Half-year Report
2023

Management Board's report on the activity
of the PZU Group in 1H 2023


PZU

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

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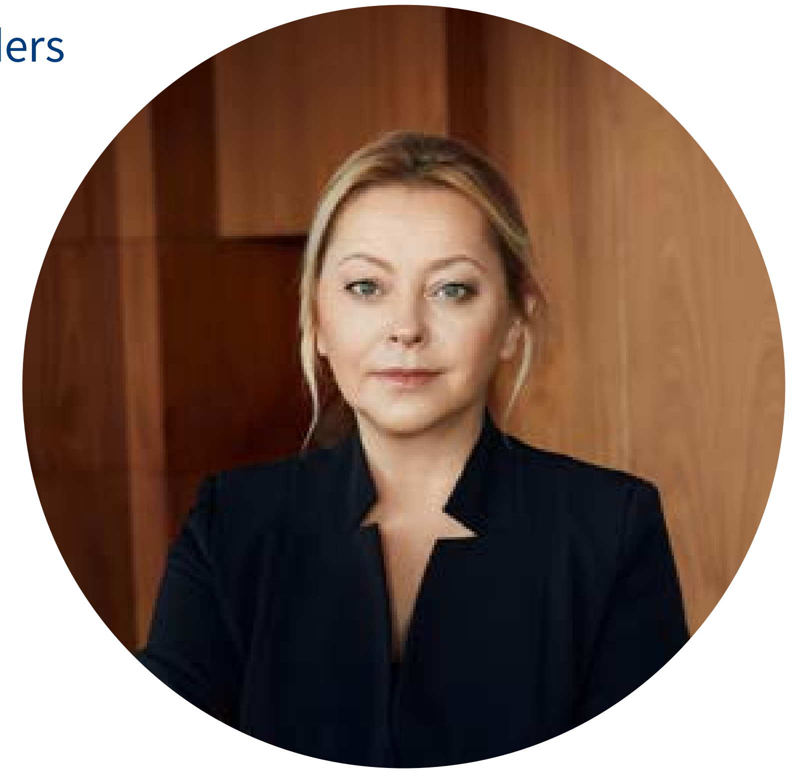
CEO Letter to Shareholders



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

Dear Shareholders,

together with the management boards of the companies forming the PZU Group, I hereby provide you with a report on our activities for the first half of 2023. It was a period of gradual stabilisation of the macroeconomic environment after the recent pandemic crisis and the continuing war crisis. Under these challenging conditions, the Polish economy performed relatively well compared to other European economies, especially in the euro area. Combined with declining inflationary factors and a steadily strong labour market, this created space for monetary policy easing and a likely termination of the interest rate hike cycle. Nevertheless, the geopolitical situation means that challenges related to energy markets, food markets, liquidity of supplies or access to capital and, consequently, the economic downturn, are still valid and affect directly or indirectly the business, lives and plans of our clients and, thereby, the business of the PZU Group.

Under these circumstances, I am even more pleased to be able to communicate such positive information. In the first half of this year, we focused on further implementation of the strategic processes initiated in 2021, while at the same time effectively exploiting emerging market opportunities on the product, technology, cost side. The effectiveness of the measures taken is confirmed by very good results we generated in the reported period. This was achieved against a background of consistent growth of the PZU Group's business in our key market segments and consolidation of our leadership position, providing our clients with the best protection tailored to contemporary needs, as well as delivering measurable benefits to shareholders.

Growth in the result by a half

After the first half of 2023, the PZU Group's net profit attributable to the shareholders of the parent company, PZU SA amounted to PLN 2.7 billion, growing by nearly 50% year-on-year. The adjusted return on equity (aROE) reached 22.2%. In the second quarter, we were as successful as in the first three months of this year in increasing sales while maintaining very good profitability in the core business. Consequently, in the first half of 2023, the PZU Group recorded gross insurance revenues of PLN 13 billion, increasing them by nearly one billion zloty in year-on-year terms. The growth was consistently driven by non-life insurance, where revenues in the first half of this year increased by 10.8% y/y - to PLN 7.7 billion. Remarkably, this was mainly attributable to revenue growth in motor insurance, especially in the MOD insurance segment, where a 16.7% y/y rise in revenue was recorded. A nearly 24 per cent rise in non-life insurance revenue in the Baltic markets - Lithuania, Latvia and Estonia - is also worth highlighting. At the same time, we delivered very good results in terms of profitability, with a combined ratio (COR) of 84.2 % for non-life insurance in Poland and a 19.6 % operating margin in group and individually continued life insurance.

The result generated on the investment portfolio in this period, posting a rise of 25.5% y/y to PLN 1. 2 billion, added strong support to the PZU Group's result after the first half of this year. The result was underpinned by a favourable level of interest rates in refinancing maturing tranches of sovereign bonds and a very good performance of the property portfolio. The rapidly growing results in the banking business were also a positive factor driving the consolidated result. The contribution of Pekao and Alior banks to the PZU Group's profit attributable to owners of the parent company was more than double compared to H1 last year, amounting to PLN 918 million.

Introduction of IFRS 17 and recalibration of strategy metrics

Since the beginning of 2023, the financial statements of the PZU Group have been prepared in accordance with the financial reporting standard IFRS 17, which replaced the previous standard IFRS 4. As a consequence, the method of insurance contract measurement and presentation of insurers' financial results has changed significantly. The implementation of the new standard coincided with dynamic changes in the macroeconomic environment, which prompted us to recalibrate some of the measures adopted in the 2021-2024 "Potential and Growth" strategy or introduce new ones. We have updated the measures at the end of April this year. While maintaining the existing development objectives and directions indicated in the strategy, we have mainly changed the measures related to net profit, profitability, revenue and the level of the banks' contribution to the result. Currently, net income in the strategic horizon, i.e. in 2024, is forecast at PLN 4.3 billion (compared to the original target of PLN 3.4 billion). Due to the specific nature of IFRS 17, we have introduced a new measure - adjusted return on equity (aROE), calculated on a capital basis excluding other comprehensive insurance income (reflecting, among others, the impact of macroeconomic changes on the PZU Group's capital in respect of insurance liabilities). A significant change also occurred with regard to sales ambitions. In accordance with IFRS 17, gross premium written has been replaced by gross insurance revenue. By 2024, we plan to generate insurance revenue of PLN 28 billion. We have also increased the assumed contribution of Pekao and Alior banks to PZU Group's net result from PLN 0.8 billion to PLN 1 billion. We continue to pursue the target of dynamic revenue growth in the health pillar (up to PLN 1.7 billion) and an increase in assets under management to PLN 60 billion.

Stable dividend policy

The implementation of IFRS 17 has no impact on maintaining the PZU Group's high capacity to generate value and capital. It also does not affect our attractive dividend policy. Since its debut on the Warsaw Stock Exchange in 2010 until the end of last year, PZU SA distributed a total of PLN 27.2 billion in dividends to its shareholders. In 2022, the Group's consolidated net profit amounted to PLN 3.374 billion. On 7 June this year, the General Meeting of Shareholders of PZU SA passed a resolution on the distribution of last year's profit in accordance with the recommendation of the Company Management Board, allocating over PLN 2 billion, i.e. PLN 2.40 per share for dividends. This yields a high rate of approximately 6 per cent. The dividend record date has been scheduled for 7 September 2023 and the dividend payment date for 28 September 2023.

A safe outlook

Numerous risks to the economic situation in Poland resulting from global events persist. Therefore, we treated the first half of this year, which was marked by a partial unwinding of the negative sentiment after the difficult 2022, as a time to increase the PZU Group's capital strength and resilience, which may prove fundamental in the event of potential future turbulences. We used this period very effectively, as evidenced by the financial and operational results we have achieved. I am convinced that the strategy we implement guarantees that the PZU Group will maintain and strengthen its leading position in the financial sector in the future, responding effectively not only to temporary challenges, but also to deeper long-term trends resulting from, among others, the market entry of new generations and their expectations, a sharp technological development or climate change. Driven by the trust you and our customers continue to place in us, we will make every effort to fulfil this vision, while maintaining the PZU Group's reputation as a reliable provider of above-average benefits to all its stakeholders.

Respectfully,

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

#1 — the largest insurance and banking group in CEE[1]

22 m — clients

99% — the most recognizable brand in Poland[2]

A- stable[3] — stable business model based on strong foundations

PLN 34.0 bn — market capitalization[4]

strong balance sheet — Solvency II above average for insurance groups in Europe[5]

1) By assets
2) Supported awareness of PZU brand. Percentage of target group respondents declaring familiarity with a brand after its Recognition on the list with answers - interent survey
3) S&P rating, confirmed on June 27, 2023
4) As at the end of 1H 2023
5) PZU's own study

Market position of PZU Group companies

POLAND

PZU	#1
LINK4	#1
PZUŻ	#1
Bank Pekao	#2
Alior Bank	#8
TFI PZU	#3
OFE PZU	#3
Pekao TFI	#5
PZU Zdrowie	#3

LITHUANIA

Lietuvos Draudimas	#1
Lietuvos Draudimas	#6

LATVIA

Balta	#1

ESTONIA

PZU	#4

UKRAINE

PZU	#11
PZU	#3

- non-life insurance
- life insurance
- market position in terms of assets in management
- market position in terms of assets
- market position in terms of revenue from medical activities

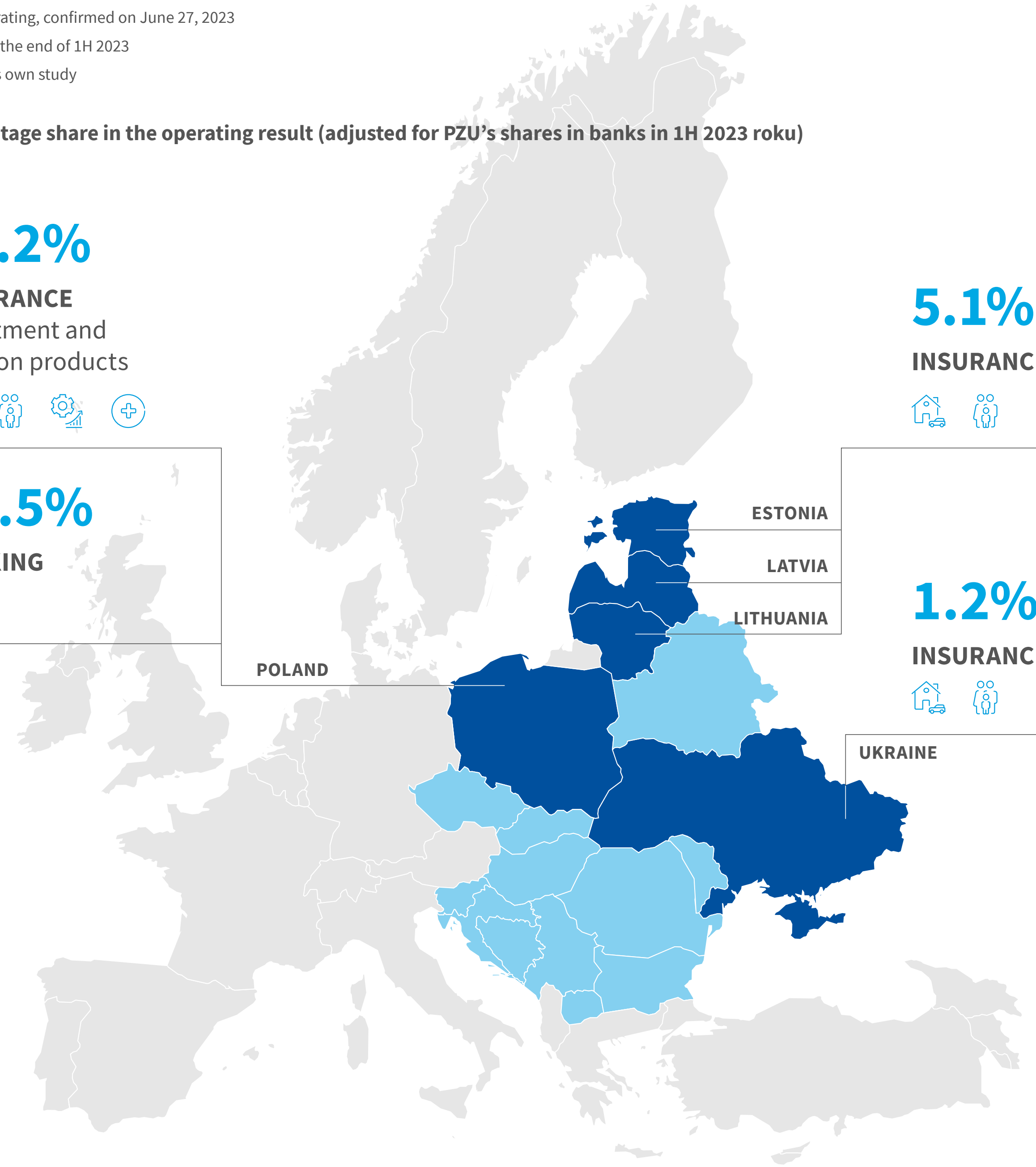
Percentage share in the operating result (adjusted for PZU's shares in banks in 1H 2023 roku)

59.2%
INSURANCE
investment and pension products

34.5%
BANKING

5.1%
INSURANCE

1.2%
INSURANCE



Recap of 1H 2023 results

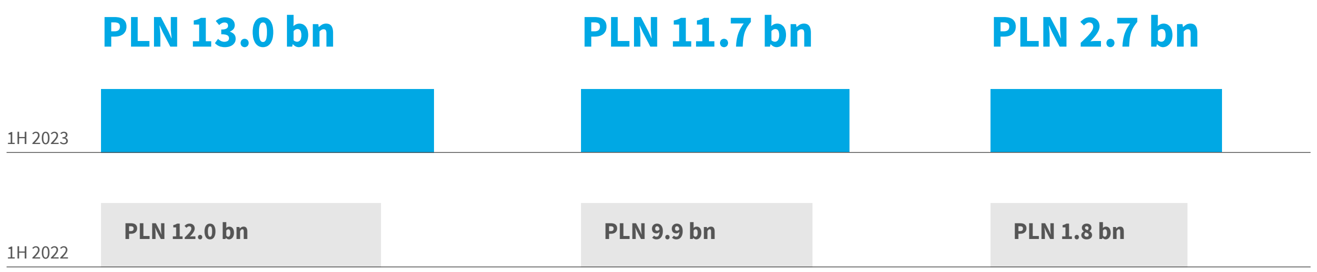
We care about the most important things in life

Ambitions for 2024

The PZU Group wants to be a provider of holistic solutions that will help customers lead healthy lives and sustainable businesses, provide medical care for family or employees, protect assets and help multiply them, and give a sense of stability and due care for loved ones no matter what the future will bring.

The PZU Group is building success based on modern business models while adhering to the principles of sustainable development for the sake of the natural environment protection, a better quality of life for employees and customers, and a commitment to the development of local communities.

Gross insurance revenue | **Insurance service expenses** | **Net profit (attributable to holders of the parent company)**



aROE	Solvency II	Dividend	Climate neutrality
22.3% 06.2023 +5.6 p.p. vs. 06.2022	226%[1] 1Q 2023 -14.0 p.p. vs. 2022	2.40 zł DPS 2022	Offset 100% Reduction of CO_2 emissions 25.5%[2]
Target 2024 **15.5%**	Target 2024 **≥200%**	Target 2024 Dividend Payout Ratio **50% - 100%**	Target 2024 Achieving net zero target in own operations (Scope 1 and 2)[3]

1) Data not audited or reviewed by a statutory auditor.

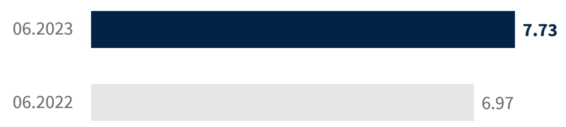
2) Reduction of CO2 emissions from own sources by 25.5% (location-based method). 81% of electricity contracted and purchased from RES. Offset of 17,425 Mg of CO2 through purchase of CERs, UN Carbon Offset Platform (compensation for 2022 as of 30.06.2023).

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

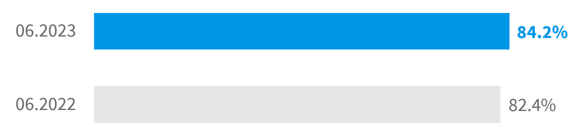
INSURANCE

Non-life insurance in Poland

Gross insurance revenue (PLN bn)

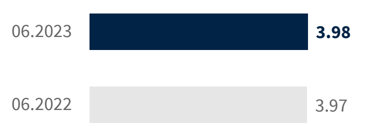


Combined ratio – COR

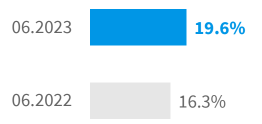


Life insurance in Poland

Gross insurance revenue (PLN bn)



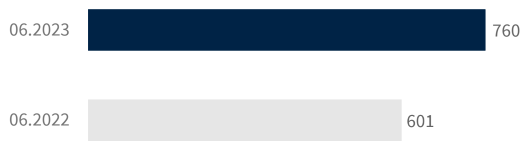
Group and IK* insurance operating margin



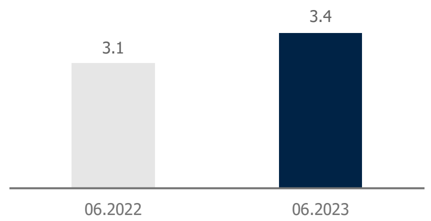
* Individually continued insurance

HEALTH

Revenues (PLN m)



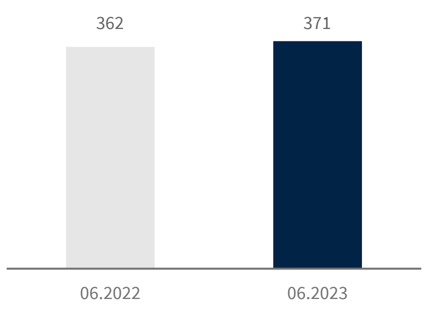
Number of agreements (m)



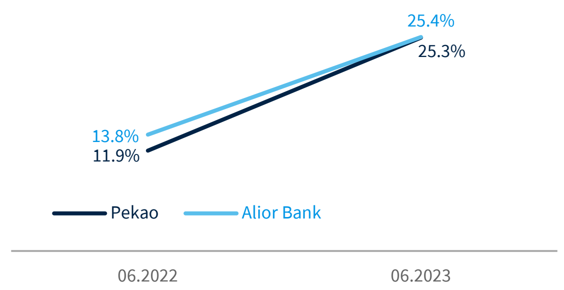
Recap of 1H 2023 results

BANKING

Banking assets in the PZU Group (PLN bn)

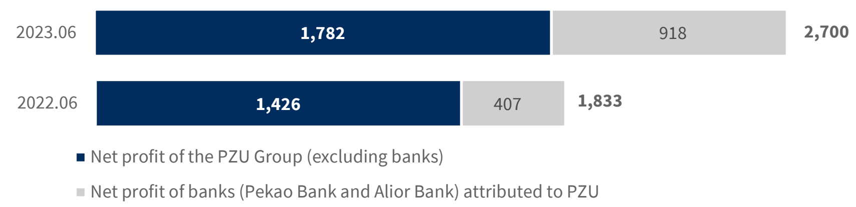


ROE (return on equity)*



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

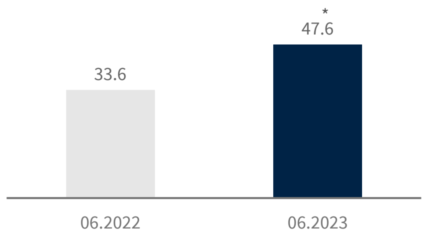
Contribution of banking activity to net profit attributable to the parent company (PLN m)*



* excluding consolidation adjustments

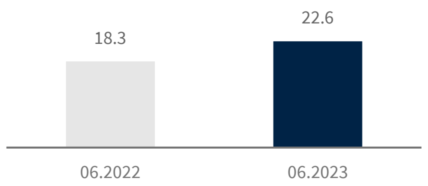
INVESTMENTS

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



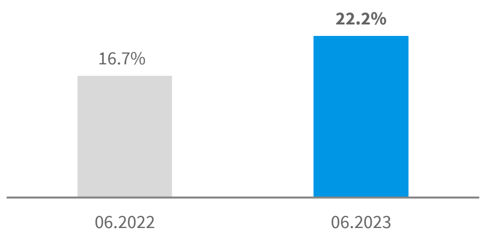
* adjusted data

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



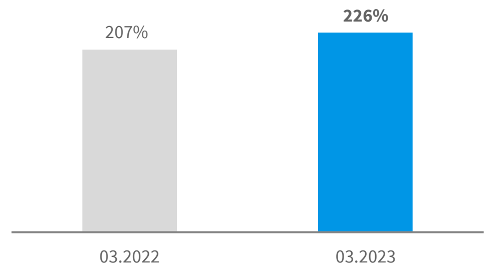
SELECTED RATIOS

aROE (return on equity)*



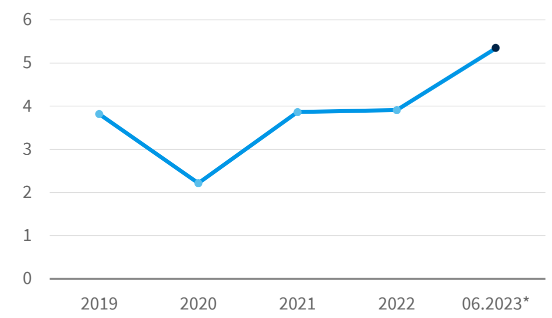
* aROE, adjusted return on equity, calculated on a capital basis excluding accumulated other comprehensive income relating to finance income and expenses from insurance and reinsurance.; aROE attributed for the parent company

