

Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Solvency and financial condition report
as at and for the financial year ended 31 December 2022



Table of contents

Glossary	4
Summary	6
Basis of preparation	6
PZU's business and operating results	6
System of governance.....	8
Risk profile.....	9
Valuation for solvency purposes.....	9
Capital management.....	10
A. Business and operating results	11
A.1. Business	11
A.2. Result on insurance activity.....	12
A.3. Result on investment activity	15
A.4. Results from other types of activity	16
A.5. All other material information.....	16
B. System of governance.....	18
B.1. General information on the system of governance.....	18
B.2. Fit and proper requirements.....	27
B.3. Risk management system, including own risk and solvency assessment.....	30
B.4. Internal control system	33
B.5. Internal audit function.....	35
B.6. Actuarial function.....	37
B.7. Outsourcing	38
C. Risk profile.....	39
C.1. Actuarial risk.....	42
C.2. Market risk	45
C.3. Credit risk/counterparty default risk.....	47
C.4. Liquidity risk.....	48
C.5. Operational risk.....	49
C.6. Other significant risks.....	50
D. Measurement of assets and liabilities	52
D.1. Assets.....	52
D.2. Technical provisions.....	57
D.3. Other liabilities.....	59
D.4. Alternative measurement methods.....	64
D.5. Additional information.....	66
E. Capital management	67
E.1. Own funds.....	67

E.2.	Solvency capital requirement and minimum capital requirement.....	73
E.3.	Use of the duration-based equity price risk sub-module to calculate the solvency capital requirement.....	73
E.4.	Differences between the standard formula and the applied internal model.....	73
E.5.	Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement	73
Attachments		74

Glossary

1. **DAC** – deferred acquisition costs;
2. **SII Directive** – 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);
3. **EIOPA** – the European Insurance and Occupational Pensions Authority;
4. **PZU Group** – PZU as the parent company together with its subsidiaries, including subsidiary companies within the meaning of the applicable provisions of accounting law;
5. **Unit** – organizational cell or organizational unit of PZU;
6. **Strategic Entities** – PZU Życie, TFI PZU SA, PTE PZU SA, PZU Centrum Operacji SA, PZU Pomoc SA, PZU Zdrowie SA, PZU Finanse sp. z o.o., Link4, TUV PZUW, Alior Bank, Tower Inwestycje sp. z o.o., Ogródowa Inwestycje sp. z o.o., PZU LT GD, AAS Balta, Lietuvos Draudimas AB, Bank Pekao, PZU Corporate Member Limited;
7. **Subsidiary** – business unit (also a non-corporate business unit such as a civil-law partnership or a mutual fund) directly or indirectly controlled by PZU; the fact of the exercise of such control results from the grounds laid down in International Financial Reporting Standard 10 “Consolidated Financial Statements”;
8. **Head** – head of a unit or division;
9. **KNF, regulatory authority** – Polish Financial Supervision Authority;
10. **CCC** – Commercial Company Code;
11. **LAC DT** – adjustment on account of the loss absorbing capacity of deferred taxes;
12. **MCR** – minimum capital requirement in the SII system;
13. **IFRS** – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2022;
14. **PZU branches** – field outlets of PZU and PZU Życie carrying out insurance activities in the area of direct client service, including product sales;
15. **ORSA** – own risk and solvency assessment – assessment of general needs regarding solvency, consistent compliance with capital requirements and technical provisions requirements and materiality with which the risk profile deviates from the assumptions underlying the solvency capital requirement, carried out on the basis of the “Own risk and solvency assessment policy in the PZU Group, PZU SA and PZU Życie SA”, in accordance with the Insurance Activity Act and EIOPA guidelines;
16. **PAS** – Polish Accounting Standards, as laid down in the Accounting Act and in the executive regulations thereto, in particular in the Finance Minister’s Regulation of 12 April 2016 on the specific accounting policies of insurance and reinsurance undertakings and the Finance Minister’s Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments; in matters not regulated in the Accounting Act and in the executive regulations thereto, National Accounting Standards and/or IFRS are applied accordingly;
17. **PZU, Company** – Powszechny Zakład Ubezpieczeń Spółka Akcyjna;
18. **PZU Życie** – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna;
19. **SCR** – solvency capital requirement in the SII system;
20. **PZU Group strategy** – PZU Group strategy for 2021-2024 – “#PZU Potential and growth – We care about the most important things in life”;
21. **SII System** – the entirety of legal requirements as set out in the SII Directive and regulations issued on its basis. The SII Directive has been incorporated in Polish legislation by the Insurance Activity Act;
22. **QRT** – quarterly and annual quantitative reporting templates;

-
23. **delegated regulation** – delegated regulation of 10 October 2014, supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended;
 24. **implementing regulation applicable to the SFCR** – Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council, as amended;
 25. **Statutory Auditor Act** – Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017;
 26. **Accounting Act** – Accounting Act of 29 September 1994;
 27. **Insurance Activity Act** – Insurance and Reinsurance Activity Act of 11 September 2015;
 28. **Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies** – Act on the Rules for Setting the Compensation of Persons Managing Certain Companies of 9 June 2016;
 29. **IAs** – intangible assets;
 30. **result on insurance activity** – technical result of non-life insurance activity according to PAS;
 31. **EIOPA guidelines** – EIOPA guidelines pertaining to public disclosures and reporting;
 32. **Corporate Governance Rules** – Corporate Governance Rules for Supervised Institutions issued by KNF, in effect since 1 January 2015;
 33. **Names of companies:**
 - a) **Alior Bank** – Alior Bank SA;
 - b) **Link4** – Link4 Towarzystwo Ubezpieczeń SA;
 - c) **Bank Pekao** – Bank Pekao SA;
 - d) **TFI PZU SA** – Towarzystwo Funduszy Inwestycyjnych PZU SA;
 - e) **TUW PZUW** – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Summary

Basis of preparation

The Solvency and Financial Condition Report has been drawn up and disclosed in order to satisfy the requirements under Article 284 of the Insurance Activity Act, which implements the requirements of the SII Directive into the national legal system. The layout of this report is consistent with annex XX to the delegated regulation, with the reservation that only information relevant to PZU's business is disclosed.

This report has been prepared in accordance with the provisions of:

- Insurance Activity Act;
- Delegated Regulation;
- EIOPA guidelines;
- implementing regulation applicable to the SFCR.

Assets, liabilities and own funds have been measured by applying the provisions of the Insurance Activity Act, the delegated regulation, the EIOPA guidelines on the recognition and measurement of assets and liabilities other than technical provisions, the EIOPA guidelines on the measurement of technical provisions and the EIOPA guidelines on the classification of own funds.

The capital requirement is calculated using the standard SII formula for the primary purpose of covering the risks associated with the existing activity to the largest extent possible. All calculations pertaining to risk modules and sub-modules have been based on the methods defined in the delegated regulation.

Unless specified otherwise, all values are presented in this report in thousands of PLN.

PZU's business and operating results

PZU is the largest insurer operating on the non-life insurance market in Poland with a market share of 28.9%¹ (including inward reinsurance toward Link4 and TUW PZUW) and a major insurer in Central and Eastern Europe. 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 both in Poland and abroad. At yearend 2022, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

Among the lines of business under the SII System, the most significant group consists of motor insurance, including motor vehicle third party liability insurance with a portfolio share (measured by the gross written premium) of 32.3%, other vehicle insurance of 25.0%, and insurance against fire and other damage to property of 24.4% in 2022.

Against the background of changing market conditions, PZU keeps aligning its offering with clients' interests and new needs by rolling out solutions and products, often with a touch of innovation, designed with both domestic and international retail and institutional clients in mind.

In 2022, in mass insurance, PZU introduced a number of changes to its offering, including:

- extension of PZU AUTO Assistance with a new benefit within the Super variant covering verification of the technical condition of the vehicle before it was purchased, in the event that the vehicle of the Insured is damaged in an accident and they decide to buy another vehicle. In addition, the Truck Assistance variant (aimed in particular at carriers with heavy-duty fleets) has been enriched with a trailer (semi-trailer) towing service when the vehicle pulling the trailer or semi-trailer has had an accident, breakdown or has been stolen;
- extension of the scope of **PZU Auto** by adding a PZU Auto Tyres insurance, which had so far been offered separately;

¹ Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynekubezpieczeń [Insurance Market] 4/2022

- unification of the rules for determining the amount of partial and total damage according to the Autocasco variant. The costs of repair served to determine whether the car was totaled will be calculated based on the option selected by the client when they chose either the 'optimum', 'maintenance service' or 'partnership' variant. The change, agreed upon with the Insurance Ombudsman, aims at minimizing the risk that the client wrongly interprets the terms of insurance;
- extension of the scope of insurance cover at PZU Wojażer, by superseding the clause that had been applicable so far and adding benefits related to the COVID-19 epidemic;
- introduction of a new product PZU Bezpieczne Lokum for housing associations and co-operatives, the product covers private property insurance against all risks, which involves insurance cover against many events which may occur within an apartment. Furthermore, the cover may include home assistance services, private third-party liability insurance, and lawyer services within legal assistance;
- changes to the GTCI of the PZU Edukacja ADD, including expanding the catalog of serious illnesses to include post-COVID PIMS-TS syndrome, introducing an additional benefit for expenses on school trips, and increasing the limits of services offered under assistance (psychologist assistance up to PLN 2,000 and tutoring up to PLN 1,200);
- integration with the system of the Central Register of Vehicles and Drivers (CEPiK), thanks to which PZU may download and automatically process details concerning registered vehicles, their owners, and drivers, without writing them down from the registration document; this translates to a considerably shorter client journey and maintained competitiveness of PZU's offering;
- upgrading the offering concerning insurance of poultry against risk of salmonella under terms and conditions different from those offered within GTCI PZU Zwierzęta – poultry, based on the Regulation of the Minister of Agricultural and Rural Development of 31 March 2022. The Regulation governs premium subsidies for farmers up to 70% of the premium payable by the farmer if the insurance contract states that the payment of amounts claimed shall occur if the value of damage arising exceeds 20% of the average annual production of animals insured from the last three or five years (expressed in PLN).

Within **corporate insurance**, most changes involved making the offer more appealing for fleet clients and leasing companies, and continuously making cooperation with intermediaries more effective. The most important activities linked to modifying its product offering were the following:

- the implementation of the PZU iFlota prevention program covering three main modules: fleet management, insurance management, and safety management;
- the popularization and further development of the Risk PRO program, among other things through the expansion of PZU LAB Enterprise Safety Tools using smart detectors monitoring safety on an ongoing basis, e.g., monitoring the opening or closing of fire doors, registering temperature, pressure, vibration and smoke, integrated with CCTV cameras;
- the extension of **PZU Auto's** offering with a new MOD insurance cover for owners of electric cars which involves damage to chargers, including wallboxes, as well as charging cables or batteries.

To respond to client expectations in recent years, the PZU Group has consistently extended its offering for retail and corporate clients, thereby steadily expanding its outreach.

After the end of 2022, PZU had a 28.9%¹ share in the non-life insurance market versus 28.4% in 2021 (27.9%² and 27.9% on direct activity, respectively), thereby posting an increase of 0.5 p.p. year on year.

In 2022, PZU recorded a technical result of PLN 1,266,929 thousand compared to PLN 1,268,986 thousand in the preceding year, which means a 0.2% year-on-year decrease. Net profit was PLN 1,636,774 thousand, compared to PLN 2,028,335 thousand in 2021 (down 19.3%).

Without taking into account the dividends received from PZU Życie, PZU's net profit was PLN 1,089,325 thousand and was higher by PLN 275,134 thousand compared to 2021.

In the individual net result items, PZU recorded:

- an increase in net earned premium to PLN 12,750,016 thousand, i.e. by 7.0% as compared to the previous year, as a result of an increase in gross written premium, mainly insurance for natural and other property damage (the impact of several large

¹ Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 4/2022

² Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 4/2022

contracts and an increase in sales of subsidized crop insurance and insurance for buildings and real estate), as well as insurance for land vehicle casco and various financial risks;

- a higher level of claims and benefits totaling PLN 7,894,796 thousand, up 7.3% compared to 2021. The increase was recorded in the group of insurance for other property damage, insurance guarantees, and general third party liability insurance and insurance against various financial risks, among others, which was partially offset by a lower cost of claims in accident and sickness insurance and in the group of casco insurance for rail, air, marine and inland waterway vessels;
- lower net result on investing activities by PLN 255,418 thousand mainly as a result of lower income on shares in subordinated entities resulting primarily from lower dividends from PZU Życie. In addition, the y/y decline in earnings is the result of last year's acquisition of the FIZ AN SN fund by FIZ AN SN2 and the reference to the income of the FIZ AN SN fund previously recognized in capital to the profit and loss account. The decline in earnings was partially offset by an increase in earnings from banking activities and higher income from floating-rate instruments as a result of the higher level of Polish interest rates, particularly in debt and money market portfolios;
- higher insurance activity expenses as a consequence of the following:
 - an increase in administrative costs, to PLN 758,586 thousand, resulting from rising real estate maintenance expenses as a consequence of the indexation of lease and utility prices, the move to the new headquarters, and the implementation of the New IT Work Organization and Tools Model. The effect was compounded by intensified marketing efforts;
 - an increase in acquisition expenses with reinsurance commissions by PLN 278,548 thousand as a consequence of the growing insurance portfolio and the growing share of multiagency channel, characterized by higher commission rates.

In 2022, PZU generated a return on equity (ROE) of 10.4%, down 1.8 p.p. compared to 2021 year.

In the most recent update of the rating dated 28 June 2022, S&P affirmed the financial strength and credit strength ratings for PZU and its main subsidiaries at "A-". The rating remained unchanged (stable).

System of governance

The system of governance in place in the Company, including its organization, is commensurate with the scale of operations, the extent of realized functions and the scale and complexity of risks, and it effectively supports the achievement of the Company's strategic objectives as well as immediate business and operating goals.

The Company's management system comprises, in particular, the Management Board, the Supervisory Board and four key functions: actuarial, risk management, compliance and internal audit. The allocation of powers among the Management Board members is accurately defined. Each key function has been assigned the scope of powers and duties as well as proper operational independence and access to the managing and supervisory bodies. Committees have been established within the Company's structure to support its activities in specific areas of business and corporate governance. PZU has in place the rules for compensating Supervisory Board members, Management Board members and employees based on the requirements of the SII System as well as the rules for conducting a fit and proper evaluation for persons overseeing and performing key functions. The risk management system relies on the risk management process and on the organizational structure which itself is based on the allocation of powers and duties exercised and executed within this process. Within the risk management system, PZU operates an internal control system designed to ensure the Company's adherence to regulatory requirements and the effectiveness and efficiency of its operations and to safeguard the availability and reliability of financial and non-financial information. The Company has put in place detailed rules for outsourcing, defining within them the basic and critical activities.

During the reporting period, the Actuarial, Operational and Model Risk Committee was established. A committee focused on such risks will facilitate developing the risk management system and ensure accurate and timely flow of information on operational, actuarial and model risks, which beforehand were addressed at meetings of the PZU Group's Risk Committee.

In the reporting period, the Company introduced changes in the composition of the Supervisory Board and Management Board, as well as in the positions of directors of the PZU Group. The changes are presented in section B.1.4.

Risk profile

PZU's risk profile results from the PZU Group's strategy and business plans; it is subject to periodical monitoring and control. The most significant risks are actuarial risk and market risk, which is a consequence of the Company's scale of insurance activity and the value of funds obtained from its core line of business and allocated to investments.

In compliance with the applicable provisions of the SII system, PZU it calculates its SCR reflecting the value of eligible own funds that would enable the Company to cover significant unforeseen losses within one year, thus ensuring a sufficient degree of protection of the interests of the insureds.

In the light of the nature of business and the significant risks involved, the standard formula proposed by the provisions of the SII system is a proper reflection of the solvency requirement and as such is applied by PZU.

The risks covered by PZU's SCR include: actuarial risk, counterparty insolvency risk, operational risk and the adjustment related to the capacity of deferred income tax to cover losses.

At year end 2022, the basic capital requirement following diversification was PLN 10,117,284 thousand, down PLN 1,189,064 thousand, or 11%, versus 2021. The change occurred as a result of a decrease in the capital requirement for market risk and actuarial risk in life insurance. The decrease in market risk was mainly due to a decrease in the capital requirement for concentration risk as a result of a decrease in the valuation of investments in strategic shares (mainly shares of Bank Pekao and Alior Bank) and a decrease in foreign exchange risk. The decline in actuarial risk in life insurance was the result of a shift in the interest rate curve. Details are described in chapter C.2.

Valuation for solvency purposes

For solvency purposes, the Company measures its assets and liabilities other than technical provisions at fair value. The fair value is calculated using market prices quoted on active markets for the same assets or liabilities. In cases where there is no such active market, alternative measurement methods are used, as provided for by the provisions of the SII system: mark-to-market measurement, income-based measurement or cost-based measurement.

The most significant asset groups according to PZU's economic balance sheet are: subordinated entities, debt securities, loans, receivables under insurance and from insurance intermediaries and property used for own needs.

The main differences in the measurement of these assets compared to their measurement in the financial statements prepared according to PAS pertain to subordinated entities, debt securities and borrowings. These differences stem mostly from the fact that in the economic balance sheet the said assets are measured at fair value, whereas the financial statements according to PAS are prepared using measurement methods based on historical cost (purchase price minus depreciation, equity method, adjusted purchase price). Moreover, the economic balance sheet includes right-of-use assets measured in accordance with IFRS 16 Leases, which are not recognized in the balance sheet according to Polish Accounting Standards.

The most significant liability groups according to PZU's economic balance sheet are: technical provisions, subordinated liabilities, liabilities under liabilities and liabilities to insurance intermediaries and deferred tax liability.

In the case of subordinated liabilities, the difference between values according to PAS and measurement for solvency purposes follows from the application of different measurement methods: according to PAS at the adjusted purchase price, while for the purposes of the economic balance sheet they are presented at fair value but without adjusting own credit spread from the date of the emergence of the liability.

The Company measures technical provisions at the value which another insurance undertaking or reinsurance undertaking (reference undertaking) could be expected to demand for taking over and fulfilling the insurance and reinsurance liabilities. Technical provisions consist of the best estimate and the risk margin, in compliance with Article 225 of the Insurance Activity Act. During the reporting period, there were no significant changes in the method of measurement of assets and liabilities other than technical provisions.

Capital management

PZU's capital and dividend policy is aimed at zeroing in on the rate of return for shareholders through efficient capital management while maintaining the existing security level and preserving capital resources for the purposes of strategic development through acquisitions.

In 2022, the Company satisfied the solvency requirements and the solvency ratio (which is the ratio of eligible own funds to the solvency capital requirement) was 267% as at 31 December 2022, up by 20 p.p. relative to 31 December 2021. As at 31 December 2022, PZU posted eligible own funds of PLN 25,127,350 thousand, including category 1 basic own funds of PLN 22,777,958 thousand and category 2 basic own funds of PLN 2,349,392 thousand, and SCR at PLN 9,418,185 thousand.

The minimum capital requirement (MCR) was PLN 2,354,546 thousand, while own funds eligible to cover MCR were PLN 23,248,867 thousand, including category 1 basic own funds of PLN 22,777,958 thousand and category 2 basic own funds of PLN 470,909 thousand, which ensured the ratio of MCR coverage with eligible own funds at a level of 987% (the ratio was 65 p.p. higher compared to 31 December 2021).

Eligible own funds decreased in relation to 2021 by PLN 1,077,122 thousand or 4%. A description of the changes in own funds is presented in section E.1.2.

At the end of 2022, the SCR declined by 11% compared to 2021, owing chiefly to the increase in the basic capital requirement referred to in the Risk Profile Summary. The MCR also declined by 11% compared to the end of 2021.

In its SCR calculation, the Company does not apply the transitory provisions. As at 31 December 2022, PZU did not apply the matching adjustment referred to in Article 227 of the Insurance Activity Act, the volatility adjustment mentioned in Article 229 of the Insurance Activity Act, transitional risk-free interest rate term structure mentioned in Article 496 of the Insurance Activity Act or the transitional deduction mentioned in Article 497 of the Insurance Activity Act.

A. Business and operating results

A.1. Business

A.1.1. Name and legal form

PZU is the parent company of the PZU Group.

A.1.2. Regulatory authority in charge of exercising financial supervision over the Company and overseeing the PZU Group

Regulatory authority in charge of exercising financial supervision over PZU and the PZU Group:

Polish Financial Supervision Authority, ul. Piękna 20, 00-549 Warsaw.

A.1.3. Statutory auditor

Justyna Zań, registration no. 12750, acting on behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., an entity authorized to audit financial statements, no. 3546 on the list maintained by the Polish Agency for Audit Supervision, ul. Inflancka 4A, 00-189 Warsaw, Poland.

A.1.4. Shareholders holding significant stakes in Company

As at 31 December 2022, the PZU shareholding structure was as follows:

No.	Shareholder's name	Number of shares and votes	Percentage share in the share capital and in the total number of votes at the Shareholder Meeting
1.	State Treasury	295,217,300	34.1875%
2.	Funds managed by Nationale Nederlanden Powszechnie Towarzystwo Emerytalne Spółka Akcyjna ¹⁾	49,223 000	5.7003%
3.	Other shareholders	519,082,700	60, 1,122%
	Total	863,523,000	100.0000%

¹⁾ Number of shares disclosed by funds at the Extraordinary Shareholder Meeting of PZU held on 1 September 2022.

A.1.5. Company's position in the PZU Group's legal structure

The PZU Group's capital structure as at 31 December 2022 is presented in Attachment 1 to this report.

A simplified organizational chart of the Company is presented in Attachment 2.

A.1.6. PZU's significant lines of business and relevant geographies of the Company's operations

PZU offers an extensive array of non-life insurance products in Poland and internationally, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At yearend 2022, 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.

With a split into business lines in the SII system, the most important group comprises motor insurance, including third party liability insurance on account of using a motor vehicle, with a 32.3% share in the portfolio, other motor insurance at 25.0% and insurance against fire and other damage to property with a 24.4% share in 2022.

Detailed information on premiums, claims and benefits and costs broken down by lines of business in the SII system and by countries was included in QRT form S.05.01.02 constituting Attachment3 and S.05.02.01 constituting Attachment4 to the report.

A.1.7. All significant events of a business and other nature that occurred during the reporting period and had a significant impact on PZU

A.1.7.1. Dividend from PZU Życie

On 27 June 2022, the PZU Życie Ordinary Shareholder Meeting adopted a resolution to distribute net profit for the 2021 financial year in the amount of PLN 550,532 thousand, designating the amount of PLN 547,449 thousand for dividend and PLN 3,083 thousand for the Company Social Benefit Fund. The record date was set at 1 August 2022 and the dividend was paid out on 18 October 2022.

A.1.7.2. Distribution of profit

On 29 June 2022, PZU's Ordinary Shareholder Meeting distributed net profit for the 2021 financial year increased by the amount transferred from supplementary capital created from the 2020 net profit, in the total amount of PLN 2,978,210, earmarking:

- PLN 1,675,235 thousand for a dividend payment;
- PLN 1,295,995 thousand for supplementary capital;
- PLN 6,980 thousand to the Company Social Benefit Fund.

The dividend record date was set at 29 September 2022 and the dividend payment date was set for 20 October 2022.

The distribution of profit is consistent with the PZU Group's Capital and Dividend Policy for 2021–2024, as adopted on 24 March 2021, and takes into account the recommendations contained in the Polish Financial Supervision Authority's (KNF) stance on the dividend policy in 2022 issued on 9 December 2021.

A.2. Result on insurance activity

Premiums, claims paid and costs broken down by lines of business are presented in form QRT S.05.01.02 constituting Attachment 3 to the report.

A.2.1. Key drivers of the result on insurance activity according to PAS

In 2022, PZU recorded a technical result of PLN 1,266,929 thousand compared to PLN 1,268,986 thousand in the preceding year, marking a decrease of PLN 2,057 thousand, or by 0.2% year over year.

The key drivers of PZU's financial results in 2022 were as follows:

- an increase in net earned premium by PLN 832,603 thousand, or 7.0%, from 2021;
- an increase in claims and benefits by PLN 539,010 thousand from 2021, to the level of PLN 7,894,796 thousand, up 7.3%. The main change, i.e. an increase in the group of insurance for other property damage, insurance guarantees, and general third party liability insurance and insurance against various financial risks, among others, was partially offset by a lower cost of claims in accident and sickness insurance and in the group of casco insurance for rail, air, marine and inland waterway vessels;
- an increase of acquisition expenses including reinsurance commissions by PLN 278,548 thousand, or 11.0%, compared to 2021, as a consequence of the growing insurance portfolio and the high share of multiagency channel, characterized by higher commission rates;

Result on insurance activity according to PAS broken down into statutory groups (PLN 000s)	2022	2021
Results of accidents and sickness	180,174	161,434
Motor third party liability insurance	207,124	222,644
Other motor insurance	426,975	299,370
Marine, aviation and transport	25,912	(391)
Insurance against fire and other property losses	444,290	397,000
Third party liability	13,003	94,639
Loans and guarantees	(73,512)	7,376
Assistance	77,476	56,554
Legal protection	274	185
Other financial insurance	(34,787)	30,175
Total	1,266,929	1,268,986

A.2.2. Revenues (premiums)

In 2022, PZU collected gross written premium of PLN 14,691,723 thousand, which was PLN 1,302,825 thousand, or 9.7% more than in 2021. They comprised mainly:

- premiums on insurance against fire and other damage to property accounting for 24.7% of PZU's premium portfolio. Compared to 2021, their share in the insurance portfolio edged up 2.3 p.p., while their value was up by PLN 623,347 thousand, i.e. by 20.7%. The increase in premiums is the result of signing several large contracts, including the renewal in Q4 2022 of a contract with a fuel and energy client with a total premium of more than PLN 420 million (an increase of more than PLN 180 million year-over-year) and higher premiums from subsidized crop insurance (the impact of a higher subsidy pool from the state budget than a year ago) and buildings 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);
- the MOD insurance premium with a 24.9% share of PZU's total gross written premium (up 1.2 p.p. versus the previous year). The value of the premium against 2021 increased by PLN 484,276 thousand, or 15.3%, which is due to the high dynamics of the number of insurances with a simultaneous increase in the average premium due to the increasing value of vehicles translating into an increase in sums insured;
- TPL motor insurance premiums, accounting for 32.6% (by accounting classes) of PZU's insurance portfolio (35.5% in the prior year). The slight increase in premiums (by PLN 34,015 thousand, or 0.7%, compared to 2021) with a lower share of the portfolio by 2.9 p.p. compared to 2021 is the result of an increase in average premiums and a lower number of insurances (the impact of lower new passenger car registrations, particularly felt in the dealer channel, and a deceleration in the highly competitive leasing market);
- premiums on ADD and other insurance, whose share in the portfolio reached 11.5%, i.e. up 0.5 p.p. lower than in 2021. The premium increased mainly in other financial insurance (the increase in this insurance class was PLN 132,202 thousand, i.e. 46.7% compared to 2021) and insurance for the provision of assistance. Contributing to this were higher sales of loss-of-profit insurance (including, BI, ALOP and following machinery damage) and travel insurance and the

provision of PZU Auto Assistance. The increase was partially offset by a decrease in premiums from accident and illness insurance (down PLN 197,268 thousand, or 26.4%, compared to 2021) mainly as a result of a slowdown in sales of insurance offered in cooperation with the Group's banks for cash loans and mortgages, caused by a decline in demand for mortgages in the face of rising interest rates and greater restrictions on calculating creditworthiness;

Gross written premium according to PAS, broken down into statutory groups (PLN 000s)	2022	2021
Results of accidents and sickness	550,813	748,081
Motor third party liability insurance	4,782,542	4,748,527
Other motor insurance	3,656,789	3,172,514
Marine, aviation and transport	141,721	100,843
Insurance against fire and other property losses	3,628,941	3,005,594
Third party liability	930,580	846,249
Loans and guarantees	84,572	63,737
Assistance	486,120	406,906
Legal protection	14,385	13,389
Other financial insurance	415,260	283,058
Total	14,691,723	13,388,898

A.2.3. Costs

A.2.3.1. Claims and benefits with movement in technical provisions according to PAS

In 2022, net claims and benefits and movement in PZU's provisions totaled PLN 7,894,796 thousand, i.e. 7.3% increase compared to 2021.

