infostrefa.com

7.3 Debt financing

PZU

PZU bonds: PLPZU0000037 for a total of PLN 2.25 billion

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

In H1 2022, the PZU Management Board analyzed the viability of a new issue of subordinated bonds worth up to PLN 3 billion and an earlier redemption of the series of bonds worth PLN 2.25 billion. Due to the unfavorable market situation, on 31 May 2022, the PZU Management Board announced its decision to withdraw from continuing its endeavors in this area (Current Report No. 11/2022).

Alior Bank

In H1 2022, in respect of its own bonds, Alior Bank did not conduct any issue or early redemption operations. On 4 February 2022, Alior Bank redeemed on time its EUR001 series bonds with a par value of EUR 10.0 million. On 16 May 2022, Alior Bank redeemed on time its P1A series bonds with a par value of EUR 150.0 million.

Bank Securities

In H1 2022, work was underway at Alior Bank on the preparation and approval by the Polish Financial Supervision Authority of the base prospectus for the opening of the 2nd Issue Program, to be offered in the Republic of Poland, of unsecured bearer bank securities with a par value of at least PLN 100 each and up to a total maximum par value of PLN 5 billion. In accordance with the prospectus, Alior Bank will be able to conduct public offerings of interest-bearing or non-interest-bearing ordinary or MREL-type bank securities.

In H1 2022, as part of the 1st Issue Program, Alior Bank subscribed for 3 series of bank securities with a total par value of PLN 104.7 million and arranged 4 subscriptions for structured products of external issuers with a total par value of PLN 136.1 million. Structured products were offered in a public offering to individual clients satisfying the target group criteria, including Private Banking clients, and to corporate clients. These issues were offered with a 100% protection of capital on maturity.

For Private Banking clients, 8 subscriptions of structured products with a limited capital guarantee and/or conditional early redemption were arranged. The offering included 6 subscriptions of Auto Call investment certificates and 2 subscriptions of Reverse Convertible certificates convertible into shares. The total par value of the subscriptions for structured certificates was PLN 131.1 million.

In H1 2022, 9 issues of bank securities were completed (the best of which reached a 12% rate of return), 5 Auto Call certificates (where the highest rate of return on investment was 24%) and 2 Reverse Convertible certificates (with the best coupon of 5%).

Bank Pekao

Covered bonds

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+).

As at 30 June 2022, the carrying amount of the covered bonds issued by the Bank was PLN 2.2 billion (including EUR 50 million in the original currency), which represents roughly a 10.8% 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 8.65%, from 1 to 3 years for 37.03%, from 3 to 5 years 37.66% and above 5 years 16.66% 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 30 June 2022, the carrying amount of the bonds issued by Pekao Bank Hipoteczny was PLN 151.7 million. In H1 2022, the Bank did not issue any new series of bonds.

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 6 billion) and Pekao Faktoring (issue program of PLN 5 billion). The total liabilities under these two entities' issues as at 30 June 2022 were PLN 7.0 billion.

7.4 Distribution of PZU's 2021 profit

9 December 2021 – KNF's recommendation on paying dividends from the profits generated in 2022

On 9 December 2021, KNF took a stance on the dividend policy of insurance and reinsurance undertakings in 2022. The document permits insurance undertakings to:

1. pay out a dividend of up to 100% of the profit generated in 2020 (including dividends paid to date from the profit of 2020),
2. pay out a dividend of up to 50% of the profit generated in 2021.

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 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.

Full text: https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_ws_polityki_dywidendowej_w_2022_r.pdf

1 June 2022 – Motion of the PZU Management Board regarding the distribution of the profit generated in 2021 and the amount transferred from the supplementary capital created from the profit generated in 2020

In connection with the aforementioned recommendation of the KNF, the PZU SA Management Board recommended distribution of the profit generated in 2021 (and the amount transferred from the supplementary capital created from the