Solvency II*

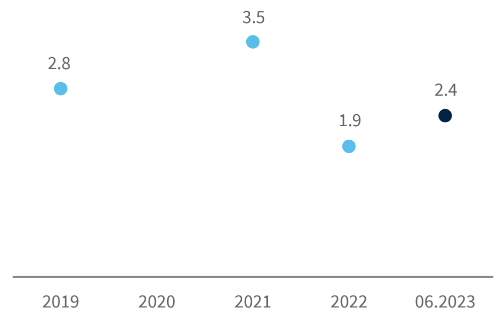


* Data as of 03.2023 are not subject to audit or review by the auditor

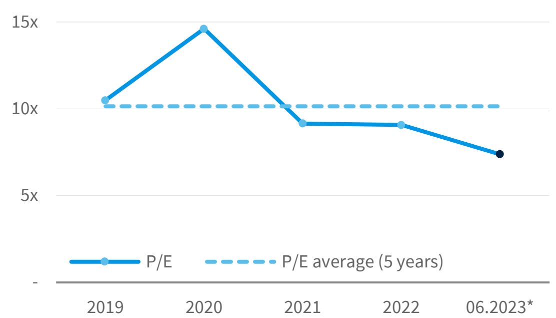
EPS (earnings per share) PLN



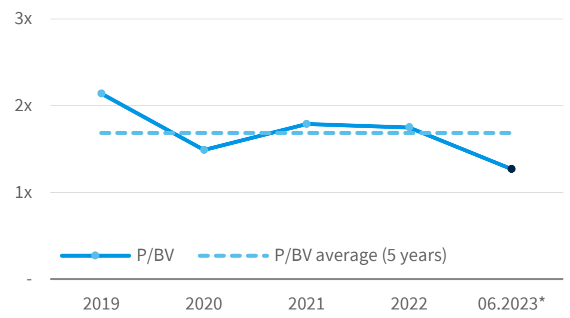
DPS (dividend per share) PLN



P/E (price to earnings per share)



P/BV (price to book value per share)



* IFRS 2017 data

Some of the ratios depicted in the charts above are Alternative Performance Measures (APM) under the ESMA Guidelines on Alternative Performance Measures 2015/1415. Definitions, basis of calculation and explanation of their use are presented in Appendix 2: Alternative Performance Measures

Recap of 1H 2023 results

Basic consolidated data of the Group for the first half of 2023 (in PLN million)

	I półrocze 2022	I półrocze 2023
A) PZU Group excluding Alior Bank and Bank Pekao		
Gross insurance revenue	12,045	13,002
Insurance service expenses (net)	(9,607)	(10,300)
Net insurance claims and benefits[1]	(6,761)	(7,106)
Administrative expenses	(962)	(1,114)
Amortization of insurance acquisition cash flows	(1,894)	(2,132)
Loss component amortization	574	623
Recognition of the loss component	(564)	(571)
Insurance service result	1,901	1,975
Net financial revenue[2]	232	581
Operating profit	1,932	2,282
Net result attributable to the equity holders of the parent company	**1,426**	**1,782**
B) Banks: Alior Bank and Bank Pekao		
Net profit attributable to equity holders of the parent company	407	918
(A+B) Net profit attributable to equity holders of the parent company	**1 833**	**2 700**

1) Excluding the investment component and changes that relate to past service (LIC)

2) Financial income or expenses from insurance and reinsurance, as well as investment result allocated to insurance business segments

The financial results the PZU Group has been enjoying in the recent years place it among the most profitable financial institutions in the country. They also translate to high efficiency indicators. In 1H 2022, the rate of adjustment return on equity was 22.2%. GThe PZU Group also posted an increase in gross insurance revenue by PLN 1.0 billion to PLN 13.0 billion. The dynamic growth is accompanied by continued high security of business. This is confirmed by both the high capital adequacy indicators as well as the A- rating with stable outlook by the S&P Global Ratings.

As at the closing of Q1 2023 the solvency ratio (calculated in line with the standard Solvency II formula) was 226%[1].

1) preliminary figures, not subject to audit or inspection by statutory auditor

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

A-

/STABLE/

The rating was last updated on 27 June 2023, which is when S&P afirmed once again the financial strength rating and the credit rating for PZU and its main entities at A- with a stable outlook. In a report dated 24 April 2023 the agency's analysts expressed the expectation that PZU will continue to display moderate growth levels at around 4%-10% in 2023-2024, safeguarding business stability and resilient operating performance. They emphasized, that despite the challenging economic environment, PZU's balance sheet remained resilient, and capital position above the "AAA" level.

2023 Calendar

30 March
Annual Report for 2022

20 April
Loyalty program for individual investors “Moje Akcje PZU” made available for clients of BOŚ Brokerage House

25 May
Quarterly report for Q1 2023

26 May
PZU at WallStreet 27 | SII conference for individual investors

7 June
PZU Annual Shareholder Meeting

27 June
S&P affirms PZU rating | A- with stable outlook

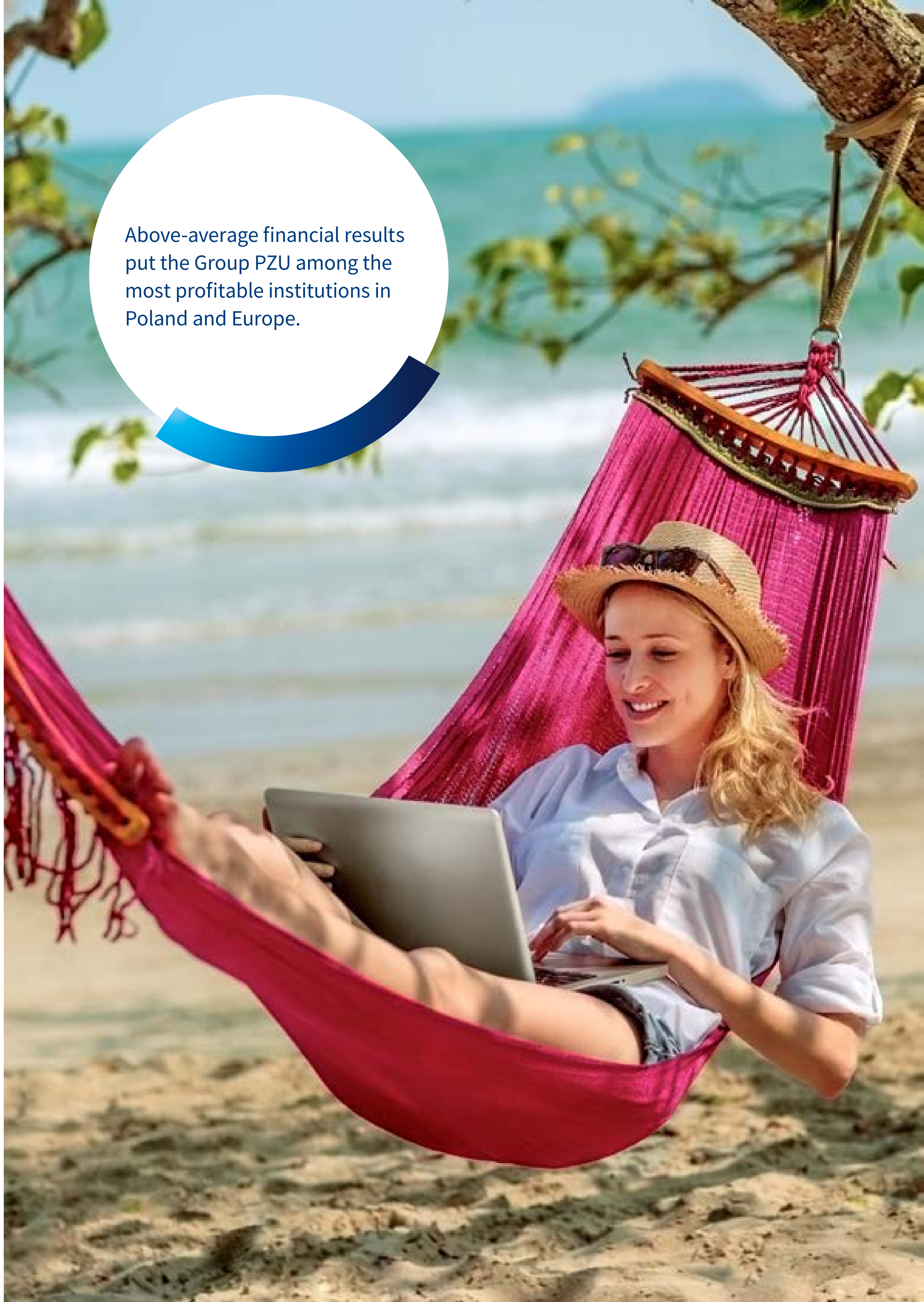
31 August
Half-year Report for 2023

28 September
Dividend payout | PLN 2.40 per share

23 November
Quarterly report for Q3 2023

1.

PZU Group's profile



1. PZU Group's profile

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

1.1. Potential

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland and Central and Eastern Europe. PZU heads up the group with its traditions dating back to 1803 when the first insurance company was established on Polish soil. PZU is a public company. PZU's stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its stock exchange debut PZU has been part of WIG20, an index of the Warsaw Stock Exchange's largest companies. It is one of the most highly valued companies and heavily traded stocks on the Polish stock exchange. Since 2019, PZU's shares have been also part of the WIG ESG (sustainability) index.

The main shareholder of PZU is the State Treasury, holding 34.19% of shares. Other PZU shares are held by investors from all across the world.

The PZU Group's consolidated assets total PLN 442 billion. The Group enjoys the trust of 22 million clients. It offers products and services to retail clients, small and medium enterprises and big business entities. Poland is the PZU Group's core market measured by its magnitude and client numbers. Nevertheless, the Group's subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine. Insurance is the core business of the PZU Group. PZU companies also offer investment, pension, and banking products as well as medical services. Within strategic partnerships, they provide assistance services for retail clients and enterprises. The clients' trust is at the heart for the business of the Group's companies. PZU puts the client at the center of attention and integrates all the areas of its operations around them. This allows PZU to offer more and more tailored, flexible and comprehensive products and services, adapted to the needs of the clients at every stage of their private and professional lives, wherever and whenever it is most convenient for them.

It is the strategic ambition of PZU to develop ecosystems which will deliver comprehensive solutions for both institutional and individual clients. They give rise to new opportunities to build long-term client relationships, thanks among other things to new interactions in various areas of the client's life. The key elements contributing to the development of PZU's consistent technological edge in integrated customer service include digitalization, use of artificial intelligence (AI), Big Data and advanced analytics, as well as mobility and omni-channel approach. Technological transition is supported by cloud computing.

Among all insurers operating in Poland PZU offers its clients the largest sales and service network. It includes: 409 branches, nearly8.2 thousand tied agents and agencies, 3.6 thousand multiagencies, over 1 thousand insurance brokers and electronic distribution channels (among others, the PZU sales hotline at 600 600 601 and myPZU). When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 13 banks and 23 strategic partners.

The PZU Group's clients in Poland have access to Bank Pekao's distribution network (581 branches) and Alior Bank's distribution network (527 branches, including 165 traditional branches, 7 Private Banking branches, 13 Corporate Banking Centers and 342 partner centers). Both banks have professional call centers and mobile and Internet banking platforms.

In the Baltic countries where the PZU Group is in the insurance business, its distribution network consists of 582 agents, 20 multiagencies and 432 brokers. PZU also cooperates with 5 banks and 12 strategic partners.

In Ukraine, insurance products are distributed through 348 agents and in collaboration with 26 multiagencies, 38 brokers and 10 banks.

1.2. Brand

PZU is the most recognizable brand in Poland. It is spontaneously mentioned by 81%[1] of Poles. Aided brand awareness is at the level of 99%[2].

1) Kantar, Brand Tracking, data for 1H 2023

2) Percentage of target group respondents declaring Brand Awareness after brand recognition in the list with answers - internet survey

Even though it is mostly associated with insurance, PZU Group's brand architecture also covers a few independent brands. They enjoy different visual systems, target groups, and corporate business models.

The dominant corporate brand within the Group is that of PZU. It is used to identify the PZU Group, most of its companies operating on the Polish market (PZU, PZU Życie, PTE PZU, TFI PZU, PZU Pomoc, PZU Zdrowie, PZU Centrum Operacji), as well as some of the international companies – companies in Ukraine and the Lithuanian branch in Estonia and Lithuanian company PZU Lietuva Gyvybes Draudimas (PZU Lithuania Life).

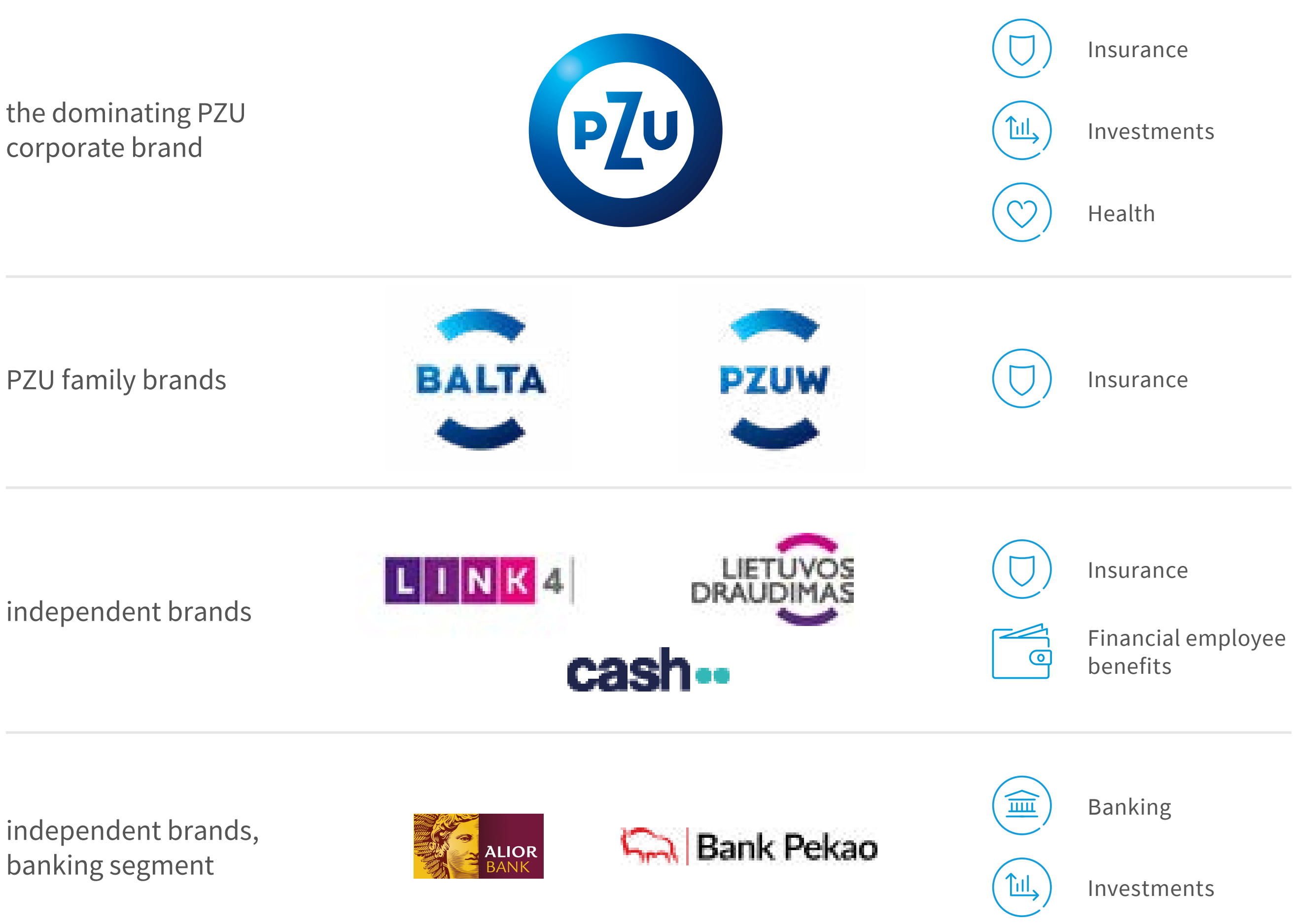
In the PZU Group's architecture, there is also a group of PZU family brands. This family is formed by companies whose names do not reference the parent company brand, such as AAS Balta and TUW PZUW. However, their logos look similar to the corporate brand.

The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and LINK4.

The independent brands that joined the PZU Group in 2015 and 2017 are Alior and Pekao bank brands, respectively.

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

PZU Group's brand architecture (corporate umbrella model)



1.3. Mission, vision, values

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

Modern product and service ecosystems

One of the tools supporting PZU's mission is building modern and comprehensive product ecosystems. First and foremost, these are offers dedicated to enterprises (benefits) and drivers. Thanks to the benefits ecosystem, the employer may receive a comprehensive offer of company benefits for their employees. They receive, among others, access to PZU Group products and services, such as the PZU Sport sports and recreation subscription, the PZU CASH portal offering loans on favorable terms repaid directly from the remuneration, and the PZU Zdrowie offer. These benefits improve the living comfort of the employees, motivate them to be physically active and change their lifestyles. They allow PZU to build relations with clients that are based on daily life choices. The driver ecosystem involves assistance in sales and purchase, control of the vehicle's technical condition, as well as assistance in mechanical repair. PZU specialists offer expert knowledge, so that our clients may make the best decision if they are not experienced in vehicle maintenance. All services are available in one place, through secure and user-friendly digital tools.

Personalization of services

The PZU Group has a corporate Data Warehouse that is one of the largest in the Central and Eastern Europe. Its application, combined with an integrated approach to clients and cooperation between various distribution channels, allows the Group to create personalized product offerings. In addition to the standard insurance, health, banking or investment

Four main values of PZU Group

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

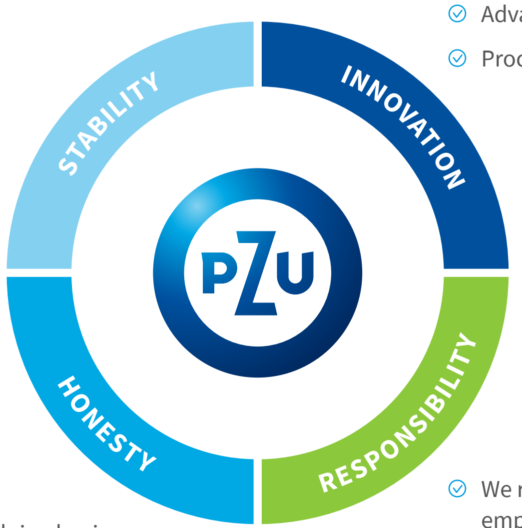
A- with a stable outlook
AAA capital strength rating

S&P Global Ratings

PZU / Super Ethical Company
Puls Biznesu 2021-2023

PZU Życie
/ Super Ethical Company
Puls Biznesu 2020-2022

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



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

Innovation Lab
Corporate Innovation Awards

Minute for skin, Agro Lab[2]
The Efma-Accenture Innovation In Insurance Awards 2022

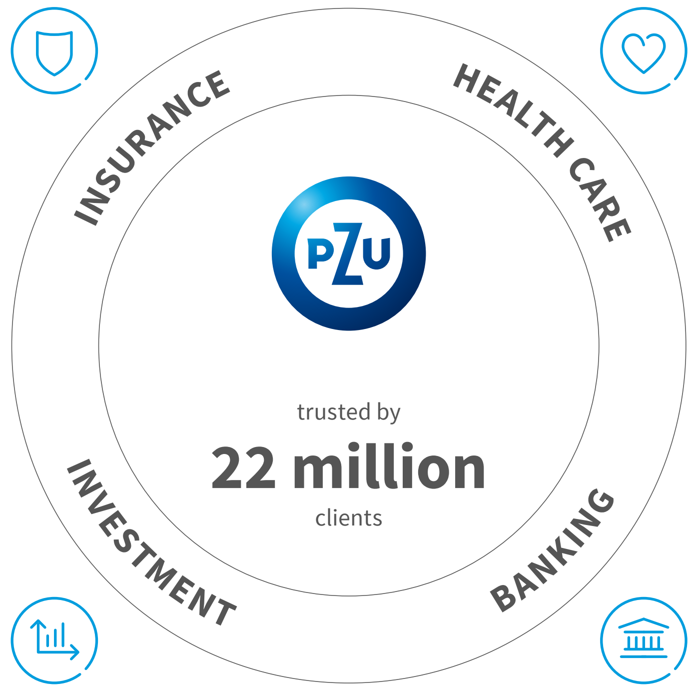
PZU
Employer Branding Excellence Awards 2022

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

1) Machine learning is a technology assuming that the program utilizes algorithms to "learn" on the basis of large data sets whereby it is capable of executing tasks without having to be designed directly by a human
2) Minute for Skin - is a skin cancer prevention project using artificial intelligence (AI), Agro Lab - is a tool using satellites and AI in handling agricultural damage.

PZU Group's product offer

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



INSURANCE PRODUCTS

Non-life insurance

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

Life insurance

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

HEALTH

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

BANKING

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

INVESTMENTS

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

products, PZU also offers modern support and advisory services, helping clients manage their risks better. These activities also increase the number of client interactions. It is the client and information about the client that are at the core of the Group's operating model. In its strategy, the Group assumes that further development of modern tools for all sales channels, implementation of advanced analytical environments and consolidation of analytical processes with banks will produce data that will best reflect client preferences and behaviors. This will ensure that the potential of the portfolio and knowledge about clients are fully utilized.