The following factors contributed to the change in the net value of claims and benefits:

- higher claims ratio in the group of insurance against fire and other damage to property mainly as a result of a higher level of damage in crop insurance and buildings and housing insurance than a year ago, including damage caused by weather phenomena (hurricanes and hailstorms);
- increase in claims ratio in the group of credit and guarantee insurance (impact of claims from due performance of a contract with a high unit value) and general liability (mainly on the insurance portfolio of medical entities);
- lower motor insurance claims ratio resulting from an improvement in MOD and deterioration in motor TPL insurance – the effect of i.a. positive claims development in previous years partially offset by deterioration in the claims ratio in the current year (the impact of an increase in average claims paid, including the depreciation of the PLN against the EUR in foreign currency claims);
- lower value of claims and benefits in the group of accident and illness and marine, aviation and transportation insurance.

Claims and benefits according to PAS, broken down into statutory groups (PLN 000s)	2022	2021
Results of accidents and sickness	109,803	131,898
Motor third party liability insurance	3,453,212	3,432,705
Other motor insurance	2,061,185	2,022,962
Marine, aviation and transport	31,016	44,249
Insurance against fire and other property losses	1,229,359	1,032,427
Third party liability	557,677	457,145
Loans and guarantees	111,230	7,584
Assistance	229,598	209,706
Legal protection	8,154	7,885

Claims and benefits according to PAS, broken down into statutory groups (PLN 000s)	2022	2021
Other financial insurance	103,562	9,225
Total	7,894,796	7,355,786

A.2.3.2. Acquisition and administrative expenses

Acquisition expenses (including reinsurance commissions) amounted to PLN 2,814,863 thousand in 2022, increasing by 11.0% in comparison to 2021, which along with a 7.0% increase in net earned premium y/y translated into a deterioration of the acquisition expense ratio by 0.8 p.p. The change in the acquisition expense ratio was driven largely by the modification in the product and sales channel mix, including a higher share of the multiagency channel.

In 2022, administrative expenses reached PLN 758,586 thousand, i.e. 5.0% higher than in the previous year, which alongside the increase in net earned premium by 7.0% y/y translates into an improved administrative expense ratio, by 0.2 p.p. The increase in administrative expenses results, among other things, from rising real estate maintenance expenses as a result of the indexation of lease and utility prices, the move to the new headquarters, and the implementation of the New IT Work Organization and Tools Model. Organization and Work Tools Model. The effect has been compounded by intensified marketing efforts and wage pressures.

A.2.3.3. Other technical income and expenses

The balance of other technical income and expenses in 2022 was negative and stood at PLN 224,097 thousand. The deterioration relative to 2021 is the result of, among other things, higher policyholder impairment allowances for receivables and an increase in foreign exchange losses.

A.3. Result on investment activity

In 2022, the result on PZU's investment activity was PLN 1,303,073 thousand compared to PLN 1,558,491 thousand in the previous year. The decline in earnings was mainly attributable to lower income on shares in subordinate entities resulting primarily from lower dividends from PZU Życie. In addition, the lower level of results was affected by the last year's acquisition of the FIZ AN SN fund by FIZ AN SN2 and the reference to the income of the FIZ AN SN fund previously recognized in capital to the profit and loss account. The decline in earnings was partially offset by an increase in earnings from banking activities and higher income from floating-rate instruments as a result of the higher level of Polish interest rates, particularly in debt and money market portfolios.

Result on investment activity according to PAS (PLN 000s)	2022	2021
Real property	8,595	8,767
Shares in subordinate entities	564,768	900,292
Shares	483	1,379
Participation units and investment certificates	18,340	195,738
Debt securities	690,241	650,442
Time Deposits	794	5
Loans	91,794	39,600
Derivatives	(40,838)	(204,538)
Other investment activity expenses	(31,104)	(33,195)
Total	1,303,073	1,558,490

Gross investment activity result (without a deferred tax adjustment) recognized through revaluation reserve was PLN 66,842 thousand in 2022, compared to PLN (907,400) thousand in the previous year. This was mainly due to the higher valuation on

shares in subordinated entities, in particular as a consequence of higher measure by the equity method of PZU Życie.

Result before tax through revaluation reserve (change in PLN thousand)	2022	2021
Real property	(1,191)	(128)
Shares in subordinate entities	190,875	(940,232)
Shares	158,265	(369)
Participation units and investment certificates	457,324	809,523
Debt securities	(780,998)	(550,393)
Time Deposits	-	-
Loans	-	-
Derivatives	42,567	(225,801)
Other investment activity expenses	-	-
Total	66,842	(907,400)

During 2022, PZU did not conduct any securitization activity.

A.4. Results from other types of activity

In 2022, the net balance of other operating income and expenses was negative and totaled PLN 364,310 thousand compared with the similarly negative balance in 2021 of PLN 277,978 thousand. The balance in 2022 was affected by an increase in other operating expenses compared to the previous year, including a higher level of financial expenses – interest from the issuance of debt securities.

General profit and loss account according to PAS (PLN 000s)	2022	2021
Technical result	1,266,929	1,268,986
Net investment result	1,303,073	1,558,490
Other operating income and expenses (net)	(364,310)	(277,978)
Profit (loss) before tax	1,952,652	2,338,381
Net profit (loss)	1,636,774	2,028,335

In 2022, the Company did not have any material lease agreements.

A.5. All other material information

A.5.1. Conflict in Ukraine

Due to the Russian Federation's invasion of Ukraine and the armed conflict lasting since 24 February 2022, PZU's Management Board assessed the impact of this situation on the Company's operations, business continuity, financial position and going concern.

As of 31 December 2022, the equity method valuation of the Ukrainian companies – PrJSC IC PZU Ukraine and PrJSC IC PZU Ukraine Life Insurance amounted to PLN 0 thousand and PLN 13,248 thousand, respectively, and as of 31 December 2021, PLN 72,056 thousand and PLN 31,491 thousand, respectively.

Except for the assets of companies with operations in Ukraine, as of 31 December 2022, the Company had no debt exposure to markets subject to hostilities or sanctions (Russia, Belarus, Ukraine). As of 31 December 2021, PZU had debt exposure to markets subject to hostilities or sanctions (Russia, Belarus, Ukraine) – bonds issued by the Russian government according to the

valuation as of that date in the amount of PLN 85,598 thousand. Due to the escalating political situation, by 22 February 2022, all bonds issued by the Russian government were sold (the realized loss of PLN 8,668 thousand burdened the 2022 performance).

Due to the extraordinary circumstances, the Ukrainian companies controlled by PZU did not meet the sales targets set for 2022. As at the date of signing the standalone financial statements, the assessment of the possibility of maintaining business continuity (materialization of the risk of the full loss of operational capabilities) of the Ukrainian companies controlled by PZU is subject to uncertainty due to the following potential threats, among others:

- long-term persistence and escalation of hostilities (about 16% of Ukraine's area is covered by hostilities);
- continuation of long-range weapons fire on civilian and military facilities, including critical infrastructure facilities, leading to significant losses among the population and disruptions in the supply of utility services such as energy, heating and water supply;
- lack of access to key systems, including by destroying the companies' physical infrastructure;
- cessation of the handling of all internal money transfers by the Ukrainian banking system;
- unavailability of employees.

PZU monitors the situation on an ongoing basis and analyzes potential future scenarios of how the events may unfold. Due to the situation in Ukraine, the valuation of assets and liabilities (especially technical provisions) of Ukrainian companies controlled by PZU requires a number of assumptions and is subject to significant uncertainty.

B. System of governance

B.1. General information on the system of governance

The system of governance in place in the Company, including its organization, is commensurate with the scale of operations, the extent of realized functions and the scale and complexity of risks, and it effectively supports the achievement of the Company's strategic objectives as well as immediate business and operating goals.

The adopted formal, organizational and procedural solutions include all the significant elements of the management system and make it possible to maintain an acceptable risk level in the Company.

The management system in the adopted structure of the Company addresses all the tasks defined for an insurance undertaking in compliance with the prevailing law. An assessment of the management system's adequacy was made on the basis of conducted analysis of activity in the areas indicated in the regulatory requirements and subject to reporting in this report.

B.1.1. Supervisory Board

In accordance with the Company's Articles of Association, the Supervisory Board is composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting. Supervisory Board members are appointed by the Shareholder Meeting for a joint term of office which lasts three consecutive full financial years.

The Articles of Association give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. This right will expire at the time the State Treasury ceases to be a Company shareholder. A candidate for a Supervisory Board member named by the State Treasury should meet the requirements set forth in Article 19 of the Act of 16 December 2016 on Rules for Managing State Property.

The Supervisory Board elects a Chairperson and Vice-Chairperson from its composition.

The Supervisory Board Chairperson manages the work of the Supervisory Board. In the event of absence of the Supervisory Board Chairperson, including a temporary hindrance which prevents him from discharging his/her function and in a situation when the mandate of the Supervisory Board Chairman has expired and the new Supervisory Board Chairman has not been appointed yet, all rights and duties of the Supervisory Board Chairman are exercised and performed by the Supervisory Board Deputy Chairman, excluding the right to resolve the wording of a Supervisory Board resolution in the event of an equal number of votes.

The Supervisory Board adopts the organizational rules and regulations of the Supervisory Board which define its organization and manner of acting. The Rules and Regulations define the composition and manner of appointing members to the Supervisory Board, tasks and scope of its operations as well as the procedure for convening and conducting meetings.

During the reporting period, the Rules and Regulations of the Supervisory Board allowed for the election from among the members of the Supervisory Board of a secretary whose competence was to assist the Chairperson of the Supervisory Board and, in their absence, the Vice-Chairperson of the Supervisory Board, in carrying out their duties, in particular:

1. organizing the work of the Supervisory Board;
2. supervising over the organizational and technical support for Supervisory Board meetings;
3. preparing that minutes of meetings of the Supervisory Board;
4. presenting draft reports prepared by the Supervisory Board as required by Company's Articles of Association.

The Supervisory Board may delegate its members to perform specific oversight functions individually. Each delegation requires a Supervisory Board resolution naming the delegated person(s) and specifying a detailed scope of the oversight functions and the delegation period. Supervisory Board members delegated to perform specific oversight functions individually will submit written reports of their activity to the Supervisory Board at the Supervisory Board meeting following any individual performance of the oversight function. During the reporting period, the Supervisory Board did not exercise the above right.

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity.

The Supervisory Board's powers include in particular:

1. evaluating the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year for compliance with the accounting ledgers and documents as well as the facts;
2. approving the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group;
3. preparing an annual report on compensation for Management Board and Supervisory Board members on the rules laid down in Article 90g section 1–5 of the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies of 29 July 2005;
4. review of the motions of the Management Board concerning profit distribution or loss coverage;
5. submitting to the Shareholder Meeting an annual written report of the Supervisory Board for the past financial year, taking into account in particular the results of the assessment referred to in points 1 and 4;
6. concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation, giving consideration to the rules defined by the Shareholder Meeting, in accordance with § 18 item 12 of the Articles of Association;
7. appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such a suspension;
8. agreeing to transfer the entire or portion of the insurance portfolio;
9. giving consent to the acquisition, subscription for or disposal of ownership interests and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without the obligation to obtain an approval from the Supervisory Board, except that the following require approval of the Supervisory Board:
 - 1) subscription for or acquisition of shares or ownership interests in another company, with the value exceeding:
 - a) PLN 100,000,000, or
 - b) 10% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements,
 - 2) disposal of shares or ownership interests in another company, with the market value exceeding:
 - a) PLN 100,000,000, or
 - b) 10% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements;
10. delegating members of the Supervisory Board to perform temporarily the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
11. accepting instructions on how the Company's representatives should vote at Shareholder Meetings of PZU Życie SA in the following matters: increasing or decreasing the share capital, issuing bonds, selling or leasing PZU Życie SA's enterprise or establishing a usufruct right on the enterprise, dividing PZU Życie SA, merging PZU Życie SA with another company, liquidating or dissolving PZU Życie SA;
12. selecting the audit firm to carry out the mandatory audit of the financial statements, including the annual financial statements of the Company and the annual consolidated financial statements of the PZU Group, the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group, and reviews of the financial statements in accordance with the obligations following from the prevailing laws;
13. deciding on the consolidated text of the revised Articles of Association;
14. granting consent to purchase or sell real property, perpetual usufruct or share in real property or in perpetual usufruct, of the gross value exceeding the equivalent of EUR 3,000,000;

15. granting consent for the Company to enter with a related party into a material transaction referred to in Article 90i section 3 of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies, taking into account the exclusions and specific regulations in this respect laid down in Chapter 4b of this act;
16. granting consent for the Company to conclude an agreement with an underwriter referred to in Article 433 § 3 of the Commercial Company Code;
17. granting consent to pay out an interim dividend towards an expected dividend;
18. granting consent to establish or close the regional branches referred to in § 2 section 2 of the Articles of Association and foreign branches;
19. approving the Company's long-term development plans and annual financial plans prepared by the Management Board;
20. approving the Rules and Regulations of the Management Board;
21. performing tasks resulting from the guidelines or recommendations of regulatory authorities, in particular KNF, adopted by the Company;
22. examining and issuing opinions on matters submitted by the Management Board for deliberation at the Shareholder Meeting.

In addition, the Supervisory Board's consent is required for:

1. executing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services under this agreement or other agreements executed with the same entity is greater than PLN 500,000 annually;
2. amending an agreement to provide legal, marketing, public relations and public communication services or management consulting services by increasing the said fee above and beyond the net amount of PLN 500 thousand annually;
3. executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee;
4. executing an agreement on:
 - 1) donation or other agreement having a similar effect, the value of which exceeds PLN 20 thousand or 0.1% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements;
 - 2) executing a debt release or other agreement having a similar effect, the value of which exceeds PLN 50 thousand or 0.1% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements;
5. subject to § 18 item 11 of the Articles of Association, the disposal of non-current assets within the meaning of the Accounting Act of 29 September 1994 classified as intangible assets, property, plant and equipment or long-term investments, including contribution to a company or a cooperative – if the market value of those assets exceeds 5% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements; and also handing those assets over for use to another entity for a period longer than 180 days in a calendar year based on a legal act, if the market value of the subject matter of the legal act exceeds 5% of total assets, whereas the handing over of assets for use in the case of:
 - 1) lease, rental and other agreements to hand over an asset for use to other entities against payment, the market value of the subject matter of a legal act is defined as the value of benefits for:
 - a) one year – if the asset was handed over under agreements signed for an indefinite term,
 - b) the entire term of the agreement – in the case of agreements signed for a definite term,

- 2) lending for use agreements and other agreements to hand over an asset to other entities for gratuitous use, the market value of the subject matter of a legal act is defined as the value of benefits that would be due if a lease or rental agreement was executed instead, for:
 - a) one year – if the asset is handed over under an agreement signed for an indefinite term,
 - b) the full duration of the term of validity in the case of contracts executed for an unspecified term;
6. subject to § 18 item 11 of the Articles of Association, the acquisition of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
 - 1) PLN 100,000,000, or
 - 2) 5% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements.

At present, the following committees function as part of the Supervisory Board of PZU SA:

- Audit Committee;
- Nomination and Compensation Committee,
- Strategy Committee.

The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board with regard to monitoring financial reporting, financial audit activities and effectiveness of internal control, internal audit and risk management systems in the Company. In addition, the Audit Committee may request the Supervisory Board to request specific control activities in the Company, whereby the requested activities may be performed by an external unit or entity.

The Audit Committee meets the legal requirement so that at least one of its members holds accounting or financial audit qualifications within the meaning of and based on the requirements of the Act on Statutory Auditors. Furthermore, in accordance with the said Act, the majority of the Audit Committee members, including its chairperson, should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. An independent supervisory board member is obligated to present a written declaration on satisfying all the independence criteria and advise the Company of ceasing to satisfy these criteria.

In the course of its work the Audit Committee takes into account the “Best practices for public interest entities pertaining to the appointment, composition and operation of the audit committee”, as published by the Office of the Polish Financial Supervision Authority.

The Nomination and Compensation Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board’s supervision over the development of the management structure, including organizational solutions, the remuneration principles and the selection of properly qualified staff.

The tasks of the Nomination and Compensation Committee include, in particular, issuing opinions and presenting recommendations to the Supervisory Board with regard to its decisions made with regard to:

1. concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation;
2. setting the level of compensation, bonuses and additional benefits for the Management Board;
3. appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue the suspension;
4. seconding Supervisory Board members to perform temporarily the functions of Management Board Members who have been dismissed, resigned or cannot perform their functions for other reasons.

Moreover, the scope of the Nomination and Compensation Committee’s activities may include other matters entrusted to it by the Supervisory Board.

The Strategy Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board’s oversight activities related to issuing opinions on all strategic documents presented by the Management Board (in particular, the Company’s development strategy) and to provide the Supervisory Board with recommendations on planned investments that materially impact the Company’s assets.

The tasks of the Strategy Committee include, in particular, issuing opinions and presenting recommendations to the Supervisory Board with regard to its decisions made with regard to:

1. approving PZU's long-term development plans prepared by the Management Board;
2. planned investments in PZU and the PZU Group;
3. granting consent for PZU to conclude an agreement with an underwriter as referred to in Article 433 § 3 of the Commercial Company Code;
4. defining rules for purchase, subscription or sale of ownership interests and shares in companies as well as Company's participation in other entities;
5. accepting the Management Board's motions for purchase, subscription or sale of ownership interests and shares in companies as well as the Company's participation in other entities;
6. granting consent to transferring an insurance portfolio in its entirety or in part.

Moreover, the scope of the Strategy Committee's activities may include other matters entrusted to it by the Supervisory Board.

In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing the Audit Committee and the Nomination and Compensation Committee, provided for in the Articles of Association to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and manner of operation are laid down in the rules and regulations of the committee in question adopted by the Supervisory Board. The Rules and Regulations provide for the possibility for the Supervisory Board and its appointed committees to use the services provided by experts and consulting firms.

B.1.2. Management Board

In accordance with the Company's Articles of Association, the Management Board is composed of three to eight members appointed for a joint term of office spanning three consecutive full financial years.

Management Board Members, including the President of the Management Board, are appointed and dismissed by the Supervisory Board. Such appointment takes place following a recruitment procedure designed to verify and evaluate qualifications of the candidates and to select the best candidate, for a shared term of office of three consecutive full financial years. The President of the Management Board of the new term of office appointed before the current term elapses has the right to submit a motion to the Supervisory Board requesting appointment of the remaining Management Board members of the new term of office before the current term elapses.

The Management Board exercises any and all rights related to management of the Company, which are not reserved by law or the Articles of Association to the Shareholder Meeting or the Supervisory Board. Two Management Board members acting jointly or one Management Board member acting jointly with a commercial proxy are authorized to represent the Company. The Management Board adopts its rules and regulations, which are approved by the Supervisory Board. The President of the Management Board directs the work of the Management Board.

A Directive of the President of the Management Board defines the division of organizational oversight duties among the members and assigns the functions of the Heads of Divisions.

PZU has in place the positions of PZU Group Directors. Those positions have been established to ensure a consistent and effective management model for PZU and PZU Życie based on a functional division of responsibilities among the members of the Management Boards of PZU and PZU Życie. Until 2022, the positions of PZU Group Directors were filled with persons performing the functions of Members of the PZU Życie Management Board. In 2023, a second type of PZU Group Director position was introduced, i.e., a position given to persons who are not members of the PZU Życie Management Board. PZU Group Directors in PZU directly supervise the same business areas (divisions or units) that they supervise in PZU Życie, and in the case of the new type of PZU Group Director position, the same areas that they supervise in PZU Życie as PZU Group Director.

What follows is a presentation of the scope of responsibilities of the members of the PZU Management Board and the PZU Group Directors as at the end of 2022:

Full name	Function in the PZU Group	Scope of responsibilities as at the end of 2022	Additional scope of responsibilities during the year
Beata Kozłowska-Chyła	President of the PZU Management Board since 2 October 2020 / Acting President of the PZU Management Board from 12 March 2020 to 1 October 2020	internal audit, compliance, PZU Group strategy, strategic analyses, corporate communication, reinsurance	-
Ernest Bejda	PZU Management Board Member since 4 May 2020	security, purchasing, analysis and efficiency of processes, insurance operations, claims and benefits handling, assistance, remote customer service, digitization of processes, development of digital services and platforms, after-sales customer service	IT, innovation
Krzysztof Kozłowski	PZU Management Board Member since 4 August 2021	corporate management and corporate governance in the PZU Group, administration, project management, business development in the PZU Group	health insurance
Małgorzata Kot	Member of the PZU Management Board since 10 September 2020/ PZU Group Director at PZU from 16 April 2020 to 9 September 2020	management of the PZU branch network, retail sales (tied-agent, multi-agent and broker channels), remote sales, retail distribution strategy, retail sales support, sales analyses	-
Tomasz Kulik	Member of the PZU Management Board since 14 October 2016	actuarial science, finance	investments
Piotr Nowak	PZU Management Board Member since 28 April 2022	investment, IT, innovation	-
Maciej Rapkiewicz	Member of the PZU Management Board since 22 March 2016	risk	-
Małgorzata Sadurska	Member of the PZU Management Board since 13 June 2017	assurbanking, bancassurance and strategic partnership programs, corporate sales and corporate business development, corporate product management, analysis, underwriting and risk assessment of corporate insurance, financial risk insurance, corporate business services, marketing, sponsorship, prevention	-
Krzysztof Szypuła	Member of the PZU Management Board from 10 September 2020 to 4 February 2022/ PZU Group Director at PZU from 4 February 2022 to 31 December 2022	management of mass products, health products and insurance programs, CRM, strategic product offer management, tariff actuarial services, underwriting,	IT, innovation, mobile application development, digital services
Aleksandra Agatowska	Member of the PZU Management Board from 24 October 2019 to 19 February 2020 / PZU Group Director at PZU since 20 February 2020 / Member of the PZU Życie Management Board since 25 March 2016, Acting President of the PZU Życie Management Board from 19 February 2020 to 14 February 2021 President of the PZU Życie Management Board since 15 February 2021	client experience management,	health insurance, marketing, sponsorship, prevention

Full name	Function in the PZU Group	Scope of responsibilities as at the end of 2022	Additional scope of responsibilities during the year
Bartłomiej Litwińczuk	PZU Group Director at PZU since 19 August 2016	HR, advisory services and legal services	-
Dorota Macieja	PZU Group Director at PZU since 15 March 2017	sustainable development, customer communication, real estate	-
Andrzej Jaworski	PZU Group Director at PZU since 15 April 2022	health insurance	-

In 2022, in addition to the committees established at the level of the Supervisory Board, the following committees operated at PZU:

- PZU Group's Risk Committee;
- Investment Risk Committee
- Actuarial, Operational and Model Risk Committee;
- Investment Committee
- Asset-Liability Management Committee;
- Data Governance Committee;
- Sponsorship, Prevention and CSR Committee;
- Innovations Committee;
- PZU Pricing Committee;
- Real Estate Sales Committee;
- Procurement Committee;
- Initiatives Management Committee;
- Cost Committee;
- Crisis Management Team (which is responsible for overseeing over the operation of the business continuity management system and for managing emergencies in the Company).

B.1.3. Duties and responsibilities of persons overseeing key functions

Key functions are performed by members of the Management Board and the Supervisory Board and the officers overseeing key functions in PZU, i.e.:

- the actuarial function;
- the risk management function;
- the compliance function;
- the internal audit function.

The actuarial function is supervised at PZU by the Company's Chief Actuary, who is also the Director for Underwriting Risk in the Actuarial Department. The tasks performed under this function are described in the section B.6.

The risk management function is overseen at PZU by the Director of the Risk Department. The tasks performed under this function are described in the section B.3.1.

The compliance function is overseen at PZU by the Managing Director on Regulations. The tasks performed under this function are described in the section B.4.2.

The internal audit function is supervised at PZU by the Managing Director on Audit, who heads the Internal Audit Department. The tasks performed under this function are described in the section B.5.1.

B.1.3.1. Operational independence of key functions

In principle, the persons in charge of the key functions do not participate in the implementation of processes and tasks from outside the scope of the key functions. The functions are performed so as to ensure impartiality and independence from operational processes.

The persons overseeing key functions have direct access to the Management Board and unlimited access to all material information. They report regularly to the Management Board and the Supervisory Board; in particular, the Managing Director on Audit reports directly to the Supervisory Board Audit Committee.

In order to ensure operational independence, the persons overseeing key functions in PZU are covered by the Compensation Policy in PZU, applicable to the narrow group of officers of key importance to the Company. The Policy ensures, inter alia, the independence of a key officer, by separating the impact of activities in his or her area of assessment or oversight on the person's variable remuneration; it also allows for a major part of this remuneration to be deferred.

B.1.4. Material changes to the system of governance which took place during the reporting period

During the reporting period, there were changes in the composition of the PZU Supervisory Board and PZU Management Board, as well as in the positions of PZU Group Directors in PZU, as described below.