Dividend paid by PZU from its earnings in the 2018 – H1 2022 financial years

	2018	2019	2020	2021	H1 2022
Consolidated profit attributable to the parent company (in PLN m)	3,213	3,295	1,912	3,336	1,480
PZU's standalone profit (in PLN m)	2,712	2,651	1,919	2,028	541
Dividend paid for the year (in PLN m)	2,418	**	3,022	1,675	-
Dividend per share for the year (PLN)	2.80	**	3.50	1.94	-
Dividend per share on the date of record (PLN)	2.50	2.80	**	3.50	1.94
Ratio of dividend payout to consolidated profit attributable to the parent company	75.3%	**	**	-	-
(a) Movement in the share price y/y	4.1%	(8.8)%	(19.2)%	9.2%	(15.2)%
(b) Dividend yield during the year (%) *	5.9%	6.4%	**	10.8%	5.5%
(a+b) Total Shareholder Return (TSR)	10.1%	(2.4)%	(19.2)%	20.1%	(9.7)%

* 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

Source: PZU's data

profit generated in 2020). The proposed dividend amount was PLN 1.7 billion, i.e. PLN 1.94 per share.

On the same day, 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.

29 June 2022 – 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 2021 increased by the amount transferred from the supplementary capital created from the profit generated in 2020. The amount of PLN 1.7 billion was designated for the dividend payment. The dividend record date was set for 29 September 2022 and the dividend payout date was set for 20 October 2022.

7.5 Rating

PZU rating

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency of S&P Global Ratings (S&P). The rating assigned to PZU and PZU Życie results from an analysis of financial data, competitive position, management and corporate strategy of both companies as well as the sovereign rating. It also includes a ratings outlook, or an assessment of the Company's future position in the event that specific circumstances occur.

On 6 April 2020, S&P Global Ratings (S&P) changed the ratings outlook for PZU from positive to stable. PZU's financial strength and credit rating remained at A-. This rating was last confirmed on 28 June 2022.

Poland's rating

On 1 April 2022, the S&P rating agency reviewed 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.

Rating PZU

	Currently		Previously	
Company name	Rating and outlook	Last change	Rating and outlook	Updated on
PZU				
Financial strength rating	A- /Stable/	6 April 2020	A- /positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /positive/	14 June 2019
PZU Życie				
Financial strength rating	A- /Stable/	6 April 2020	A- /positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /positive/	14 June 2019
TUW PZUW				
Financial strength rating	A- /Stable	6 April 2020	A- /positive/	14 June 2019

Source: S&P Global Ratings

Poland's rating

	Currently		Previously	
Country	Rating and outlook	Last change	Rating and outlook	Updated on
Poland				
Credit rating (long-term in local currency)	A /stable/	12 October 2018	A- /positive/	13 April 2018
Credit rating (long-term in foreign currency)	A- /stable/	12 October 2018	BBB+ /positive/	13 April 2018
Credit rating (short-term in local currency)	A-1	12 October 2018	A-2	13 April 2018
Credit rating (short-term in foreign currency)	A-2	13 April 2018	A-2	13 April 2018

Source: S&P Global Ratings

Alior Bank

In H1 2022, no changes were made to the outlook or rating issued by Fitch Ratings on 8 December 2021.

In H1 2022, no changes were made to the outlook or rating issued by S&P Global Ratings on 8 December 2021.

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

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 30 June 2022, Bank Pekao's financial creditworthiness ratings were as follows:

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

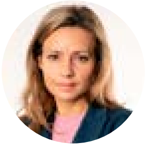
Moody's Investors Service Ltd. (ratings not procured by the bank)	Bank Pekao	Poland
Long-term deposit rating in foreign currencies	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa2	-
Long-term Counterparty Credit Risk Rating	A2(cr)	-
Short-term Counterparty Credit Risk Rating	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating	A2	-
Short-term Counterparty Risk Rating	Prime-1	-

On 27 January 2022, S&P Global Ratings announced that it maintained the ratings at the previous level and a stable rating outlook of the Bank.

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. According to the agency, the acquisition and integration of some of Idea Bank's assets and liabilities has no significant impact on Bank Pekao's capital ratios or risk profile. Both the profitability and operational efficiency of the Bank remain at levels similar to those of other Polish banks, above those of many of their international counterparts. According to S&P, the Bank's exposure to CHF loans is not significant.

The Bank's stable outlook reflects that of PZU as Pekao's largest investor.

Investor contact



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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 an element of wise changes that we can bring to the world around us.

In this chapter:

8.1 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 sp. z o.o. sp. k. to audit the standalone and consolidated financial statements (KPMG Audyt). 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:
- audit of annual separate financial statements of PZU and of annual consolidated financial statements of the PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of the PZU Group.

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 H1 2022, 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.

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.

8.2 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.