Health and wellbeing

The PZU Group places great emphasis on the health and wellbeing of employees and clients. Its goal is to build health awareness in Poland, with special emphasis on prevention measures. It is the prevention of illnesses, not treatment, that is the priority for PZU. By developing its offering and network, PZU Zdrowie wants to revolutionize the approach to health care in Poland, and become the most comprehensive health advisor. It uses cutting-edge technology, telemedicine and the mojePZU application to facilitate access to specialist medical services and skilled physicians, thereby helping clients to take good care of their health, which is one of the most important values in life.

Sustainable future

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

The PZU Group is committed to the development of a responsible organization, strongly emphasizing the ESG factors in its strategy (environment, social responsibility and governance). The priority for the Group is to provide benefits for clients and shareholders in a sustainable and responsible manner. The success of the PZU Group will be built based on contemporary business models widely incorporating ESG criteria, setting standards in this respect on the financial market. This approach will permit the making of decisions supporting sustainable development in the context of the products being offered, cooperation with business partners, care for the well-being of employees and local communities, and building value-based leadership.

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

1.4. Value creation

Value creation model

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

Capital at PZU is classified in line with the IIRC framework: Financial, intellectual, human, social & relationship, manufactured, and natural.

The most important processes in the value creation model are determined by PZU Group's strategy and its risk management. In the short and medium term, these have an impact on improving business efficiency and building relationships to better respond to stakeholders' needs. In the long term, these translate to growing value creation potential for the organization, stakeholders, society and natural environment.

Impact on the surroundings

The PZU Group significantly impacts the quality of life of its stakeholders, social and economic development, and environment. PZU Group's comprehensive offer satisfies the needs of individual clients, small and medium enterprises, as well as large corporates in non-life insurance, life insurance, health care, solutions in savings and investment, as well as banking products (such as current accounts, or credit and deposit products).

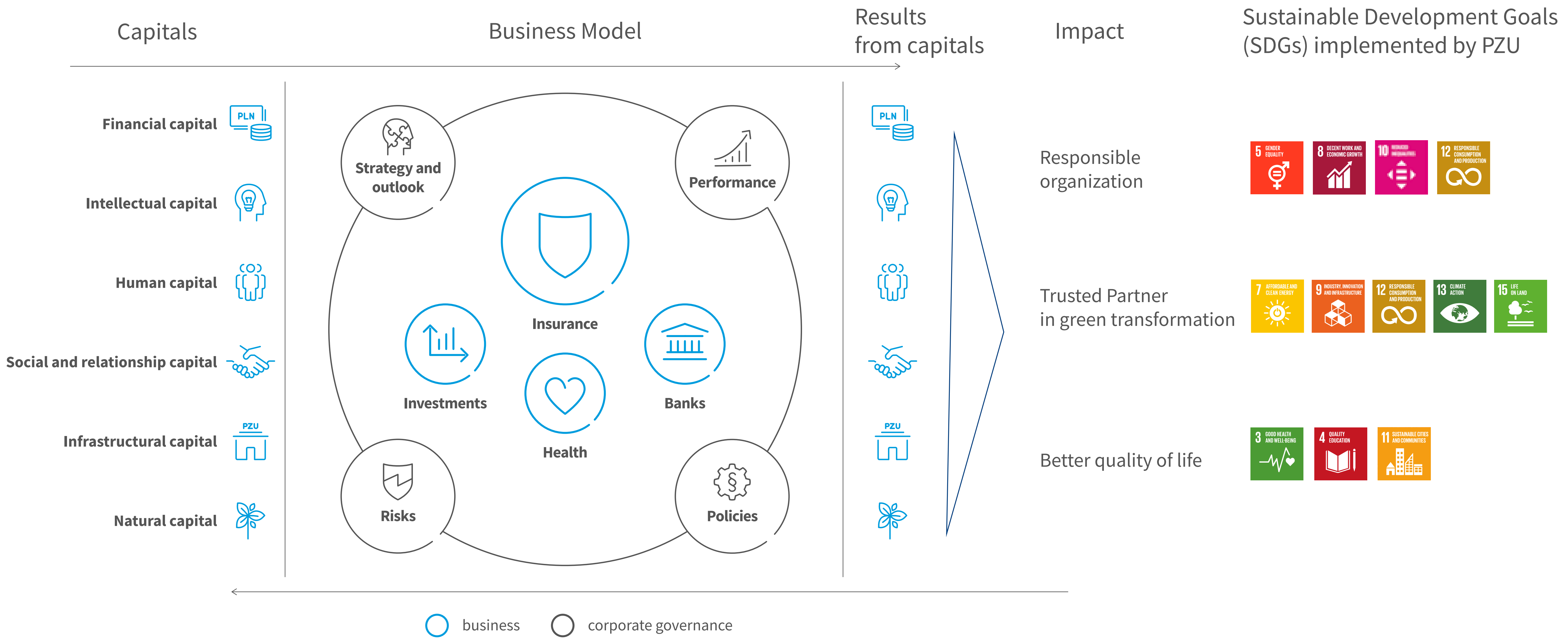
The PZU Group is one of the largest employers in Poland, employing several dozen thousand people. It ensures not only jobs, but also high inflows to the state budget from the taxes levied. By investing its assets in corporate shares and bonds, it provides the funds for their development. Claims for damage paid out by PZU to entrepreneurs help them to maintain business continuity in unexpected situations and to avoid financial problems.

Through its considerable assets, the Group is a prominent player on the financial market in Poland, exerting significant influence on its status and development directions. By purchasing sovereign bonds, it helps to finance infrastructural projects that are important for the country, and develop education, schooling, and health care.

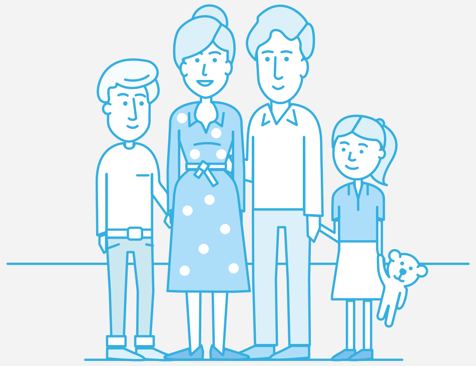
By insuring millions of Poles, PZU has real influence on their health and lives. The benefits paid out afford financial stability to those families who find themselves in a difficult situation, for example, due to an illness or death of one of the family members, or loss of residence due to fire, flood, or other disaster. This offers additional protection, which provides the sense of stability and safety.

Through its activities, PZU also affects the natural environment. Its market position and scale of impact allows PZU to set new trends. By selecting environment-friendly investment projects and vendors who act in a sustainable manner, the PZU Group emphasizes the importance of environment protection, climate change prevention, and sustainable development. By creating new products, such as insurance for wind farms, photovoltaic installations, eco loans, the PZU Group takes an active part in energy transition, thus supporting its clients in making climate-positive decisions.

Value creation model diagram



Key PZU Group business areas



Insurance

For many years, PZU Group has been providing insurance cover in all the key areas of private, public, and economic life, protecting the health, assets and lives of its clients.

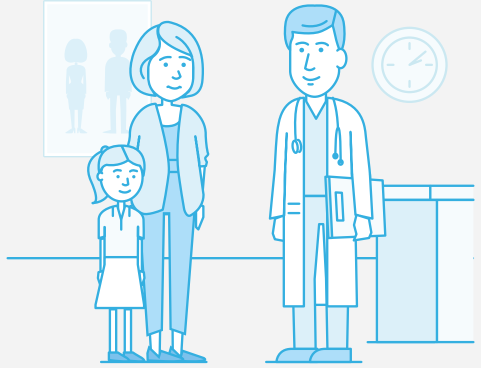
PZU (non-life insurance, including motor, residential and buildings, agricultural and third-party liability insurance) and PZU Życie (life insurance) are the leaders on Poland's insurance market. Since 2014, after the acquisition of LINK4, the Group has been offering insurance under two brands: the most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

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

The Group's primary market is Poland, where it achieves 90% of revenues (by gross insurance revenues). Insurance business in the Baltic countries in Ukraine generates 10% of revenue.

Health

Striving to satisfy the clients' needs better and more fully, the PZU Group intensively grows the health insurance segment along with associated medical care services. .



striving to satisfy the clients' needs better and more fully, the PZU Group intensively grows the health insurance segment along with associated medical care services. The health business deals with the following activities: (i) sales of health products in the form of insurance and sales of non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs), (ii) construction and development of medical infrastructure in Poland to give clients the best accessibility to the health care services rendered.

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

CLIENT

Investments

The PZU Group is one of the largest asset managers in the Polish market. It is also the market leader in employee pension schemes.

It offers a broad range of investment products: open-ended and closed-ended investment fund and pension products, such as open-ended pension funds, individual retirement accounts (IRA), individual retirement security accounts with voluntary pension funds, employee pension schemes (EPS), or employee capital schemes (ECS). PZU TFI also invests the PZU Group's own funds.

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

Banking

The PZU Group's banking business comprises two groups of companies: Bank Pekao (part of the PZU Group since 2017) and Alior Bank (part of the PZU Group since 2015).

Bank Pekao, established in 1929, is a universal commercial bank offering a full range of banking services provided to individual and institutional clients. It is one of the largest financial institutions in Central and Eastern Europe, and the second largest bank in Poland. Alior Bank is a universal deposit and credit bank. It was established in 2008 as a start-up. It combines the principles of traditional banking with innovative solutions, thanks to which it systematically strengthens its market position and sets out trends for the development of the Polish banking sector.

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

1.5. Milestones in PZU Group's history

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

1803
establishment of the first insurance company on Polish soil

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

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

Formation of PZU Życie

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

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

2002
Launch of operations on the **Lithuanian** insurance market

2005
Launch of operations on **the Ukrainian** insurance market

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

2012
Rebranding

2014
Signing of the contract to acquire: AAS Balta, AB Lietuvos Draudimas, COdan A/S and LINK4.

Launch of the **PZU Zdrowie** brand

ZDROWIE

2015
Agreement to acquire shares in **Alior Bank**

Establishment of **Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych** (TUW PZUW)

2017
Finalization of the acquisition of shares in **Bank Pekao**

2022
One of the most profitable and safest insurance and bank groups in Europe in terms of capital

2.

External environment

2. External environment

2.1. Main trends in the Polish economy

Gross Domestic Product

As estimated by the Central Statistical Office, GDP in Q1 2023 dropped by 0.3% y/y, mainly due to a high reference base of the previous year and following the dynamic recovery of business activity after the COVID-19 pandemic. A drop in GDP y/y growth in Q1 2023 derived from a reduction in consumption and a negative share of changes in inventories. The lower demand is, among others, a reaction to high inflation, an increase in the cost of servicing of loans, and uncertainty resulting from the Russia-Ukraine conflict. The aggregated GDP growth was also adversely affected by public consumption, which dropped by 0.5% y/y in real terms. As regards the demand side, in Q1 2023 the GDP growth was positively influenced by investments (+5.5% y/y) and net exports (exports +3.2%, imports -4.6% y/y).

As estimated by the Bureau of Macroeconomic Analysis of PZU, in Q2 2023 a drop in the growth of total consumption continued (-3.5% y/y) due to the negative growth of public and private consumption. In the Bureau's opinion, similarly to Q1 2023, results of national accounts were improved by the favorable relation of the exports growth (+1.3% y/y) to imports growth (-5.1% y/y), as well as investments (+3.5%). Notwithstanding the above, analysts of the Bureau of Macroeconomic Analysis estimate that the GDP y/y growth in Q2 2023 slowed slightly more than in Q1, i.e. by 0.4%. Decreasing, although still high, inflation and continuing high interest rates constitute a burden to the household demand. With similar disinflation trends, only the second half of the year may bring about a greater bounce.

In the first half of 2023, total industrial output sold by enterprises with more than ten workers dropped by 1.7% y/y (-0.6% and -2.8% respectively in Q1 and Q2). The y/y growth of the output of durable consumer goods (except cars), as well as energy and quarrying dropped, while the output of most categories of investment goods and non-durable consumer goods (food, pharmaceutical products) stabilised or increased.

The output of the construction and assembly output increased in the first half of 2023 by 3.8% y/y. The aggregated increase was achieved despite of a reduction in the activity of entities specialising in the construction of buildings (as a result of the growth of interest rates and a drop in the sales of new apartments and demand for office space). Declines in the construction of buildings were more than offset by specialised construction and civil-engineering construction, which reflected increased activities in the construction of infrastructure.

In the first half of 2023, real retail sales decreased by 5.7% y/y as a result of a drop in the purchasing power of real incomes and the growth of interest rates. The high reference base of the previous year following the inflow of war refugees from Ukraine constituted an additional challenge. The retail sales of goods decreased due to significant restrictions to the sale of fuels, cosmetics and furniture (as a consequence of a drop in the sale of apartments). The result was bade up by the sales of cars (with the increasing, although negative, y/y growth) and clothes (here, the growth was positive, but decreasing).

Labour market and consumption

In the first half of 2023, the situation in the labour market was relatively stable. An unemployment rate oscillated around historic minimum levels (a seasonal drop from 5.5% in January to 5.0% in June). On the other hand, the number of job offers decreased and the growth of employment slowed on a year-to-year basis (to 0.2% y/y in June from 1.1% y/y in January). In that environment, the pace of wage growth weakened to 11.9% y/y in June from 13.5% in January. Those changes were neutralised by the drastic reduction of y/y inflation, which contributed to the growth of real wages at enterprises by 0.4% y/y in June, given the relatively high drop of wages (-3.0%) in January 2023.

In the first half of the year, consumer confidence improved in all basic categories, i.e. major purchases, the evaluation of future financial standing, savings and unemployment. In the opinion of analysts of the Bureau of Macroeconomic Analysis of PZU, this is the consequence of the growth of real income, the relatively stable situation in the labor market, and perspectives for the growth of income from sources other than work.

Inflation, monetary policy and interest rates

In the first half of 2023, average y/y inflation was 15.0%, but it systematically decreased from 16.6% in January and 18.4% in February to 11.5% in June. This was mostly the outcome of a decrease in the growth of prices of goods, a slow-down in the growth of food prices at a relatively high growth of prices of services. The yearly growth of prices was reduced in the conditions of a significant decrease in prices of raw materials in global markets and was supported by a slow-down in consumer demand.

While the yearly growth of prices decreased, interest rates stabilised at the high level of 6.75%. In the last period, there were, however, some messages from members of the Monetary Policy Council, which indicated that if the existing disinflation trends maintained, there might appear a chance for interest rate reduction in Poland in autumn.

Public finance

In 2022, general government deficit increased from 1.8 to 3.7% of GDP, and general government debt decreased from 53.6 to 49.1% of GDP. The deficit-to-GDP relation, which was greater than in 2021, is a consequence of actions taken by the government as a response to the conflict in Ukraine, including consequences of anti-inflation shields, as well as support for household budgets through tax reduction (personal income tax rate was reduced from 17% to 12%). The high nominal growth of GDP favors the reduction of the debt-to-GDP relation. General government debt in Poland (calculated in accordance with the EU methodology) was already 48.1% of GDP after Q1 2023, i.e. by 1.0 p.p. below the relation of the end of the previous year. In accordance with the budget act of 5 December 2023 (which is being updated), in 2023 the deficit of the public finance sector, based on the EU methodology, is to be 4.5% and the ratio of general governement debt to GDP is to amount to 53.3%.

2.2. External environment in the Baltic countries and Ukraine

Lithuania

At the beginning of 2023, the activity of the Lithuanian economy was decreasing. GDP in Q1 2023 decreased in comparison with Q4 2022 by -3%. In Q1, GDP of Lithuania was adversely affected mainly by production, wholesale and retail trade, transport and warehousing sectors, as well as real estate business. As a result of the drop in GDP in two consecutive quarters, Lithuania recorded a technical recession at the beginning of the year. Given the available information, it may be presumed that in the second half of 2023 the business activity will recover moderately, but it is not enough to let the Lithuanian economy avoid the annual drop following the technical recession of the year beginning.

The annual inflation calculated on the basis of the harmonised index of consumer prices dropped rapidly in the first five months of 2023. In May it dropped to 10.7% and was over twice smaller than the peak of September 2022 (22.5%). Decreasing energy prices reduced production costs, which is reflected in lower output prices of Lithuanian manufacturers. Since the beginning of 2023, annual net inflation has been also decreasing fast, which reflects a weakening inflation pressure in the country. However, despite of lower prices of raw materials used in food production in the international and local markets, food inflation is still high, although disinflation has been also accelerating even there. Inflation in the sector of industrial non-energy goods and services has remained high without any significant signs of slow-down. In the former case, this is substantially influenced by prices of imported goods and in the latter wages are growing double digits and strong demand for services is observed

At the beginning of 2023, wages were still increasing at a high pace. Average gross monthly wages in Lithuania in January - March 2023 grew by 13.4% y/y. Wages increased at a two-digit rate both in the public (+12.6%) and private (+13.7%) sectors. The growth of wages was driven by a greater minimum monthly pay (growth by 15.1% to EUR 840 per month), as well as the growth of wages of public sector workers due to funds set out in the act on the approval of financial ratios of the state budget and municipality budgets.

Latvia

Given the data recorded by the Statistical Office of Latvia, in Q1 2023 GDP increased by 0.8% in comparison with Q1 2022 and by 0.6% in comparison with the previous quarter (based on season-to-season and quarter-to-quarter data at fixed prices). In Q1 2023, compared to the same period of the previous year, the change resulted from an increase in service sectors and a decrease in production sectors.

Inflation in Latvia remains high. In June it was 7.9% and in February it was greatest in the euro zone (20.3%). In comparison with June 2022, an average level of consumer prices had an impact mainly on the growth of prices of food and non-alcoholic beverages, goods and services related to accommodation, as well as recreation and culture. Due to the decreasing prices of raw materials in the world, inflation in Latvia will also decrease gradually. Lower prices of energy also have a positive impact on base inflation through the reduction of the cost of manufacturing of goods and the cost of services.

Results obtained in the study on the economic activity of population conducted by the Central Statistical Bureau indicate that in May 2023 an actual unemployment rate in Latvia was 5.6% and dropped by 0.2 p.p. m/m and by 0.9 p.p. y/y. Average wages increased in Q1 2023 by 12.3% in comparison with Q1 2022, including the growth of 13.1% in the private sector and 10.5% in the public sector.

Despite of such problems like the COVID-19 pandemic or the war between Russia and Ukraine, the economy of Latvia is perceived as adaptable and capable of maintaining economic growth. 2023 is the year of challenges connected with high inflation and delays in public investment programmes. Despite of that, GDP is projected to grow by 1.4%. Forecasts for the second half of the year are particularly optimistic because they provide for a slow-down in inflation and the growth of investments. Along with the projected economic acceleration in the second half of 2023, demand in the labor market is expected to grow. In this context it is also probable that wages will increase, which will be also supported by minimum pay rises.

Estonia

Figures of Statistics Estonia show that GDP in Q1 2023 was 0.6% lower than in the previous quarter and 3.2% lower year-over-year. For the second quarter in a row, agriculture was the main sector that had a positive influence on the economic growth. The positive contribution was also made by professional, scientific and technical activities. Among the larger sectors, construction had a small positive impact. Other sectors either had an insignificant impact of contributed negatively to the economic growth. Information and communication, which in the past constituted one of the major drivers of the Estonian economy had the most negative impact on the GDP dynamics - for the second quarter in a row. The economy was also significantly slowed down by transportation and warehousing, financial and insurance activity, real estate business and production.

Private consumption dropped third quarter in a row, however in 2023 in at a slightly faster rate (-1.9%). The greatest drop was recorded in the case of accommodation expenditure while expenditure for travel, restaurants, clothes and footwear increased. The growth of costs of water and electricity consumption was also recorded. Investments dropped slightly by 3.4%. Opposite to the remaining part of the economy, government consumption in Q1 remained at the level identical to the previous year.

Given the figures published by the Statistical Office of Estonia, in June 2023 the index of consumer prices grew 0.7% in comparison with May and 9.2% in comparison with June 2022. In comparison with June 2022, it was mostly influenced by the growth of prices of food and non-alcoholic beverages.

The labor market has so far been resistant to worsening economic situation. In Q1 2023 an unemployment rate was 5.3% and was 2 p.p. smaller than in Q1 2022. The greatest difficulties were recorded in industry and construction, where employment decreased. In turn headcount in the public and private sector increased. Average monthly wages grew by 13.3%. However, average real wages were 3.2% smaller than in the previous year.

In Q1 2023 foreign trade was still dropping from record levels. Export decreased at a rate similar to the previous quarter (6.9%) and the previous growth of import, which dropped 7.3%, also ended. In both cases, the drop was influenced by trade in goods, including in particular energy and wood products. In turn, in the case of trade in services, exports increased insignificantly by 2.5%, mainly as a result of sea transport, computer and advertising services. In turn, the imports of services decreased (by 1.9%) mainly due to railway cargo transport and advertising services.

Ukraine

The war instigated by Russia on 24 February 2022 against Ukraine made most risks for both the people and the business materialise. The economy of Ukraine adapts and gradually recovers by continuing the work and overcoming war-related challenges. In Q 2023, Ukraine recorded the revival of GDP driven by the implementation of recovery and support programmes addressed to enterprises, which improve their access to financial resources. GDP of Ukraine dropped by 10.5% between Q1 2022 and Q1 2023, which is better than expected, as it was assumed that the defensive war would contribute to the drop of GDP by 14.1%.