In 2022, the following changes transpired in the PZU Supervisory Board:

- 1) On 31 August 2021, Paweł Mucha submitted his resignation from serving in the capacity of Chairman of the PZU Supervisory Board and from Membership in the PZU Supervisory Board;
- 2) On 1 September 2022, the Extraordinary Shareholder Meeting of PZU appointed Piotr Wachowiak as Member of the PZU Supervisory Board;
- 3) On 27 October 2022, the PZU Supervisory Board appointed Robert Jastrzębski as the Chairman of the PZU Supervisory Board.

As of 31 December 2022, the current joint term of office of the members of the Supervisory Board of PZU SA, covering three consecutive full financial years 2020–2022, ended.

In 2022, the following changes transpired in the PZU Management Board:

- 1) On 4 February 2022, Krzysztof Szypuła tendered his resignation from the PZU Management Board;
- 2) On 27 April 2022, the PZU Supervisory Board appointed Piotr Nowak to the position of PZU Management Board Member, effective as of 27 April 2022.

As of 31 December 2022, the current joint term of office of the members of the Management Board of PZU SA, covering three consecutive full financial years 2020–2022, ended.

On 16 December 2022, the PZU Supervisory Board appointed, effective 1 January 2023, the PZU Management Board for another joint term of office covering financial years 2023–2025. The following persons were appointed to the PZU Management Board for the new term of office: Beata Kozłowska-Chyła, Ernest Bejda, Małgorzata Kot, Krzysztof Kozłowski, Tomasz Kulik, Piotr Nowak, Maciej Rapkiewicz and Małgorzata Sadurska.

With regard to PZU Group Director positions at PZU, the following changes occurred in 2022 and 2023:

- 1) Krzysztof Szypuła took over the position of PZU Group Director on 4 February 2022, a position he held until 31 December 2022;
- 2) Andrzej Jaworski took over the position of PZU Group Director on 15 April 2022;
- 3) Sylwia Matusiak took over the position of PZU Group Director on 1 January 2023;
- 4) Małgorzata Skibińska took over the position of PZU Group Director on 1 February 2023.

The persons listed in items 1–3, who are PZU Group Directors, are simultaneously members of the PZU Życie Management Board.

The person listed in item 4, at PZU Życie, also holds the position of the PZU Group Director.

As at the date of the Solvency and Financial Condition Report, the following persons comprised the PZU Management Board:

1. Beata Kozłowska-Chyła – President of the PZU Management Board;
2. Ernest Bejda – Member of the PZU Management Board;
3. Krzysztof Kozłowski – Member of the PZU Management Board;
4. Małgorzata Kot – Member of the PZU Management Board;
5. Tomasz Kulik – Member of the PZU Management Board;
6. Piotr Nowak – Member of the PZU Management Board;
7. Maciej Rapkiewicz – Member of the PZU Management Board;
8. Małgorzata Sadurska – Member of the PZU Management Board.

This report was accepted by the PZU Management Board in the composition given above.

B.1.5. Information on the principles and practices of compensating members of the Supervisory Board, the Management Board and employees

PZU Supervisory Board members do not receive variable compensation pegged to the Company's performance. The compensation rules applicable to the Supervisory Board members are set directly by the Shareholder Meeting. In 2022, members of the Supervisory Board received a fixed monthly remuneration, in the amount set in a resolution of the Company's Extraordinary Shareholder Meeting adopted on 8 February 2017 on the rules for setting the compensation of PZU SA Supervisory Board Members (as amended) and in accordance with Resolution No. 36 of the PZU Ordinary Shareholder Meeting of 26 May 2020 in the matter of Compensation Policy for the PZU SA Management Board and Supervisory Board Members, which was adapted to the reference range defined pursuant to Article 10 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies. The Policy adopted in 2020 includes in particular the following regulations: the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies, the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies of 29 July 2005, delegated regulation, Insurance Activity Act and Corporate Governance Rules.

The principles of remuneration for the members of the Management Board are decided by the Supervisory Board, and envisage that the total remuneration for a Management Board Member payable for management services and performance of other obligations resulting from a Management Services Provision Agreement, concluded for the duration of performing the functions on the Company's Management Board, is composed of the following components:

- fixed compensation – flat monthly base compensation (for a calendar month) that cannot exceed the reference range established pursuant to Article 4 section 2 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies without prejudice to the situations outlined in Article 4 section 3 of the aforementioned act;
- variable compensation – supplementary compensation for a given financial year depending on the extent to which management objectives are attained. The variable compensation for a given financial year may not exceed 100% of the annual fixed compensation in the previous financial year for which the amount of variable compensation due is to be calculated. In addition, a significant portion of the variable compensation is awarded in the form of deferred variable compensation. Deferred variable compensation is subject to deferral for 3 years, while 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred part of variable compensation for a given year subsequent to satisfying the conditions defined in the Management Services Provision Agreement.

The Company has defined the rules of compensating employees, in particular the persons carrying out the key functions. The principles applicable to those officers are an element of an effective risk management in the Company and contain the rules of remuneration applicable to insurance market entities as stipulated by the existing law, Corporate Governance Rules, the delegated regulation and the Insurance Activity Act.

Pursuant to the Compensation Policy, the variable compensation component is determined individually for each specific employee group or each individual. Its amount is linked to the Company's financial performance and the employee's individual

work performance. The rules for awarding variable compensation are designed to support proper and effective risk management, discourage excessive risk-taking beyond the limits accepted by the Supervisory Board, as well as to support the implementation of the business strategy and avert conflicts of interest. The variable compensation component may be subject to limitations as regards the allowable maximum amount. The Policy also provides for the option of deferring the disbursement of a significant portion of variable compensation. The Compensation Policy does not include an employee scheme of rights to shares, share options, additional pension and disability plans or else early retirement plans for the members of the Management Board, Supervisory Board or other persons overseeing key functions.

B.1.6. Information on material transactions concluded during the reporting period with shareholders and members of the Management Board or Supervisory Board

In 2022, the Company paid a dividend to its shareholders, as described in part A.1.7.2.

B.2. Fit and proper requirements

B.2.1. The requirements regarding skills, qualifications and professional expertise of the persons who effectively run the Company or persons performing other key functions

The requirements regarding the skills, qualifications and professional expertise of the persons who effectively run the Company or persons performing other key functions are applied relative to their respective scopes of responsibilities, the existing law and the Company's internal regulations.

Within the group of the of the persons who effectively run the Company and persons performing other key functions, the Company considers the following 4 groups:

1. members of the Supervisory Board, whose applicable requirements regarding skills, qualifications and professional expertise are regulated by the Company's Articles of Association;
2. Managers, i.e. persons acting as a Member of the Company's Management Board or a PZU Group Director in PZU who concurrently serves as a Member of the Management Board of PZU Życie;
3. persons overseeing key functions, i.e. persons designated as heads of the individual key functions by force of a resolution of the President of the Management Board;
4. persons with key functions in the Company, i.e. persons employed in the Company's business and organization units who perform key functions pursuant to the Company's organizational rules and regulations.

The Company applies separate requirements to its Managers, persons overseeing key functions and persons performing key functions.

In particular, a Company's Manager must satisfy the following requirements:

1. meets the requirements set out in the Company's Articles of Association;
2. is able to ensure that the Company's affairs are run with due care;
3. has full capacity to take legal actions;
4. was not convicted for a premeditated crime or intentional crime against tax regulations, under a legally binding court ruling;
5. is not a member of a governing body of:
 - 1) a reinsurance undertaking,
 - 2) a mutual fund company or an alternative investment fund manager within the meaning of the Act on Mutual Funds, operating under a valid license,
 - 3) an entity conducting brokerage activities within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments, or other activities in the field of trading in financial instruments within the meaning of this Act,
 - 4) a universal pension fund company,

- 5) a bank;
6. has proven knowledge of the Polish language, as required by the Insurance Activity Act;
7. has professional experience and knowledge which are adequate to his or her function, in particular as regards:
 - 1) the insurance and financial markets,
 - 2) the system of governance,
 - 3) financial and actuarial analysis,
 - 4) principles, rules and requirements of the laws applicable to the Company's business, including the skills of adapting to changes in law.

A person overseeing a key function in the Company must in particular satisfy the following requirements:

1. holds a university degree obtained in the Republic of Poland or another country in the meaning of the relevant laws in effect in that country, unless KNF issues consent to the Company to forgo that requirement in view of the person's professional experience;
2. meets the requirements defined by the Company for its Managers, referred to in items 2, 3, 4 and 7 above.

A person performing key functions in the Company must meet the requirements defined in the job description of his or her position. Job descriptions for individual functions are drawn up based on the Company's organizational rules and regulations and the organizational rules and regulations of a given unit fulfilling a key function. The core requirements applicable to the aforementioned group of persons, broken down by key function, are described below:

1. for positions in the actuarial function: the Company requires knowledge of insurance and financial mathematics and professional experience and education which are adequate to perform the relevant tasks;
2. for positions in the risk management function: the Company requires knowledge of underwriting risk assessment and underwriting risk provisioning, asset and liability management, capital investments - in particular in derivative instruments and similar financial instruments, liquidity and concentration risk management, operational risk management, reinsurance and other techniques of risk mitigation, as well as professional experience and education which are adequate to perform the relevant tasks;
3. for positions in the internal audit function: the Company requires knowledge of risk assessment, process analysis and designation, audit work methodology, business process good practices, skills of providing recommendations based on audit findings collected in the course of a planned audit, as well as professional experience and education which are adequate to perform the relevant tasks;
4. for positions in the compliance function: the Company requires knowledge of compliance risk management, compliance risk assessment, skills of developing systemic solutions for compliance risk management, and professional experience and education which are adequate to perform the relevant tasks.

B.2.2. Conducting a fit and proper evaluation of the persons who effectively run the Company or persons performing other key functions

The requirements for conducting fit and proper evaluation of the persons who effectively run the Company or persons performing other key functions are applied relative to their respective scopes of responsibilities, the existing law and the Company's internal regulations.

The Company applies separate principles of conducting a fit and proper evaluation of its Managers, the persons overseeing key functions and persons performing key functions.

In keeping with the foregoing, the bodies responsible for the fit and proper evaluation are:

1. for Managers of the Company – the Supervisory Board in the case of members of the Management Board and the Management Board in the case of PZU Group Directors who also serve as Members of the PZU Życie Management Board;
2. for persons overseeing key functions - the Management Board.

The evaluation of Managers and persons overseeing key functions in the Company is conducted prior to the appointment to be a Management Board member or a PZU Group Director or to a position involving oversight over a key function. The assessment is verified on an annual basis in the evaluation update process or in other cases specifically defined in the pertinent regulations adopted in this respect. Direct superiors of persons performing key functions in the Company will conduct a fit and proper evaluation.

The fit and proper evaluation is conducted prior to the appointment to a key function or whenever the person is suspected of having acted in contravention with the law, which could result in particular in the Company's non-compliance with the law or a financial crime.

The criteria applied in the above mentioned assessments are defined pursuant to the existing law, the Company's internal regulations and the relevant job description. The individual criteria are evaluated individually and form the basis for evaluating the person. The assessment is carried out based on the documents provided by the applicant confirming his or her compliance with the requirements, an assessment of his or her behavior and attitudes shown in the performance of professional duties, as well as information from other sources.

Every year, the Company's Management Board issues a report on the annual review of the evaluation of the persons overseeing key functions in the Company (hereinafter "Report"). This Report has been prepared on the basis of § 3 sec. 2 item 3 of the Principles for conducting the fit and proper evaluation and review of the persons overseeing key functions in PZU SA and PZU Życie SA.

The Reports are prepared based on information and statements submitted or filled out by the persons overseeing key functions in the Company. During the review of the fit and proper evaluation, the obligated employees complete or confirm the documents and statements submitted earlier.

Based on the collected documents and also on the basis of knowledge as at the date of preparing the Report, if no indications arise that may change the fit and proper evaluation of the respective individuals, the HR Management Department recommends that the previous evaluation in this respect is upheld. If the HR Management Department learns of any circumstances that may affect its recommendation, it will immediately update it.

Taking into account the "Methodology of assessment of suitability of members of corporate bodies of supervised entities by the Polish Financial Supervision Authority" published by KNF on 27 January 2020, in 2020 the Company carried out an analysis of completeness of the formal solutions adopted in this respect for Management Board and Supervisory Board members and rationale for updating them.

As a result of the completed analysis, on 18 November 2020 the Company's Supervisory Board adopted a resolution on the "Rules for assessment of suitability of the PZU SA Supervisory Board and Audit Committee" (URN/111/2020).

The procedure was adopted on 16 June 2021 by the Ordinary Shareholder Meeting of PZU, which at the same time accepted the PZU SA Supervisory Board's report on the results of assessment of suitability of the PZU SA Supervisory Board and Audit Committee conducted by the PZU Supervisory Board in the transition period, i.e. between 18 November 2020 (i.e. the date of resolution URN/111/2020) and 16 June 2021 (i.e. the date of adoption of the rules for assessment of suitability by the Ordinary Shareholder Meeting of PZU).

The rules for assessment of suitability of the PZU Supervisory Board and the Audit Committee set out, among others, the types of suitability assessments and the prerequisites for conducting them, the powers of the Supervisory Board and the Shareholder Meeting in the suitability assessment process, the requirements as to the personnel composition of the Company's Supervisory Board, the suitability assessment criteria and the process of conducting the assessment.

As regards PZU's Management Board members, on 18 November 2020, the Supervisory Board defined the rules for assessment of suitability by resolution No. URN/129/2020 on the "Rules for assessment of suitability of the PZU SA Management Board", which was subsequently amended by resolution No. URN/46/2021 of 12 May 2021. In connection with the adoption of the above procedure, on 20 January 2022 the PZU SA Supervisory Board adopted resolution No. URN/4/2022 repealing the rules of assessment prevailing in this respect, i.e. the Principles for Assessment and Verification of Competence and Integrity of Members of the PZU and PZU Życie Management Boards and those PZU Group Directors at PZU who are also Members of the PZU Życie Management Board (URN/16/2018).

The Rules currently applicable to Management Board Members define, among others, the types of suitability assessments and the prerequisites for conducting them, the powers of the Supervisory Board and the Nomination and Compensation Committee

in the suitability assessment process, the requirements as to the personnel composition of the Company's Management Board, the suitability assessment criteria and the process of conducting the assessment.

As regards the PZU Group Directors who are also Members of the PZU Życie Management Board, the fit and proper evaluation is made on the basis of the Principles for Assessment and Verification of Competence and Integrity of PZU Group Directors in PZU who are also Members of the PZU Życie Management Board and the PZU Group Directors in PZU Życie who are also Members of the PZU Management Board, in the wording set out in Resolution No. UZ/322/2021 adopted by the PZU SA Management Board on 3 December 2021. This procedure sets out the rules for conducting a fit and proper evaluation of a PZU Group Director candidate and then for their subsequent review: (1) once a year during the fit and proper evaluation update process, (2) if the PZU Group Director is suspected of acting in contravention with the law, which could result in particular in the Company's non-compliance with the law, its committing of a financial crime or a threat to sound management of the Company.

B.3. Risk management system, including own risk and solvency assessment

B.3.1. Description of the risk management system

The Company's Management Board has established the risk management strategy whose purpose is as follows:

- enhance the Company's value through active and deliberate management of the extent of risk taken;
- prevent the acceptance of risk at a level that could pose a threat to the Company's financial stability.

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

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

- a split of duties and tasks performed by governing bodies, committees and units taking part 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 split of duties and tasks is based on four decision-making levels. The first three entail the following:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the rules and regulations of the Supervisory Board, 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;
- Committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt procedures and methodologies for mitigating the individual risks and accept individual risk limits.

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:

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

The Actuarial, Operational and Model Risk Committee was established at the level of the PZU Group in 2022. A committee focused on such risks will facilitate developing the risk management system and ensure accurate and timely flow of information on operational, actuarial and model risks, which beforehand were addressed at meetings of the PZU Group's Risk Committee.

The risk management process consists of the following stages:

1. Risk identification

The process commences with a proposal to start developing an insurance product, buying a financial instrument, modifying an operating process, as well as whenever some other event occurs that may potentially lead to the emergence of risk. The identification process continues until the expiration of liabilities, receivables or activities associated with the risk. Risk identification involves identification of actual and potential sources of risk, which are later analyzed in terms of significance.

2. Risk measurement and assessment

Risk measurement and assessment are carried out depending on the nature of the given type of risk and the level of its materiality. Risk measurement is carried out by specialized units. The Risk Department is responsible for the development of tools and the measurement of risk in terms of risk appetite, risk profile and risk tolerance.

3. Risk monitoring and control

Risk monitoring and control consists in the ongoing analysis of deviations from benchmarks (limits, threshold values, plans, figures from prior periods, recommendations and guidelines).

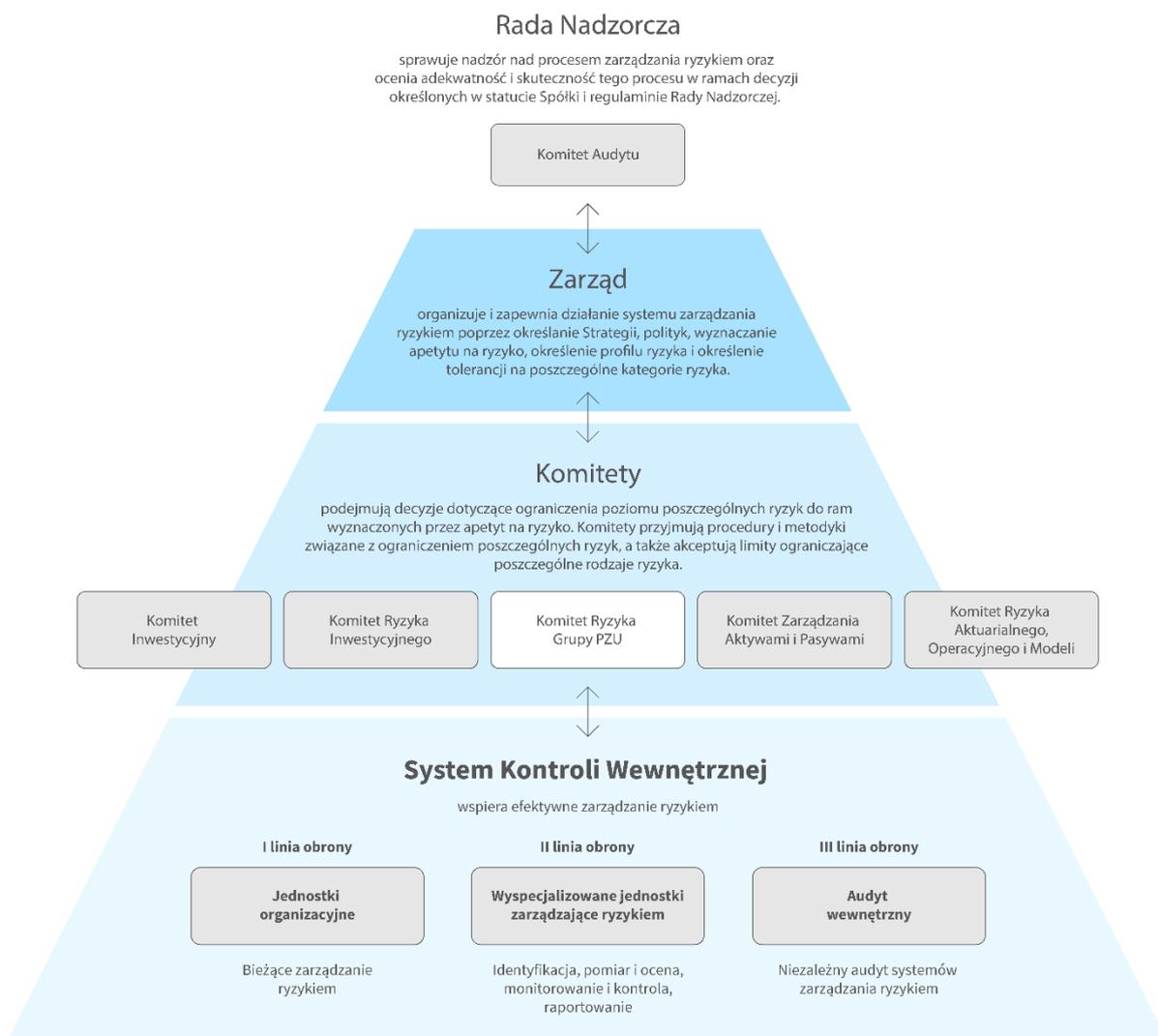
4. Reporting

Reporting allows for effective communication on risk and supports risk management on various decision-making levels;

5. Management actions

The management actions include among others: risk avoidance, risk transfer, risk mitigation, determination of risk appetite, acceptance of risk level, as well as the use of tools supporting such actions.

Chart of the organizational structure for the risk management system



The tasks of the Risk Management Function include in particular:

- the development and implementation of a risk management strategy and management policies for individual types of risk;
- the development of measurement methods for individual types of risk;
- the design and development of tools to support the risk management process;
- the identification, measurement and assessment, monitoring and controlling of risks;
- risk reporting and proposals of risk mitigating measures;
- drafting the proposals regarding the limits and restrictions grid and the key risk indicators (KRI);
- drafting control reports and monitoring the utilization of limits and restrictions;
- preparation of risk management rules and methodologies;
- preparation of risk information for the regulatory authority and rating agencies;
- stress-testing;
- acting as a competence center for risk management.

The person overseeing the risk management function is the Director of the Risk Department, who reports to the PZU Management Board Member responsible for risk management. The Risk Department is responsible for a system-based risk management and it cooperates in this process with all units.

B.3.2. Own risk and solvency assessment

The own risk and solvency assessment process is an integral part of the financial planning process and consists of the following stages:

- drafting and approval of the process assumptions in the given year;
- drafting and approval by the relevant units, and then forwarding to the Risk Department, of data consistent with the valuation adopted in the SII system and consistent with the PZU Group Strategy and financial plans of the Company;
- analysis and assessment of risks;
- analysis of the fulfillment of requirements concerning technical provisions;
- conducting an assessment of the capital required to implement the assumptions of the financial plan;
- assessment of the capital condition of the Company through stress testing;
- analysis of the consistency with risk appetite and the risk profile;
- proposal of changes regarding reduction in the risk exposure or increase of own funds, where necessary;
- changes to the financial plan or draft financial plan, where necessary;
- approval of the results of own risk and solvency assessment and initiation of possible management measures;
- documenting the outcome of the own risk and solvency assessment process in the form of a report;
- drafting of the own risk and solvency assessment protocol;
- provision to the regulatory authority of the own risk and solvency assessment report for the authority's purposes.

The own risk and solvency assessment process, and the analyses it involves, have been construed as to ensure support for the financial planning process in terms of risk profile analysis and evaluation of compliance with the capital requirements within the planned time horizon and the financial plan assumptions. It also constitutes the summary and review of efficiency of the measures taken in the risk management process.

The structure of the own risk and solvency assessment process and the responsibilities of its individual participants have been adjusted to complement the obligations of the individual units based on their decision-making powers specified in the system of governance and on the financial planning process. The Company's Management Board is responsible for organizing and ensuring efficient functioning of the own risk and solvency assessment process. Management Board members overseeing the units participating in the process oversee the activities related to the own risk and solvency assessment process in their

reporting areas and approve the data and analysis prepared in their areas that are required to conduct the own risk and solvency assessment. The Risk Department develops the own risk and solvency assessment process, coordinates the assessment as it is conducted and conducts an assessment of own solvency needs, continuous compliance with capital requirements and deviation of the risk profile from the assumptions underlying the calculation of the solvency capital requirement. All the prognostic data are delivered to the Risk Department through the intermediation of the Planning and Controlling Department, which is responsible for their internal consistency and consistency with financial plans.

Own risk and solvency assessment is conducted regularly, at least once a year or ad hoc, after the occurrence of material changes to the risk profile arising from changes in internal operations or changes in the business environment. The frequency of the own risk and solvency assessment process is consistent with the frequency of revisions of financial plans and the accompanying new business development projections corresponding to the implementation of the PZU Group Strategy and incorporating the changes resulting from portfolio growth and changes in the business environment.

The results of own risk and solvency assessment are documented in the form of a report. The report is subject to an independent review by the Internal Audit Department and then, after the PZU Group's Risk Committee issues its opinion on the report, it is subject to approval by the Management Board.

The assessment of general solvency needs is conducted for all the risks identified as material under the Risk Management Strategy and the individual risk management policies, i.e. actuarial risk, market risk, counterparty insolvency risk and operational risk. The analysis also covers compliance risk and liquidity risk.

The assessment of general solvency needs in 2022 covered the 3-year forecast horizon, taking into account the timeframe of the current PZU Group Strategy and the accompanying financial plans and the supervisory requirement for the minimum forecast horizon (three years). In addition, due to the identification of significant changes in the environment, an additional ad hoc process was conducted in Q2 2022. As part of the assessment of general solvency needs, analysis has been conducted to determine whether, with the current business strategy, the Company would maintain the necessary capital level that is adequate to the risk it is currently exposed to and to which it may be exposed in the future (including in the case of sudden events reflected in shock scenarios). The tested scenarios have been designed on the basis of PZU's risk profile, allowing for a review of its capital needs in new situations, involving both significant changes in the macroeconomic environment as well as shocks typical for the insurance sector. Moreover, the analysis includes scenarios that affect both assets as well as equity and liabilities.

According to internal regulations, if the own risk and solvency assessment identifies a potential decline in the solvency ratio below the acceptable level or an overrun of the risk profile limits, Director of the Risk Department, in cooperation with Director of the Planning and Controlling Department, presents potential possible measures, including changes to financial plans, in order to mitigate the risk or to increase own funds. Those measures are then submitted for approval to the Management Board Member overseeing the Risk Department, in consultation with the Management Board Member overseeing the Planning and Controlling Department.

B.4. Internal control system

B.4.1. Description of the internal control system

In addition to the risk management system, PZU operates an internal control system designed to ensure the Company's adherence to regulatory requirements and the effectiveness and efficiency of its operations, and to safeguard the availability and reliability of financial and non-financial information.

The system includes in particular the compliance function, administrative and accounting procedures, internal control organization, as well as reporting arrangements at all levels of the Company's organizational structure.