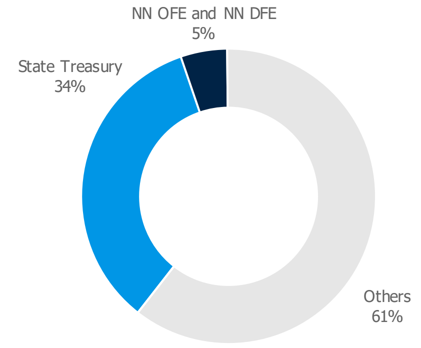
On 3 November 2015, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU’s Articles of Association.

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.

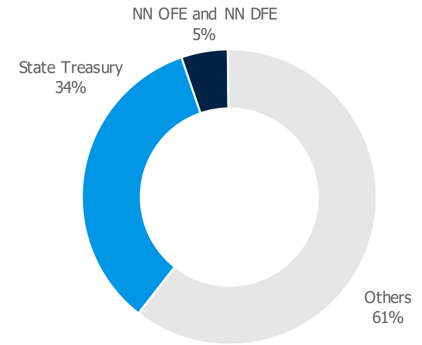
As at 30 June 2022 and as at the date of publication of this report, PZU shareholders holding significant equity stakes were:
- The State Treasury of the Republic of Poland that holds 295,217,300 shares constituting 34.19% of PZU’s share capital, giving it the right to 295,217,300 votes at the Shareholder Meeting;
- Nationale-Nederlanden Otwarty Fundusz Emerytalny that at the PZU Ordinary Shareholder Meeting of 29 June 2022 held 49,100,000 shares constituting 5.6860% of PZU’s share capital, giving it the right to 49,100,000 votes at the Shareholder Meeting.

PZU shareholder structure as at 31 December 2021



Source: Current Report No. 25/2021
(data rounded to the nearest integer)

PZU shareholder structure as at 30 June 2022



Source: Current Report No. 17/2022
(data rounded to the nearest integer)

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

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

In 2013-2021 and in H1 2022, 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 restrictions do not apply to:

- 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 doubts, the provisions regarding the restriction of the voting right shall be 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, Tomasz Kulik, Member of the PZU Management Board held 2,847 PZU shares, which the Company reported in Current Report No. 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, items 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).

9.

Other

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's interim consolidated financial statements and PZU's interim standalone financial statements for the 6 months ended 30 June 2022 and comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's assets, financial position and financial result. To the best knowledge of the PZU Management Board, the report on the activities of the PZU Group for 1H 2022 contains a true picture of the development, achievements and situation of the PZU Group, including a description of basic threats and risks.

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 1H 2022.

Related party transactions on terms other than an arm's length basis

In 1H 2022, 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 30 June 2022, consolidated funds held 113,619 PZU shares.

PZU did not hold any treasury shares as at 30 June 2022.

Granted and received guarantees and sureties

In 1H 2022 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 30 June 2022 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 1H 2022 and by the date of signing consolidated financial statement, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the condensed interim consolidated financial statements for the 6 months ended 30 June 2022.

As at 30 June 2022, the total value of dispute in all 241,326 cases (as at 31 December 2021: 284,223 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,148 million (as at 31 December 2021: PLN 8,516 million). This amount included PLN 5,096 million (as at 31 December 2021: PLN 4,723 million) of liabilities and PLN 3,052 million (as at 31 December 2021: PLN 3,793 million) of accounts receivable of PZU Group companies.

This Report on the PZU Group's Activity in 1H 2022 has 159 consecutively-numbered pages.

Signatures of PZU Management Board Members

Beata Kozłowska-Chyła – President of the Management Board

Maciej Rapkiewicz – Management Board Member

Tomasz Kulik – Management Board Member

Małgorzata Sadurska – Management Board Member

Ernest Bejda – Management Board Member

Małgorzata Kot – Management Board Member

Krzysztof Kozłowski – Management Board Member

Piotr Nowak – Management Board Member

Warsaw, 24 August 2022

10.

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 2020, Item 1415)

UOKiK – Office of Competition and Consumer Protection, the Polish anti-trust authority, acting to ensure the development of competition, protect businesses exposed to monopolistic practices and protect consumer interests, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2021, Item 1130), 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

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.

Assets of external clients of TFI PZU and PTE PZU – 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 by 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.

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 company – 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 (including 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.

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.