Since the beginning of 2023, the inflation rate has been gradually decreasing from 26% y/y in January to 15.6% y/y in May as a result of a great supply of food and fuel, as well as quite fast reconstruction of the power system following Russian acts of terrorism. Inflation expectations have improved since the year beginning due to the strengthening of hryvna exchange rate and the increased attractiveness of assets in hryvna due to the monetary policy of the National Bank of Ukraine, including the maintenance of a basic interest rate at 25%. At the same time, pressure on production costs of enterprises persists, among others due to difficulties related to business management and the establishment of supply chains during the war. At the same time, despite of certain positive trends, the inflation risk remains high.

The situation in the labor market has improved since the beginning of 2023. However, despite of the recovery in the labor market, the growth of employment slowed in Q1 2023 and an estimated unemployment rate is around 20%. The UN recorded as at 19.06.2023 that over 6 million people have left Ukraine and stayed abroad since the beginning of the war. This number also includes people that have been forced to leave or have been deported to Russia.

Since the start of the war, the rating agency S&P Global Ratings has on numerous occasions updated its long-term and short-term foreign currency credit rating for Ukraine, and on 6 April 2023 it lowered the rating to "CCC" with negative outlook to reflect risks related to the servicing of commercial debt of Ukraine, given the government's debt restructuring plan.

On 23 June 2023 Fitch Ratings also confirmed the insolvency rating in local currency at "CCC-" and "CC" in foreign currency.

2.3. Situation in the financial markets

In Q2 2023 many categories of assets recorded a growth in the financial markets following drops at the turn of Q1 and Q2 resulting from a banking micro-crisis in the US and Europe. In consequence stock-exchange indexes in Poland and base markets increased. Zloty and currencies of the region, as well as euro to dollar improved. In that environment, a decrease in the local bond yields accelerated and was driven by the decreasing inflation in Poland and expected interest rate reductions. Stabilisation and the growth of base markets bond yields, as well as interest rate rises by Fed and the ECB and accompanying hawk arguments did not disturb.

Bond market

In Q1 2023 the drop in yields of Treasury Securities accelerated and the greatest changes occurred at the beginning of the year and at the end of the first half of the year. In H1, yields of 2-year bonds decreased by 88 bps to 5.85%, 5-year bonds by 123 bps to 5.65% and 10-year bonds by 110 bps to 5.78%. The spread of ten-year sovereign bonds, above their German equivalents, which was 432 bps as at the end of 2022, decreased to 338 bps as at 30 June 2023 (Refinitiv), whereas above their American equivalents, respectively from 305 bps to 196 bps. Spreads dropped although there were no greater changes in yields of 10-year German and American bonds between the end of 2022 and the middle of 2023.

Equity market

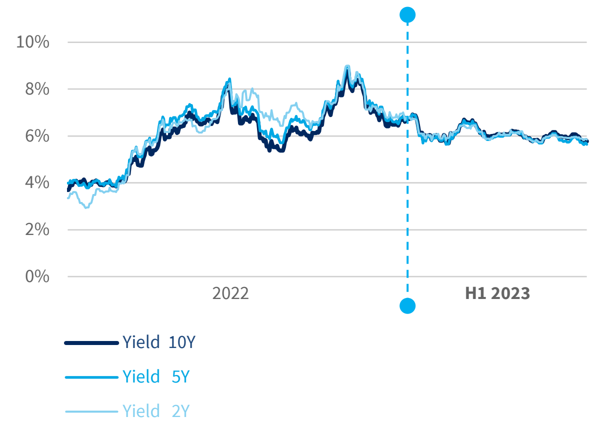
Between the end of 2022 and the middle of 2023, WIG20 grew 15%, WIG 17.1%, mWIG40 16.8%, and sWIG80 24.0% (Warsaw Stock Exchange). The local equity market was influenced by positive world markets sentiment, drops in prices of basic raw materials followed by a strong reduction in inflation, expectations concerning the reduction of interest rates by the National Bank of Poland and key global central banks. From the macro point of view, the situation was supported by the improving consumer confidence.

In the global markets, equity indices increased in the US, Europe and South America, but a less clear situation was observed in Asian markets. Consequently, S&P 500 grew 15.9%, DAX 16.0%, BOVESPA 7.6%, KOSPI 14.7%, and HSI decreased by 4.4%. Better results in the US, South America or South Korea, generated expectations about soft landing and the end of the cycle of interest rises in the US. In turn, European indices improved due to some improvement in consumer confidence. Given that, the performance of indices of China and related countries, where perspectives of the prolonging economic slowdown in China had a negative impact, were the weakest.

Currency market

Between the end of 2022 and the middle of 2023, the EUR/PLN exchange rate dropped to 4.43 from 4.69 (Refinitiv), whereas USD/PLN exchange rate to 4.06 from 4.38 (Refinitiv). Strengthening zloty was a response to a decreasing political risk and increasing expectations concerning the reduction of interest rates in the US and Europe. This also reflected in a shift of the EUR/USD exchange rate to 1.09 in June 2023 from 1.07 (Refinitiv) as at the end of 2022.

Treasury bond yields in 2023



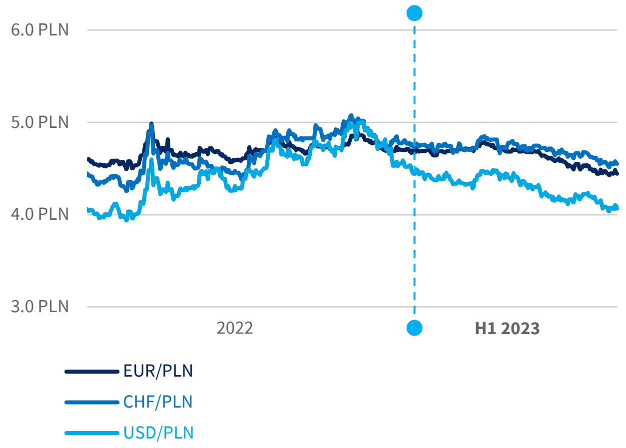
Source: Refinitiv Datastream

WIG and WIG20 indices

Source: Warsaw Stock Exchange

Polish zloty against Swiss franc grew to 4.52 from 4.72 as at the end of June 2023 (Refinitiv). The higher value of the Polish zloty compared to the franc derived from the increased exchange rate of PLN and base currencies despite of decrease of the EUR/CHF exchange rate (to 0.98 in the middle of 2023 from 0.99 as at the end of 2022 – Refinitiv).

PLN exchange rate



Source: NBP

2.4. Factors that may affect the conditions of operations and the PZU Group's activities in the second half of 2023

Given the scope of the PZU Group's business (insurance sector in Poland, the Baltic countries and Ukraine, mutual and pension funds sector, banking), the main factors that will shape the environment in which the Group operates and that may have a direct impact on the development and results of the Group in the medium term, in particular in the second half of 2023, may be divided into the following three categories:

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

Macroeconomic and geopolitical factors

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

In the second half of 2023, what remains a particular threat is the ongoing **war between Russia and Ukraine, materializing primarily through greater uncertainty and risk of further supply shocks in the food, gas and crude oil markets** (disruptions in trade with Russia, Belarus and Ukraine to a lesser extent). Natural gas is broadly used in many energy-intensive production processes. Additionally, the cost of gas is an important part of household budgets. The shock of rising gas prices may contribute to a deeper than currently expected weakening of the rate of growth in consumption and may suppress the GDP growth rate even more. On the other hand, rapid drops in the prices of gas in 2023 (through the revaluation of prices of inventories and high contracting prices in previous periods) may have a temporary adverse impact on results achieved by enterprises, although this should improve the competitiveness of companies in Europe in a medium term. Increased uncertainty may, in turn, exacerbate investor sentiment. There is also the risk that the ongoing increases in prices of gas, oil, food and energy – due to the so-called second-round effect – translate into higher measurements of CPI in the long term, which may limit the opportunity for the change in the sentiment of central banks expected by the market.

Threats of the use of tactic nuclear weapon and the deployment of missiles in Belorussia or the risk of growth of tension at the northeast border of Poland can contribute to the repeated growth of risk aversion in the region and/or Europe, which may result in the outflow of foreign capital, a drop in stock-exchange indices and the weakening of zloty. This may also contribute to a rise in bond yields, although the action taken with regard to monetary policy will also be important in this respect. If the National Bank of Poland finds there still is a significant risk of higher inflation in the medium term, the Monetary Policy Council may decide to once more raise the interest rates, which compared to forecasts would dampen economic demand. If the supply shocks pose a threat of a major deceleration of GDP growth – and the risk of a persistently high inflation in the medium term clearly diminishes – the NBP may opt for a more dovish monetary policy.

The war and global disruptions may heighten the tensions in **supply chains and transport**, which may in turn put further pressure on the rising prices of raw materials, given the drop of demand for finished products. This can lead to a downturn in the economic activity in Poland and a greater risk of bankruptcy of companies, including other countries, and generate an increase in costs of insurance claims.

The **risk of persisting high inflation** may be another factor affecting insurance business. Inflation increases amounts of claims, costs of claims handling, and costs of business. It also creates a problem for clients related to the depreciation of insurance benefits in long-term products, significantly reduces the real value of life policies and erodes the guaranteed sum in third party liability insurance (e.g. D&O policies). High inflation and high costs may bring about the risk of underinsurance, present when the declared value of assets (such as movable and immovable property and content thereof) and risks are lower than in reality. When underinsurance arises, the insurer accordingly diminishes the sum they are obliged to pay, accounting for the ratio between the insurance value and the real value of the assets lost. As a consequence, claims paid may not be sufficient to cover the real replacement cost of the assets insured. This is a particularly significant risk for corporate insurance, which may hinder the restoration of business and cause liquidity and stability problems for enterprises.

With wages growing, companies are more often able to extend their offering of group insurance, treating it as an appealing company benefit. For example, as regards health insurance, policy options covering more benefits, including psychiatric and psychological care, may be offered. In turn, as regards life insurance, it is possible to introduce less standard solutions, such as income insurance, ensuring monthly payments until the insured recovers.

The economic environment, in particular the actions taken by the Monetary Policy Council with respect to **interest rates** and the reserve requirement, play a key role in the functioning of the banking sector. Very low interest rates have a negative impact on the sector's performance (by affecting the banks' net interest income), which was felt in 2021. An increase in market interest rates contributes, on the one hand, to financial stability, because it helps improve profitability and the financial standing of banks and insurers. On the other hand, however, it carries risks to financial stability by contributing to the deterioration of the quality of banks' credit portfolios.

Higher yields on market-valued bonds in portfolios of banks and insurers involve a reduction in their nominal value. The effect for insurance companies of this matter depends on the difference between the duration of assets and equity and liabilities.

The coming into life of the economic recovery scenario and a reduction in the level of uncertainty across the financial markets may result in the further appreciation of the Polish zloty. This would help reduce expenses related to the prices

Polish economy highlights	2019	2020	2021	2022	2023*
Real GDP growth in % (y/y)	4.4	(2.0)	6.9	5.1	1.0
Individual consumption growth in % (y/y)	3.5	(3.6)	6.2	3.3	(0.8)
Growth of gross fixed capital formation in % (y/y)	6.2	(2.3)	1.2	5.0	3.8
Consumer price index in % (y/y, annual average)	2.3	3.4	5.1	14.4	11.8
Nominal salary growth in the national economy in % (y/y)	7.3	5.1	9.6	12.1	11.7
Unemployment rate in % (end of period)	5.2	6.8	5.8	5.2	5.2
NBP's prime rate in % (end of period)	1.50	0.10	1.75	6.75	6.50

* forecast of the Bureau of Macroeconomic Analysis of PZU of 2023-07-31

Source: CSO/Bureau of Macroeconomic Analysis of PZU SA of spare parts in motor insurance. However, in the conditions of the Russian-Ukrainian war and concerns pertaining to the global downturn of economic activity, the **risk of weakening of the Polish zloty** remains, at least temporarily, relatively high.

In turn, a lower-than-expected growth of GDP along with high inflation and poor current individual consumption and internal demand may lead to **households and the corporate sector reducing their spending on the purchase of insurance policies**, lower loan sales and therefore lower borrower insurance sales, as well as reduced demand for life insurance, especially as companies limit the benefits they offer. Poorer financial standing of companies may result in an increase in credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio, a slowdown of the growth rate of new mortgage loans and a return to a drop in the growth of consumer loans.

Legal and regulatory factors

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

From the perspective of the **insurance business**, the PZU Group's activity is significantly affected by all legal regulations and case-law having an impact on the level of premiums and claims paid by insurance companies.

As for motor insurance, what may be particularly important are the amendments to the Road Traffic Law, which came into force in June 2022, and the Recommendation of the Polish Financial Supervision Authority on motor insurance claims of November 2022. These concern, among other things, the option for insurance undertakings to link motor insurance tariffs to the infractions committed by the drivers and no option to apply discounts and rebates when the cost estimate claims handling method is applied for motor third party liability insurance. Both amendments may influence prices of motor insurance policies.

On 1 July 2023, the amendment to the Road Traffic Law came into force. Registration fees, including fees for vehicle registration and registration document, were abolished and replaced with a fee for the execution of a motor vehicle liability insurance contract payable by insurance undertakings to the Fund - Central Register of Vehicles and Drivers. Insurance undertakings must send monthly reports on the fees paid and, among others, the number of motor vehicle liability insurance contracts entered with vehicle owners.

A regulation that is not addressed directly to insurance undertakings, but can have a material impact on insurance activities, is the U Recommendation concerning bancassurance best practices, which was published on 27 June 2023 by the Financial Supervision Authority (it replaced the U Recommendation of 24 June 2014). The Recommendation enforced new regulations concerning, among others:

- ensuring a relevant value for clients of insurance products offered under bancassurance, including credit repayment insurances (so called CPI Products);
- the manner of insurance products offering under bancassurance;
- relations between the bank and an entity financing the insurance, which based on a contract with the bank must pay the cost of the bank's insurance protection.

In addition, a fee for the distribution of products should be defined to the customer's best interest and based on the amount of insurance protection costs. In consequence, as a result of the enforcement of the new U Recommendation, it may be necessary to adjust contracts providing for principles of cooperation between credit institutions and insurance undertakings, as well as insurance products offered under bancassurance. The Polish Financial Supervision Authority expects the banks to adjust their activities to the amended U Recommendation at the latest by 1 July 2024.

One of the more important factors in 2023 **in the context of banks** is still the issue of foreign currency mortgage loans. Without the final systematic solution, the banking system will be mostly dependent on court decisions concerning individual contracts. A number of events (including, without limitation, the CJEU judgements) encourages an increasing number of borrowers to refer their cases with courts. In particular, the CJEU judgement of June 2023 based on which banks must not request a payment (interest) for the use of capital from the customer if the loan facility agreement is invalidated, but the customer is entitled to make further claims. The materialisation of legal risks will have a strong adverse impact on the banks' performance, in particular in the case of banks with the large portfolio of such loans. So far, provisions established by banks in connection with the expected legal risk have been the main consequence. Most estimations stipulate that total costs for the sector may reach several dozens of billions zloty, but they are difficult to estimate and may be distributed in time. A lot will be dependent, among others, on the actual number of lawsuits (the number of borrowers that will decide to refer their claim to the court), interpretations made by local courts in particular cases, reaction of local regulators or actions taken by banks. It cannot be also excluded that the problem of franc loans will be, however, finally resolved in the form of a statutory act.

So called credit holiday and a 2% loan will constitute another important factor having an impact on the performance of the banking sector in 2023 and 2024. From the beginning of the credit holiday programme till the end of May 2023, the programme covered 1.1 million bank accounts of PLN 281 billion in total. The present programme will be in force till the end of 2023. The risk that it will be extended (although subject to an income criterion) must be considered significant. However, the details of the programme are not known.

Loans with an interest rate of 2%, on the other hand, are a solution offered to people up to the age of 45 who do not have and have not had an apartment, house or cooperative right to an apartment or house. The maximum value of such a loan is PLN 500,000 for a single person and PLN 600,000 for a married couple or parents with a child. For 10 years of loan repayment, the government will subsidize the loan instalment, and the subsidy will cover the difference between the actual interest rate and 2%. The programme was launched at the beginning of July and by 13 July 4,500 credit applications were filed. At the same time, the Credit Information Bureau reports that in June the value of home loan inquiries grew by 27% y/y, while in May it was 4% and in April -16.2%. Such a solution, similarly to all interventions in the real estate market, will be treated with special attention.

Regulatory burdens of financial institutions related to the growing awareness in sustainable financing, climate change and environment protection **are higher** due to European regulations incorporated in the Polish legal system. The year 2023 is another transition period as regards taxonomy disclosures for insurers and banks. Matters of sustainable development are becoming more and more important in the ongoing business of financial institutions. Many of them incorporate ESG objectives into management objectives, on par with purely financial objectives. Insurers and banks are more and more often assessed under such criteria as the extent to which their actions mitigate climate change, promote diversity among their employees and management, support an inclusive organizational culture, and increase transparency of decisions and management structures.

On 16 December 2022, the text of Directive 2022/2464 as regards corporate sustainability reporting (Corporate Sustainability Reporting Directive – CSRD) was published. The provisions thereof will supersed a series of solutions relating to so-called non-financial reporting, included, without limitation, in Directive 2014/95/EU (Non-Financial Reporting Directive, NFRD). On 9 June 2023, the European Commission presented for public consultation a draft delegated implementing uniform European Sustainability Reporting Standards (ESRS). The first group of obligated entities will have to make its sustainability reports in line with the CSRD for 2024 (further large undertakings for 2025, whereas listed SMEs for 2026).

Other regulations

On 1 July 2023 the state of epidemic threat connected with SARS-CoV-2 virus was terminated and the last restrictions enforced to prevent the spreading of the disease were lifted. Both the state of epidemic threat and the prior state of epidemic proved that certain solutions implemented in the meantime were effective. Those solutions include, at first, remote work, which was regulated in the Labor Code and enforced in April 2023. From the point of view of insurance undertakings, it is also important that agency examinations can be held online. Amendments to the Labor Code also include solutions concerning the work-life balance. They refer, among others, to leaves and working time, including parental leave. The purpose thereof is to enable workers to better combine their family and professional duties.

On 19 May 2023 most of amendments to the Competition and Consumer Protection Act came into force. The amendment implemented the regulations of Directive EU 2019/1, which provides for increased competences of authorities responsible for competition protection in member states, in Polish law. The amendments include, without limitation, the introduction of the principle of liability of parent companies for the violation of competition rules by a subsidiary, as well as the extension of competences of the UOKiK Chairman.

On 1 July 2023 most of amendments to the Civil Procedure Code came into force. The amendments are wide and include, without limitation: changes in ratione materiae of courts, changes in the structure of pleadings made by attorneys, the regulation of proceedings involving consumers. The purpose of those amendments is to accelerate court proceedings, which may have an impact both on the course and number of court cases the company is involved in.

Market factors specific to the sectors in which the PZU Group operates

The PZU Group's operating conditions and results are affected by factors and conditions specific to the sectors in which the Group companies operate. Currently, the most important involve the competitiveness in core groups of products for the Group's business; the social, economic and health-related impact of the COVID-19 pandemic; demographic changes; development of technology; and climate change.

One of the most pertinent challenges before the insurance industry in Poland and worldwide is the immense **insurance gap** created by risks faced by people in their lives – both privately and in the corporate environment – which are not covered by insurance products existing in the market, and those for which cover has not been bought out by the interested parties themselves. It is estimated that worldwide, this gap amounts to USD 1.5 trillion, this being the total value of premiums which should be paid in order for clients to avoid potential costs of risk materialization.[1] Part of the gap concerns life insurance and health insurance, but is also related to new risks involving climate change, green transition, and cybersecurity. Risks related to insuring natural disasters still pose a challenge. The insurance gap is an opportunity to build insurance awareness among clients. What is immensely important here is education addressed particularly to the young generation, and an adequate adaptation of the insurance offer.

In the second half of 2023, the diminishing profitability of third party liability insurance will still be a challenge in the **motor insurance sector**. Despite of the small frequency of claims, as a result, among others more widespread hybrid working models, amounts of claims paid rise because of such factors as inflation or recommendations of the Polish Financial Supervision Authority concerning claims settlement. Because of the latter, there may be a change in how claims are settled, and payments under the cost estimate method may rise. The growing prices of repair shop services, spare parts and cars may have an impact on the increase in motor insurance prices. In turn, the ability to use the data recorded in the Central Register of Vehicles and Drivers and the insurer's insight into the drivers' history of offences make it possible to adjust the offer to the client risk more precisely.

Growing electromobility also significantly impacts the motor insurance segments, in the context of claims handling and premium calculation, as valuing a policy for an electric car involves other rules than for vehicles with combustion engines. With respect to the latter, one of the more important criteria for valuing motor insurance is engine capacity, because this determines the car power which translates to potentially more considerable damage. Electric cars have no engine capacity, which is why insurers need to modify their tariffication method for third party liability insurance and own damage insurance.

The premium in **property insurance** will also be affected by increasing market value of property insured. To avoid the problem of underinsurance (among others due to higher inflation), sums insured under policies for both individual and corporate clients should be updated and adjusted to the real value of the assets insured. This, in turn, will involve a higher insurance premium, but only thanks to this approach it will be possible for the amounts claimed to fully cover the restoration of property damaged or lost.

The COVID-19 pandemic raised the feeling of uncertainty and therefore insurance awareness among clients. This is related to the higher demand for **life insurance** and **health insurance**. Similarly, the fact that healthy, active yet safe living is in vogue globally increases interest in insurance and medical products. The challenge for the insurance industry is not only to maintain this interest, but also to prepare an appealing offer in different channels of distribution. Changing customer expectations will affect the business and performance of the PZU Group in these two areas of activity. In particular, this concerns the personalization of the offering and the provision of a quick and easy access to a comprehensive ecosystem of health-related services.