The internal control system supports the Company's Supervisory Board, Management Board, Unit Heads and employees in the fulfillment of objectives set forth in particular in the Company's strategy; as a result, the system must focus on the following areas:

- internal control environment, i.e. promoting the importance of control among employees and promoting management supervision and management style, including delegation of tasks, honesty, ethical values and employee development;

- risk identification and assessment, including containment of risks at an acceptable level;
- control activities and split of responsibilities;
- quality and communication of information, i.e. ensuring a flow of information that enables the Company to run and control its operations;
- monitoring of the efficiency of control mechanisms.

Relative to the type of tasks set forth in the organizational rules and regulations of divisions and units, job descriptions and employee responsibilities documents, the scope of internal control includes in particular:

- completeness, up-to-dateness and compliance of the Company's relevant internal regulations with the existing law;
- correctness, completeness and timeliness of activities, including document circulation;
- correctness or organization and allocation of work;
- observance of powers-of-attorney, authorizations, limits and other control elements, in particular relating to:
 - signing of the Company's internal and external correspondence;
 - entering into transactions, which result in liabilities for the Company;
 - business decision-making;
 - use of IT systems;
- correctness of processes;
- correctness of accounting records;
- safety of IT systems and ICT networks;
- safety of protected information, within the meaning of the applicable internal regulations.

If a Company's employee identifies irregularities found as a result of an inspection, the employee is obligated to document them and inform his/her direct superior thereof. At the same time, the employee is obligated to report the irregularity in accordance with the Company's internal regulations, e.g. to report them to the Compliance Function using the Whistleblowing Procedure.

The direct superior takes measures to eliminate the non-conformities and informs the Manager if additional measures must be taken.

B.4.2. Compliance function

The purpose of the compliance function is to ensure an effective management system for the risk of non-compliance with regulatory requirements and the Company's internal regulations.

The compliance function comprises:

- provision of advice to the Company's Management Board and Supervisory Board regarding compliance with the law,
- evaluation of the possible impact of changes in the legal environment on the Company's operations,
- identification and assessment of the risk associated with non-compliance with the existing law, internal regulations and the standards of conduct adopted by the Company.

The compliance function includes in particular the following tasks:

- implementation of a comprehensive system of compliance solutions in the Company, monitoring them and continuously refining them;
- introduction of processes and procedures to ensure effective management of compliance risk;
- establishment of the rules for ensuring compliance with regulations, including the definition of responsibilities, competences and reporting duties of the compliance function;
- developing the compliance assurance plan entailing the planned actions of the compliance function that incorporate all the areas of the Company's activity and their exposure to risk related to adherence to regulations;
- assessment of the suitability of measures adopted by the Company to prevent non-compliance;

- development of coherent system-based solutions to manage compliance risk to be implemented by PZU Group companies.

The Compliance Department is responsible for system-based management of compliance risk; in doing so, the Compliance Department collaborates with all the Company's units.

The appointment and dismissal of Director of the Compliance Department must be consulted with the Supervisory Board Audit Committee.

The person overseeing the compliance function is the Managing Director responsible for Compliance, who reports to the President of the PZU Management Board. The Managing Director responsible for Compliance and the Director of the Compliance Department have direct access to the members of the Company's Management Board and its Supervisory Board, to whom the compliance function reports on issues pertaining to the operation of the compliance function and compliance risk management. The reporting takes the form of cyclical reports on compliance risk and ad hoc memos presented to members of the Company's governing bodies.

In PZU, the compliance function operates based on impartiality and independence, as well as separation from operational functions. The Compliance Department operates in the second line of defense and is separated from the Company's on-going business operations. The objectives and responsibilities of the Compliance Department are defined in its organizational rules and regulations and the Compliance Policy. In particular, it fulfills the tasks attributed to the system-based compliance function. Furthermore, it is responsible for system-based compliance risk management. At the Company level, the actions undertaken under, and the information arising from, compliance risk assessment and management are reported - on a regular and ad hoc basis - to the PZU Management Board and Supervisory Board.

B.5. Internal audit function

B.5.1. Description of the implementation of the internal audit function

At PZU, the internal audit function is implemented by the Internal Audit Department as the "third line of defense"; it conducts independent audits of the risk management system elements as well as of the control activities embedded in PZU's operations.

The scope of internal audit includes: an independent risk assessment, an examination of all the business units, products, systems, business processes and risk management processes, with a frequency that depends on the identified risk areas and the significance of risks, as well as on the role and effectiveness of internal control in mitigating those risks.

The duties of the internal audit function comprise:

- assessment of the suitability and effectiveness of the internal control system and of all the other elements of the management system;
- development and implementation of an audit plan, which defines the scope of audit work to be undertaken in subsequent years, with regard to all types of activity and the Company's overall system of management;
- provision of regular management information from internal audit areas to the Company's Management Board and the Supervisory Board's Audit Committee;
- making recommendations on the basis of findings collected in the course of work according to the audit plan;
- checking the execution of the corrective measures stemming from the recommendations made.

The Internal Audit Department conducts the following audits:

- planned audits;
- ad hoc audits;
- follow-up audits.

The audit plan is prepared on the basis of an annual risk assessment in individual areas of PZU's operations, which is carried out in accordance with an internal methodology. An opinion on the draft audit plan is pronounced by the Supervisory Board's Audit Committee, and then it is approved by the Management Board.

The findings of planned audits are presented in audit reports. The findings of ad hoc and follow-up audits are presented in the form, manner and time agreed with the person who decided to request the audit.

Besides audits, the Internal Audit Department is engaged in advisory activities designed to give advice to units on how to streamline processes.

The timeliness of the implementation of audit recommendations by the units is overseen by the responsible Management Board Members or the PZU Group Directors. The Internal Audit Department monitors the progress of implementing the recommendations based on the information received from the individual units and then, following an analysis, it decides when they are deemed implemented. The implementation of the recommendations made to the individual auditee units may be subject to review by the Internal Audit Department (follow-up audits).

In order to ensure good quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted. An independent assessment of the internal audit function carried out in 2020 in PZU by PwC Advisory spółka z ograniczoną odpowiedzialnością sp.k. and an analysis of coordination of the group's internal audit by the Internal Audit Department showed general compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics developed by the Institute of Internal Auditors.

B.5.2. Independence and impartiality of internal audit

The internal audit function is impartial and independent of operational functions. The independence of the Internal Audit Department is protected by a range of measures.

The Managing Director for Audit, who runs the Internal Audit Department, reports organizationally directly to the President of the PZU Management Board and functionally to the Supervisory Board's Audit Committee. The appointment and dismissal of the Managing Director for Audit must be consulted with the Supervisory Board's Audit Committee.

In PZU, internal audits are conducted by employees of the Internal Audit Department (internal auditors), a team of people with high professional and ethical qualifications, having knowledge, skills and expertise in auditing.

The Managing Director for Audit participates in meetings of the PZU Supervisory Board's Audit Committee. Furthermore, the Managing Director for Audit or an Internal Audit Department employee named by him or her will take part, without a voting right, in meetings of the Company's Management Board and selected Committees in operation in PZU's structure.

When justified, the Internal Audit Department may use the support of employees of PZU Group entities or external service providers.

Over the time of an audit, members of the audit team have the powers of internal auditors and are obligated to observe internal auditors' duties.

Internal auditors have access to the necessary information, explanations, documents and data, allowing for the timely and correct performance of their tasks.

The Internal Audit Department prepares an annual activity report, which includes:

- information on completed audits (including on the achievement of the audit plan);
- evaluation of the internal control system and the risk management system.

The annual report is presented to the Management Board by 31 March of the following year, and subsequently to the PZU Supervisory Board's Audit Committee, by the time decided by the agendas and dates of the meetings of the PZU Supervisory Board Audit Committee.

The Internal Audit Department also prepares quarterly reports, including in particular:

- information on the progress in implementing the audit plan;
- information on the findings of internal audits and recommendations issued and rejected;
- information on the recommendation monitoring results, including any significant actions taken in order to implement the material recommendations (priority A) timeliness of their implementation, while explaining any possible departures from the performance of the original plan.

The Managing Director for Audit provides the aforementioned reports to the following:

- Members of the PZU Management Board and PZU Group Directors, by the end of the month following the end of the reported quarter to which the information pertains;
- The Audit Committee, by the time decided by the agendas and dates of the PZU Supervisory Board's Audit Committee meetings.

The scope of audit activities performed in the individual audits and the post-audit evaluations are autonomous decisions of the Internal Audit Department. The tasks are allocated in such a manner so as to prevent potential and actual conflicts of interest. Each employee, before starting a task, is obliged to inform the supervisor in case of a potential conflict of interest – assigned tasks are rotated as necessary. Furthermore, an auditor cannot audit activities they have themselves performed or managed before one year has elapsed. PZU has implemented the Internal Auditor's Code of Ethics, based on the guidelines of the Institute of Internal Auditors (IIA). The purpose of the Code is to promote best practices and models for ethical behavior, and to motivate the need for continuous professional improvement and development of the proper image of internal auditors. Internal auditors may not accept responsibility for any operational activity that is assessed by internal audit.

The Managing Director on Audit decides about the audit resources and schedule.

The Internal Audit Department conducts advisory activities based on decisions made by the Managing Director on Audit. The nature and scope of such advisory activities are each time agreed with the relevant unit and are designed to improve the processes, however the responsibility for the processes lies with the managers of such units. The manner of implementation and the method of reporting of advisory activities are agreed with the unit manager for whom these advisory services are provided, with a stipulation that if any material issues are found, the Internal Audit Department will report them to the PZU Management Board and the PZU Supervisory Board's Audit Committee.

The Managing Director for Audit confirms the independence and objectivity of the internal audit function in the quarterly and annual statements described above, which are forwarded to the PZU Management Board and the PZU Supervisory Board's Audit Committee.

B.6. Actuarial function

PZU operates according to precise characteristics of the actuarial function, its manager, the manager's required scope of knowledge and competencies, as well as the position of the function in PZU's system of governance. The actuarial function reports directly to the Management Board. The majority of tasks, including in particular the key responsibilities, are performed by the employees of the Actuarial Department, who often collaborate with other units. The function has guaranteed access to all data necessary to perform its activities, as well as the possibility to communicate with, and request clarifications from, any PZU employees.

The Director of the Actuarial Department at PZU is responsible for the calculation of technical provisions. The Director on Risk Underwriting in the Actuarial Department – the Company's Chief Actuary – is responsible for the actuarial function, including for the validation of provisioning. The aforementioned division of responsibilities, combined with separation from units in charge of tariffs, product development and reinsurance, guarantees that the actuarial function is free from any influences that could impair its ability to perform actuarial tasks in an impartial, integral and independent manner.

The purpose of the actuarial function at PZU is:

- to coordinate the amounts of technical provisions;
- to ensure the suitability of methodologies and models, as well as the assumptions adopted for the calculations of technical provisions;
- to assess whether the data used for the calculation of technical provisions is sufficient and of adequate quality;
- to compare the best estimates with the data resulting from accumulated experience;
- to inform the Company's Management Board and Supervisory Board about the reliability and adequacy of technical provisions;
- to oversee the calculation of technical provisions for solvency purposes in the instances of approximations, including a case-by-case approach;

- to provide an opinion on the overall underwriting policy;
- to provide an opinion on the suitability of reinsurance solutions, in the context of their impact on the technical provision amounts;
- to contribute to the effective implementation of the risk management system, including in particular:
 - modeling of risks input into the calculations of the solvency capital requirements and the minimum capital requirement,
 - analysis of own risk and solvency assessment.

Besides its own analysis, the actuarial function also uses analysis, studies and reports prepared by other units, including inter alia by:

- Risk Department;
- Reinsurance Department;
- Actuarial Analyses Department;
- competent product departments;
- Planning and Controlling Department;
- Information Management Department.

Individual tasks are performed by the actuarial function on as needed basis, but no less frequently than once a quarter. They are documented on an ongoing basis. The actuarial activities of any given year are summarized in an Actuarial Function Report, which is drafted in the following year and addressed directly to the Management Board.

B.7. Outsourcing

The Company has adopted the outsourcing rules, which also govern the outsourcing of activities that the Company considers core or important. The Company does not outsource the key functions of the system of governance to suppliers.

Before entering into an outsourcing contract for core or important activities, the outsourcing risk of the potential supplier is assessed.

Outsourcing contracts for the core or important activities contain provisions required by law, including those that guarantee the appropriate service level and a possibility for the Company and by authorized entities to verify the performance of the contracts. External entities also have contingency plans in place for the performance of the contract and are obligated to update them in the event of a change of circumstances related to the performance of the contract. Draft outsourcing contracts are opined by the designated units, including the Legal Department and the Compliance Department.

The Company monitors the outsourcing risk and manages the risk on an on-going basis and at the system-based level. In particular, the Company evaluates on an on-going basis the quality and timeliness of performance and, at least once a year, conducts a regular inspection of the suppliers to verify the quality of the services provided thereby. The system-based management of the outsourcing risk includes, inter alia, an evaluation of the outsourcing risk at the Company-wide level and reporting to the Management Board and the regulatory authority as regards performance of the obligations arising from prevailing laws.

At PZU, the core or important activities are outsourced with a view to invest the Company's funds and in claims handling and assistance processes. All outsourcing providers performing core or important activities are subject to Polish jurisdiction.

C. Risk profile

PZU's risk profile results from the PZU Group's strategy and financial plans and is subject to monitoring and control from time to time.

Given the scale of the Company's insurance operations (the leader in the non-life and motor insurance markets) and the amount of invested funds (inter alia through PZU's capital stake in Bank Pekao or Alior Bank) the most significant risks are actuarial risk and market risk.

The Company has in place a risk management system that is focused on both controlling risk as well as on maintaining the appropriate capitalization level. Through identification, measurement and assessment, monitoring and control and reporting of risks related to its operating activity and undertaking management activities in response to these risks, PZU is able to fulfill its obligations to clients and business partners and comply with the requirements arising from the law and external regulations. The table below details the categories of risk defined as material in PZU's internal regulations:

No.	Risk category	Definition
1	actuarial risk	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 technical provisions
2	market risk	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
3	counterparty default risk	counterparty default risk is 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, materializing in the form of the counterparty's default on a liability
4	operational risk	the risk of a loss resulting from improper or erroneous internal processes, human activities, system failures or external events
5	model risk	risk of incurring financial losses, in correctly estimating data reported to the regulatory authority, taking in correct decision or losing reputation as a result of errors in the development, implementation or application of models
6	compliance risk	compliance risk is the risk that the Company, its subsidiaries or persons related thereto may infringe on the existing law, internal regulations and codes of conduct adopted by the Company or its subsidiaries, including ethical standards, which results or may result in the Company, its subsidiaries or persons acting on its behalf being subject to legal sanctions, or incurring financial loss or else loss of reputation or credibility

In 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 risks¹, which are managed as part of individual risk categories specified below in this Report.

The Solvency Capital Requirement (SCR) is calculated on the basis of the standard formula according to the SII system. The solvency capital requirement comprises 8 modules: market risk, counterparty default risk, actuarial risk in non-life insurance, actuarial risk in life insurance, actuarial risk in health insurance, intangible assets risk, operational risk and adjustment of technical provisions and deferred taxation to cover losses. The first five modules and the intangible assets risk (which equals zero at PZU) are subject to the diversification effect. Combined, the risks form the so-called basic solvency capital requirement (BSCR). In its SCR calculation, the Company does not apply the transitory provisions.

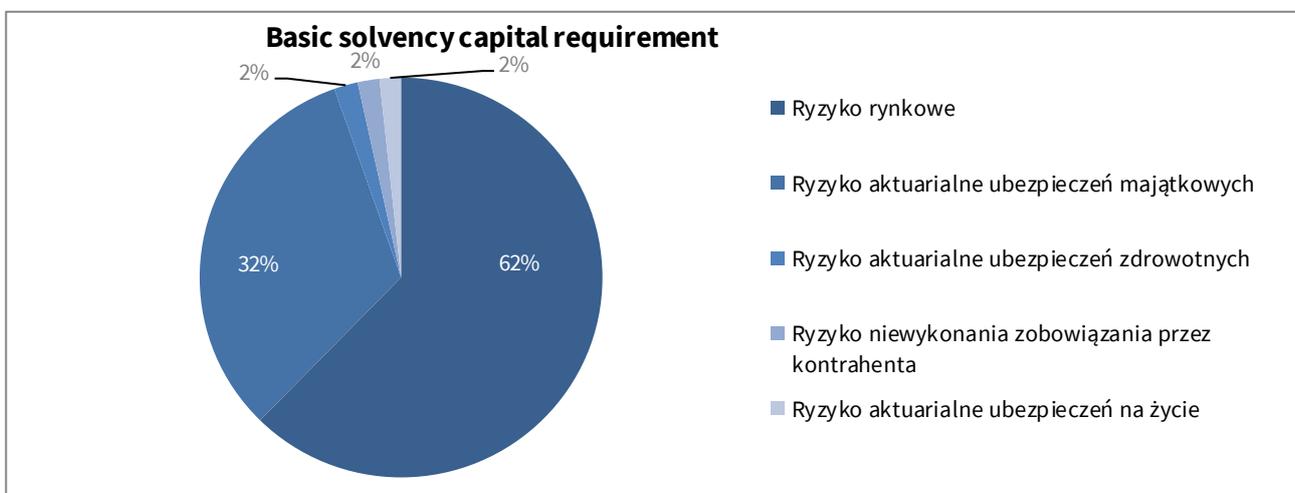
¹ According to the European Commission guidance for non-financial reporting, transition risks refer to the transition of the economy to a low-carbon and climate-resilient future. Physical risk on the other hand entails financial losses stemming from the physical consequences of climate change and encompasses acute (e.g. storms, fires) and long-term risk (rising sea level).

The table below presents the value of the solvency capital requirement and the basic solvency capital requirement before and after the diversification effect as at 31 December 2022 and compared to the preceding year.

Sub-module name	Value (PLN thousand)		Change 2022/2021	
	2022	2021	(PLN 000)	%
Market risk	8,012,593	9,393,184	(1,380,591)	(15%)
Counterparty default risk	225,510	240,836	(15,326)	(6%)
Actuarial life insurance risk	220,387	342,190	(121,803)	(36%)
Actuarial health insurance risk	245,387	272,301	(26,914)	(10%)
Actuarial non-life insurance risk	4,179,027	3,958,508	220,519	6%
Basic solvency capital requirement before diversification	12,882,904	14,207,019	(1,324,115)	(9%)
Diversification	(2,765,620)	(2,900,671)	135,051	(5%)
Basic solvency capital requirement after diversification	10,117,284	11,306,348	(1,189,064)	(11%)
Operational risk	412,932	381,810	31,122	8%
Adjustment for the loss-absorbing capacity of deferred taxes	(1,112,031)	(1,100,418)	(11,613)	1%
Solvency capital requirement	9,418,185	10,587,740	(1,169,555)	(11%)

In 2022, the solvency capital requirement decreased by PLN 1,169,555, or 11%. The change was mainly driven by a decrease in the capital requirement for market risk and actuarial risk in life insurance. The reasons for the SCR changes for those types of risk are described in the relevant chapters below.

The Company has in place internal procedures which transpose the obligations resulting from the principle of the prudent investor. As a result, PZU invests its funds exclusively in assets and financial instruments for which the Company is able to measure, monitor and as a consequence manage the risks involved, and which are incorporated in the assessment of its overall solvency needs. Having ensured an adequate level of investment liquidity, PZU invests into low-risk assets of sufficient quality and rate of return. When investing assets covering the technical provisions for solvency purposes, the Company takes into account the nature and duration of the existing insurance contracts, in keeping with the policyholder interests. PZU diversifies and disperses its assets in order to avoid over-exposure to one single asset class, issuer or geographical area.



Stress-testing and sensitivity analysis

The Company has conducted stress tests for market and actuarial risks, in accordance with the methodology adopted by the KNF, as well as sensitivity analysis for other significant risks and events according to the scenarios prepared for the own risk and solvency assessment purposes (ORSA). The stress testing and sensitivity analysis requirements are in principle not applicable to the risks described in section C.6. because of the nature and specificity of those risks.

Within the framework of these analyses PZU also makes a liquidity assessment involving the estimation of the possibilities of financing the payouts of claims and benefits as a result of extraordinary insurable events. The results of the stress tests demonstrate the ability to finance these types of events.

Under the own risk and solvency assessment (ORSA), the sensitivity analysis conducted for PZU covered stress scenarios affecting assets and liabilities alike. The stress tests selected for execution under ORSA span the Company's most important areas of underwriting activity and its risk profile and correspond to the assessment of the most significant risks in its business.

The tests were carried out based on the principles contained in the SII system. Each test was conducted independently, with the assumed change of the designated elements in the tests and maintenance of the remaining ratios at the baseline scenario level. A stress test takes into account a change in own funds and the solvency capital requirement to check the overall impact exerted on the Company's equity standing.

In 2022 stress tests were also conducted as at 31 December 2021 and based on the 2022 financial plans being implemented in accordance with the *Methods for Conducting Stress Tests in Insurance and Reinsurance Undertakings, 14th Edition* (hereinafter: "KNFST Methodology").

The test results do not reflect the influence of potential actions taken by the Company's Management Board in order to mitigate the impact of the materialized scenario. In fact, given the PZU's risk management system, and in particular the system of limits and restrictions, the Company's Management Board may take relevant actions to prevent or mitigate the impact, should the scenario materialize.

The stress test results evidence that in 2022 PZU held sufficient own funds to maintain the solvency ratio above the levels required by the KNF following the occurrence of the test scenarios.

The table below depicts the principal sensitivity analyses conducted for the purposes of ORSA. These tests were administered in 2022 as part of the prospective assessment of the Company's equity condition performed during the ORSA process (process performed in Q2 on an ad-hoc basis) and they refer to the solvency ratios as at the end of 2022 as forecast at the time of performing the various stress tests.

No.	Stress tests / sensitivity analyses	Risk impact	Change to the value of base solvency ratio (in p.p.)
1.	Increase in interest rates (+200 bps for the PLN curve, +100bps for the EUR curve)	Market risk	(10)
2.	Decrease in interest rates (-200 bps for the PLN curve, -100 bps for the EUR curve)	Market risk	11
3.	Shift in the shape of the interest rate curve (based on the curve generated in the model for calculating the value at risk for market risk in the 1 in 200 scenario)	Market risk	(16)
4.	Decrease in share prices (-50%)	Market risk	5
5.	Decrease in real estate prices (-30%)	Market risk	(7)
6.	Increase in FX rate (+30%)	Market risk	(4)
7.	Decrease in FX rate (-30%)	Market risk	4
8.	Counterparty default (the insolvency of two counterparties with the Company's largest exposure has been assumed from among the counterparties with a BB or lower rating)	Counterparty default risk	(3)
9.	Increase in loss ratio (10 p.p.)	Actuarial risk	(7)
10.	Increase in gross claims provision (+10%+max(PNR,0))	Actuarial risk	(13)
11.	Catastrophic loss – single	Actuarial risk	(5)

No.	Stress tests / sensitivity analyses	Risk impact	Change to the value of base solvency ratio (in p.p.)
12.	Catastrophic loss – multiple	Actuarial risk	(8)
13.	Extraordinary loss	Actuarial risk	(34)
14.	Reduction in mortality rates (-20%)	Actuarial risk	(2)
15.	Simultaneous increase in interest rates (+200 bps for the PLN curve, +100bps for the EUR curve) and a 10 p. p. increase in claims ratio	Market risk, actuarial risk	(17)

The table below presents the results of stress tests conducted in accordance with the “KNF ST Methodology and the impact exerted by a given test on the solvency ratio published at the time of the stress tests, or in accordance with their status:

- as at 31 December 2021

No.	KNF tests	Risk impact	Change to the value of base solvency ratio (in p.p.)
1	Interest rate risk	Market risk	0
2	Combined scenario for selected types of market risk	Market risk	(1)
3	Inflation risk	Market and actuarial risk	(116)
4	Physical risks – risk of flooding and strong wind (Division II)	Actuarial risk	(2)
5	Physical risk – hail risk (Division II)	Actuarial risk	(33)
6	Physical risk – wildfire risk (Division II)	Actuarial risk	(12)
7	Transition risk – reduction in value of securities (Division I and Division II)	Market risk	(1)
8	Transition risk – the risk of reducing reinsurance capacity for brown risks in the European market (Division II)	Market risk	(12)

Additionally, in the operational risk area stress tests are conducted as scenario-based analyses of operational risk. It is a method of operational risk identification and assessment based on an analysis of an occurrence of a hypothetical operational risk incident in the Company. The purpose of these checks is to identify areas which may be prone to the most adverse real loss, identification of potential threats, as well as planning of actions and controls to prevent the operational risk incident described in the scenario from happening in the future. Two scenario analyses pertaining to operational risk were conducted in 2022: in the area of accounting and the area of investments.

Exposure to risk arising from off-balance sheet items

As at 31 December 2022, the value of off-balance sheet items included in the capital requirements calculations was PLN 1,072,873 thousand and pertained to the value of bonds securing contingent transactions (as at 31 December 2021: PLN 464,420 thousand).

C.1. Actuarial risk

Risk identification commences with an insurance product development process and continues until the expiry of the related liabilities. The identification of actuarial risk is performed, among others, as follows:

- an analysis of the general terms and conditions of insurance with respect to the underwriting risk and compliance with the existing laws;
- an analysis of the general/specific terms and conditions of insurance or other model agreements with respect to the relevant actuarial risk being undertaken;
- identification of potential risks related to a given product, for the purposes of subsequent measurement and monitoring;
- an analysis of the impact exerted by the introduction of new insurance products on the Company’s capital requirements and risk margin computed according to the standard formula;
- verification and validation of changes to products;

- an assessment of actuarial risk with reference to similar existing insurance products;
- monitoring of existing product;
- an analysis of the underwriting, tariff, provisioning and reinsurance policies 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 that results in a liability for the Company.

The actuarial risk assessment process undergoes continual evolution designed to adapt the applied measures to the changing external environment, achieve more effective product profitability management and organizational changes and modify the product offering. However, the changes recorded in 2022 were not of material character.

The measurement of actuarial risk is performed in particular by the way of:

- 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 is designed to ensure effective communication regarding actuarial risk and support the management of actuarial risk at various decision-making levels, from an employee to the Supervisory Board. The frequency of each report and the scope of information provided are tailored to the information needs at each decision-making level.

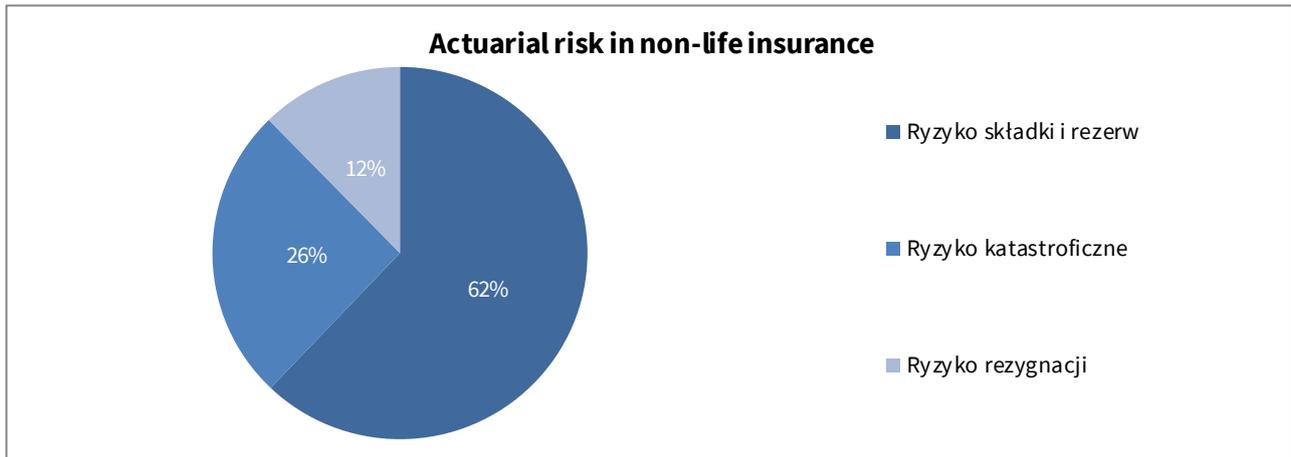
The management actions taken in the course of the actuarial risk management process are performed in particular by the way of:

- identification of the tolerance level for actuarial risk and its monitoring;
- business decisions and sales plans;
- calculation and monitoring of 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.

In PZU, actuarial risk is mitigated in particular through the following activities:

- definition of the scope of liability in the general terms and conditions of insurance and other model agreements;
- co-insurance and reinsurance;
- application of adequate tariff policy;
- application of the appropriate provision calculation methodology;
- application of the appropriate procedure to assess underwriting risk;
- application of the appropriate claims handling procedure;
- sales decisions and plans;
- prevention.

The chart below presents the share of each sub-module in actuarial risk (without the diversification effect) as at 31 December 2022. Mortality risk is the most significant part of the actuarial risk module in non-life insurance, and represents premium and provisioning risks.



In 2022, the Company noted an increase in actuarial risk in non-life insurance, which was primarily due to the higher risk of premium and provisioning and higher catastrophic risk.

Actuarial non-life risk

Sub-module name	Value (PLN 000)		Change 2022/2021		Comments
	2022	2021	(PLN 000)	%	
Premium and provisioning risk	3,521,277	3,403,062	118,215	3%	The increase in the premium and provisioning risk is mainly due to an increase in planned earned premiums.
Life catastrophe	1,436,535	1,246,684	189,851	15%	The increase in the capital requirement for operational risk is due to: - changes to the catastrophe reinsurance program; - an increase in exposure to natural disasters risk.
Lapse risk	687,042	643,014	44,028	7%	The increase is mainly due to lower expected claims ratio.
Diversification	(1,465,827)	(1,334,252)	(131,575)	10%	-
Actuarial non-life risk	4,179,027	3,958,508	220,519	6%	The effect of the above changes

Sub-module name	Value (PLN thousand)		Change 2022/2021		Comments
	2022	2021	(PLN 000)	%	
Longevity risk	171,360	273,947	(102,587)	(37%)	A decrease in the requirement caused by the change of the PLN interest rate curve published by EIOPA.
Risk of annuity revision	91,312	122,717	(31,405)	(26%)	A decrease in the requirement caused by the change of the PLN interest rate curve published by EIOPA.
Cost risk	15,792	34,589	(18,797)	(54%)	A decrease in the requirement caused by the change of the PLN interest rate curve published by EIOPA.
Diversification	(58,077)	(89,063)	30,986	(35%)	-
Actuarial life risk	220,387	342,190	(121,803)	(36%)	The effect of the above changes

Actuarial health risk

Sub-module name	Value (PLN thousand)		Change 2022/2021		Comments
	2022	2021	(PLN 000)	%	
Health non-life risk	244,292	271,209	(26,917)	(10%)	Decrease in planned earned premium.
Health catastrophic risk	4,243	4,243	(0)	0%	-
Diversification	(3,148)	(3,151)	3	0%	-
Actuarial health risk	245,387	272,301	(26,914)	(10%)	The effect of the above changes

In the area of premium and provisioning risk, the following actions are carried out:

- active monitoring of the combined ratio;
- an analysis of the impact of changes in the external environment on the statistical data used to calculate premiums and provisions;
- proactive monitoring of results achieved on individual products;
- a reinsurance program designed to mitigate potential financial losses resulting from an unexpected increase in the loss ratio.

As regards catastrophic risk in non-life and accident insurance, the following actions are carried out:

- monitoring of changes in portfolio exposure;
- monitoring of the reinsurance program's volume and retention, including potential modification thereof in order to mitigate losses resulting from catastrophic events;
- exposure map for non-life insurance;
- creation of a flooding risk model, to be used in a wide spectrum of business applications (including underwriting, tariff-setting) and a flooding exposure map.

Within actuarial risk, PZU identifies concentration risk with regard to possible losses caused by natural disasters, such as, in particular, floods and cyclones. With regard to the exposure to the risk of floods and cyclones, the risk management system in the PZU Group allows to monitor it regularly and the reinsurance program in place reduces the potential for net catastrophic loss. In addition, within the portfolio of PZU's clients, we identify significant concentrations on high corporate risks which are subject to facultative reinsurance reducing possible net losses to acceptable levels, not threatening PZU's financial stability.

C.2. Market risk

Market risk identification involves recognizing the actual and potential sources of this risk. For assets, the market risk identification process begins with the decision to commence transactions in a given type of financial instrument. Units that make the decision to commence transactions in a given type of financial instrument draw up a description of the instrument, containing, in particular, a description of the risk factors involved, and provide it to the Risk Department, which identifies and assesses market risk on that basis.

The process of market risk identification associated with insurance liabilities commences with the process of developing an insurance product and 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, relative to their materiality, i.e. if the materialization of that risk would entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures:

- VaR, value at risk: a measure of risk quantifying the potential economic loss that will not be exceeded within a period of one year under normal conditions, with a probability of 99.5%;
- standard formula;
- exposure and sensitivity measures;
- accumulated monthly loss.

When measuring market risk, the following particular stages can be identified:

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

Risk is measured:

- daily for exposure and sensitivity measures of the instruments in the transaction system;
- monthly using the model to calculate the value at risk for market risk or the standard formula.

Market risk is monitored and controlled in two ways internally in the organizational units responsible for operational management of market risk and independently by the Risk Department. Monitoring of market risk involves an analysis of the level of risk and of the utilization of the designated limits. The risk is monitored on a daily and monthly basis, in accordance with the defined limits.

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

Management actions in respect of market risk involve in particular:

- transactions to mitigate market risk, i.e. buying or selling a financial instrument, closing a derivative, or purchasing a hedging derivative;
- 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.

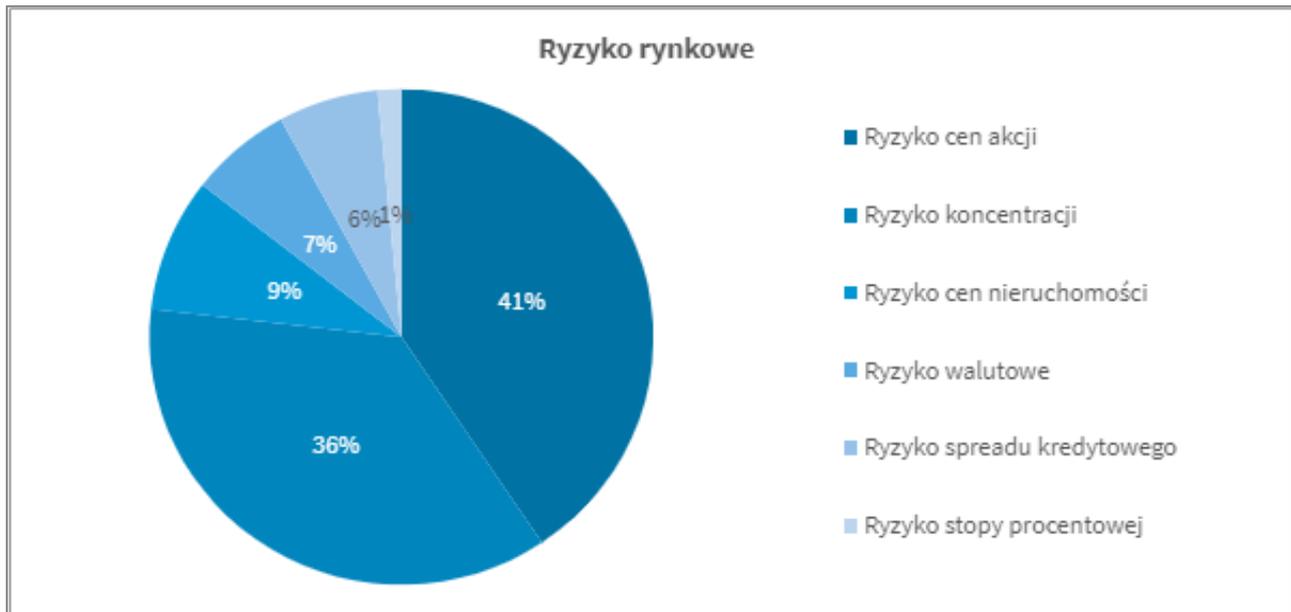
The setting of limits is the main management tool for maintaining risk positions within acceptable risk tolerance levels. The structure of limits for individual market risk categories, as well as for individual business units, is established so as to ensure that they are consistent with the risk profile and risk tolerance approved by the Management Board. The Investment Risk Committee and Investment Committee establish additional detailed market risk limits.

The table below presents the capital requirements for market risk and its submodules as at the end of 2022, compared to 2021.

Sub-module name	Value (PLN thousand)		Change 2022/2021	
	2022	2021	(PLN 000)	%
Equity risk	4,965,320	5,095,587	(130,267)	(3%)
Concentration risk	4,434,853	6,358,552	(1,923,699)	(30%)
Foreign exchange risk	801,075	1,010,982	(209,907)	(21%)
Property	1,067,071	936,516	130,555	14%
Interest rate risk	186,106	221,173	(35,067)	(16%)
Spread	786,059	953,178	(167,119)	(18%)
Diversification	(4,227,891)	(5,182,804)	954,913	(18%)
Market risk	8,012,593	9,393,184	(1,380,591)	(15%)

At the end of 2022, concentration risk and equity price risk represent the largest part of the market risk module. The decrease in market risk was mainly due to a decrease in the capital requirement for concentration risk as a result of a decrease in the valuation of investments in strategic shares. The decrease in the value of the investments in question resulted mainly from the decreases in share prices of Bank Pekao and Alior Bank on the Warsaw Stock Exchange. As at 31 December 2021, the value of Alior Bank and Pekao Bank in PZU's portfolio stood at PLN 2,278,579 thousand and PLN 6,404,269 thousand, respectively, while one year later their valuations rose to PLN 1,427,549 thousand and 4,540,732 thousand.

The chart below presents the share of each sub-module in the total market risk, without the diversification effect.



PZU has not identified a significant risk concentration with regard to market risk. The asset concentration risk sub-module mainly indicates a concentration on the PZU Group and two other capital groups to which PZU has lent or has equity exposure in shares of subordinated entities. Bulk of PZU's investments are bonds issued or guaranteed by the State Treasury. Market risk concentration is reduced by the way of risk limits for each type of investment being set by the relevant Committees.

C.3. Credit risk/counterparty default risk

Credit risk is identified at the stage of making a decision on an investment in a new type of financial instrument or on accepting credit exposure to a new entity. Such identification involves an analysis of whether the contemplated investment entails credit risk, what its level depends on and what its volatility over time is. Both actual and potential sources of credit risk are identified.

Underwriting consists of estimating the probability of realization of a specific risk and estimating the potential impact of its realization on the financial standing.

Credit risk is measured using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- capital requirement calculated using the standard formula.

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, for:

- credit exposure in investment portfolios;
- credit risk exposures in financial insurance;
- exposures to reinsurance;
- exposure limits;
- risk tolerance limits based on the values calculated using the standard formula.

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

Management actions in respect of credit risk involve in particular:

- establishment of limits on exposure to a single entity, a group of entities, sectors or states;
- diversification of the portfolio of assets and financial insurance, especially with regard to state, sector;
- acceptance of collateral;
- execution of transactions serving the purpose of mitigation of 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 for each issuer is established so that the limits are consistent with the risk profile and risk tolerance adopted by the Management Board. In PZU, the above structure is established by the Investment Committee – for transactions up to PLN 600 million inclusive and by the Investment Risk Committee – for transactions above PLN 600 million. Additionally, the Committees set detailed limits on amounts and qualitative restrictions.

In 2022, counterparty default risk (CDR) accounted for 2.4% of the total value of the Company's SCR. Compared to 2021, the above percentage increased by 0.1 p.p., while the value of the requirement for this category declined by 6%.

Credit risk includes counterparty default risk, credit spread risk and asset concentration risk. In accordance with the requirements defined by the SII Directive, credit spread risk and concentration risk are included in the market risk module and the data for the capital requirement are presented there. In 2022, no significant changes were made to measurement methods of credit risk and counterparty default risk.

At PZU, risk concentration with regard to counterparty default risk occurs through reinsurance positions and cash in bank accounts.

In the case of other exposures, credit risk concentration is mitigated by setting limits to reduce the exposure to single entities, groups of entities and credit limits for sectors and states other than Poland by the Investment Risk Committee and the Investment Committee.

PZU performs regular reviews of the set limits together with an analysis of concentration risk.

C.4. Liquidity risk

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the Company's liabilities to its clients or counterparties. The aim of the liquidity risk management system is to maintain the capacity of fulfilling the Company's liabilities on an ongoing basis. In 2022, no material changes to the liquidity risk management processes were introduced. The Company maintains the required level of the investment portfolio liquidity (the profile of the liquidity risks did not change to a material extent in the reporting period).

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:

- shortage of liquid cash to satisfy the Company's current needs;
- financial instruments held being not liquid;
- structural asset-liability maturity mismatch.

Risk measurement and assessment are 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;
- 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 impact of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of extraordinary insurable events;

- current statements of estimates (short-term financial liquidity) – by monitoring demand for cash reported by other business units by the date defined in prevailing internal regulations.

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;
- maintaining an appropriate level of liquid financial investments in the investment portfolio;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU SA and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU SA 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 SA (using the services of one external asset management entity facilitates risk management, including liquidity risk).

PZU has not identified a significant risk concentration with regard to liquidity risk.

Monitoring financial liquidity risk involves analyzing the utilization of defined limits.

Reporting involves communicating the level of financial liquidity to various decision-making levels.

The Company does not estimate liquidity risk by taking into account the amount of expected profit from future premiums as referred to in Article 295 sec. 5 of the delegated Regulation. The amount of expected profit from future premiums as of 31 December 2022 is PLN 724,819 thousand (as at 31 December 2021: PLN 514,530 thousand).

C.5. Operational risk

Operational risk is identified in particular by:

- accumulation and analysis of information on operational risk incidents and the reasons for their occurrence;
- self-assessment of operational risk;
- scenario analyses.
- Operational risk is assessed and measured by:
 - calculating the effects of the occurrence of operational risk incidents;
 - estimating the effects of potential operational risk incidents that may occur in the Company's business.

Monitoring and control of operational risk is performed mainly through an established system of operational risk indicators allowing for assessment of changes in the level of operational risk over time and assessment of factors that affect the level of this risk in the Company's business.

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

Management actions involving reactions to any identified and assessed operational risks involve, in particular:

- risk mitigation by taking actions aimed at minimizing risks, for instance by strengthening the internal control system;
- risk transfer – in particular, by entering into insurance agreements;
- risk avoidance by refraining from undertaking or withdrawing from a particular type of business in cases where too high a level of operational risk is ascertained and where the costs involved in risk mitigation are unreasonable;
- risk acceptance – approval of consequences of a possible realization of operational risk unless they threaten to exceed the operational risk tolerance level.

Business continuity plans have been implemented at PZU. Actions securing correct operation of the processes included in the Plan in the event of emergency have been tested.

Based on an analysis of operational risk indicators in the following areas: security, human resources, IT technologies and law, the operational risk of the Company was assessed as low. No significant changes to the operational risk profile were found in the reporting period. The method of assessing operational risk did not change, either. Based on up-to-date knowledge, no material concentrations were identified in the area of operational risk in the present reporting period. Neither any grounds were identified that could indicate the possibility of such concentrations to appear in the future.

C.6. Other significant risks

The risk categories defined as material in PZU's internal regulations include also the compliance risk and model risk. These risks are, by their nature, not included in the standard formula applied to calculate capital requirements. The process of managing these risks is performed by ensuring suitable and effective control mechanisms while applying the pertinent organizational and procedural solutions.

The compliance risk understood as the risk that PZU 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, or incurring financial loss or else loss of reputation or credibility. It also includes the risk that the operations performed by PZU will be out of line with the changing legal environment (both in the area of the so called 'hard law' and 'soft law'). This risk may materialize as a result of delayed implementation or absence of clear and unambiguous laws. This may cause irregularities in 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. The identification and assessment of compliance risk is performed for each internal process by the Unit Heads in accordance with the allocation of responsibility for reporting. Moreover, the Compliance Department identifies compliance risk on the basis of its own actions and information obtained, also from notifications to the register of conflicts of interest, gifts, and irregularities, as well as from inquiries sent to them.

Compliance risk is assessed and measured by calculating the consequences of the following types of risk materializing:

- financial, resulting, without limitation, from administrative penalties, court judgments, contractual penalties and claims paid;
- non-financial, pertaining to a loss of reputation, including damage to the image and brand.

In the reporting period, no significant changes to the methods of assessing compliance risk occurred, or to the assessment of this risk itself. Neither any significant concentrations of risks – because of nature of the described risks – were identified either.

Compliance risk is monitored, in particular, through:

- compliance analyses;
- systemic analysis of regular reports received from Unit Heads;
- participation in the Company's legislative process;
- reviews and monitoring of regulatory requirements;
- participation in legislative work aimed at amending the existing laws of general application;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- coordination of the fulfillment of disclosure obligations imposed by the stock exchange and by statute;
- monitoring of anti-monopoly jurisprudence and proceedings conducted by the President of UOKiK;
- review of the implementation of the Compliance Department's recommendations.

Management actions taken in response to the compliance risk comprise in particular:

- acceptance of risk;
- mitigation of risks, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;

- avoidance of the risk by preventing any involvement in activities that are out of compliance with the applicable regulatory requirements or best market practices or activities that may have an unfavorable impact on the entity's image.

Taking into consideration the nature and distinct nature of the risks described in this part of the report, the requirements for stress testing and sensitivity analyses are in principle not applicable to this scope of reporting.

No compliance risks that are significant at the Company level have been identified as a result of off-balance sheet items.

Model risk has been defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models. In 2022, the formal process of identification and assessment of this risk, aiming to ensure high quality of the risk management practices applied to this risk, was continued. The model risk management process involves:

1. 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, where materiality is a feature of the model describing its significance and the processes in which it is used. The materiality assessment influences the scope of the actions performed and tools used in the process.
2. Risk measurement based on the results of independent model validations and model monitoring.
3. Risk monitoring, which involves ongoing analysis of deviations from the adopted points of reference regarding the model risk (including verification of how recommendations are implemented, verification that the level of model risk is acceptable from the point of view of the provisions of the Model Risk Management Policy).
4. Risk reporting, which involves communicating the process results on the appropriate management level, in particular results of risk monitoring, validation and measurement.
5. Management actions, which aim to mitigate the model risk level. The actions can be active (e.g. recommendations resulting from completed validations) and passive (developing model and model risk management standards).

Additionally, as part of own risk and solvency assessment in the risk analysis process and identification of key risks, the Company identifies and assesses risk that are not defined as material in the internal regulations. All identified risks are assessed from the perspective of frequency and severity of materialization (taking into account the financial severity and impact on reputation). Based on the aforementioned process, in 2022, key risks, in addition to the categories described in the earlier part of the report, included the following risk categories:

competition risk, defined as a risk of market changes (conditions of competition) having an adverse impact on the entity, including competitors' actions aimed at taking over the sales entities (agents), competitors' actions aimed at taking over the clients, entity's failure to respond to client expectations, aggressive pricing policy,

business risk, defined as the possibility of incurring a loss or unfavorable change of the value of liabilities, associated with an incorrect business model, including related to a failure to attain the assumed and necessary economic objectives due to failure in market competition.

D. Measurement of assets and liabilities

Quantitative information on assets and liabilities measured in accordance with the SII system is included in form QRT S.02.01.02 which constitutes Attachment 5 to this report.

D.1. Assets

PZU measures assets for solvency purposes at fair value and the table below presents the grounds, methods and major assumptions used when measuring assets.

Assets	Description of the grounds, methods and major assumptions used for measurement for solvency purposes
Real property	The fair value of real property is determined using the alternative measurement method described in part D.4. Right-of-use assets are carried using alternative measurement methods, in compliance with the rules laid down in IFRS16 'Leases'.
Shares in related entities, including equity interests	The measurement method consistent with the hierarchy described in Article 13 of the delegated regulation: Equity interests in subordinated entities listed on active markets are measured at fair value in accordance with Article 10 sec. 2 of the delegated regulation, i.e. based on the market prices of the same assets listed on active markets. Shares in subordinated entities not quoted on active markets are measured using the adjusted equity method. The adjusted equity method requires that PZU should measure equity interests held in subordinated entities based on the share owned in the subordinated entity's surplus of assets over liabilities. When calculating a surplus of assets over liabilities for subsidiaries, particular assets and liabilities of the given entity are measured in accordance with the principles of the SII system. Participation units in mutual funds which the Company classifies as participation units in subordinated entities are measured using the alternative measurement method described in part D.4 for participation units and investment certificates in collective investment undertakings.
Debt securities, loans	Fair values of debt securities are determined on the basis of quotations publicly available on an active market and if there are no such quotations – valuations published by an authorized information service; and if there are no such quotations either – using valuation models containing references to published price quotations of the underlying financial instruments, in interest rates and stock exchange indices. PZU conducts an internal review of the valuations published by the authorized information service comparing them to the valuations available from other sources based on data which can be observed on the market. The fair value of debt securities for which an active market does not exist and of loans is measured using the alternative measurement method described in part D.4.
Participation units and investment certificates in collective investment undertakings	The fair value of participation units and investment certificates of mutual funds are measured using the alternative measurement method described in part D.4.
Derivatives	For derivatives quoted on an active market, the fair value is considered to be the closing price as at the balance sheet date. The fair value of derivatives not quoted on an active market, including forward contracts and interest rate swaps (IRS) is measured using the alternative measurement method described in part D.4.
Deposits other than cash equivalents	The fair value of deposits is measured using the alternative measurement method described in part D.4.
Receivables from insurance and from insurance intermediaries	The fair value has been measured using the alternative measurement method described in part D.4. In receivables from the insured and insurance intermediaries only these receivables are presented whose maturity dates have already passed. Due and future premium installments are taken into consideration when defining the best estimate as cash flows – inflows.
Other receivables (trade receivables other than those from insurance activity) and amounts due and payable from reinsurance agreements for liabilities resulting from insurance	The fair value has been measured using the alternative measurement method described in part D.4.
Cash	Measurement at nominal value, increased, in justified cases, by the accrued interest.

The table below presents an explanation, in quantitative terms, of differences between data of assets calculated in accordance with the principles used for measurement for solvency purposes (described in the table above) and data calculated in accordance with the principles used for the needs of financial statements (according to the PAS). The column entitled “Amount from the financial statements” presents values from the Company’s financial statements for the year ended 31 December 2022 in accordance with their economic content, but without making adjustments that would be necessary to make the numbers fit the format and method of presentation required in the SII system. The total assets in the “Amount from the financial statements” column are equal to the total in the Company’s financial statements after taking into consideration the changes to the presentation of the reinsurers’ share in technical provisions and the reinsurers’ share in estimated salvage and subrogation.

Assets (data in PLN 000s) as at 31 December 2022	Amount from the financial statements as at 31 December 2022	DAC adjustment	Intangible Asset adjustment	Measurement of investments	Measurement of provisions	Reclassificatio n of items	Adjustment of the Company Social Benefit Fund	Measurement of other assets	Amount according to Solvency II as at 31 December 2022
Deferred acquisition costs	1,756,710	(1,756,710)	-	-	-	-	-	-	-
Intangible assets	297,878	-	(297,878)	-	-	-	-	-	-
Property, plant and equipment (tangible fixed assets) used for own needs	407,158	-	-	508,573	-	-	-	-	915,731
Investments (other than insurance assets in which the benefit is determined on the basis of specified indices or other base values, and life insurance linked to a unit-linked fund)	38,111,709	-	-	3,122,467	-	-	-	-	41,234,176
Real property (other than used for own needs)	9,633	-	-	36,901	-	-	-	-	46,534
Shares in related entities, including equity interests	14,118,751	-	-	5,064,898	-	8,291,905	-	-	27,475,554
Shares and interests	910,086	-	-	(15)	-	-	-	-	910,071
Shares and interests – quoted	910,049	-	-	-	-	-	-	-	910,049
Shares and interests – unquoted	37	-	-	(15)	-	-	-	-	22
Debt securities	13,633,897	-	-	(1,979,299)	-	-	-	-	11,654,598
Government bonds	11,142,221	-	-	(1,972,755)	-	-	-	-	9,169,466
Corporate bonds	2,491,676	-	-	(6,544)	-	-	-	-	2,485,132
Participation units and investment certificates in collective investment undertakings	9,152,914	-	-	-	-	(8,291,905)	-	-	861,009
Derivatives	78,158	-	-	-	-	-	-	-	78,158
Deposits other than cash equivalents	208,270	-	-	(18)	-	-	-	-	208,252
Other investments									
Other loans and mortgage-backed loans – other	1,779,776	-	-	(14,854)	-	-	-	-	1,764,922

Assets (data in PLN 000s) as at 31 December 2022	Amount from the financial statements as at 31 December 2022	DAC adjustment	Intangible Asset adjustment	Measurement of investments	Measurement of provisions	Reclassificatio n of items	Adjustment of the Company Social Benefit Fund	Measurement of other assets	Amount according to Solvency II as at 31 December 2022
Amounts due and payable from reinsurance agreements for liabilities resulting from:	3,653,885	-	-	-	(2,478,184)	-	-	-	1,175,701
Insurance other than life insurance and health insurance treated as non-life insurance	3,423,274	-	-	-	(2,342,283)	-	-	-	1,080,991
Insurance other than life insurance products (excluding health insurance)	3,265,814	-	-	-	(2,205,303)	-	-	-	1,060,511
Health insurance treated as non-life insurance	157,460	-	-	-	(136,980)	-	-	-	20,480
Life insurance and health insurance treated as life insurance, except for health insurance and the insurance in which a benefit is determined on the basis of specified indices or other underlying values and unit-linked life insurance	230,611	-	-	-	(135,901)	-	-	-	94,710
Receivables from insurance and from insurance intermediaries	2,048,330	-	-	-	(1,695,583)	-	-	-	352,747
Outward reinsurance receivables	31,699	-	-	-	(6,036)	-	-	-	25,663
Other receivables (trade receivables other than those from insurance activity)	446,184	-	-	-	-	-	(58,412)	-	387,772
Cash and cash equivalents	130,720	-	-	-	-	-	(16,578)	-	114,142
Other assets (not included in other items)	924,869	(67,448)	-	-	(578,601)	-	-	(42,492)	236,328
Total assets	49,588,918	(1,824,158)	(297,878)	3,616,186	(4,758,404)	-	(74,990)	(42,492)	46,207,182

D.1.1. Qualitative description of material differences between measurement for solvency purposes and measurement according to PAS

D.1.1.1. Measurement of investments

1. Valuation of subordinated entities other than participation units in mutual funds: the difference between values according to PAS and measurement for solvency purposes follows from different measurement methods. According to PAS, subordinated entities are measured using the equity method, while for the purposes of the economic balance sheet they are measured at fair value or the adjusted equity method.
2. Debt securities (portfolio of financial instruments held to maturity), long-term deposits, loans: the difference between values according to PAS and measurement for solvency purposes follows from different methods of measuring instruments valued according to PAS at an adjusted purchase price, taking into account impairment losses, which for the purposes of the economic balance sheet are presented at fair value.