Although at the beginning of May 2023 the World Health Organisation announced that the pandemic caused by the SARS-CoV-2 virus was over, the healthcare market has been facing such consequences of the pandemic as **long covid** and **health debt**. Long covid, in the form of deteriorating physical and mental health of many people and the resulting complications, will drag on for years. The potential overlapping of long-lasting effects of the pandemic with the consequences of the lack of treatment of other diseases is another risk factor. The pandemic has also evidenced other problems, such as obesity which is a precipitating condition for most chronic diseases, such as diabetes, hypertension, heart diseases and musculoskeletal disorders.

Other factors that will affect PZU's operations over the long term include **demographic trends**, mainly the aging population, mortality, morbidity, especially of civilization diseases, and fertility rates. Along with an ongoing drop in the number of population and aging societies, the demand for health care and long-term care to senior citizens increases.

The **development of telemedicine** is one more factor changing the landscape of the health market. Telemedicine has proven to be an essential component of healthcare delivery during successive waves of the pandemic. However, many solutions combining the elements of telecommunications, IT and medicine have become a permanent feature of the medical market. By continuously developing telemedicine, the health service pursues online access to medical care, remote work or education notwithstanding.

New technologies have enabled insurers to continue operations during individual lockdowns, and have set new standards for remote customer service. Further transfer of clients from traditional to remote channels can be expected. The change in customer habits which, under normal circumstances, would have taken several years, was a consequence of the lockdowns, which forced the transition to remote work. These factors accelerated the digitization and the use of advanced technologies, especially in the insurance sector. Just like remote or hybrid work models, remote sales, inspections or claims handling have spread fast. At the same time, it is also more common to apply solutions based on artificial intelligence, which are implemented in more and more business areas. The year 2023 see the adaptation of technology and further investments in technology both in the insurance industry and the banking sector.

The development of new technologies entails several challenges that insurers and financial institutions will have to face in the near future.

One of them is to effectively **manage the solutions** implemented rapidly at the onset of the pandemic. Three years have passed since the first news about the emergence of the coronavirus in Poland, and although many of the introduced solutions were long-awaited by customers, it is extremely important to skilfully evaluate their further usefulness, re-scale and improve the technologies, as well as adjust those technologies to long-term strategies of insurance companies. As customer preferences change dynamically, it is very important to balance service processes in such a way as to maintain a human factor wherever it is necessary and expected by customers and automate that part of the processes that will not cause a deterioration of service quality.

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

Technological progress has also led to the emergence of so-called **insurtechs and fintechs**[2], which are already influencing and will continue to influence the transformation of the insurance and banking industries over the long term. Although insurtechs are not direct competitors to insurance undertakings because insurance services may only be provided by insurance companies, as start-ups or technological companies, they provide solutions that improve customer service and accelerate contract execution or claims handling. In addition, more and more frequently, insurance companies develop insurtechs, meaning innovative technologies in their own laboratories of innovations.

Recently, Embedded Finance has become one of the more popular trends in the financial industry. It involves the integration of various financial products such as loans, insurance, debit cards and investments, with almost any non-financial product. In other words, this involves providing financial services in a sector where the core operations are not of this nature. The particular growth of Embedded Finance could be observed especially during the pandemic, as the majority of financial process turned online.

The development of digitization, the Internet and cloud solutions led to a new challenge for the insurance market: **cyber threats**. Cybersecurity risk is currently one of the fastest growing among all risks within the insurance gap, and insurance products cover only a small share of risks related to cyber threats. With ever-greater awareness among entrepreneurs, one should expect an ever-faster development of a comprehensive cyber insurance offer, not only for large corporations but also for small and medium enterprises.

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

1) 9th Congress of the Polish Chamber of Insurance in Sopot 21-22 September 2022 speech by Pia Tischhauser, senior partner and managing director at Boston Consulting Group.

2) Fintech - the sector of economy comprising enterprises operating in the financial and technological sectors. Companies called fintechs usually provide financial services via the Internet. This term also includes all types of technological or financial innovations. Insurtech is one of division of the fintech sector comprising new technological solutions in the insurance sector.

frequency of catastrophic events and translate into the premium levels. The risk of climate change not only affects the costs involved in claims paid or reinsurance schemes, but also the capital requirements for insurance companies.

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

The general interest in mitigating the impact of climate change opened the path for insurance companies and banks to insure and finance investments in renewable energy sources, such as onshore and offshore wind parks, biogas plants, and photovoltaic systems. This generates new challenges in developing adequate offerings ensuring financing and insurance from the moment works commence, through construction, to completion and start-up.

Customers themselves are also increasingly opting for eco- friendly solutions that contribute to combating climate change. The quest for convenience and the increasing environmental awareness result in the rapid development of the shared mobility industry. City dwellers increasingly frequently choose means of transport which allow them to quickly and efficiently move around and change the means of transport depending on the situation on the road - this is the so-called shared mobility. This global trend includes not only cars but also scooters, segways, skymasters and electric unicycles, rented via smartphone apps. The insurers' offer will follow customer expectations and include products dedicated to shared mobility.

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

The factors which might have an impact on the activities of the PZU Group in the second half of 2023 are described in detail by operational segment in Chapter 3. ACTIVITY OF THE PZU GROUP.

3.

Activity of the PZU Group

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

3. Activity of the PZU Group

3.1. Business model

Conglomerate

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

Insurance is the core business of the PZU Group. It is on this issue that the business model is centred, utilizing effective sales channels and efficient claim handling. The PZU Group offers insurance in Poland, Lithuania and Ukraine (life and non-life insurance), as well as in Latvia and Estonia (non-life insurance). In Poland, the PZU Group provides a comprehensive product offer in life and non-life insurance for 16 million clients. They are retail clients, sole proprietors, small and medium enterprises and large corporates. The insurance offer is supplemented by comprehensive medical and investment services.

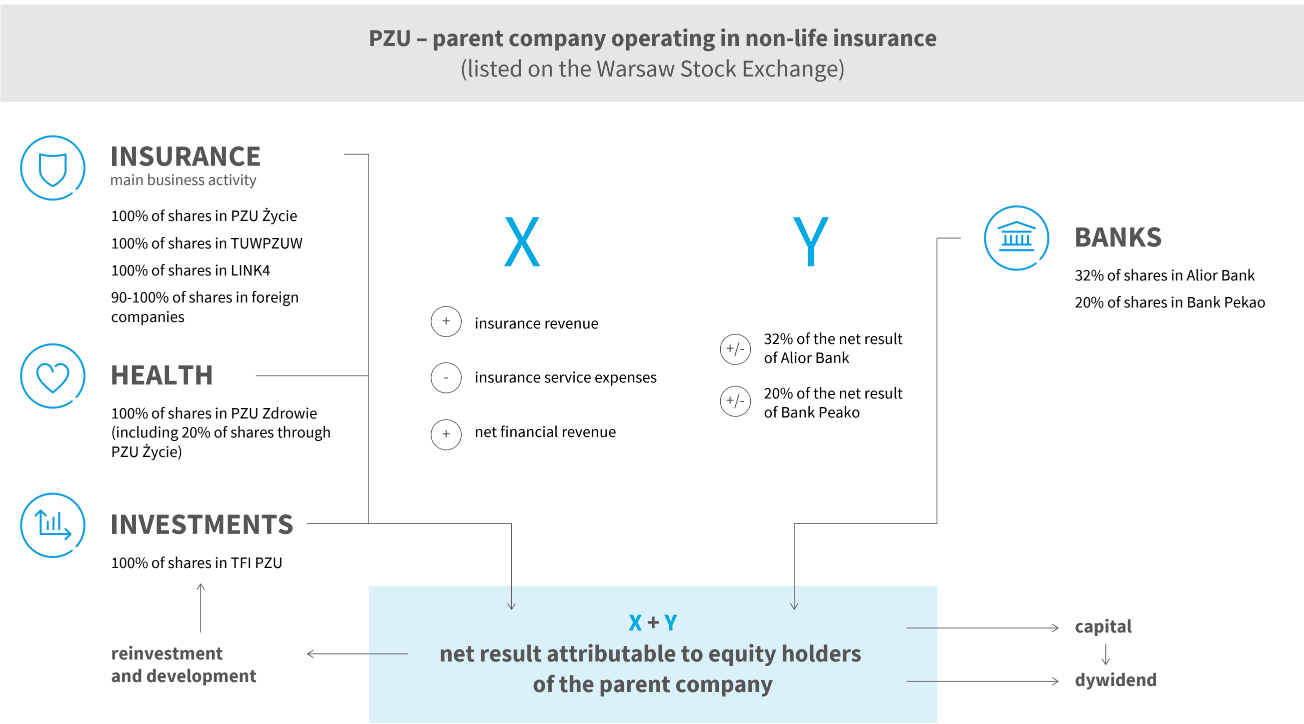
The core PZU Group companies include:

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

Operating model and value

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

PZU Group – simplified presentation of the business model



3.2. Insurance

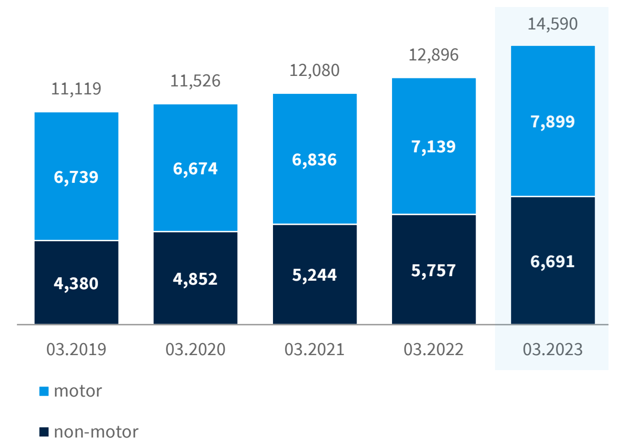
3.2.1. Description of the insurance markets on which PZU Group companies operate

Non-life insurance market in Poland

Measured by gross written premium in the first quarter of 2023, the non-life insurance market in Poland grew by PLN 1.7 billion (+13.1%) in comparison to the corresponding period of the previous year.

Total written premium on direct business grew by PLN 1.4 billion (+12.0% y/y), and the premium on indirect business increased by PLN 0.3 billion (22.9% y/y).

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

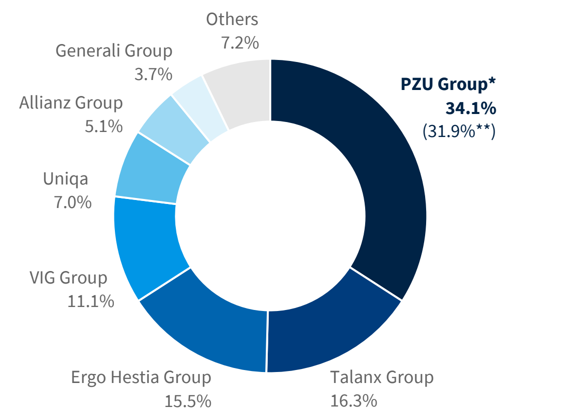


Source: The Quarterly Bulletin of the Polish Financial Supervision Authority (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2023, Rynek ubezpieczeń 1/2022, Rynek ubezpieczeń 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018

The market growth was attributable to the increase in gross written premium in non-motor insurance (by PLN 0.9 billion, +16.2% y/y), and motor insurance (by PLN 0.8 billion, +10.6% y/y). It was the rise in MOD insurance (a growth by PLN 0.5 billion, +20.8% y/y) that mainly led to the higher written premium in motor insurance - the effect of growth in the average premium (+34.2% y/y) as a consequence of the rising value of vehicles translating into a growth in sums insured. The increase in gross written premium on motor TPL insurance, which is the most important category for the market overall (PLN 4.7 billion, representing 32.2% of the overall written premium in non-life insurance after the first quarter of 2023), was considerably lower, at just PLN +210.1 million y/y (+4.7% y/y).

In non-motor insurance, the increase in gross written premium was mostly the result of higher sales of insurance against fire and other damage to property (up PLN 521.4 billion, or 17.7% y/y, of which PLN 177 million was for indirect business), general TPL (up PLN 160.6 million, 17.2% y/y) and assistance products (up PLN 89.6 million, 20.3% y/y). There was a decline in insurance against various financial risks (down PLN 24.7 million, -7.5% y/y).

Non-life insurers – percentage of gross written premium in the first quarter of 2023 (in %)



Groups: Allianz – Allianz, Euler Hermes, Aviva, Santander Aviva TU S.A.; Talanx – Warta, Europa; VIG – Compensa, Inter-Risk, Wiener, TUW TUW

Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2023

* PZU Group – PZU, Link4, TUW PZUW

** PZU Group's market share in non-life insurance on direct business

After the first quarter of 2023, the PZU Group reached a 34.1% share in the non-life insurance market (31.9% on direct sales) compared with 33.4% in the corresponding period of 2022 (30.9% from direct business), entailing an increase of as much as 0.7 p.p. with high portfolio profitability maintained.

After the first quarter of 2023, the technical result of the non-life insurance market increased by PLN 75 million y/y to PLN 655 million. The change in the technical result is the consequence of a y/y growth in insurance against fire and other damage to property by PLN 269 million (effect of a decline in claims ratio on the portfolio) and a deterioration in motor insurance by PLN 160 million (including MTPL insurance by PLN 134 million y/y).

3. Activity of the PZU Group

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

Gross written premium vs technical result	1 January – 31 March 2022			1 January – 31 March 2023		
	PZU*	Market	Market excl. PZU	PZU*	Market	Market excl. PZU
Written premium	4,310	12,897	8,586	4,982	14,590	9,608
Technical result	295	580	285	285	655	370

* incl. LINK4 and TUW PZUW

Source: The Quarterly Bulletin of the Polish Financial Supervision Authority (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2023, PZU figures

After the first quarter of 2023, the PZU Group's technical result (PZU together with LINK4 and TUW PZUW) stated as a percentage of the overall market's technical result was 43.5% (the PZU Group's technical result was PLN 285 million while the overall market's technical result was PLN 655 million).

In the first quarter of 2023, the overall non-life insurance market generated a net result of PLN 1,528 million, which is PLN 1,158 million more in comparison with the corresponding period of 2022.

The total value of the investments made by non-life insurers at the end of Q1 2023 (net of the investments made by subordinated entities) was PLN 75,954 million, up 4.8% compared to the end of 2022.

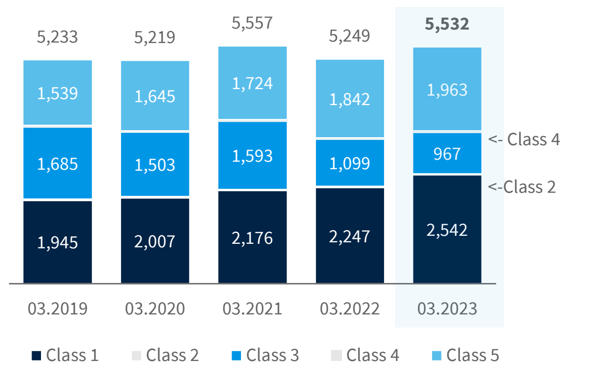
Non-life insurers estimated their net technical provisions at an aggregate amount of PLN 68,931 million, signifying a 3.2% growth compared to the end of 2022.

Life insurance market in Poland

After Q1 2023, the life insurance market in Poland, measured by gross written premium, amounted to PLN 5,532 million, which means a rise of 5.4% compared to the corresponding period of the previous year. The total written premium from sale of periodic premium products rose by PLN 177 million (+3.8% y/y) while the sale of single premium insurance increased by PLN 106 million (+16.5% y/y) including PLN 111 million y/y in PZU Życie (impact of introducing a new life and endowment product with a guaranteed sum insured in the second half of 2022). Gross written premium in periodic premium products has increased both in life insurance (class I) and in accident and illness insurance (class V).

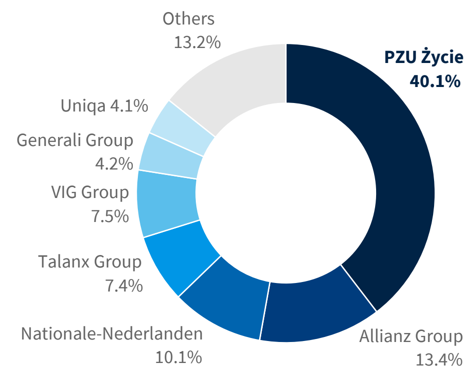
Higher written premium from single-premium products mostly concerned life products of Class I (PLN +212 million, +53.4% y/y) which partly balanced a decline in the premium on investment products (- PLN 92 million, - 56.2% y/y). The high level of single premium in Class I is the result of the dynamic sales development in PZU. New life and endowment product offered both in cooperation with PZU Group banks and in branches generated PLN +139 million y/y for PZU. The continued decline in single premium on investment products (-56.2% y/y) is largely the result of changes in the capital market as well as in the legal and macroeconomic environment. The dynamic growth in premiums written from single-premium insurance in the first quarter of 2023 (+16.5% y/y) represents a break from the downward trend seen in 2022 (-27.7% y/y). The decline in premiums in 2022 was largely the result of the impementation as of January 1, 2022 of the FSC's July 2021 recommendations prohibiting the marketing, distribution and sale of unit-linked products (ICF), that meet any of the criteria indicated by the FSC (regarding the profitability of the product for the customer or the investment policy). As a result of sales deterioration, preceded by significant declines in sales of single-premium products in previous years, premium written in Q1 and Q2 of 2022 recorded the lowest level ever (about 640 million quarterly).

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



Source: The Quarterly Bulletin of the Polish Financial Supervision Authority . Rynek ubezpieczeń [Insurance market] 1/2023, Rynek ubezpieczeń 1/2022, Rynek ubezpieczeń 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019

Life insurers – percentage of gross written premium for the first quarter of 2023 (%)



Groups: Talanx - Warta, Europa; VIG - Compensa, Vienna Life, Aegon; Grupa Allianz – Santander Allianz TU na ŻYCIE, TU Allianz Życie Polska;

Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2023

The outcome of these market changes was the growing significance of periodic premium. During the first quarter of 2023, premium with this payment form was 3.8% higher compared to the same period in 2022, with a cumulative average growth rate of 3.0% for the last five years. Despite the declining periodic premium in unit-linked life insurance (by PLN 40 million y/y), the premium on protection products in classes I and V increased (by PLN 217 million y/y) in both group and individually purchased insurance.

At the same time, market concentration measured by the periodic gross written premium remained high. Compared to the first quarter of last year, the market share of the five largest market players decreased by 0.4 percentage points reaching 79.6%.

The total technical result generated by life insurance companies in Q1 2023 amounted to PLN 955 million, i.e., was PLN 421 million higher (+78.8% y/y) than in the corresponding period of 2022. Growth was observed both in life insurance (class I) as well as in investment insurance (class III). The increase by PLN 405 million in the technical result for life insurance, mostly due to lower claims and benefits (impact of, among others, a lower number of deaths) was of particular importance.

In this same period, life insurers generated a net result of PLN 722 million, up by PLN 321 million, 79.9% y/y. This was the effect of the technical result being higher than in the corresponding period of 2022.

The total value of the investments made by life insurance companies at the end of Q1 2023 was PLN 41,330 million, signifying a 4.8% rise compared to Q1 2022. Maintaining net asset value of life insurance where policyholders bear the investment risk at an equal level (a rise of 1.1% to PLN 37,815 million).

During Q1 2023, PZU Życie wrote 40.1% of the gross written premium of all life insurers on the market, signifying an increase versus the last year's market share (by 0.6 p.p.), mostly as a consequence of the growing share of PZU Życie in the single premium market.

At the same time, PZU Życie continued to be the leader in the periodic premium segment. In Q1 2023, it generated 42.3%

Life insurance – Gross written premium vs technical result (PLN million)

Gross written premium vs technical result	1 January – 31 March 2022			1 January – 31 March 2023		
	PZU Życie	Market	Market excl. PZU Życie	PZU Życie	Market	Market excl. PZU Życie
Written premium	2,072	5,249	3,177	2,217	5,532	3,315
Technical result	198	534	336	445	955	510
Profitability	9.6%	10.2%	10.6%	20.1%	17.3%	15.4%

Source: The Quarterly Bulletin of the Polish Financial Supervision Authority (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2023, PZU Życie figures of premiums, signifying a small decrease (by 0.9 p.p.) in the market share in this segment as compared to the previous year. The growth rate of gross written premium at PZU Życie in this segment was 1.7% y/y, while the other market players posted a 5.4% growth rate. A rise was recorded in accident and illness insurance (class V), as well as in life insurance (class I) – both at PZU Życie and other market players. In addition, other market participants achieved a +2.5% y/y growth rate in the annuity insurance group (down 0.2 percentage points from the growth rate in the corresponding period of 2022).

PZU Życie's share in just the life insurance segment (class I) for periodic premiums at the end of Q1 2023 was 51.3% when measured by gross written premium, and 54.1% when measured by the number of contracts in force. PZU Życie's market share in terms of the method of entering into a contract in the life insurance segment was 58.9% for contracts executed in group form and 38.6% for individual contracts (measured by gross written premium).

PZU Życie's technical result represented 46.6% of the result earned by all life insurance companies. This evidences the high profitability these products. PZU Życie's technical result margin on gross written premium was higher than the overall margin generated by other companies offering life insurance (20.1% versus 15.4%).

Insurance markets in the Baltic countries and Ukraine

Lithuania
The Bank of Lithuania has stated that in the first six months of 2023 the gross written premium in non-life insurance amounted to EUR 540 million, up 24.3% in relation to the corresponding period in 2022.