D.1.1.2. Measurement of provisions

Reinsurers' share in technical provisions and the technical provisions according to PAS – the provisions are established in compliance with the Finance Minister's Regulation of 12 April 2016 on the special accounting principles for insurance and reinsurance undertakings pursuant to the individual or actuarial method on the basis of historical data. For the purposes of the economic balance sheet, the technical provisions are determined by discounting the future cash flow linked to the liabilities under executed insurance contracts and reinsurance treaties – the best estimate and the risk margin, while the reinsurers' share is treated as the best estimate of discounted future cash flows resulting from settlements with the reinsurers, which is presented in the line item entitled : Amounts due and payable from reinsurance agreements for liabilities resulting from insurance.

A detailed explanation of the most important differences is provided in part D.2.1.

D.1.1.3. Assessment criteria for an active market

Whether a financial instrument is quoted on an active market is determined prior to the moment of establishing the carrying amount of the instrument on the day ending the calendar year on the basis of the data regarding the quantity and volume of trades in a given instrument in the last month of the year. The analysis is done on the set of data downloaded from the Bloomberg system containing information regarding the trades transacted in this period. These rules are not applicable to instruments admitted for trading on the Treasury Bond Spot market, with respect to which it is recognized that they are listed on an active market on account of the criterion referred to in item 2 below.

A given instrument is regarded as listed on an active market if:

1. the available data regarding the quantity and volume of trades originating from at least one of the markets referred to in the previous paragraph make it possible to assert that, on average, on the last day of the last month of the year at least five trades were transacted on this instrument or the total volume of trades transacted in this period was higher than 1% of the quantity of instruments admitted for trading on the market or
2. the regulations prevailing on one of the markets referred to in the following paragraph impose on designated players thereof the requirement of presenting quotations on whose basis the fixing price is determined by the organizer of that market on every day of the last month of the year.

An analysis of the activity of markets is based on information coming from the markets on which the Company could execute transactions of selling the instrument in regular circumstances. In particular, these include the following markets:

1. the markets on which the Company has executed transactions, or
2. dedicated markets for trading debt securities, or
3. the biggest markets among the markets of a given country, or

4. global markets earmarked for institutional clients.

The correctness of information regarding the transacted trades is checked in the framework of analyzing market activity by comparing the test file prepared using data coming from the Bloomberg system with the data presented on the official website of a given market. The following criteria are taken into consideration when preparing the test file:

1. ability to source data - the historical data from the official website of a given market must be sourced free of charge,
2. diversification of the types of issuers of financial instrument – a test set must include data (if possible) about at least two treasury instruments and two corporate ones;
3. diversification of the markets from which the data originate - the test file must contain data (if possible) regarding at least three markets.

D.1.2. Changes to the bases used for recognition, measurement or estimates in the reporting period

In the reporting period, there were no material changes to the principles of recognition, measurement or estimates with regard to measurement of assets.

D.2. Technical provisions

The values of technical provisions broken down by lines of business are included in form QRT S.12.01.02, constituting Attachment 6 to this report, and form S.17.01.02, constituting Attachment 7 to this report. The most important business lines at PZU are: line 4 – third party liability insurance of motor vehicles, line 5 – other insurance of motor vehicles and line 34 – annuities from insurance contracts other than life insurance contracts and connected with insurance liabilities other than health insurance liabilities.

Information on non-life insurance claims and benefits in the format of development triangles is included in form QRT S.19.01.21 constituting Attachment 8 to this report.

Technical provisions consist of the best estimate and the risk margin, in compliance with Article 225 of the Insurance Activity Act. The best estimate takes into consideration all the future proceeds and expenditures required to settle insurance liabilities and is determined on the basis of historical data, including possible adjustments referring to the future. The best estimate does not include payments on account of salvage and subrogation. Estimates of those payments are presented in the economic balance sheet in connection with Article 28 g) of the delegated regulation. The best estimate is determined by discounting forecast cash flows with the risk-free rate.

The main assumption made for defining the best estimate is the adequacy of historical experience for the purposes of anticipating the future. The table below presents the grounds, methods and major assumptions used when measuring assets for solvency purposes for the most significant lines of business.

Line of business	Description of the grounds, methods and major assumptions used for measurement
4 and 5	Cash flows are determined for claims provisions on the basis of claims triangles while using standard actuarial methods such as the Chain Ladder. Cash flows from the provision for unearned premiums are determined based on the provision for unearned premiums according to PAS, adjusted for the forecast lapse rate and the anticipated claims cost ratio. The cash flows also include outstanding premium receivables, adjusted in accordance with historical receivable collection indicators.
34	Cash flows are determined individually for each annuity recipient based on his/her demographic features, the up-to-date annuity amount and selected features that are significant from the perspective of forecasting the annuity increase. Annuity increase is forecast based on historical data, using the GLM and GAMLSS models. For calculations, life expectancy tables from Statistics Poland (GUS) are taken.

All the cash flows are discounted with the risk-free rate published by the EIOPA.

The uncertainty of the best estimate follows for the most part from the fact that the forecast flows may diverge, perhaps significantly, from the historical trends. Some of the divergences may be random in nature (e.g. the occurrence of large claims), while other may result from changes to the (business, economic, legal, etc.) environment or changes to the procedures of handling the Company's liabilities. Additional uncertainty is connected with a long term of performing third party liability insurance liabilities, especially provisions for annuities, which depend to a significant extent on the applied discount rate. When

it comes to estimating the general damages for dismemberment, the uncertainty attached to this estimate is relatively high because of the absence of historical data for such claims. The uncertainty refers in particular to the degree of permanent dismemberment of the injured party, the group of entitled persons and the very amount of general damages.

PZU does not apply any material simplifications to calculate best estimates.

The risk margin is calculated in accordance with the assumptions set forth in Article 38 of the delegated regulation. The Company uses simplifications in its risk margin calculations. Simplifications are used to approximate the value of some elements of the future capital requirements using the identified risk carriers.

D.2.1. Description of material differences between measurement for solvency purposes and measurement according to PAS

The grounds, methods and assumptions applied to the measurement of technical provisions for the solvency purposes according to SII do not differ to a material extent from the grounds, methods and assumptions applied to the measurement of these provisions for the purposes of financial statements according to PAS. In turn, the differences in the amounts of technical provisions result from different measurement rules for specific items of provisions according to SII and PAS. What contributes to these differences is, among others, the fact that SII values are best estimates, while PAS values are calculated based on the application of safety markups (e.g. the stochastic method in the motor TPL insurance). The table below is a summary of the most important differences in the rules of measuring provisions for solvency purposes according to SII and for the purposes of financial statements according to PAS.

Line of business	Technical provisions according to SII	Technical provisions according to PAS
1-12	<ul style="list-style-type: none"> Provision for unearned premiums reduced by the future profit Future premiums are included At a discounted value Overheads are included Salvage and subrogation are not included Risk margin 	<ul style="list-style-type: none"> Provision for unearned premiums reduced by the future profit Future premiums are not included At an undiscounted value Overheads are not included Future salvage and subrogation are included No open risk margin
34	<ul style="list-style-type: none"> Variable discount rate Variable growth rate Risk margin 	<ul style="list-style-type: none"> Fixed discount rate Fixed growth rate No open risk margin

The table below presents net best estimate and risk margin for key business lines and the net value of provisions calculated for the purposes of the financial statements (as at 31 December 2022, amounts in PLN 000s):

No. of business line according to the SII system	Name of business line according to the SII system	Amount of technical provisions according to the SII system		Amount of technical provisions according to PAS
		Best estimate	Risk margin	
4 and 16	Motor vehicle third party liability insurance	6,055,277	401,271	9,352,105
5 and 17	Other insurance for vehicles	1,592,923	56,763	3,010,509
34	Annuities from insurance contracts other than life insurance contracts and connected with insurance liabilities other than health insurance liabilities	3,043,736	103,558	4,858,858

D.2.2. Matching adjustment, volatility adjustment, transitional risk-free interest rate term structure, transitional deductions

As at 31 December 2022, PZU did not apply the matching adjustment referred to in Article 227 of the Insurance Activity Act, the volatility adjustment mentioned in Article 229 of the Insurance Activity Act, transitional risk-free interest rate term structure

mentioned in Article 496 of the Insurance Activity Act or the transitional deduction mentioned in Article 497 of the Insurance Activity Act.

D.2.3. The amounts due under reinsurance treaties and from special-purpose vehicles (special-purpose entities).

The amounts due under reinsurance treaties are determined on the basis of the gross best estimate and assignment indicators for technical provisions according to PAS. The amount due and payable on account of reinsurance also includes future cash flows of premiums and reinsurance commissions measured according to PAS. The amounts due and payable from reinsurers are adjusted for the probability of the reinsurer's bankruptcy. Reinsurance treaties are executed with companies with a sufficiently high rating (in most cases, at least A-). PZU does not execute agreements with special purpose vehicles (special purposes entities) which would result in receivables on that account.

D.2.4. Changes to assumptions adopted for calculating technical provisions as compared to the previous reporting period

With regard to economic assumptions, in 2022, the risk-free rates applied for discounting cash flows were changed. If the rates from the end of 2021 were adopted, this would lead to the best estimate of annuities as at 31 December 2022 being higher by PLN 1,184,662 thousand and to the best estimate for other business lines being higher by PLN 642,994 thousand. No other material changes were made to non-economic assumptions.

D.3. Other liabilities

PZU measures liabilities for solvency purposes at fair value and the table below presents the grounds, methods and major assumptions used when measuring liabilities.

Liabilities	Description of the grounds, methods and major assumptions used for measurement for solvency purposes
Other provisions (other than technical provisions) and pension benefit liabilities payable to employees	The fair value of other provisions and pension benefit liabilities payable to employees are measured using the alternative measurement method described in part D.4.
Deferred tax liabilities	The amount of provisions for deferred income tax liabilities is calculated using the balance sheet method, as a positive difference between the amounts of balance sheet items recognized and measured in accordance with the rules set forth in the Insurance Activity Act and the delegated regulation and the amounts of balance sheet items according to the valuation for tax purposes taking into account the CIT rates, which are expected to apply when the liability is realized in accordance with the provisions of Polish tax law enacted by the end of the reporting period. In the economic balance sheet, deferred tax liabilities and assets are presented after compensation (on a net basis).
Derivatives	Are measured based on the derivatives measurement method described in Section D.1. Negative measurement is presented as liability.
Financial liabilities other than liabilities to credit institutions	Fair value is measured using the alternative measurement method described in part D.4.
Financial liabilities	Lease liabilities are measured using the alternative measurement method described in section D.4.
Insurance liabilities and liabilities to insurance intermediaries and other liabilities (trade, other than those from insurance activity, not recognized in other items)	Fair value is measured using the alternative measurement method described in part D.4. In insurance and inward reinsurance liabilities only these liabilities are recognized whose maturity dates have already passed. Current and future liabilities are taken into consideration when determining the best estimate as cash flows – outflows. The Other liabilities item includes: accrued payroll expenses and bonuses for employees, prepayments to business partners, other deferred revenue.
Subordinated liabilities	Fair value is measured using the alternative measurement method described in part D.4.

The table below presents an explanation, in quantitative terms, of the differences between data on other liabilities calculated in accordance with the rules used by PZU for measurement for solvency purposes and data calculated in accordance with the principles used for the purposes of financial statements (according to PAS). The column entitled “Amount from the financial statements” presents values from the Company’s standalone financial statements for the year ended 31 December 2022 in accordance with their economic content, but without making adjustments that would be necessary to make the numbers fit the format and presentation required in the SII system. The total assets in the “Amount from the financial statements” column are equal to the total in the Company’s financial statements after taking into consideration the changes to the presentation of the reinsurers’ share in technical provisions and the reinsurers’ share in estimated salvage and subrogation.

Liabilities (data in PLN 000s) as at 31 December 2022	Amount from the financial statements as at 31 December 2022	DAC adjustment	Measurement of investments	Measurement of provisions	Deferred tax	Adjustment of the Company Social Benefit Fund	Adjustment of the Prevention Fund	Measuremen t of other liabilities	Amount according to Solvency II as at 31 December 2022
Technical provisions – non-life insurance	21,743,800	-	-	(9,603,075)	-	-	-	-	12,140,725
Technical provisions – non-life insurance (excluding health insurance)	20,899,409	-	-	(8,945,219)	-	-	-	-	11,954,190
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	11,283,430	-	-	-	-	11,283,430
Risk margin	-	-	-	670,760	-	-	-	-	670,760
Technical provisions – health insurance (treated as non-life insurance)	844,391	-	-	(657,856)	-	-	-	-	186,535
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	184,323	-	-	-	-	184,323
Risk margin	-	-	-	2,212	-	-	-	-	2,212
Technical provisions in life insurance (except for the insurance in which a benefit is determined on the basis of specified indices or other underlying values and unit-linked life insurance)	5,056,138	-	-	(1,814,134)	-	-	-	-	3,242,004
Technical provisions in life insurance (except for health insurance and the insurance in which a benefit is determined on the basis of specified indices or other underlying values and unit-linked life insurance)	5,056,138	-	-	(1,814,134)	-	-	-	-	3,242,004
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	3,138,446	-	-	-	-	3,138,446
Risk margin	-	-	-	103,558	-	-	-	-	103,558
Other technical provisions	663,199	-	-	(663,199)	-	-	-	-	-

Liabilities (data in PLN 000s) as at 31 December 2022	Amount from the financial statements as at 31 December 2022	DAC adjustment	Measurement of investments	Measurement of provisions	Deferred tax	Adjustment of the Company Social Benefit Fund	Adjustment of the Prevention Fund	Measuremen t of other liabilities	Amount according to Solvency II as at 31 December 2022
Other provisions (other than technical provisions)	51,647	-	-	(2,804)	-	-	-	-	48,843
Employee pension benefit liabilities	8,937	-	-	-	-	-	-	-	8,937
Deferred tax liabilities	554,443	-	-	-	995,649	-	-	-	1,550,092
Derivatives	318,419	-	-	-	-	-	-	-	318,419
Liabilities to credit institutions	22,070	-	-	-	-	-	-	-	22,070
Financial liabilities other than liabilities to credit institutions	-	-	-	-	-	-	-	352,983	352,983
Insurance liabilities and liabilities to insurance intermediaries	238,775	-	-	(98,110)	-	-	-	-	140,665
Outward reinsurance liabilities	176,171	-	-	(176,073)	-	-	-	-	98
Other liabilities (trade liabilities, other than those from insurance activity)	455,307	-	-	-	-	(74,990)	(35,143)	-	345,174
Subordinated liabilities (included into basic own funds)	2,333,305	-	16,087	-	-	-	-	-	2,349,392
Other liabilities (not included in other items)	2,142,563	(248,261)	30,617	(1,338,295)	-	-	-	(1,924)	584,700
Total liabilities	33,764,774	(248,261)	46,704	(13,695,690)	995,649	(74,990)	(35,143)	351,059	21,104,102

D.3.1. Qualitative description of material differences between measurement for solvency purposes and measurement according to PAS

D.3.1.1. Valuation of liabilities

Financial liabilities and subordinated liabilities: the difference between values according to PAS and measurement for solvency purposes follows from different methods of measuring financial and subordinated liabilities valued according to PAS at an adjusted purchase price, which for the purposes of economic balance sheet are presented at fair value but without adjusting own credit spread from the date of the emergence of the liability.

Other liabilities (not included in other items): the difference between the value according to PAS and the measurement for solvency purposes pertaining to deposits results from the recognition of negative valuations of shares in subordinated entities in this line item, which according to PAS are measured using the equity method, while for economic balance sheet purposes they are measured at fair value or using the adjusted equity method.

D.3.2. Sources of the deferred tax liability

PZU sets off deferred tax assets and liabilities in its economic balance sheet and consequently for the purposes of calculation of the value of own funds. The following table presents the sources of setting off negative and positive taxable temporary differences as at 31 December 2022.

There are no deductible temporary differences for which the Company would not recognize deferred tax assets and whose settlement deadline would expire.

The decisive part of the temporary differences follows from overestimating medium- and long-term financial assets and technical provisions.

Sources of the deferred tax liability	Amount of the deferred tax liability (PLN thousand)
Financial instruments	99,708
Depreciation of property, plant and equipment and amortization of intangible assets	(24,864)
Valuation of properties	77,927
Other provisions and accruals and deferred income	(275,368)
Technical provisions	1,698 084
Other differences	(25,395)
Total deferred tax liability	1,550 092

D.3.3. The nature of duties, expected schedule of outflow of economic benefits, uncertainty and the manner of taking into consideration of the risk of measurement deviation

Subordinated liabilities

On 30 June 2017, PZU issued subordinated bonds with a total nominal value of PLN 2,250,000 thousand. The final maturity of the bonds is 29 July 2027 with an early repayment option on 29 July 2022.

Parameters of outstanding bonds:

Parameter	Value
Total nominal value of the bonds	PLN 2,250,000 thousand
Nominal value and issue price of one bond	PLN 100,000
Final maturity	29 July 2027
Interest rate	WIBOR 6M + 1.80% margin
Interest payment days	29 January and 29 July each year, from 29 January 2018 until 29 July 2027
Possibility of redeeming bonds before final maturity	29 July 2022
Security	None

The bonds are not in the form of documents and are registered in the securities depository maintained by Krajowy Depozyt Papierów Wartościowych SA [National Depository for Securities] and listed in alternative trading systems run by BondSpot SA and the Warsaw Stock Exchange. The carrying amount of subordinated bonds as at 31 December 2022 was PLN 2,349,392 thousand, and their fair value was PLN 2,269,564 thousand.

The risk measure is taken into consideration in the model for measuring fair value. For the above items, the basis point value (BPV) is calculated which is a measure of sensitivity to a change of interest rates. The BPV measures how much the value of an asset/a liability will change when the interest rate changes by 1 basis point.

D.3.4. Changes to the bases used for recognition, measurement or estimates in the reporting period

During the reporting period, there were no significant changes in the method of measurement of liabilities other than technical provisions.

D.4. Alternative measurement methods

The assets and liabilities to which alternative measurement methods apply along with the justification for applying such methods are presented in the following table.

Assets and liabilities measured using the alternative method	Description of the alternative measurement method along with the justification for its application
Real property	<p>Due to the absence of an active market, real properties are valued by licensed property appraisers in accordance with generally applicable provisions of law and applicable professional standards, in most cases using the comparative method or the income method. Licensed property appraisers are required to collect and prepare all documentation necessary to perform the valuation. The acceptance of each completed valuation is additionally subjected to the assessment of compliance with the order by employees of the Real Estate Department to eliminate any potential typographical or accounting errors.</p> <p>Any concerns arising during the process are clarified on an ongoing basis with the author of the appraisal report or opinion. The right-of-use assets are measured in compliance with IFRS16, i.e. using the cost less depreciation and impairment model or at fair value (in the case of assets being investment properties);</p> <p>Right-of-use assets are depreciated using the straight-line method from the lease commencement date to the earlier of the end of the useful life or the end of the lease period.</p>
Debt securities, loans	<p>The fair value of debt securities for which an active market does not exist is measured based on valuations published by an authorized information service and, if there are none, using the discounted cash flow method. For loans, the fair value is determined using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds adjusted by the credit spread. It is calculated on a calibration date, which is the date of the most recent issue or market transaction or each day of the averaging period of the spreads calculated from the most recent market data. Such a spread leads to parallel shifting of the yield curve for government bonds by a fixed amount along its whole length or as the difference between the yield of listed debt securities of issuers with a similar rating operating in similar industries and the yield of government bonds (German government bonds for bonds denominated in EUR) multiplied by a ratio determined as at the calibration date, taking into account issuer-specific risk in the discount curve.</p>

Assets and liabilities measured using the alternative method	Description of the alternative measurement method along with the justification for its application
Derivatives	<p>The fair value of derivatives not quoted on an active market, including forward contracts and interest rate swaps is measured using the discounted future cash flow method. For the discounting of cash flows, interest rates are used from the yield curves assigned to the relevant type of financial instrument and currency, shaped on the basis of available market data.</p> <p>The fair value of options is measured as the expected value of the option disbursement function discounted as at the valuation date. The expected value of the payoff function is calculated using the Monte Carlo modeling method.</p>
Deposits	<p>Due to the absence of an active market, the fair value of deposits is measured as the value of discounted cash flows resulting from the terms of executed deposit agreements. For discounting, a base curve is used adjusted for the credit spread quantifying the credit risk of counterparty banks with which long-term deposit agreements have been entered into in the relevant period. For each currency of the deposits, an appropriate discount curve is used. For a given currency of the deposit, discount curves are used specific to the counterparty bank in which the deposit has been made.</p>
Participation units and investment certificates in collective investment undertakings	<p>Due to the absence of an active market, the Company measures participation units and investment certificates using prices published by mutual fund companies determined on the basis of net asset value of the funds measured in accordance with the accounting principle for funds. As at the date of preparation of the SFCR, the prices published by mutual fund companies were verified with the audited financial statements of the funds. The valuation of participation units issued by subsidiary funds is subject to adjustment in cases where the fund's assets are not presented at fair value in the fund's financial statements and the difference between the fair value and the valuation amount in the fund's financial statements is significant.</p>
Receivables on insurance and from insurance intermediaries, other receivables (trade receivables other than those from insurance activity) and amounts due and payable from reinsurance agreements for liabilities resulting from insurance	<p>Due to the absence of an active market, PZU measures its receivables on insurance and from insurance intermediaries and other receivables using the discounted cash flow method. The valuation of these receivables is based on historical analysis of the receivables payment ratio, while the projected cash flows are discounted using the current market discount rate announced by EIOPA. Due to the higher rate of collecting receivables in the first several months of debt recovery, the discount effect is insignificant for the calculation of fair value.</p>
Pension benefit liabilities payable to employees and other provisions (other than technical provisions) measured using actuarial methods	<p>Due to the absence of an active market, the fair value of other provisions is calculated as the expected present value of anticipated cash flows in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".</p> <p>The value of the provision for unused vacation time is recognized in accordance with IAS 19 on an accrual basis.</p> <p>The costs of retirement severance pay and post-mortem benefits estimated using actuarial methods are recognized on an accrual basis in accordance with IAS 19 by applying the forecast specific entitlements method.</p> <p>Provisions for retirement severance pay and post-mortem benefits are estimated using actuarial methods by applying appropriate actuarial techniques and assumptions (discount rates, mortality rate, anticipated wage growth rate, employee turnover rate and disability rate).</p>
Financial liabilities other than liabilities to credit institutions, subordinated liabilities	<p>The fair value of financial liabilities for which an active market does not exist and the fair value of subordinated liabilities and loans which are the PZU Group's liabilities are measured using the discounted cash flow method. Such liabilities are measured based on credit spread in relation to a risk-free curve, calculated in such a way that the instrument price at the issue date resulting from the model equals the issue price. In accordance with the measurement rules for liabilities in the SII system, the own credit spread calculated in the above manner is not subsequently changed.</p>
Insurance liabilities and liabilities to insurance intermediaries, other liabilities	<p>Due to the absence of an active market, PZU measures its insurance liabilities and liabilities to insurance intermediaries and other liabilities using the discounted cash flow method. The valuation of these liabilities is based on a historical analysis of the liabilities payment ratio, and the projected cash flows are discounted using the current market discount rate.</p> <p>Owing to their short expected payment date, their nominal value is a reasonable approximation of fair value.</p>
Financial liabilities	<p>Lease liabilities are measured in compliance with IFRS 16. On initial recognition at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available. In subsequent periods these liabilities are measured at amortized cost.</p>

D.4.1. Assumptions and assessments on important sources of uncertainty of estimating fair value

The following coefficients are applied to measure uncertainty in measurement of financial instruments:

BPV – this coefficient indicates what the change will be in the value of the instrument if the discount and projection curve is shifted by 1 b.p. for bonds, loans, deposits and structured securities;

sensitivity to a change in credit spread – this coefficient indicates what the change will be in the value of the instrument if the credit spread is shifted by 1 b.p. for bonds, loans, deposits and structured securities;

delta, this coefficient indicates the percentage change in the value of an option if the price of the underlying asset changes by 1%.

PZU regularly compares the measurement adequacy by calibrating the spread (if possible) applied in the valuation with available market prices and comparing the model-based valuation with a valuation based on the adjusted purchase price for bonds, loans, deposits and structured securities.

Uncertainty in measurement of assets and liabilities other than technical provisions, except for financial instruments, is assessed mainly through:

- price volatility;
- standards of technical wear and tear;
- cash flow volatility;
- volatility of the economic environment;
- volatility of market interest rates.

The Company regularly verifies the adequacy of measurements, in particular by comparing them with other models or historical results performed on actual transactions.

D.5. Additional information

The Company does not have any material intangible assets or material lease agreements.

As at 31 December 2022, employee benefit liabilities did not constitute a material class of liabilities and as such, they have not been described in detail.

E. Capital management

E.1. Own funds

E.1.1. Own funds management

As the parent company of the PZU Group PZU endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions.

The capital management policy rests on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie;
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.25;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy;
- it is assumed that certain temporary deviations in the actual solvency ratio above or below the target level may occasionally occur.

The dividend amount proposed by the PZU Management Board to be distributed by the Company for a given financial year is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:

- no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
- no less than 50% is subject to payment as an annual dividend;
- the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;
- according to the Management Board's plans and own risk and solvency assessment, own funds of PZU and the PZU Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the Policy;
- when determining the dividend, KNF's recommendations concerning dividends are taken into consideration.

To monitor and maintain capital on the level adequate to the assumed risk and to ensure continuous fulfillment of capital requirements, the capital limits system has been introduced. It contains an early warning system which involves thresholds at which proper corrective measures should be implemented to prevent the exceeding of the final limit.

The early warning system is based on the accepted risk appetite level. Management actions are subject to the current and anticipated coverage level of the solvency capital requirement for PZU:

- Green zone (over 160%);
- Yellow zone (120% to 160%);
- Red zone (below 120%);
- Final limit (below 100%).

Management actions aiming at increasing the level of own funds include in particular the following:

- increasing subordinated liabilities;
- discontinuing or temporarily suspending the surrender of instruments classified to own funds if the terms and conditions of the issue or the agreement provide for such possibility;

- retaining part or the entire profit through decreasing the amounts of dividends paid out;
- co-payments as part of supplementary own funds;
- capital increase.

Management actions in the area of risk profile include in particular the following:

- risk avoidance – not getting involved or stopping to get involved in the activities which increase exposure to risk;
- risk transfer – transfer of part of exposure to risk onto a third party;
- risk mitigation – reduction of likelihood of materialization of the risk or reduction of its impact;
- acceptance of the risk level – acceptance of risk retention if other management actions are not available or the cost of their implementation is too high as compared to benefits to be obtained;
- deployment of tools supporting other management actions, including in particular the following: limits, reinsurance programs, regular review of policies of accepting the risk for insurance (underwriting).

The magnitude of corrective measures undertaken depends on the current and anticipated capital position as well as the timing of performance of the solvency assessment. If the analysis is conducted on the planning stage, the implemented corrective measures could be milder (e.g. making changes to the business plan) than if the analysis were to be conducted on the monitoring stage – in such case, it may be necessary to take immediate actions. The selection of corrective measures may be affected also by other factors such as: issues related to reputation risk, the ability of applying a specific corrective measure in practice, the time necessary to implement the corrective measure, the quality of own funds if the corrective measure involves an increase in the level of capital to cover the risk, the impact of the corrective measure on the PZU Group's business (profitability, market share, etc.).

Decisions with regard to application of the above-described methods shall be made by the Company's Management Board.

The Company's Supervisory Board and Management Board receive reports on the current level of solvency in PZU and the PZU Group (at least once a quarter or on an ongoing basis if any of the capital thresholds have been exceeded). Capital planning takes place within the framework of own risk and solvency assessment which is performed on at least an annual basis. It forms an integral part of the business strategy and is taken into consideration in the strategic decision-making process. The period of planning the capital position spans the time horizon of the current PZU Group Strategy but no less than 3 years.

In 2022, no significant changes took place in the management of own funds.

E.1.2. Structure, value and quality of own funds

As at 31 December 2022, PZU had PLN 25,127,350 thousand of available and eligible own funds to cover the solvency capital requirement and PLN 23,248,867 thousand of eligible own funds to cover the minimum capital requirement. The Company's own funds fulfilled the conditions of Article 245 Section 2 of the Insurance Activity Act in consideration of the factors referred to in Article 245 Section 3 of the Act, thus were classified into unlimited category 1 and category 2 and consisted of the following items:

- reconciliation provision before subtracting equity interests in financial and credit institutions totaling PLN 22,153,467 thousand;
- subordinated liabilities of PLN 2,349,392 thousand;
- other items of basic own funds in the amount of PLN 624,491 thousand.

Information on own funds is included in form QRT S.23.01.01 forming Appendix 9 to this report. Its summary and a comparison with the data as at 31 December 2021 is presented below:

Category	Value according to the SII system as at 31 December 2022 in PLN 000s	Value according to the SII system as at 31 December 2021 in PLN 000s	change	% change
Available and eligible own funds to cover the solvency capital requirement	25,127,350	26,204,471	(1,077,121)	(4%)
Available and eligible own funds to cover the minimum capital requirement	23,248,867	24,409,671	(1,160,804)	(5%)
Reconciliation provision before subtracting equity interests in financial and credit institutions	22,153,467	23,255,793	(1,102,326)	(5%)
Other items of basic own funds	624,491	624,491	0	0%

The line item “Available and eligible own funds to cover the solvency capital requirement” includes total basic own funds (after deductions) in category 1 of PLN 22,777,958 thousand and in category 2 of PLN 2,349,392 thousand. The line item “Available and eligible own funds to cover the minimum capital requirement” includes basic own funds in category 1 of PLN 22,777,958 thousand and in category 2 of PLN 470,909 thousand. Category 2 includes subordinated liabilities by virtue of outstanding own bonds.

The decrease in eligible own funds to cover the SCR as of 31 December 2022 compared to 31 December 2021 by PLN 1,077,121 thousand was due to:

- a decrease in own funds included in category 1 by PLN 1,102,326 thousand, which consisted of:
 - decrease in the surplus of assets over liabilities by PLN 953,802 thousand, resulting from:
 - a decrease in the value of assets by PLN 1,923,200 thousand, which consisted of:
 - disbursement of dividends in 2022 in the amount of PLN 1,675,235 thousand;
 - a decrease in other assets by PLN 247,964 thousand resulting from a net decrease in the fair value of bonds on PZU's balance sheet (as their market profitability grew), offset by an increase in other deposits, in particular an increase from the 2022 acquisition of PKN Orlen shares (as at 31 December 2022 measured at PLN 909,708), the valuation of PZU Życie in the SII system, and an increase in amounts due under reinsurance contracts;
 - a decrease in the value of liabilities by PLN 969,398 thousand, which consisted of:
 - a decrease in the value of the best estimate by PLN 745,789 thousand mainly relating to annuities from insurance contracts other than life insurance contracts and related to insurance liabilities other than health insurance liabilities, resulting from a change in the risk-free rate curve set by EIOPA;
 - a decrease in the risk margin of PLN 201,959 thousand, resulting from a change in the risk-free rate curve set by EIOPA;
 - a decrease in the value of other liabilities by PLN 21,649 thousand;
 - by PLN 152,182 thousand higher than last year's deduction for dividends and tax on financial institutions;
- an increase of PLN 25,205 thousand in own funds included in category 2, which consisted of an increase of PLN 25,205 thousand in the value of subordinated bonds issued by PZU, which was related to higher value of accreted interest in relation to higher variable coupon of subordinated bonds (based on the WIBOR rate);
 - by a PLN 3,658 thousand lower deduction of treasury shares than last year.

The basic categories of own funds and solvency capital requirement coverage are presented in the table below:

Category	As at 31 December 2022 (PLN 000s, %)	As at 31 December 2021 (PLN 000s, %)
Eligible own funds to cover the solvency capital requirement (SCR)	25,127,350	26,204,471
Amount of eligible own funds to cover the minimum capital requirement (MCR)	23,248,867	24,409,671
Solvency capital requirement (SCR)	9,418,185	10,587,740
Minimum capital requirement (MCR)	2,354,546	2,646,935
Coverage ratio of the solvency capital requirement (SCR) with eligible own funds	267%	247%
Coverage ratio of the minimum capital requirement (MCR) with eligible own funds	987%	922%

Distribution of the 2022 profit

PZU satisfies the criteria specified in the document entitled “KNF’s stance on the dividend policy in 2023” of 6 December 2022, hence it may pay out the dividend in the maximum amount of 100% of the profit generated in 2021 (while taking into account the dividends paid so far from the 2022 profit) and 50% of the profit generated in 2022.

As at the date of this report, the PZU Management Board has not adopted a resolution on the distribution of the 2022 profit.

The table below compares the impact on solvency:

- of the dividend for 2022 assumed in this report in the SII calculation of own funds at the maximum value, where the distribution of PZU’s standalone 2022 net profit is limited by KNF’s guidance (max. 50%) and the distribution of PZU’s standalone 2021 net profit at 100% (taking into account the dividends already paid out from the 2021 profit);
- of the dividend for 2021 in the alternative version, which, according to the PZU capital management policy, is the minimum value of dividend (minimum 50% of the PZU Group’s consolidated net profit attributable to PZU shareholders for 2022), after the dividend per share amount is rounded up to full grosz.

	PZU – distribution of the 2022 result (assumed in own funds in this report)	PZU – distribution of the 2022 result (alternative version)
Assumed dividend level / decreases of SII own funds and the distribution base	62.45% for 2022 PZU Group’s consolidated net profit attributable to PZU shareholders (IFRS)	50.16 % for 2022 PZU Group’s consolidated net profit attributable to PZU shareholders (IFRS)
PZU Group’s consolidated result attributable to the holders of the parent company for 2022	3,374,000	3,374,000
Amount distributed from PZU’s standalone result for 2021	1,295,995	1,295,995
Amount distributed from PZU’s standalone result for 2022	811,001	396,510
Total dividend	2,106,996	1,692,505
Dividend per share (PLN)	PLN 2.44	PLN 1.96
Charge for the Company Social Benefit Fund	6,701	6,701
Eligible own funds to cover the solvency capital requirement (SCR)	25,127,350	25,541,840
Coverage of solvency capital requirement (SCR) with eligible own funds	267%	271%

E.1.3. Reconciliation provision

The structure of significant items in the reconciliation provision is presented in the following table.

Reconciliation provision (PLN 000s)	31 December 2022	31 December 2021
Surplus of assets over liabilities, including:	25,103,080	26,056,882
Equity according to PAS	15,824,143	15,776,367
Measurement according to SII	9,278,937	10,280,515
Anticipated dividends, disbursements and charges, including:	2,322,998	2,170,816
Anticipated dividend	2,106,996	1,960,197

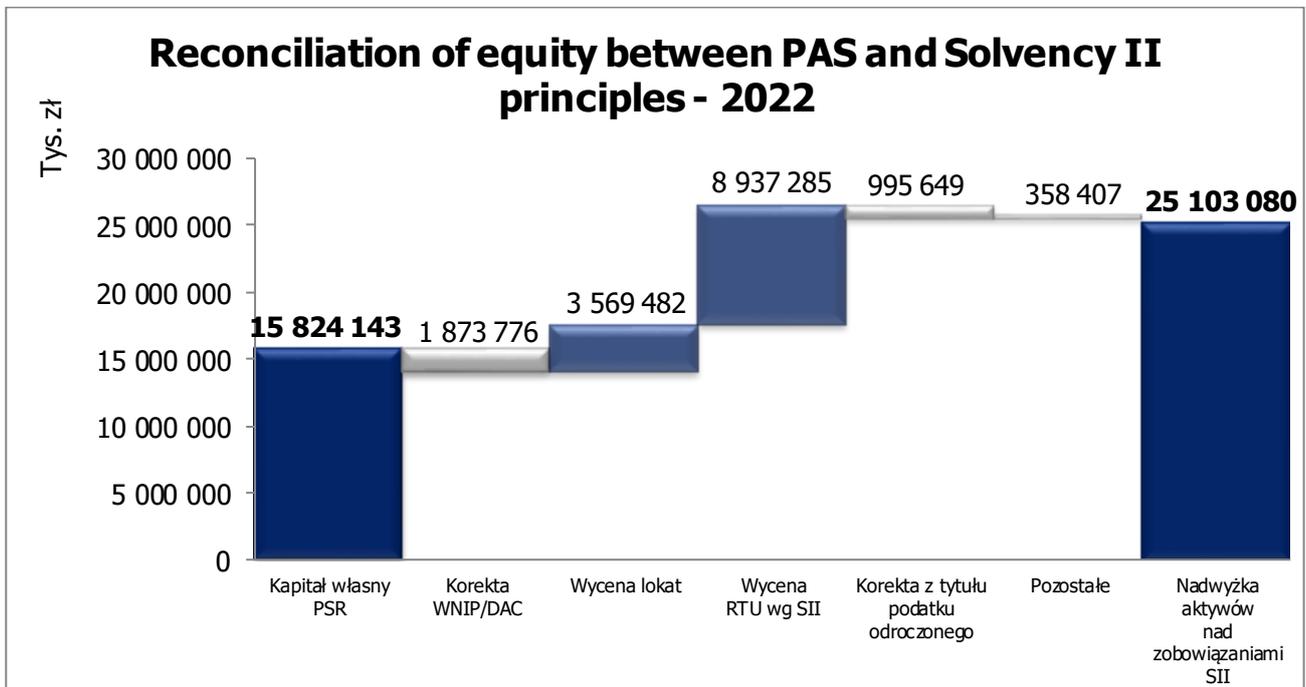
Reconciliation provision (PLN 000s)	31 December 2022	31 December 2021
Charge for the Company Social Benefit Fund	6,701	6,981
Anticipated tax on assets (payable by certain financial institutions) for the next 12 months	209,301	203,638
Other items of basic own funds	624,491	624,491
Share capital	86,352	86,352
Share premium account associated with share capital	538,139	538,139
Treasury shares (carried as assets in the balance sheet)	2,124	5,782
Total reconciliation provision	22,153 467	23,255,793

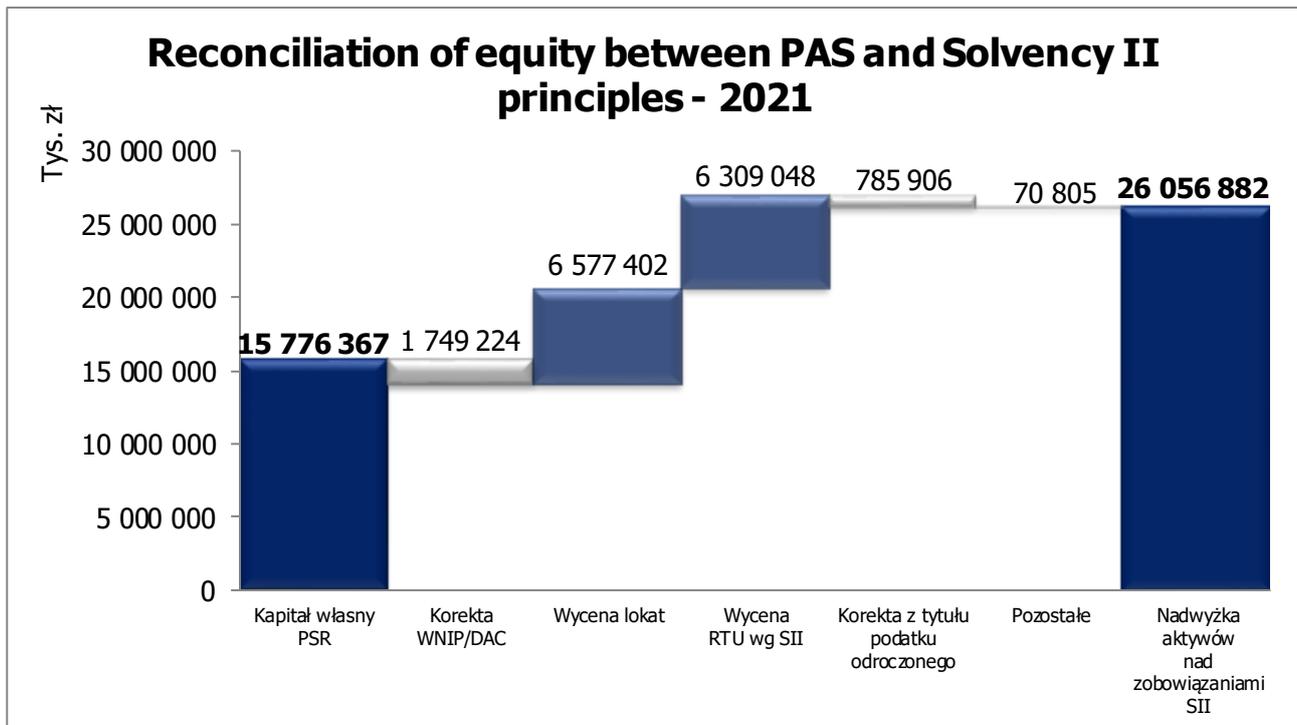
In accordance with the dividend policy adopted by PZU, no less than 50% of the PZU Group's consolidated net profit attributable to PZU shareholders should be allocated to distribution in the form of an annual dividend, no more than 20% may be retained for the purposes of organic growth, while the remaining 30% may be distributed as part of the annual dividend or be allocated to retained earnings.

The anticipated dividend for 2022 has been set in the calculation of own funds at PLN 2,106,996 thousand.

E.1.4. Differences between the equity presented in PZU's financial statements and the surplus of assets over liabilities calculated for solvency purposes

The graphs below present differences between the equity presented in PZU's financial statements and the surplus of assets over liabilities calculated for solvency purposes for 2022 and 2021.





The reasons for each of the differences presented in the graphs above result from the various valuation rules applied to the pertinent assets and liabilities for solvency purposes and according to PAS – a detailed description of these differences is presented in Part D. of this report. The Intangible Asset/DAC adjustment pertains to intangible assets and deferred acquisition costs that are carried with a value of 0 under the SII system.

E.1.5. Deferred taxes

As at 31 December 2022, PZU recorded, after a set-off (on a net basis) a provision for deferred tax liability of PLN 1,550,092 thousand. Consequently, PZU did not record an amount corresponding to the value of net deferred tax assets in Category 3 of own funds.

The details of the source of the deferred tax liability are presented in item D.3.2.

The value of the deferred tax asset and liability is calculated using the balance sheet method, as a difference between the values assigned to economic balance sheet items recognized and measured in accordance with the methodology set forth in Solvency II and the values assigned to economic balance sheet items recognized and measured for tax purposes taking into account the CIT rates which are expected to apply when the asset is realized in accordance with the provisions of Polish tax law enacted before the end of the reporting period.

The Company does not recognize deferred tax for temporary differences resulting from measurement of subordinated entities.

A deferred tax asset is recognized only in situations where it is probable that future taxable profit will be available for use against the deferred tax asset. In accordance with the financial plans, PZU plans to record a profit in the years to come, which will enable it to realize the entire tax asset.

E.2. Solvency capital requirement and minimum capital requirement

The amounts of PZU's solvency capital requirement at the end of the reporting period along with the amount of the solvency capital requirement broken down into risk modules are presented in form QRT S.25.01.21 constituting Appendix 10 to the report. Quantitative data on the minimum capital requirement are presented in form QRT S.28.01.01 constituting Appendix 11 to the report.

PZU applies a standard formula to calculate its SCR. The solvency capital requirement is calculated in accordance with the applicable provisions of the SII system based on the going concern assumption. This computation encompasses the business activity which is currently being conducted as well as new activity which is expected to be launched within the next 12 months.

The following table presents the MCR and SCR values as at 31 December 2022 and the corresponding period of the previous year.

Indicator	Value (PLN thousand)		Change 2022/2021	
	2022	2021	(PLN 000)	%
MCR	2,354,546	2,646,935	(292,389)	(11%)
SCR	9,418,185	10,587,740	(1,169,555)	(11%)

The change in the MCR is the direct consequence of the observed increase in the SCR.

The decline in the value of the SCR is attributable mainly to the decrease in market risk. The reasons for the SCR changes for this risk are described in detail in the part C. of the report. In 2022, no significant changes occurred in the method of calculation of the capital requirements.

E.2.1. Loss-absorbing capacity of deferred taxes

The amount by which the solvency capital requirement was adjusted on account of the loss-absorbing capacity of deferred taxes as at the end of the reporting period was PLN (1,112,031) thousand, compared to PLN (1,000,418) thousand as at 31 December 2021.

PZU allocates the losses on account of the shock subject to the basic solvency capital requirement in line with the contribution of the modules and sub-modules of the standard formula to the basic solvency capital requirement. In the reporting period, it was assumed that 50% of the losses on account of operational risk meet the criteria of tax deductible expenses.

E.3. Use of the duration-based equity price risk sub-module to calculate the solvency capital requirement

This section is not applicable to PZU.

E.4. Differences between the standard formula and the applied internal model

This section is not applicable to PZU.

E.5. Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

During 2022 and as at 31 December 2022, there were no inconsistencies with the solvency capital requirement or the minimum capital requirement.

Attachments

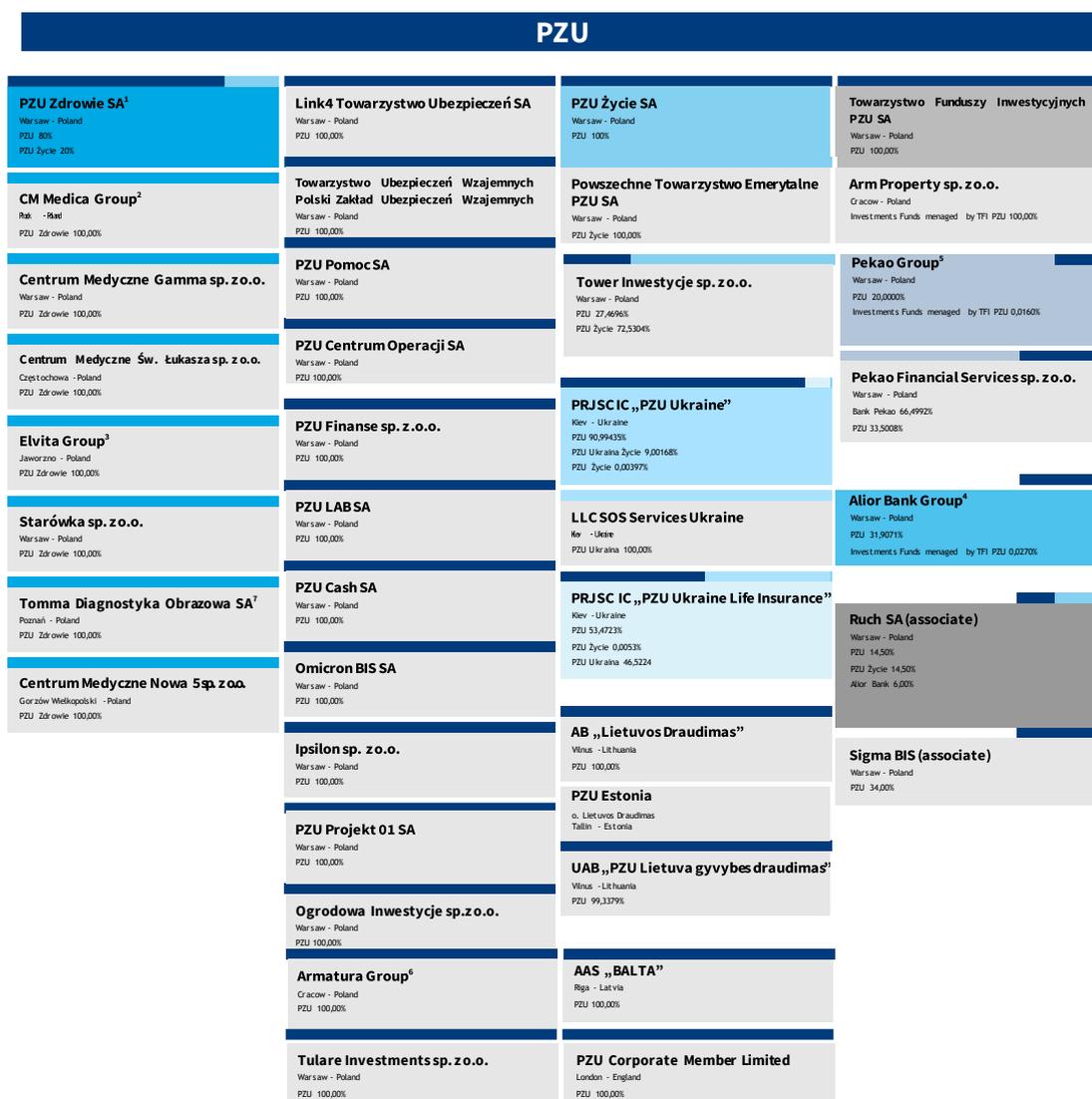
1. Structure of the PZU Group
2. Simplified organizational structure chart
3. Form S.05.01.02
4. Form S.05.02.01
5. Form S.02.01.02
6. Form S.12.01.02
7. Form S.17.01.02
8. Form S.19.01.21
9. Form S.23.01.01
10. Form S.25.01.21
11. Form S.28.01.01

Signatures of the PZU Management Board Members:

Full name	Position	
Beata Kozłowska-Chyła	President of the PZU Management Board (signature)
Tomasz Kulik	Member of the PZU Management Board (signature)
Ernest Bejda	Member of the PZU Management Board (signature)
Małgorzata Kot	Member of the PZU Management Board (signature)
Krzysztof Kozłowski	Member of the PZU Management Board (signature)
Piotr Nowak	Member of the PZU Management Board (signature)
Maciej Rapkiewicz	Member of the PZU Management Board (signature)
Małgorzata Sadurska	Member of the PZU Management Board (signature)

Warsaw, 5 April 2023

Structure of the PZU Group as of 31 December 2022



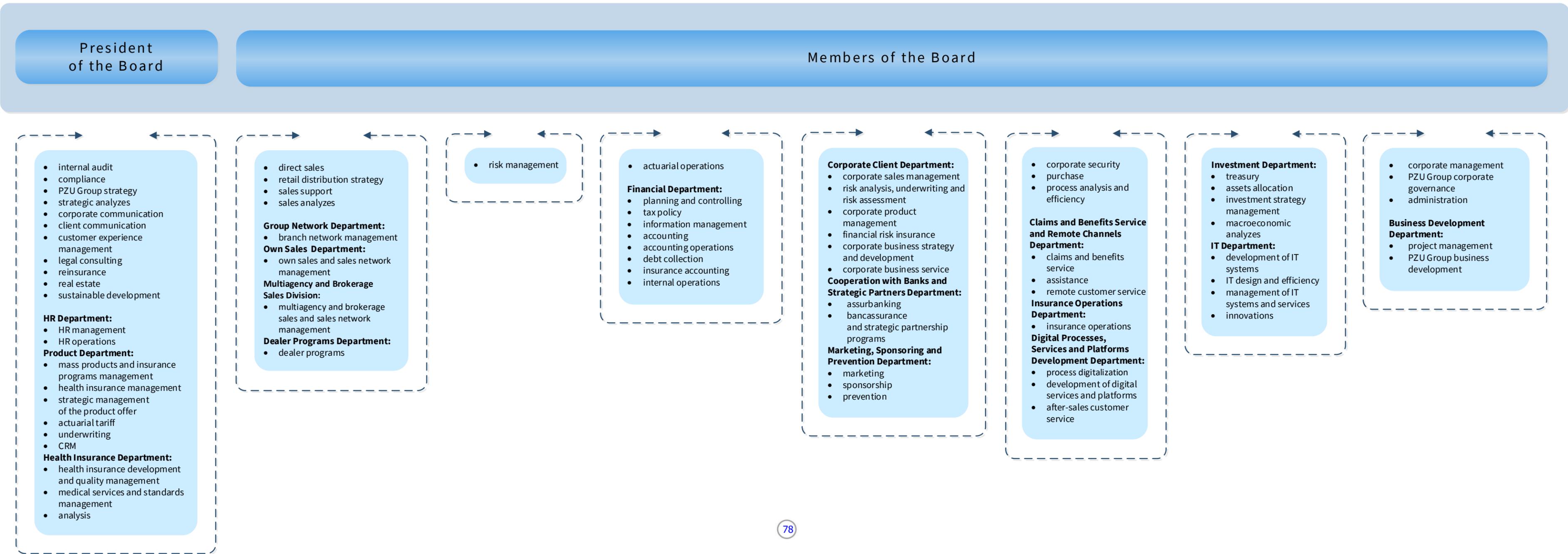
- The following branches operate within PZU Zdrowie SA: CM FCM in Warsaw, CM Tarnów, CM Nasze Zdrowie in Warsaw, CM Medicus in Opole, CM Cordis in Poznań, CM in Warsaw, CM in Kraków, CM in Poznań, CM in Wrocław, CM Gdańsk Abrahama, CM Artimed in Kielce, CM Warsaw Chmielna, CM in Radom, CM in Łódź;
- The CM Medica Group consists of the following companies: Centrum Medyczne Medica sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka” sp. z o.o. with its registered office in Ciechocinek;
- The Elvita Group consists of the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o., Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. with its registered office in Łaziska Górne;
- The Alior Bank Group includes Alior Bank SA, Alior Services sp. z o.o., Alior Leasing sp. z o.o. (which holds 100% of shares in AL Finance sp. z o.o. (until 5 August 2021 – Serwis Ubezpieczeniowy sp. z o.o)), Meritum Services. ICB SA, Alior Towarzystwo Funduszy Inwestycyjnych 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.;
- The Bank Pekao Group is composed of, among others: Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing sp. z o.o. (which holds 100% of shares in PeUF sp. z o.o.), Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Centrum Kart SA, Pekao Financial Services sp. z o.o., Pekao Direct Sp. z o.o. (until 16 January 2020 – Centrum Bankowości Bezpośredniej sp. z o.o.), Pekao Property SA w likwidacji, FPB – Media sp. z o.o. w upadłości, Pekao Fundusz Kapitałowy sp. z o.o. w likwidacji, Pekao Investment Management SA (which holds 100% of shares in Pekao Towarzystwo Funduszy Inwestycyjnych SA), Krajowy Integrator Płatności SA (associate in PZU Group);

- 6) The Armatura Group is composed of the following companies: Armatura Kraków SA, AQ SA w likwidacji (until 15 July 2022 – Aquaform SA), Aquaform Ukraine TOW w likwidacji;
- 7) The Tomma Group is composed of the following companies: Tomma Diagnostyka Obrazowa SA, Bonus Diagnosta sp. z o.o.