Motor insurance remains the most significant insurance class on the market (representing 53% of all gross premiums written in non-life insurance). Market growth occurred mostly in motor TPL insurance, which constitutes almost one-third of the whole non-life insurance market. Within motor insurance, gross written premium on TPL insurance grew by 22.8% y/y, whereas sales of MOD - by 23.3% y/y. Significant market growth was also observed in property and health insurance (27.4% y/y and 39.0% y/y, respectively).

As at the end of June 2023, there were 11 companies operating in the non-life insurance sector, including 7 branches of insurance companies registered in other EU member states. The combined market share of the top four players in the non-life insurance market totalled 81.0%.

The PZU Group has been present in Lithuania since 2002. Since November 2014, it has been conducting its activity on the non-life insurance market as Lietuvos Draudimas, which, as of May 2015, is also the owner of the PZU branch in Estonia.

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania. As at the end of June 2023, its market share amounted to 28.8%. Lietuvos Draudimas posted an increase in gross written premium by 25.4% y/y to EUR 155 million. The biggest growth was achieved in motor TPL insurance (up EUR 10 million), MOD motor insurance (up EUR 8 million), and property insurance (up EUR 6 million).

Gross premiums written by Lithuanian life insurance companies in the period from January to June 2023 amounted to EUR 173 million, up 5.5% relative to the corresponding period of previous year. Sales of regular-premium insurance increased by 7.1% y/y, while sales of single-premium insurance products decreased by 25.3% y/y (i.e. by EUR 2 million).

In the life insurance structure, unit-linked insurance dominated, accounting for 79.0% of the portfolio value. Traditional life insurance accounted for 10.6% of written premium and protection insurance - for 9.2%. New sales decreased by 1.0% signifying market stagnation. The growth rate with respect to new sales was adversely affected by the war in Ukraine.

As at the end of June 2023, eight companies operated on the Lithuanian life insurance market. The said market is highly concentrated – at the end of June 2023, the share held by the three largest life insurance companies in total gross written premium was 62.9%.

Compensa was the largest life insurance company in Lithuania in terms of total gross written premium, with a 23.7% market share. The next players are Swedbank (21.4% market share) and Allianz (17.8% market share).

PZU Group's life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybës Draudimas (PZU Lithuania Life). The gross written premium posted by PZU Lithuania Life was EUR 12 million, up 9.2% compared to the first half of 2022. This corresponds to a market share of 6.7% (+0.2 percentage point y/y).

Latvia
On the Latvian non-life insurance market, as at the end of Q1 2023, gross written premium was EUR 155 million. This is EUR 31 million (i.e., 25.0%) more than in the corresponding period of the previous year.

The biggest growth was recorded in health insurance (up EUR 10.4 million, i.e., 27.6%). Significant growth was also observed in MOD insurance (EUR 7.2 million, i.e. 27.9%) and MTPL insurance (EUR 6.3 million, i.e. 29.1%) and in property insurance (EUR 5.1 million, i.e. 23.2%).

Motor insurance is the most important insurance class; TPL and MOD insurance accounted for 18.0% and 21.3%, respectively, of the non-life insurance market in terms of gross written premium. Health insurance (31.2% of gross written premium) and property insurance (17.7% of gross written premium) also had an important position in the product mix.

As at the end of Q1 2023, there were 10 insurance companies operating on the Latvian non-life insurance market; the top four insurers held 70.7% of the market.

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

In the first half of 2023, the gross premium written by AAS Balta reached EUR 87.3 million, up 23.7% (EUR 17 million) compared to the corresponding period of the previous year. Greatest growth was observed in health insurance, property and motor insurance.

At the end of Q1, the share of AAS BALTA in the non-life insurance market was 30.0%.

Estonia
In the first six months of 2023, gross written premium in non-life insurance amounted to EUR 278 million, up 20.6% in relation to the corresponding period of the previous year.

The market growth was mostly attributable to MOD insurance with respect to which a 23.4% y/y increase was posted (i.e., up EUR +17 million), and MTPL insurance (+27.7% y/y, i.e., up EUR 14 million), resulting from the growing prices driven by inflation. Dynamic growth was also enjoyed in corporate property insurance (up EUR 6 million, i.e., + 26.0% y/y).

The sales structure of non-life insurance did not change significantly: it was dominated by motor insurance, which accounted for 55% of gross written premium, with property insurance accounting for 27% of gross written premium.

As at the end of June 2023, there were 13 companies operating in the non-life insurance sector (including five branches of foreign insurance companies) among which the top four held a combined market share of 66.6%.

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

The PZU Group's share in the Estonian non-life insurance market reached 15.6% after six months of 2023, and the accumulated gross written premium was EUR 43 million, up 22.9% (i.e., EUR 8 million) relative to the corresponding period of the previous year.

Ukraine
In the end of June 2021, supervision over the insurance market in Ukraine was taken over by the National Bank of Ukraine (NBU). NBU made supervision more efficient by monitoring compliance with applicable regulations and applying appropriate measures against the violators.

Since March 2022, NBU has been regulating the activities of parties to non-banking financial services during martial law. Among other things, it amended the terms of enforcement (postponed deadlines), specified the manner in which a series of normative and legal acts should be implemented in relation to Russia's aggression in Ukraine, to relieve market players of that burden, and also implemented a series of restrictions to mitigate new risks arising due to the war.

In mid-February 2023, the NBU eased restrictions for insurers on payments under foreign reinsurance contracts - extending the possibility of implementing insurance benefits under reinsurance contracts concluded with non-resident reinsurers. In order to simplify the procedure for handling cross-border reinsurance payments, the NBU creates a list of insurers and establishes a procedure for deciding whether to include and exclude an insurer from the list. The inclusion of insurers in the list is subject to meeting a number of requirements relating to the solvency of the entity, transparency of the ownership structure, capital adequacy and risks of operations, meeting business reputation requirements, its main shareholders and managers. To remain in the list, the data is submitted to the NBU on a monthly basis.

After the first quarter of 2023, the Ukrainian insurance market, measured by gross written premium, recorded a y/y growth by 4.5% up to UAH 10.1 billion. The premium accumulated in non-life insurance was UAH 9 billion, signifying 7.2% rise compared to the corresponding period in 2022. Motor insurance, in particular the Green Card insurance, had a significant impact on the sales growth due to the massive taking out those policies by people travelling abroad. Due to the hostilities in the areas, negative sales growth was recorded. In Q1 2023, insurance companies offering life insurance collected a gross written premium of UAH 1.1 billion, signifying a 13.2% decline compared to the corresponding period of the previous year.

The Ukrainian insurance market is highly fragmented. As at the end of March 2023, there were 122 insurance companies operating on this market, 110 of which offered non-life insurance. Despite the continuing large number of insurers, the top 10 non- life insurers generated 64.2% of gross written premium while 5 biggest insurers in life insurance recorded 83.6%.

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

At the end of June 2023, gross written premium collected by PZU Ukraine amounted to UAH 744.0 million, or 31.5% more than in the previous year. Sales growth was recorded in motor, health and property insurance. Gross written premium collected by PZU Ukraine Life by June 2023 was UAH 184.9 million, down 10.1% compared to 2022.

During the first quarter of 2023, PZU Ukraine attracted 3.5% of the gross written premium on the Ukrainian non-life insurance sector, and its market share went down by 0.1 p.p. against Q1 2022. This ranked the company eleventh on the non-life insurance market. PZU Ukraine Life ranked fourth in the life insurance market with a 8.4% market share (down 1.5 p.p. relative to the previous year)[1].

3.2.2. Activity and product offering of PZU Group’s insurance companies

PZU Group offers non-life insurance in Poland under three brands: PZU, the traditional and most well-known brand; LINK4, associated with remote sales channels; and TUW PZUW, i.e., the mutual insurance company. Life insurance is sold in Poland under the PZU Życie brand. Outside of Poland, the PZU Group sells insurance products under the PZU brand (in Ukraine), as Lietuvos Draudimas (in Lithuania and Estonia) and as Balta (in Latvia).

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

1) Insurance TOP, Ukrainian Insurance Quarterly, #7(83)2023

Activity and product offering - PZU

As the PZU Group’s parent company, PZU offers an extensive array of non-life insurance products, including motor, property, casualty, agricultural and third-party liability insurance. At the end of Q2 2023, just like in previous years, motor insurance was the most important group of products offered, both in terms of the number of insurance contracts and premium share in the total gross written premium.

Faced with changing market conditions, PZU realigned its offering in 2023 to the clients’ needs and expectations by rolling out new products and innovative solutions.

In the **mass insurance** segment, PZU:

- making the **offer for SMEs** more attractive, including:
  - introduction of a single, unified GTCI for domestic carrier, international carrier and freight forwarder;
  - updating the provisions of the GTCI with regard to 10 clauses, including an extension of the scope of liability to include damage caused when the means of transport is parked outside guarded car parks and at so-called MOPs (in the case of transporting cargo other than high-risk goods);
  - extension of carrier's TPL insurance to cover environmental damage - implementation of ESG policy;
  - introduction of worldwide insurance coverage in the basic scope of the freight forwarder's TPL insurance and financial damage coverage up to the sum insured;
  - supplementing the protection in the clause of costs of lifting or pulling out the means of transport and the cost of parking fees by the costs of parking fees after an accident - also abroad, where the prices of parking are often higher than in Poland;
  - extension of the cover to include damage caused by the breakdown or destruction of refrigeration equipment;
  - also when the damage was not the carrier's fault.
- increasing the maximum sum insured in **PZU Wojażer** insurance - available to sellers of medical treatment insurance and TPL insurance in private life.
- refreshing the **PZU Uprawy** offer, including:
  - **clarification of the provisions of the GTCI regarding the damage area** in terms of the risk of spring frost in oilseed rape crops (determination of the development stage of oilseed rape on the basis of the BBCH scale used in the European Union) and lowering the criterion of density per 1 m2 of onions (concluded against the risk of negative effects of over-wintering before the conclusion of the contract and for the occurrence of damage).
  - **improving the competitiveness of the product** and meeting formal obligations, by:
    - increasing the liability for total damage occurring after 31 May from 90% to 95%,
    - increasing the liability for total damage in pome fruit (pear, apple) from 75% to 80%,
    - amendment of the provisions concerning assessment of damage according to the value of agricultural crops determined at the conclusion of the insurance contract, instead of the value from the day of damage as it has been the case so far,
    - adding provisions in the general terms and conditions of PZU Uprawy insurance concerning delivery, prior to the conclusion of the insurance contract, of standards for assessment of crop damage, as an element of the model insurance contract.
- further integration with the **Central Register of Vehicles and Drivers (CEPiK)** system, in terms of the Central Register of Drivers (CEPiK), thanks to which PZU was able to download and automatically process data on drivers in the scope of their rights and potential traffic offences (including information on penalty points).

Within **corporate insurance**, most changes which PZU focused on involved making the offer more appealing for fleet clients and leasing companies, and continuously making cooperation with intermediaries more effective. Major new products included:

- the introduction of a new **environmental liability insurance** - an offer intended for entities using the environment within the meaning of the Act of 30 April 2007 on the prevention and remedying of environmental damage. The insurance covers administrative liability, civil liability and defence costs.
- **the popularization and further development of the Risk PRO programme**, among other things through the expansion of the programme by the offer addressed to corporate entities with a more limited scale of activity.

In **financial insurance**, PZU continuously supports the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the construction industry and the science and innovation sector, taking into account the impact of the geopolitical situation related to the hostilities in Ukraine. PZU also continuously monitors potential and actual risks, adapting to them seamlessly.

The most important changes to the offer in H1 2023 include:

- development of applications for concluding a periodic guarantee contract and insurance guarantee contract-of-mandate forms, adapting them to the clients’ needs as well as to the current geopolitical situations with regard to valuation with higher transaction risk;
- completion of work on launching the sale of guarantees securing the payment of rent in the second half of the year;
- continuing cooperation with leasing companies on GAP financial loss insurance and work on GAP insurance for machinery and equipment;
- continuing the cooperation with the banks in mortgage loan repayment insurance, both with PZU Group companies and external banks.

In the first half of 2023, PZU cooperated with nine banks and nine strategic partners. PZU's business partners are leaders in their respective industries and they have client bases offering the possibility of extending the PZU’s offering with additional innovative products geared towards those clients. In active cooperation with PZU Group's banks, PZU continues the implementation of a comprehensive offering using the banks’ distribution networks.

This cooperation has allowed PZU to steadily expand the offering and scale of sales of insurance products linked to banking products, including insurance coverage for cash loans and mortgage loans as well as other insurance products. Within strategic partnership, cooperation is based primarily on energy industry companies which PZU uses as intermediaries to offer assistance services – assistance of electricians, plumbers or healthcare professionals. PZU’s insurance offering is also present on the e-commerce market through cooperation, among others, with PLL LOT, iSpot, and eBilet.

Since November 2022, Bank Pekao has been also offering PZU motor insurance and LINK4. The bank's customers who own vehicles can, in all branches of the bank in Poland, purchase TPL insurance and selected risks from the range of voluntary insurance, tailoring the scope of the cover to individual needs. Offers are compared within one process, leading to the selection of predefined packages or offer personalization.

3. Activity of the PZU Group

Activity and product offering - LINK4

LINK4 is one of the most recognizable insurance companies in Poland, which **skilfully combines the strength of a corporation with the agility of a start-up.**

In line with clearly defined values, such as client, respect and mastery, LINK4 has for two decades been simplifying the world of insurance. LINK4 remains among the leaders of direct insurance products; it extends its business by cooperating with multiagencies, banks and strategic partners. The company offers an extensive array of non-life insurance products, including motor, property, casualty and TPL insurance.
Given the changing market situation, LINK4 has zeroed in on the development of innovative solutions providing added value to both its clients and business partners. By using new technologies in internal processes and in relations with clients, the company continues to challenge the way of thinking about insurance. At the end of 1H of 2023, LINK4 had in place over 70 fully automated processes and 12 applications supporting employees in their day-to-day duties. LINK4 continues its Data Driven digital transformation with a major focus on analytics and smart automation. More than a dozen Machine Learning models are now in operation to support sales, claims handling and service processes.

Technological innovations and process automation enable regular efficiency gains and cost optimisation and create development opportunities for employees. At the same time, the introduction of these changes makes it easier for customers to both purchase insurance, report a claim, follow up a claim handling process or contact a Relationship Manager, and for the insurer, among other things:

- At the beginning of 2023, LINK4 completed phase I of the “Proste Ofertowanie” [Simple Quotation] project, which enabled the launch of a new calculator on the website using data from external sources (CEPIK) and advanced algorithms. Consequently, customers can learn about an offer in just 17 seconds after entering only five parameters.
- In Q2 2023, LINK4 implemented the application using artificial intelligence, in the process of motor claim handling (using simplified paths for customers). The application analyses the extent of the damage in real time, on the basis of pictures attached by the customer, prepares a calculation and proposes a claim amount to the customer.

As a proof of the recognition of LINK4's efforts in this direction, the title of **Marka Godna Zaufania** [Trustworthy Brand] is awarded by entrepreneurs and the competition is organised by MyCompany Polska magazine. The survey among companies and economic operators in the SME sector is conducted by Kantar Polska. LINK4 was recognised for its innovation and for introducing simple solutions in insurance - it won in the category: High A-IQ, i.e. the company that best uses artificial intelligence in its operations. In each category, in a random selection, only one brand could be indicated - the one that is most trusted. In evaluating the best use of artificial intelligence, as many as 43% of respondents pointed specifically to LINK4. The company was also recognised as **Przyjazna Firma Ubezpieczeniowa** [Friendly Insurance Company] in the competition organised by Gazeta Bankowa. It was ranked second in the Group II category (Class 3 and 10 insurance) - motor insurance. In the questionnaires prepared by Kearney, the strategic consultancy firm and the competition expert partner, companies presented both their financial results and the measures taken in the previous year to improve customer relations, cyber security and ESG. LINK4 was also awarded the prize in the 2nd edition of the **Mocarze HiperAutomatyzacji** [Powers of HyperAutomation] competition in the area of Software Robots in the Large Organisations category for introducing a number of innovations. It was granted for the implementation of a solution combining RPA, artificial intelligence and video chat for the remote inspection of vehicles after the purchase of the MOD insurance policy. This is the first initiative of this kind in Poland, while the awards are presented during the HiperAutomatyzacja [HyperAutomation] Conference, organised by the “Centre for Digital State Studies” Foundation. Its main objective is to identify and award the most effective hyper-automation deployments, the effectiveness of which is measured by comparing the business objectives set before the deployment with the results obtained afterwards.

The vehicle video inspection service was also distinguished with the title of Innowacja Miesiąca [Innovation of the Month] in the insurance industry by Gazeta Ubezpieczeniowa in April 2023.

In 1H of 2023, LINK4 focused on expanding further its current product offering, adapting to the changing expectations of its clients and business partners. The most important activities linked to modifying its product offering were the following: **Ubezpieczenie Dziecko** [Child’s Insurance] – changes in coverage (extension of the scope of ADD and Health Assistance) and the GTCI written in simple language (implementation for sale - August 2023).

Activity and product offering – TUW PZUW

Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW) is a leader and driving force of mutual insurance in Poland. Surpassing one billion zlotys in annual premium written in 2022, it increased its share of this market to a record high of 34 per cent. At the same time, as one of the youngest insurance companies in Poland, it ranked 11th on the non-life insurance market in Poland.

TUW PZUW provides insurance protection to large businesses, including companies of strategic importance to the state. It insures medical entities, primarily hospitals, public institutions and local government units, as well as almost all religious orders in Poland and some dioceses.

As a mutual insurance company, TUW PZUW relies on the non-profit principle. It covers flexible insurance cover, adjusted in cost and scope to the needs of the insured. The mutual insurance formula helps that, allowing the negotiation of contracts without the necessity of launching tender proceedings.

Entities insured at TUW PZUW are, under the principle of mutuality, members of the organization as well, which determines their greater care for safety and risk mitigation. The insured are reimbursed for part of their premiums if the number of claims or their size is small. Under the decision of the General Meeting of May 2023, TUW PZUW paid out record high premium refunds of PLN 1.6 million for the previous year.

What distinguishes and is the market advantage of TUW PZUW is the utmost care taken to minimize risk and extensive assistance for the insured. TUW PZUW offers expert support in the analysis of risks, conducts free safety audits to mitigate potential risks and financially supports its members in numerous preventive activities.

An innovative project of TUW PZUW is the Szpital 360 [Hospital 360]. The programme involves medical visits, provided by physicians with medical and insurance experience, which serve to diagnose the problems and needs of hospitals in terms of safety. These are followed by training courses for doctors and other staff and support for hospitals in investing for the safety and health of patients. Patient opinion surveys, developed in cooperation with the Patient Ombudsman, represent an innovative element of the project.

Furthermore, TUW PZUW's precursor initiative in the market is **the support of insured hospitals in crisis communication**, which is intended to facilitate the mitigation of disputable situations with patients and provide hospitals with assistance in dealing with the media. The service, together with the Szpital 360 project, was presented at the 2nd National Congress of Insurance Solutions for Healthcare Providers organised by TUW PZUW in May 2023, which was a major event in the medical community. The meeting, held under the patronage of the Patient Ombudsman and the Rector of the Medical University of Gdańsk, was attended by healthcare managers, prominent doctors and lawyers.

The congress also saw the presentation of a free guide for patients, **“Vademecum of Health”**, published on the initiative of TUW PZUW, which provides basic information on health and is intended to motivate people to take care of their health. It is an expression of TUW PZUW's social commitment in an area which, thanks to the intensive development of health insurance, plays an increasingly important role in the Company's activities.

Another example of TUW PZUW's social initiatives was the donation in April of modern equipment for the treatment of children with cancer to the University Clinical Centre in Gdańsk. This is a facility that has been receiving young patients evacuated from Ukraine for treatment since the first days of the war. The company also provided insurance cover for rescuers from the Polish Mining Group, who helped victims of the earthquake in Turkey at the beginning of the year.

With a view to developing the business and improving the quality of services, in May 2023 TUW PZUW adopted its first Data Strategy called **“Więcej Wiedzy”** [More Knowledge]. The 2023-2024 Strategy, implemented in line with the mission statement “We turn data into shared benefits”, sets out the directions and objectives of activities in the field of management and data analytics. It is intended to serve the optimal use of data, with the greatest possible benefit for policyholders and the Company.

TUW PZUW's business successes and social activities were recognised by the prestigious trade magazine “Gazeta Ubezpieczeniowa”, which awarded it the title of **“Ubezpieczyciel Miesięca”** [Insurer of the Month] in February 2023.

Activity and product offering - PZU Życie

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

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

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

The changes concern not only the product itself but also entail the modernization and simplification of the way in which insurance is distributed and concluded. The changes incorporate the new requirements introduced by the regulatory authority and the increasing legal protection of consumers.

3. Activity of the PZU Group

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

- introducing in Q1 2023 new insurance riders in the offer of PZU Na Życie Plus (PNŻ Plus), including:
  - **Recepta na Twoje zdrowie** [Prescription for Your Health] - the medicine card;
  - **Recepta na Twoje zdrowie Plus** - [Prescription for Your Health Plus] - the medicine card;
  - **W Razie Wypadku** [In the event of an accident] - basic and extended coverage.
- extension of the offer of **insurance riders in the event of hospital treatment of a heart attack, stroke or malignant tumour** to individually continued protection insurance. Owing to the new insurance, customers can secure their financial support in the event of a hospital stay as a consequence of the most common civilisation diseases.
- implementation of the system changes in group life and health insurance **Opieka Medyczna S** [Medical Care S], which streamlined the sales process and enabled, among other things, the change in the premium, without a new declaration.