The structure chart does not include:

- investment funds: PZU SFIO Universum, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Aktywów Niepublicznych BIS 1, PZU FIZ Aktywów Niepublicznych BIS 2, inPZU Inwestycji Ostrożnych, inPZU Obligacje Polskie, inPZU Akcje Polskie, inPZU Akcji Rynków Rozwiniętych, inPZU Obligacji Rynków Rozwiniętych, inPZU Obligacji Rynków Wschodzących; inPZU Akcje Rynków Wschodzących; inPZU Akcje Amerykańskie; inPZU Akcje CEE plus; inPZU Puls Życia 2025, inPZU Puls Życia 2030, inPZU Puls Życia 2040, inPZU Puls Życia 2050, inPZU Puls Życia 2060, PZU FIZ Legato, inPZU Akcje Rynku Surowców, inPZU Akcje Rynku Złota, inPZU Akcje Sektora Zielonej Energii, inPZU Akcje Sektora Informatycznego, inPZU Akcje Sektora Nieruchomości, inPZU Akcje Europejskie, inPZU Obligacje Inflacyjne;
- subsidiary companies established under commercial law as special purpose controlled by the fund PZU FIZ Sektora Nieruchomości 2, which included 30 companies at 31 December 2022;
- company in liquidation: PZU Finance AB (publ.) in liquidation.

POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA organizational structure



Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna															
		31-12-2022															
S.05.01.02																	
Premiums, claims and expenses by line of business (in PLN thousand)																	
Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)																	
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
Gross - Direct Business	R0110	-	545 009	-	4 071 987	3 626 325	135 099	3 139 795	813 440	69 954	14 385	485 813	845 721	-	-	-	13 247 528
Gross - Proportional reinsurance accepted	R0120	-	5 486	-	678 974	46 951	13 082	444 315	77 268	12 892	-	(11)	68 605	-	-	-	1 245 562
Gross - Non-proportional reinsurance accepted	R0130	-	-	-	-	-	-	-	-	-	-	-	318	47 093	1 072	50 150	98 633
Reinsurers' share	R0140	-	71 620	-	22 309	17 264	60 232	851 114	52 098	42 783	-	1 314	281 355	316	32 712	322	24 084
Net	R0200	-	478 875	-	4 726 652	3 656 012	87 949	2 732 996	838 610	40 063	14 385	484 488	132 971	2	14 381	750	26 066
Premiums earned																	
Gross - Direct Business	R0210	-	528 794	-	4 075 265	3 390 399	102 649	2 829 838	796 166	84 639	13 681	454 478	239 492	-	-	-	12 516 401
Gross - Proportional reinsurance accepted	R0220	-	8 365	-	658 118	26 397	7 872	344 154	70 009	9 797	-	(11)	48 333	-	-	-	1 173 034
Gross - Non-proportional reinsurance accepted	R0230	-	-	-	-	-	-	-	-	-	-	-	279	31 638	1 478	41 566	74 962
Reinsurers' share	R0240	-	39 869	-	21 170	14 229	38 277	612 824	50 333	39 474	-	1 285	153 641	277	21 805	568	20 629
Net	R0300	-	497 290	-	4 712 213	3 402 567	73 244	2 571 168	805 842	54 962	13 681	453 182	134 184	2	9 833	911	20 937
Claims incurred																	
Gross - Direct Business	R0310	-	87 840	-	2 314 628	1 902 224	40 652	1 189 204	359 007	140 764	2 615	208 621	781 972	-	-	-	7 027 527
Gross - Proportional reinsurance accepted	R0320	-	6 494	-	415 621	14 498	1 229	189 692	53 251	1 344	-	(2)	155 140	-	-	-	837 267
Gross - Non-proportional reinsurance accepted	R0330	-	-	-	-	-	-	-	-	-	-	-	(88)	11 852	(265)	11 984	23 483
Reinsurers' share	R0340	-	428	-	47 110	857	14 673	288 281	37 084	35 475	-	164	840 334	140	12 871	(42)	7 883
Net	R0400	-	93 906	-	2 683 139	1 915 865	27 208	1 090 615	375 174	106 633	2 615	208 455	96 778	(228)	(1 019)	(223)	4 101
Changes in other technical provisions																	
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred																	
Other expenses	R1200	-	227 108	-	1 713 401	1 069 443	35 378	1 010 627	371 705	22 144	10 782	172 547	78 103	13	8 349	156	3 889
Total expenses	R1300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4 723 645
Other expenses																	
Total expenses	R1300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25 800
Total expenses	R1300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4 749 445

Line of Business for: Life insurance obligations																
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total							
	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300							
Premiums written																
Gross	R1410	-	-	-	-	-	-	-	-							
Reinsurers' share	R1420	-	-	-	-	-	-	-	-							
Net	R1500	-	-	-	-	-	-	-	-							
Premiums earned																
Gross	R1510	-	-	-	-	-	-	-	-							
Reinsurers' share	R1520	-	-	-	-	-	-	-	-							
Net	R1600	-	-	-	-	-	-	-	-							
Claims incurred																
Gross	R1610	-	-	-	-	407 300	-	28 219	435 519							
Reinsurers' share	R1620	-	-	-	-	(3 092)	-	(3 816)	(6 908)							
Net	R1700	-	-	-	-	410 392	-	32 035	442 427							
Changes in other technical provisions																
Gross	R1710	-	-	-	-	-	-	-	-							
Reinsurers' share	R1720	-	-	-	-	-	-	-	-							
Net	R1800	-	-	-	-	-	-	-	-							
Expenses incurred	R1900	-	-	-	-	20 393	-	3 158	23 551							
Other expenses	R2500	-	-	-	-	-	-	-	-							
Total expenses	R2600	-	-	-	-	-	-	-	23 551							

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022						
S.05.02.01 Premiums, claims and expenses by country (in PLN thousand)		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		R0010	POLAND					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110	13 230 884						13 230 884
Gross - Proportional reinsurance accepted	R0120	1 326 069						1 326 069
Gross - Non-proportional reinsurance accepted	R0130	44 005						44 005
Reinsurers' share	R0140	1 410 417						1 410 417
Net	R0200	13 190 541						13 190 541
Premiums earned								
Gross - Direct Business	R0210	12 508 642						12 508 642
Gross - Proportional reinsurance accepted	R0220	1 150 672						1 150 672
Gross - Non-proportional reinsurance accepted	R0230	28 933						28 933
Reinsurers' share	R0240	975 495						975 495
Net	R0300	12 712 752						12 712 752
Claims incurred								
Gross - Direct Business	R0310	7 022 367						7 022 367
Gross - Proportional reinsurance accepted	R0320	779 918						779 918
Gross - Non-proportional reinsurance accepted	R0330	21 024						21 024
Reinsurers' share	R0340	1 228 266						1 228 266
Net	R0400	6 595 042						6 595 042
Changes in other technical provisions								
Gross - Direct Business	R0410	-						-
Gross - Proportional reinsurance accepted	R0420	-						-
Gross - Non-proportional reinsurance accepted	R0430	-						-
Reinsurers' share	R0440	-						-
Net	R0500	-						-
Expenses incurred	R0550	4 697 512						4 697 512
Other expenses	R1200							-
Total expenses	R1300							4 697 512
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C02010
		R1400						
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	-						-
Reinsurers' share	R1420	-						-
Net	R1500	-						-
Premiums earned								
Gross	R1510	-						-
Reinsurers' share	R1520	-						-
Net	R1600	-						-
Claims incurred								
Gross	R1610	435 519						435 519
Reinsurers' share	R1620	(6 908)						(6 908)
Net	R1700	442 427						442 427
Changes in other technical provisions								
Gross	R1710	-						-
Reinsurers' share	R1720	-						-
Net	R1800	-						-
Expenses incurred	R1900	23 551						23 551
Other expenses	R2500							-
Total expenses	R2600	23 551						23 551

Name of the entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022	
S.02.01.02 Balance sheet (in PLN thousand)	Solvency II value C0010	
Assets		
Goodwill	R0010	-
Deferred acquisition costs	R0020	-
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	915 731
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	41 234 176
Property (other than for own use)	R0080	46 534
Holdings in related undertakings, including participations	R0090	27 475 554
Equities	R0100	910 071
Equities - listed	R0110	910 049
Equities - unlisted	R0120	22
Bonds	R0130	11 654 598
Government Bonds	R0140	9 169 466
Corporate Bonds	R0150	2 485 132
Structured notes	R0160	-
Collateralised securities	R0170	-
Collective Investments Undertakings	R0180	861 009
Derivatives	R0190	78 158
Deposits other than cash equivalents	R0200	208 252
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	-
Loans and mortgages	R0230	1 764 922
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	1 764 922
Reinsurance recoverables from:	R0270	1 175 701
Non-life and health similar to non-life	R0280	1 080 991
Non-life excluding health	R0290	1 060 511
Health similar to non-life	R0300	20 480
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	94 710
Health similar to life	R0320	-
Life excluding health and index-linked and unit-linked	R0330	94 710
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	352 747
Reinsurance receivables	R0370	25 663
Receivables (trade, not insurance)	R0380	387 772
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	114 142
Any other assets, not elsewhere shown	R0420	236 328
Total assets	R0500	46 207 182
Liabilities		
Technical provisions – non-life	R0510	12 140 725
Technical provisions – non-life (excluding health)	R0520	11 954 190
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	11 283 430
Risk margin	R0550	670 760
Technical provisions - health (similar to non-life)	R0560	186 535
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	184 323
Risk margin	R0590	2 212
Technical provisions - life (excluding index-linked and unit-linked)	R0600	3 242 004
Technical provisions - health (similar to life)	R0610	-
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	-
Risk margin	R0640	-
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	3 242 004
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	3 138 446
Risk margin	R0680	103 558
Technical provisions – index-linked and unit-linked	R0690	-
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	-
Risk margin	R0720	-
Other technical provisions	R0730	-
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	48 843
Pension benefit obligations	R0760	8 937
Deposits from reinsurers	R0770	-
Deferred tax liabilities	R0780	1 550 092
Derivatives	R0790	318 419
Debts owed to credit institutions	R0800	22 070
Financial liabilities other than debts owed to credit institutions	R0810	352 983
Insurance & intermediaries payables	R0820	140 665
Reinsurance payables	R0830	98
Payables (trade, not insurance)	R0840	345 174
Subordinated liabilities	R0850	2 349 392
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	2 349 392
Any other liabilities, not elsewhere shown	R0880	584 700
Total liabilities	R0900	21 104 102
Excess of assets over liabilities	R1000	25 103 080

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022																
S.12.01.02 Life and Health SLT Technical Provisions (in PLN thousand)		Insurance with profit participation	Index-linked and unit-linked insurance				Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)		
			Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees				Contracts without options and guarantees	Contracts with options or guarantees					
																	C0020	C0030
Technical Provisions calculated as a whole		R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		R0020	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM																		
Best Estimate																		
Gross Best Estimate		R0030	-	-	-	-	-	-	3 023 981	114 465	-	3 138 446	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		R0080	-	-	-	-	-	-	75 393	19 317	-	94 710	-	-	-	-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re		R0090	-	-	-	-	-	-	2 948 588	95 148	-	3 043 736	-	-	-	-	-	-
Risk Margin		R0100	-	-	-	-	-	-	99 667	3 891	-	103 558	-	-	-	-	-	-
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole		R0110	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Best estimate		R0120	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk Margin		R0130	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total		R0200	-	-	-	-	-	-	3 123 648	118 356	-	3 242 004	-	-	-	-	-	-

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022																	
5.17.01.02 Non-life Technical Provisions (in PLN thousand)		Direct business and accepted proportional reinsurance										Accepted non-proportional reinsurance				Total Non-Life obligation			
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	
Technical provisions calculated as a whole		R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		R0050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Technical provisions calculated as a sum of BE and RM Best estimate																			
Premium provisions																			
Gross		R0060	-	114 485	-	1 494 377	1 096 200	(14 392)	183 861	6 230	93 731	1 817	108 928	(65 389)	(251)	(17 946)	(938)	(30 437)	2 970 276
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		R0140	-	20 522	-	(15 327)	(11 162)	(40 875)	(389 277)	(25 477)	33 329	-	(413)	(119 244)	(244)	(13 969)	(328)	(14 107)	(576 592)
Net Best Estimate of Premium Provisions		R0150	-	93 963	-	1 509 703	1 107 382	26 483	573 138	31 707	60 402	1 817	109 341	53 855	(7)	(3 977)	(609)	(16 330)	3 546 868
Claims provisions																			
Gross		R0160	-	69 954	-	4 813 927	486 548	39 847	888 442	1 111 012	12 320	8 605	39 868	843 939	135	88 725	247	93 907	8 497 476
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		R0240	-	72	-	268 353	1 007	3 427	422 730	110 756	8 650	-	5	737 224	129	70 922	95	34 213	1 657 589
Net Best Estimate of Claims Provisions		R0250	-	69 882	-	4 545 574	485 541	36 421	465 711	1 000 256	3 670	8 605	39 863	106 716	5	17 803	152	59 694	6 839 893
Total Best estimate - gross		R0260	-	184 439	-	6 308 303	1 582 748	25 456	1 072 302	1 117 242	106 052	10 422	148 796	778 551	(117)	70 779	(691)	63 470	11 467 752
Total Best estimate - net		R0270	-	163 845	-	6 055 277	1 592 923	62 904	1 038 849	1 031 963	64 073	10 422	149 204	160 570	(9)	13 927	(457)	43 364	10 386 761
Risk margin		R0280	-	2 212	-	401 271	56 763	7 300	99 898	72 235	4 689	376	4 371	15 957	-	4 217	62	3 621	672 972
Amount of the transitional on Technical Provisions																			
Technical provisions as a whole		R0290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Best estimate		R0300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk margin		R0310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total																			
Technical provisions - total		R0320	-	186 651	-	6 709 574	1 639 511	32 756	1 172 200	1 189 477	110 741	10 798	153 167	794 508	(117)	74 996	(629)	67 091	12 140 724
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total		R0330	-	20 594	-	253 026	(10 175)	(37 448)	33 453	85 279	41 979	-	(408)	617 980	(115)	56 953	(233)	20 106	1 080 991
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total		R0340	-	166 057	-	6 456 548	1 649 686	70 204	1 138 747	1 104 198	68 762	10 798	153 575	176 528	(2)	18 043	(396)	46 985	11 059 733

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022													
S.19.01.21															
Non-life insurance claims (in PLN thousand)															
Total Non-Life Business															
Accident year / Underwriting year		Z0020 1													
Gross Claims Paid (non-cumulative) (absolute amount)															
Development year															
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)		
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180		
Prior	R0100											74 314	74 314		
N-9	R0160	2 514 308	627 689	130 608	88 366	69 066	47 624	38 045	25 346	21 344	15 720	15 720	3 578 114		
N-8	R0170	2 591 302	673 671	152 472	89 515	58 320	39 055	29 590	23 190	17 626		17 626	3 674 741		
N-7	R0180	2 919 700	1 017 734	223 722	151 952	72 140	42 135	45 378	52 911			52 911	4 525 673		
N-6	R0190	3 592 983	1 096 442	274 002	141 320	96 679	61 603	48 672				48 672	5 311 700		
N-5	R0200	3 986 207	1 328 256	237 529	210 606	126 274	92 072					92 072	5 980 945		
N-4	R0210	3 889 747	1 390 498	244 965	145 148	128 652						128 652	5 799 010		
N-3	R0220	4 369 702	1 252 677	224 608	139 457							139 457	5 986 444		
N-2	R0230	4 155 844	944 676	217 512								217 512	5 318 032		
N-1	R0240	4 245 004	1 220 019									1 220 019	5 465 024		
N	R0250	4 431 648										4 431 648	4 431 648		
												Total	R0260	6 438 603	50 145 645
Gross undiscounted Best Estimate Claims Provisions (absolute amount)															
Development year															
Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)			
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360			
Prior	R0100											1 061 051	1 061 051		
N-9	R0160	-	-	-	415 430	332 626	266 328	232 630	228 773	166 417	150 598	150 598	100 649		
N-8	R0170	-	-	541 494	453 243	339 838	282 636	229 704	177 130	146 393		146 393	96 820		
N-7	R0180	-	1 026 543	747 257	531 360	438 283	367 362	295 286	257 227			257 227	189 972		
N-6	R0190	2 437 367	1 266 109	891 694	648 547	527 160	422 716	353 874					252 795		
N-5	R0200	2 917 105	1 524 866	1 102 902	852 402	707 318	604 370						453 397		
N-4	R0210	3 148 250	1 461 866	1 043 465	831 463	656 413							477 166		
N-3	R0220	3 167 657	1 586 858	1 225 357	962 288								729 576		
N-2	R0230	2 851 118	1 384 621	992 645									729 477		
N-1	R0240	3 208 147	1 682 998										1 265 135		
N	R0250	4 313 597											3 489 319		
												Total	R0260	8 497 476	

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna				
		31-12-2022				
S.23.01.01						
Own funds (in PLN thousand)						
		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	86 352	86 352	-	-	-
Share premium account related to ordinary share capital	R0030	538 139	538 139	-	-	-
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	-	-	-	-	-
Subordinated mutual member accounts	R0050	-	-	-	-	-
Surplus funds	R0070	-	-	-	-	-
Preference shares	R0090	-	-	-	-	-
Share premium account related to preference shares	R0110	-	-	-	-	-
Reconciliation reserve	R0130	22 153 467	22 153 467	-	-	-
Subordinated liabilities	R0140	2 349 392	-	-	2 349 392	-
An amount equal to the value of net deferred tax assets	R0160	-	-	-	-	-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-	-	-	-	-
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	R0290	25 127 350	22 777 958	-	2 349 392	-
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-	-	-	-	-
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-	-	-	-	-
Unpaid and uncalled preference shares callable on demand	R0320	-	-	-	-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-	-	-	-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	-	-	-	-	-
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-	-	-	-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-	-	-	-	-
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-	-	-	-	-
Other ancillary own funds	R0390	-	-	-	-	-
Total ancillary own funds	R0400	-	-	-	-	-
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	25 127 350	22 777 958	-	2 349 392	-
Total available own funds to meet the MCR	R0510	25 127 350	22 777 958	-	2 349 392	-
Total eligible own funds to meet the SCR	R0540	25 127 350	22 777 958	-	2 349 392	-
Total eligible own funds to meet the MCR	R0550	23 248 867	22 777 958	-	470 909	-
SCR	R0580	9 418 185	-	-	-	-
MCR	R0600	2 354 546	-	-	-	-
Ratio of Eligible own funds to SCR	R0620	3	-	-	-	-
Ratio of Eligible own funds to MCR	R0640	10	-	-	-	-
		C0060				
Reconciliation reserve						
Excess of assets over liabilities	R0700	25 103 080	-	-	-	-
Own shares (held directly and indirectly)	R0710	2 124	-	-	-	-
Foreseeable dividends, distributions and charges	R0720	2 322 998	-	-	-	-
Other basic own fund items	R0730	624 491	-	-	-	-
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-	-	-	-	-
Reconciliation reserve	R0760	22 153 467	-	-	-	-
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770	-	-	-	-	-
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	728 334	-	-	-	-
Total Expected profits included in future premiums (EPIFP)	R0790	728 334	-	-	-	-

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022		
S.25.01.21				
Solvency Capital Requirement - for undertakings on Standard Formula - Basic Solvency Capital Requirement (in PLN thousand)				
		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	8 012 593		-
Counterparty default risk	R0020	225 510		-
Life underwriting risk	R0030	220 387	-	-
Health underwriting risk	R0040	245 387	-	-
Non-life underwriting risk	R0050	4 179 027	-	-
Diversification	R0060	(2 765 620)		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	R0100	10 117 284		
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	412 932		
Loss-absorbing capacity of technical provisions	R0140	-		
Loss-absorbing capacity of deferred taxes	R0150	(1 112 031)		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-		
Solvency Capital Requirement excluding capital add-on	R0200	9 418 185		
Capital add-on already set	R0210	-		
Solvency capital requirement	R0220	9 418 185		
		Kapitałowy wymóg wypłacalności brutto	Parametry specyficzne dla zakładu	Uproszczenia
		C0110	C0090	C0120
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	-		
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	-		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	-		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-		
Approach to tax rate		Tak/Nie		
		C0109		
Approach based on average tax rate	R0590	Nie		
Calculation of loss absorbing capacity of deferred taxes		LAC DT		
		C0130		
LAC DT	R0640	(1 112 031)		
LAC DT justified by reversion of deferred tax liabilities	R0650	(765 936)		
LAC DT justified by reference to probable future taxable economic profit	R0660	(346 095)		
LAC DT justified by carry back, current year	R0670	-		
LAC DT justified by carry back, future years	R0680	-		
Maximum LAC DT	R0690	(1 112 031)		

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2022	
S.28.01.01			
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (in PLN thousand)			
Linear formula component for non-life insurance and reinsurance obligations			
MCRNL Result		R0010	C0010 2 102 616
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole
			Net (of reinsurance) written premiums in the last 12 months
			C0020
			C0030
Medical expense insurance and proportional reinsurance	R0020	-	-
Income protection insurance and proportional reinsurance	R0030	163 845	478 876
Workers' compensation insurance and proportional reinsurance	R0040	-	-
Motor vehicle liability insurance and proportional reinsurance	R0050	6 055 277	4 726 651
Other motor insurance and proportional reinsurance	R0060	1 592 923	3 656 013
Marine, aviation and transport insurance and proportional reinsurance	R0070	62 904	87 950
Fire and other damage to property insurance and proportional reinsurance	R0080	1 038 849	2 732 996
General liability insurance and proportional reinsurance	R0090	1 031 963	838 610
Credit and suretyship insurance and proportional reinsurance	R0100	64 073	40 063
Legal expenses insurance and proportional reinsurance	R0110	10 422	14 385
Assistance and proportional reinsurance	R0120	149 204	484 488
Miscellaneous financial loss insurance and proportional reinsurance	R0130	160 570	132 970
Non-proportional health reinsurance	R0140	-	2
Non-proportional casualty reinsurance	R0150	13 827	14 381
Non-proportional marine, aviation and transport reinsurance	R0160	-	750
Non-proportional property reinsurance	R0170	43 364	26 066
Linear formula component for life insurance and reinsurance obligations			
MCRL Result		R0200	C0040 63 918
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole
			Net (of reinsurance/SPV) total capital at risk
			C0050
			C0060
Obligations with profit participation - guaranteed benefits	R0210	-	-
Obligations with profit participation - future discretionary benefits	R0220	-	-
Index-linked and unit-linked insurance obligations	R0230	-	-
Other life (re)insurance and health (re)insurance obligations	R0240	3 043 736	-
Total capital at risk for all life (re)insurance obligations	R0250	-	-
Overall MCR calculation			
			C0070
Linear MCR	R0300	2 166 534	
SCR	R0310	9 418 185	
MCR cap	R0320	4 238 183	
MCR floor	R0330	2 354 546	
Combined MCR	R0340	2 354 546	
Absolute floor of the MCR	R0350	18 836	
			C0070
Minimum Capital Requirement	R0400	2 354 546	