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

- adjusting key information documents to Commission Delegated Regulation (EU) 2021/2268 of 6 September 2021 amending the regulatory technical standards laid down in Commission Delegated Regulation (EU) 2017/653 (PRIIPs) - applies to PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Cel na Przyszłość, PZU Pogodna Jesień and PZU Firma insurance;
- increasing of the minimum premium in individual life insurance for products: PZU Gwarantowane Jutro, PZU Ochrona Każdego Dnia, PZU Wsparcie Najbliższych;
- updating the expected profit-sharing ratio used in the simulation of the insurance record for the products: PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Wsparcie Najbliższych. The change in the ratio allowed potentially higher benefit amounts to be offered to customers as part of insurance purchased after 18 March 2023.

Within individual **pension** insurance, the most significant issues included:

- updating the provisions of the GTCI with regards the presentation of fees in unit-linked life insurance contracts - refers to the general terms and conditions of individual unit-linked life insurance IKE PZU and the general terms and conditions of group pension insurance Pogodna Jesień (terms and conditions code PJKP42 - continued insurance) - taking into account the stance of the Polish Financial Supervision Authority;
- adjustment of service processes in group unit-linked life insurance Pogodna Przyszłość (PPE) to the regulations of the amended Act of 20 April 2004 on employee pension schemes.

In H1 2023, PZU Życie actively cooperated with five banks, including PZU Group banks, delivering a comprehensive insurance offering for their clients. Cooperation with Bank Pekao and Alior Bank allows PZU Życie to gradually expand its offering and sales of insurance products linked to bank products.

In Q2 2023, PZU Życie started its cooperation with VeloBank S.A, offering the bank's customers PZU Stabilne Jutro life and endowment insurance with a guaranteed sum insured throughout the insurance term.

Activity and product offering - foreign companies

Lietuvos Draudimas

Lietuvos Draudimas is the largest and the most experienced insurer, the leader of the Lithuanian insurance market and the largest insurance company in the Baltic countries. One in three residents of Lithuania choose insurance in Lietuvos Draudimas. In 2023, in addition to the current activity in non- life insurance, Lietuvos Draudimas continued to focus on pursuing sustainable development activities and expanding further its product offering, while adapting it to the changing circumstances and expectations of its clients.

Aside from business-as-usual activities and the improvement of existing products, the activities of Lietuvos Draudimas have also focused on:

- launch of a health insurance application for LD customers - customers are able to download the LD mobile application, which aims to simplify the administrative processes under health insurance contracts;
- campaign related to MTPL insurance - a campaign highlighting the benefits of technical assistance was launched in April 2023. The communication to customers reminds them of the technical assistance for free, while at the same time offering additional value - TPL insurance that also applies when cycling;
- new sales campaign "Burza w nieruchomościach" [Storm in real estate] offering maintenance of a fixed price of property insurance for a period of 3 years;
- providing employees with a rewarding workplace - Lietuvos Draudimas won the award for the organisation that creates the most favourable emotional environment in the category of large companies - the winners of the National Responsible Business Awards 2022 were announced in January 2023.

In H1 2023, work continued on automating the claim handling process. Automatic registration of health insurance claims was implemented and fully automatic processing of claim payments to individual customers under property insurance via the website was also introduced www.savasld.lt. Approximately 75% of private individuals' claims was registered automatically.

PZU Lithuania Life

In 2023, PZU Lithuania Life decided to change its sales model, the vision for sales growth changing from volume expansion to clear processes, discipline and centralised sales management tools. The optimisation of growth began with the implementation of high service standards and quality processes, while at the same time a decision was taken to reduce the number of agents employed, in particular inactive agents. The company focuses on the development of the current policy portfolio (indexing, policy retention), which to a large extent offsets the lack of new sales.

Work on optimising the PZULife sales system dedicated to the conclusion of new contracts continued. PZULife has been further developed as a new tool providing support to agents with the aim of improving identification of customer needs. It offers a possibility to measure the effectiveness of sales activities, monitor sales network activity, translating into the potential to improve sales performance.

The launch of the self-service system, implementing security requirements, increases customer satisfaction with easily accessible information and encourages involvement in updates, contract amendments, claim adjustments, thereby reducing agent workload and service costs.

AAS Balta

Broad assortment of products, excellent customer service and well-thought out investments in brand promotion activities allowed Balta to maintain its leading position on the Latvian non-life insurance market in terms of sales volume and significantly strengthen brand awareness and reputation. Balta has the strongest image in the market, which is mainly attributable to high brand awareness and a large customer base.

In 2023, Balta focused on ensuring better customer service and exploiting digital opportunities. In 2022, the possibility of payments automatically charged to credit cards was introduced; in 2023, similar payment options were also introduced for invoices. The portfolio monitoring process was updated to ensure the best possible protection for customers in line with their needs.

In the first half of the year, Balta launched several campaigns related to both corporate social responsibility and safety prevention. As part of the "Szalone bezpieczne lato" [Crazy Safe Summer] campaign, Balta provided free accident insurance to nearly 27,000 children in Latvia, including Ukrainian children residing in Latvia.

In parallel with other activities, Balta continues to streamline claim handling processes, including the online submission of claim applications. The online claim reporting process is now available for nine products, resulting in online submission of claim applications in the range of 45%-98% of all claims depending on the product.

Lietuvos Draudimas – Estonia branch (PZU Estonia)

The Estonian Motor Insurers' Office (Eesti Liikluskindlustuse Fond) implemented a dedicated motor claim registration application in the market. In June 2023, PZU Estonia launched the integration with this application to transfer data from it to the company's insurance system. The application is used in approximately 40% of cases of claim registration in the market, the solution provided reduces data entry errors.

In January 2023, SEB Bank's e-shop (SEB Bank e-shop) was launched. SEB Bank e-shop connects to the SEB Internet bank, thanks to which a SEB client enters PZU Estonia's e-shop via the SEB Internet bank and has an access to the SEB insurance products.

In order to improve the quality of customer service as well as cost-effectiveness, the services of an external Call Centre were abandoned in favour of its establishment within the company. The quality of customer service is continuously improved through ongoing training and the high competence of internal staff.

In April, changes were introduced to the MOD insurance product sold via the PZU e-store and SEB e-store. An additional option for selecting an appropriate deductible was added, thus the variety of insurance options translates into amount of premiums.

PZU Ukraine

In H1 2023, PZU Ukraine carried out work with the aim to streamline its product portfolio. A number of changes were made in the product range, with the key ones being:

- updating insurance contract forms for cargo, rolling stock MOD insurance, carrier's/shipper's TPL, maritime and aviation risks including martial law (additional reservations added);

- modification of conditions for renewal of property insurance (the condition is conducting an inspection of the object and an analysis of the risk coverage even in the case of damage-free renewals);
- updating movable property insurance terms and conditions in accordance with the new Underwriting Guidelines of the PZU Group;
- updating the limits of underwriters' and sellers' authority to accept the terms and conditions for the conclusion of insurance contracts in non-life insurance types;
- changes were introduced in underwriting and acquisition policies for the conclusion of travel insurance contracts;
- an analysis was carried out of the statistics on payments under travel insurance contracts. Based on this, the underlying insurance tariffs were adjusted and changes were made to the adjustment coefficients by country;
- implementation of comprehensive travel insurance programmes " Biznes" ["Business"] and " Bez granic" ["Without borders"] with the inclusion of property insurance " Bezpieczna podróż" ["Safe trip"] on the EWA platform for the Partner, "KREDOBANK" SA;
- implementation of an updated tariff grid for the MOD product "Avtomix" in the QWINS system;
- implementation of the MTPL insurance product on the Privatbank and Internet partner Finbest platforms.

Due to the lifting in March 2023 of the majority of restrictions on mutual settlements with non-resident reinsurers under reinsurance agreements, PZU Ukraine was entered in the List of Insurers that can carry out reinsurance transactions with non-resident reinsurers. The Company settled most of its liabilities in foreign currencies and received corresponding payments from non-resident reinsurers under reinsurance agreements, with the exception of obligatory reinsurance agreements under MTPL insurance, for which restrictions still apply.

PZU Ukraine applies to the National Bank of Ukraine on a monthly basis for confirmation that the insurer meets the criteria necessary for its entry in the List of Insurers authorised to make payments in foreign currencies. The insurer's financial ratios, the absence of facts of legal violations and other ownership structure-related criteria are taken into account.

In H1 2023, addressing the needs of its customers and aiming to improve customer service, PZU Ukraine held additional training sessions on customer service standards. At the same time, in order to control the quality of customer service, permanent checks were performed regarding the level of contract renewals and the level of up-sales.

PZU Ukraine Life

In 2023, PZU Ukraine Life continued to provide life insurance services, ensuring both the conclusion of new insurance contracts in all sales channels, taking into account the restrictions of war time, and the support and handling of the existing portfolio.

Currently, the company maintains the process of concluding new insurance contracts only in safe regions of Ukraine, i.e. in administrative regions of the country that are not affected by warfare - in the west and centre of Ukraine, and respecting the restrictions concerning the sum insured, list of risks and requirements for policyholders. At the same time, one of the company's priorities is to ensure high quality service of the existing portfolio of insurance contracts: timely and full payment of benefits and surrender amounts and ensuring continuous operation of the contact centre.

The company continued its cooperation with all the key banks it had worked with before the war. It entered into new contracts with terms and conditions adapted to martial law in the individual sales channels - the broker channel and the agency channel. MLM-broker EULIFE remains the key partner selling individual insurance contracts in 2023.

3.2.3. Factors, including threats and risks, that may affect insurance business in H2 2023

Non-life insurance in Poland

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

- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro and problems in global supply chains (the impact of sanctions against Russia and military action in Ukraine) translating into a lack of availability of components for the production of cars and limited availability of spare parts;
- high uncertainty as to the growth of new car sales, mainly in the dealership channel and financed by leasing companies, which may result in lower sales of motor insurance;
- reduced demand for voluntary insurance due to a higher inflation rate, higher unemployment and a decline in employment;
- slower economic growth in Poland – the more challenging financial standing of companies may result in elevated credit risk, a higher claims ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth;
- changes in trends and behaviour of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase of insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates;
- introduction of additional regulations or financial burdens on insurance undertakings.

Life insurance market in Poland

Major risk factors include:

- the impact of the changes proposed by the European Commission as part of the RIS (Retail Investment Strategy) package, which specifically affect the distribution of investment life insurance contracts (products in classes 3 and 1);
- long-term impact of inflation on, among other things, the economic and financial standing of customers, including purchasing capacity (possible slowdown in sales growth, rising operating costs), as well as the loss of value of sums insured in portfolio policies (a significant need to index sums insured arises);
- the impact of digitisation on changing and improving sales and service processes in the insurance sector;
- the aging of the population and its impact on the development of new market segments (e.g. changes in consumer preferences);
- EU DORA regulations - the need to increase security in the digital financial sector;
- the implementation of new solutions based on artificial intelligence (AI), e.g. better data management, construction of insurance offers, analysis of claims ratio, etc.;
- demographic changes and the ageing society and the ensuing changes in the mortality and fertility levels;
- constant price pressure in group insurance and the battle for client ownership (and client data), thereby cutting the insurer’s margins, reducing the quality of the product and fostering entry and exit obstacles for clients to overcome with independent intermediaries;
- negative effect of higher interest rates, increasing inflation and maintenance expenses (prices of energy, goods and services) on sales of mortgage/cash loans and linked insurance products.

Insurance in the Baltic countries and Ukraine

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

- geopolitical tensions, particularly the ongoing war Russia-Ukraine, which has a direct impact on the possibility of conducting insurance operations in Ukraine and on their results;
- slowdown of economic growth in the Baltic countries and Ukraine – the more challenging financial standing of companies may result in elevated credit risk, a higher claims ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth in both motor and property insurance;
- negative effect of higher interest rates, increasing inflation and maintenance expenses (prices of energy, goods and services) on sales of mortgage/cash loans and linked insurance products.
- impact of new EIOPA regulations for the insurance market in the European Union;
- changes in trends and behaviour of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase in insurance fraud cases as a result of the more difficult financial situation in many industries;
- emergence of additional regulations or financial burdens on insurance undertakings.

3.3. Medical care

3.3.1. Situation on the health market

The health market is a dynamically developing and prospective business area. Experts from PMR, dealing with market research and analyses in Central and Eastern Europe, expect that in 2023-2028[2]:

- the growth rate of private health insurance will reach the average annual level of approx. 8.6% for supplementary health insurance and approx. 8.4% for subscriptions;
- the average growth rate of the fee for service market will be 8.3% per year.

In addition, the following developments are expected:

- further intensive development of telemedicine and service opportunities through remote channels;
- increasing number of persons outside working age and greater need to provide care to senior citizens;
- increasing public awareness of prevention and periodic examinations;
- persistently high inflation of medical services, in particular due to wage pressures from medical staff.
- reducing the materiality of the COVID-19 pandemic factor and its impact on the health market.

According to PMR[3], the private health care offered under fee-for-service products in 2023 will reach the value of PLN 26.4 billion (a 13.8% increase y/y). The value of medical subscriptions will reach PLN 6.4 billion (up 14.1%), while the value of private health insurance is over PLN 1.4 billion (up 14.3% y/y).

As of mid-2023, the National Health Fund increased valuations of services in specialized outpatient care (AOS). This has a positive effect on medical centres offering healthcare services under public financing.

Contrary to initial concerns, the influx of people from Ukraine due to the war did not contribute to an observable increase in unmanageable demand for healthcare services in the private sector. However, a potential escalation or prolonged conflict can negatively affect the private healthcare market, through the macroeconomic situation and indicators of inflation and interest rates, which could result in reduced private consumption and a decline in real wages.

According to PMR, medical inflation will be an important factor affecting the value of the private healthcare market. The previous trend of growing prices will be maintained in the coming years and its pace will be even higher. This is why the above aspects will be particularly important for the prices of outpatient care and physician services. The healthcare services market (fee for service, subscriptions, insurance) is sensitive to marked increases in the price of electricity and materials and raw materials, which raise operating costs. The growth rate for wages in private healthcare is as high as 13.2% y/y, which is mainly due to remuneration claims of white staff including nurses, physical therapists, physiotherapists, hygienists and dental assistants.

The projected total value of the private healthcare market will reach PLN 78.3 billion at the end of 2023, of which the value of the market excluding medicine and non-medicine expenses[4] is about PLN 34.5 billion. The projected CPI inflation for 2023 in the healthcare market sector is 8.5% (CPI). The average increase for the market is lower than inflation because it takes into account fairly stable medicine prices. Growth at a level of 14.0% is expected[5] for physician services.

3.3.2. Activity and product offering

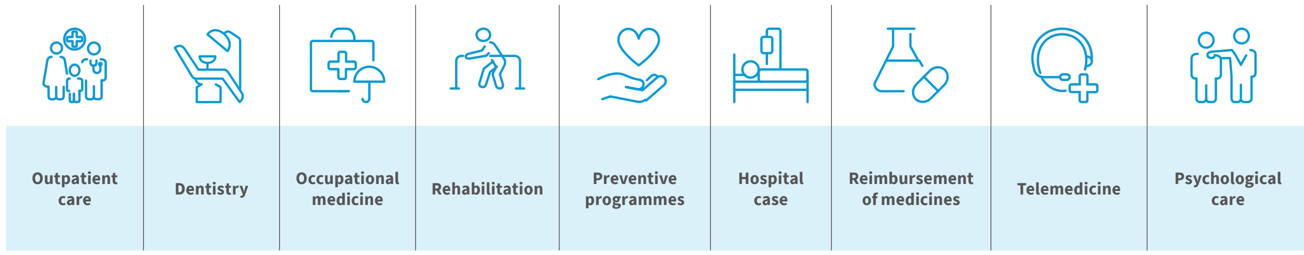
PZU Zdrowie is one of the largest nationwide medical operators. The PZU Zdrowie medical network has almost 130 own centres, including diagnostic imaging labs, and nearly 2,200 partner centres in 600 cities in Poland. It has its own 24/7 medical hotline, myPZU patient portal and Telemedicine Centre. It provides healthcare in the form of insurance and subscriptions for companies and individual clients. PZU Zdrowie medical centres are also available to patients who do not have PZU packages. The Health Area consists of the PZU Życie medical operator business and health insurance. It is an integral part of the PZU Group's business model and represents one of its most important areas of growth. After two quarters of 2023, revenues in the health pillar increased by 26.6% y/y to PLN 760.1 million. An increase was noted both in revenue generated by the ever-expanding network of medical centres (up 25.7% y/y) and in sales of health insurance and subscriptions (up 31.1% y/y). The number of health contracts across the PZU Group rose to 3.37 million, or 7.7% y/y, mainly due to sales of health insurance and add-on protection products.

2, 3) PMR report, "Private healthcare market in Poland 2023 – market analysis and development forecasts for 2023–2028".

4) The "medicine and non-medicine expenses" category includes: (1) patient spending on medicines (reimbursed, non-reimbursed Rx and OTC), dietary supplements and other products in pharmacies, and (2) patient spending on OTC medicines and dietary supplements outside of pharmacies (in convenience stores, including grocery stores, gas stations, drugstores, herbalists, herbal and medical stores, specialized supplement stores, sporting goods stores and others), including online sales in e-stores (including e-pharmacies) and sales platforms.

5) PMR, 2023, Value of the on-site payable healthcare market in Poland (billion PLN) and growth rate (%) 2023-2028.

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



PZU Zdrowie's medical operator activities include:

- handling health products in the form of insurance (life and health insurance and non-life and other personal health insurance – products of PZU SA, PZU Życie and TUW PZUW);
- sales and service of non-insurance products (occupational medicine, group and individual medical subscriptions, partnerships and prevention programs);
- building its own medical infrastructure of a uniform standard (medical centres, diagnostic laboratories and its own Telemedicine Centre) to ensure the best possible access to the services as provided and to meet revenue targets.

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

Activities completed in 2023 in furtherance of the development of the health area

Development of health offerings

Non-insurance offerings (packages, subscriptions)

In H1 2023, PZU Zdrowie continued to develop its group and individual medical care offerings to pursue its strategy as a comprehensive medical operator. The main activities included:

- updating and adapting individual subscription ranges to customers' expectations;
- expanding the credit offer to include new operators and 0% instalments;
- implementing subsequent prevention packages (prepaid packages of medical services for one-time use at PZU Zdrowie medical centers) – The latest of the packages implemented are dedicated to pregnant women, as well as pre- and post-pregnancy, and dental packages have also been prepared;
- implementing the medical subscription add-on package "COVID-19 prevention" – a post-COVID-19 prevention program aimed at diagnosis and exclusion of complications associated with the presence of COVID-19.

Insurance offerings

PZU Zdrowie, in addition to offering its own health products, acts as a medical operator handling insurance products of the PZU Group.

E-commerce

In the online store: Private medical care | PZU Zdrowie Store, where individual clients can learn about PZU Życie's product offerings, panels of laboratory tests have been added. They include sets of tests responding to specific medical concerns.

Development of medical infrastructure

- Opening of two new medical centres
  - **Stomatologia PZU Zdrowie Łódź Ogrodowa [PZU Zdrowie Dental Clinic – Łódź Ogrodowa]**
    In April 2023, PZU Zdrowie launched its first separate dental clinic, which is located in the Ogrodowa 8 Office Passage, between the Manufaktura Shopping Centre and Piotrkowska Street at 200 m2 ground floor premises. The dental facility is located in the same passage as the PZU Zdrowie outpatient facility opened in May 2022. In this way, patients are offered comprehensive medical care. The specialists working there provide treatment for children and adults. The advantages of the new facility include its qualified medical staff, dental computed tomography (CBCT) and the available high-tech microscope. Specialists in many fields are available to patients: endodontics, prophylaxis, dental surgery, implantology, prosthetics, paedodontics and orthodontics. Services are provided in three modern surgeries, each equipped with point-of-care X-rays at the unit.
  - **Centrum Medyczne PZU Zdrowie Kraków Prądnicka [PZU Zdrowie Medical Centre – Kraków Prądnicka]**
    In June 2023, PZU Zdrowie opened its third own centre in Kraków. In the modern building at ul. Prądnicka 20a,

a multispecialty medical centre was established with a wide range of diagnostics and medical consultations, as well as an occupational medicine clinic. The new medical center, located in the Regent Office retail and office complex, replaced the existing facility at ul. Mazowiecka 5. It can be used by both existing patients and new patients under the corporate or individual subscriptions, or fully-paid services. Professional offering includes consultations in internal diseases, allergology, endocrinology, gynaecology, neurology, ophthalmology, orthopaedics, otolaryngology, rheumatology and urology. The facility provides a comprehensive service to occupational medicine clients by also offering psychotechnical examinations. Patients can also use three modern dental surgeries, which provide full radiological diagnostics.

- Execution of the acquisition of the Nowa 5 medical centre in Gorzów Wielkopolski (January 2023), the first PZU Życie facility of its own in the Lubuskie region;
- Completing the acquisition of the medical facility Boramed Centrum Medyczne (May 2023), one of the largest entities in the Warsaw conurbation specialising in gynaecology;
- Launching two new diagnostic imaging labs – in Gdańsk and Kraków – in Q1 2023;
- Preparing to launch two new diagnostic imaging labs in Poznań and Toruń;
- Preparing to move the diagnostic imaging lab to the new location in Białystok;
- Increasing the number of cooperating physicians in the company's own network to more than 2,500 physicians – in response to growing patient demand for medical services across all business lines;
- Continuation of the increase in the scale of cooperation with the National Health Fund by, among others, increasing the number of patients admitted and services provided in specialized outpatient care (related to the release of service limits as of July 2021);
- Expanding its own Telemedicine Centre, which employs 160 physicians and psychologists, in 15 specializations. The facility is responsible for over 50% of all telemedicine services provided to patients. The Telemedicine Centre's physicians also operate the First Contact Centre Platform for the Ministry of Health;
- PZU Zdrowie continued conducting crisis intervention, providing assistance to victims and their families in emergency situations, such as the death of a loved one, a random accident or serious illness. Support is provided at the patient's place of residence. It can take the form of meetings and remote follow-up - the patient remains under the care of the same psychologist. Assistance is provided by psychotraumatologists and psycho-oncologists qualified in crisis intervention. In H1 2023, 161 intervention trips were organized for 193 eligible persons

mojePZU Ekosystem project in PZU Zdrowie

The first half of 2023 saw further intensive development of the mojePZU portal and the functionality of the Health Assistance system to support self-service and customer care:

- The process of ordering prescriptions by a customer was automated;
- A pilot of the process for direct appointment for laboratory tests to PZU Zdrowie's own facilities was launched on the PZU Zdrowie Hotline;
- Customer pathways on the web portal and in the mobile application were optimised (improved functionality and UX for current processes);
- PAK Zdrowie was moved to a new payment processing model, harmonising the purchase path on the mojePZU portal in line with the purchase processes for the PZU Group products;
- Native screens were implemented in the mobile app for the USG and X-ray appointment process.

New website zdrowie.pzu.pl

In H1 2023 work was continued on the PZU Zdrowie website launched in June 2022, operating at: zdrowie.pzu.pl. Celem zmiany było dodanie nowych funkcjonalności oraz dostosowanie strony do wymagań pozycjonowania treści (SEO) i kampanii w wyszukiwarce (SEM) oraz praktyk user experience (UX). Wśród nowych elementów strony są m.in.: usprawniona wyszukiwarka placówek medycznych, sekcja „Dla pacjenta", sekcja poradnikowa „Blog" oraz zakładka „Dla mediów"
i „O nas", a także wersja strony w języku angielskim.

Development of innovative solutions

PZU Zdrowie is constantly looking for innovative solutions that can deliver value to patients, physicians and the PZU Group. Areas of exploration and analysis include the use of advanced telemedicine systems, artificial intelligence, virtual reality, digital therapeutics. Particular attention should be given to the following activities::

- **Cardiomatics pilot in cardiac diagnostics –** software streamlining cardiac diagnostics as part of a pilot program supports the work of physicians at several Warsaw PZU Zdrowie medical facilities. The solution, offered by the Polish company – Cardiomatics speeds up the receipt of test results and helps effectively analyse and interpret the ECG's results. The software is cloud-based and used to automate the analysis of ECG signals. It is a Class IIa medical device, functioning on the basis of accurate artificial intelligence algorithms, the effectiveness of which has been confirmed in clinical trials, among others. The software is used by more than 1,000 medical professionals in more than 15 countries, including Switzerland, Germany, the UK and Poland. More than 150,000 patients have already been diagnosed thanks to Cardiomatics;
- **Autenti pilot -** with an eye on environmental measures and process efficiency, PZU Zdrowie has been using Autenti's electronic signature to handle documents exchanged between PZU Zdrowie and selected partner centres through this platform since 2022. The solution is used to sign documents remotely and enables qualified signatures to be produced in a matter of minutes. In addition to streamlining internal processes, an additional benefit of the solution is the reduction of paper used;
- **Upmedic pilot** - the Upmedic solution is a smart text editor that supports the work of radiologists in selected PZU Zdrowie centres. The tool enables the creation of top-quality medical documentation with just a few clicks of the mouse, thereby reducing the time it takes to produce descriptions of imaging tests by up to 70%. Startup Upmedic has been recognised in international innovation accelerators such as the Health Venture Lab General Electronics and Roche Healthcare Lab as the best medical data management solution.
- **Telemedycyna Polska S.A. pilot .** - expanding the portfolio of telemedicine services with two new packages for the diagnosis and monitoring of heart rhythm disorders. Two pilot telemedicine service packages are available for patients of the PZU Zdrowie Stawki Medical Centre to address different needs::
  - **Telecare** – remote cardiac care lasting up to 6 months. The service provides the patient with an unlimited number of ECG tests and unlimited teleconsultation of tests on demand. At the end of each month, a quantitative report of the examinations performed is prepared, sent to the patient's e-mail address and additionally made available to the PZU Zdrowie physician who issued the referral.
  - **Telediagnostics** – event-holter remote cardiac diagnostics lasting up to 30 calendar days. The patient can perform an unlimited number of ECG tests. After the diagnostics is completed, a final diagnostic report is prepared, sent to the patient's e-mail address and additionally made available to the PZU Zdrowie physician who issued the referral.

  The patient's eligibility for the programme is decided by the PZU Zdrowie cardiologist, who issues an electronic referral for the telemedicine service. At the medical centre, the patient receives a medically certified mobile ECG device and installs a free mobile application - available for iOS and Android operating systems allowing the patient to perform ECG tests and learn in real time about the preliminary interpretation of the ECG test performed by an artificial intelligence algorithm. If necessary and if clinical symptoms occur, the patient can consult the ECG test with a doctor. Upon completion of the telemedicine service, the patient returns the device free of charge via courier to Telemedycyna Polska.
- **AI in Health Coalition Membership** - PZU Zdrowie continues its activities within the AI in Health Coalition. In its activities, the Coalition aims to promote the use of artificial intelligence (AI) in the Polish health care system. Bringing together a group of experts and entities pursuing the ultimate objective of the well- being of patients, its ambition is to set directions for the development of the use of AI-based technologies in the sector. The Coalition aims to develop conditions that will enable the broadest possible use of solutions of this kind. At the same time, it highlights the significance of professional medical personnel, pointing to the supporting role of technology, which is to augment the treatment process rather than eliminate or diminish the role of a physician. In its activities, the Coalition gets involved in projects seeking to advance the digitization of the health care system, in cooperation with the Ministry of Health and the Office of the Prime Minister. In May 2022, the Coalition published a "White Paper on AI in Clinical Practice" resulting from the work of its members and a report on the Polish medtech sector – "Top Disruptors in Healthcare".

PZU Zdrowie's involvement in the promotion of health

PZU Zdrowie undertakes a range of activities, both nationwide and locally, with the aim of improving Poles' health. PZU Zdrowie's corporate social responsibility activities have been described in industry reports: "Responsible Business in Poland 2022. Good practices" – report of the Responsible Business Forum and the extended English version of "Green Hospitals" – report of the UN Global Compact Network Poland.

Promoting prevention and a healthy lifestyle:

- **The educational campaign "Bliżej Siebie" [Closer to yourself]** - a nationwide campaign to promote mental health in the occupational environment. The initiative included the creation of an online knowledge base https://blizejsiebie.info/ and a report " Bliżej Siebie - mental health and empathy at work" summarising needs and good practices in this area. PZU Zdrowie has also made dedicated materials available to the company's employees through its intranet and internal communication.

- **Educational campaign #ZdrowaKariera [Healthy Career]** – an educational campaign by PZU Zdrowie on the topic of building healthy habits at work in the areas of healthy nutrition, sport, risks of stimulants or taking care of healthy sleep. As part of the campaign, recordings were produced with health experts and materials were developed, available at https://zdrowie.pzu.pl/zdrowakariera. The campaign was carried out on PZU Zdrowie's social media and through internal communication.
- **The 8th "Od Hallera do Hallera" run [From Haller to Haller]** - an event attended by nearly 500 people from all over Poland. PZU Zdrowie was a partner of the run.
- **Charity run "Piątka dla Bartka" [Five for Bartek]** – an event medically secured by the PZU Zdrowie Kielce Medical Centre.
- **Spartakiada in Spała** – sports competition for children with disabilities, during which PZU Zdrowie provided first aid education classes using state-of-the-art #VR technology.
- Development of the PZU Zdrowie Guide blog **"Health Guide"** with articles on healthy lifestyles and selected medical issues.

Patronage of PZU Zdrowie and co-organization of events supporting the development of Polish medicine and the healthcare system:

- Conference "About being sick in a dignified way" organised by the Ludzie i Medycyna [People and Medicine] Foundation - Online conference on active living with chronic diseases.
- ENERGA Griffin Cup - 10 football tournaments involving children aged 7-12 from the Pomorskie Voivodeship. A total of 1020 children took part in the games (860 boys and 160 girls). A total of 318 matches were played. The aim of the event was to promote a healthy lifestyle among the youngest.
- The 8th Congress of Health Challenges - a conference on health care in Poland. PZU Zdrowie experts took part in debates on business, medicine and communication.
- International Student Scientific Conference at the Medical University of Gdańsk - The aim of the conference was to promote the scientific development of students, as well as to provide a forum for debate and an opportunity to present research and scientific achievements.
- Conference of Rectors of Academic Medical Universities (KRAUM) at the Medical University of Wrocław - the subject of the conference was the quality of education in medical professions, which determines the operation of the health care system and health education.
- Hackathon Hack for Health at the Medical University of Łódź - Hackathon, or a project and training sprint. The aim of the Hackathon was to create a collaborative space for the creation of innovative solutions and the opportunity to raise funds to develop their ideas and attract business partners.
- International AI & MEDTECH CEE Conference organised by the AI in Health Coalition and the Polish Federation of Hospitals - the most important event in the medical innovation industry in Poland. This is the first event on such a large scale in Central and Eastern Europe dedicated to artificial intelligence and innovation in health. It brings together technology leaders and experts from the health sector from all over the world, as well as representatives from the general public, medical institutions, startups, industry organisations and investment funds.
- The "Top Disruptors in Healthcare" report - the annual review of the most innovative projects in the medtech sector. This year's edition featured 151 startups - 125 from Poland and 26 from Central and Eastern Europe. The aim of the "Top Disruptors in Healthcare" report is to support medtech startups in terms of funding by providing reliable information about medtech startups, their business models, achievements and capacity in order to attract the attention of potential investors and business institutions.
- Supertalenty w Medycynie 2023 [Supertalents in Medicine 2023] organised by Puls Medycyny - a competition for doctors and graduates of medicine-related subjects who enjoy authority in their professional environment and among patients and can boast documented professional, scientific and/or organisational achievements.
- Senior Economy Congress " Dialog Pokoleń" ["Dialogue of Generations"] organised by the National Institute for the Senior Economy - the most important event about the 55+ generation. The Congress, under the theme "Dialogue of Generations - Society - Health - Work - Consumer Market", featured more than 30 speakers who presented unique knowledge and new insights on the needs of older customers in the context of technological change, managing age diversity in the labour market and taking care of health.

3.3.3. Factors, including threats and risks, that may affect the operations of the health area in H2 2023

Major risk factors include:

- the demand for specialized doctors exceeds the supply, which may slow down growth and affect margins;
- inflationary pressures from affiliate networks and wage pressures exerted by doctors and other personnel serving patients in medical centres may directly affect financial performance in the health area;
- wage pressure combined with an increase in demand for medical services may result in limited ability of providing these services in selected medical centres – medical personnel may prefer/accept only facilities that meet higher employee wage expectations;
- changes in fertility, mortality, and morbidity rates, as well as the health consequences of the fact that during the pandemic treatments for certain conditions (e.g., cardiovascular and oncology) were postponed, may affect the value of sales and the claims ratios (e.g. in subscription plans or in health insurance);
- changes in trends and behaviours displayed by clients, who will start searching for customized offerings – clients' new expectations may bring about the need to change processes and systems, which in turn may affect the bottom-line results;
- continued pressure on the prices of group insurance products – the market for health services remains very competitive both in terms of prices and the range of available services;
- relatively high saturation of the market in larger cities and also staff shortages and lack of customer potential in smaller towns may reduce growth rates;
- potential modification of the valuation of outpatient specialist care services by the National Health Fund may cause significant changes in the financial results generated by medical centres;
- stronger and/or more aggressive policy geared at the development of the network of own facilities by competitors in the market may significantly affect the options available to patients or the competitive position of medical operators in the long term.

3.4. Investments

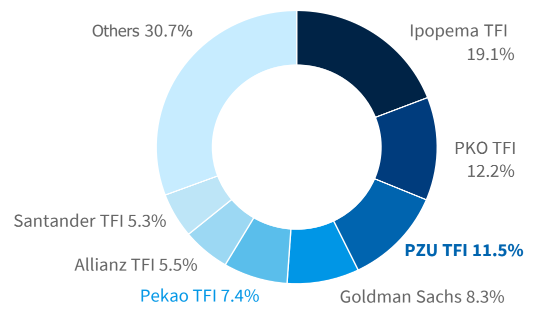
3.4.1. Investment and pension fund market

Investment fund market

As at the end of June 2023, assets under management of domestic investment funds were above PLN 291.5 billion, compared to 266.3 billion at the end of 2022, representing an increase by 9.5%.

The first half of 2023 was a period of global monetary tightening. The economies of individual countries stabilised and investors returned to the market. Sales of units and investment certificates for the first six months of 2023 exceeded PLN 8.5 billion. At the forefront of the funds that raised the majority of new capital were debt funds, while the undisputed leader in the growth rate of assets under management was the PPK predefined date funds. The increase in the value of most asset classes also had a positive impact on the volume of assets under management, translating into good performance of investment funds in most segments.

Investment fund companies (TFI) – share in TFI assets as at 30 June 2022 (in %)

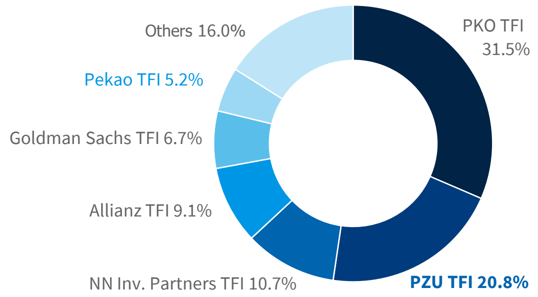


Source: Izba Zarządzających Funduszami i Aktywami

Employee Capital Schemes

The net asset value of the target date funds under the Employee Capital Schemes (ECS) for the entire market, i.e. those run by TFIs, PTEs and insurance companies, at the end of June 2023 increased to more than PLN 16.6 billion compared to PLN 10.3 billion at the end of 2022. The increase of more than 61% was due to the continuation of the operation of employee capital schemes, as well as the first auto-enrolment in the ECS, whereby those who originally opted out had to decide again whether to participate in the scheme or remain outside. In H1 2023, further contributions from employees (2-4% of gross remuneration), employers (1.5-4% of an employee's gross remuneration), as well as welcome (PLN 250) and annual (PLN 240) surcharges from the state, were regularly paid for the ECS.

Investment fund companies (TFI) – share in ECS assets as at 30.06.2023 (in %)

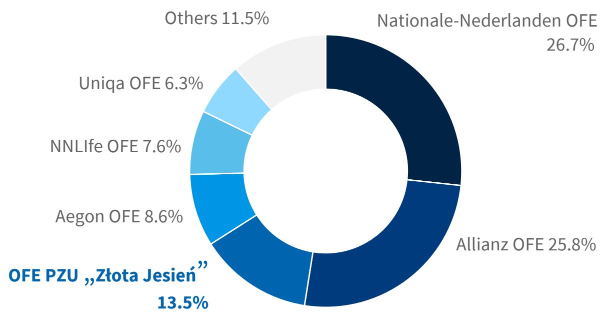


Source: IZFiA, KNF, net asset value of FZD according to management institutions, data for TFI only, without PTE and TU

Pension funds market

At the end of June 2023, the net assets of open-ended pension funds amounted to more than PLN 179 billion, an increase of 15% compared to the end of 2022. The increase in the value of assets was mainly driven by the good performance of the equity market, with the WIG index rising by more than 17% in the first half of 2023.

Open-ended pension funds – share in net assets as at 30.06.2023 (in %)



Source: KNF, monthly data on the OFE market, data for June 2023

3.4.2. Activity and product offering

TFI PZU

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

- Individual Retirement Accounts (IRA) and Individual Retirement Security Accounts (IRSA);
- Employee Savings Plans (ESP);
- Employee Pension Schemes (EPS);
- Employee Capital Schemes (ECS);
- Group Pension Plans (GPP) and the Higher Pension Package (HPP), within which IRAs and IRSAs are available, dedicated to employees of corporate clients serviced by TFI PZU.

As at the end of June 2023, TFI PZU had 60 funds and sub-funds in its portfolio, including 9 ECS sub-funds.

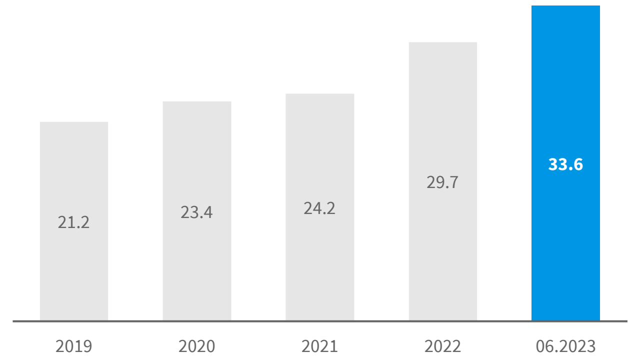
In the first half of 2023, a new TFI PZU information service was launched, available in.pzu.pl. At the same time, lifecycle funds in inPZU's investment portfolios and changes to model portfolios under the PZU Model Portfolios programme were implemented for sale on the inPZU website. The contract asset management service continued to be developed.

At the end of June 2023, TFI PZU managed mutual funds with the net asset value of PLN 33.6 billion. This means an increase in assets of 13.13% compared to the end of 2022 and an 11.51% share of the investment fund market. Thus, within the investment fund management market, TFI PZU did not change its position, achieving the status of the third largest investment fund company in Poland.

As part of its progressively expanding asset management service on behalf of clients (asset management service), TFI PZU managed nearly PLN 11.6 billion in assets as at the end of 2023, including nearly PLN 0.8 billion for an external client. The value of assets under management in investment funds and under the contract management service amounted to over PLN 45 billion, of which assets from an external client amounted to PLN 16 billion.

TFI PZU saw the largest asset growth in the first half of 2023 in PZU Sejf+ (+PLN 333 million) and in its target date sub-funds: ECS inPZU 2035 (+£149 million), ECS inPZU 2040 (+PLN 138 million), ECS inPZU 2030 (+PLN 124 million) and ECS inPZU 2045 (+PLN 102 million). The funds with the largest decrease

Net assets of TFI PZU funds (in PLN billion)



Źródło: IZFiA

in net assets in the first half of 2023 included: PZU FIZ Akord (-PLN 36 million), PZU Medyczny (-PLN 9 million) and PZU Dłużny Aktywny (-PZU 3 million).

One of the significant sources of asset acquisition by TFI PZU continues to be the inpzu.pl platform, which in the first half of 2023 recorded a very good balance of inPZU fund sales, both on regular registers and on individual IRAs and IRSAs pension products.

Changes in assets under management within the funds were driven predominantly by:

- taking over the management of the Premium Properties FIZ AN fund;
- development of the inPZU service and offering and the support actions;
- systematic contributions as part of Employee Capital Schemes;
- systematic contributions as part of Employee Pension Schemes;
- National Central Bank policy in the area of interest rates;
- increases in the valuations of safe funds investing in the bond market;
- increases in the value of investment assets in the majority of global equity markets;
- development of an asset management service.

TFI PZU is also one of the market leaders in Employee Capital Schemes (ECS) and Employee Pension Schemes (EPS). This result is due to the extensive support that TFI PZU offers to employers in implementing and operating ECSs, the satisfactory investment performance of the ECS sub-funds, and the close cooperation with the Corporate Customer Division of PZU Życie.

The continued stabilization of the ECS and EPS portfolios in 2023 has strengthened the PZU Group's position in both areas in terms of asset value and number of participants. TFI PZU's ECS fund assets amounted to PLN 3.46 billion at the end of June 2023, compared to PLN 2.44 billion at the end of 2022, an increase of 42% y/y. In total, at the end of June 2023, TFI PZU had 106,242 ECS management agreements in place, with 901,753 employees enrolled.

On the other hand, 190,135 employees participated in the 545 EPSs run by TFI PZU, who collectively accumulated savings worth PLN 6.72 billion as at 30 June 2023.

PTE PZU

PTE PZU manages the following entities:

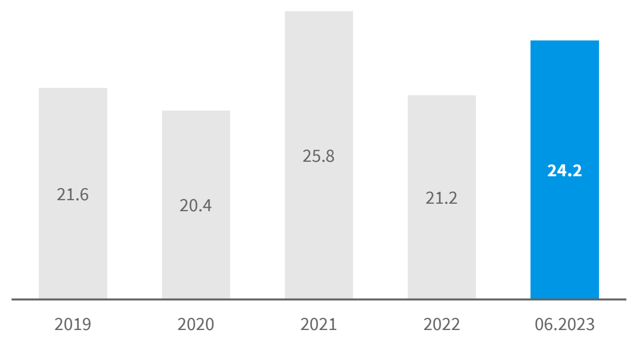
- OFE PZU "Złota Jesień" open-end pension fund;
- DFE PZU voluntary pension fund.

OFE PZU "Złota Jesień" is one of the largest participants in the pension funds market in Poland. At the end of June 2023, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- The fund had 2,200,193 members, or 15.0% of all open-ended pension fund participants;
- Net assets amounted to more than PLN 24.2 billion, or 13.5% of the total assets of open-ended pension funds operating in Poland.

As at the end of June 2023, DFE PZU had 41.5 thousand IRSA accounts with assets worth PLN 623.3 million.

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



Source: KNF

3.4.3. Factors, including threats and risks, which may affect the operations of investment funds, Employee Capital Schemes and pension funds in 2023

Investment funds

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

- the geopolitical and macroeconomic situation (including the pace of economic growth, the unemployment rate and the inflation rate in Poland and Europe) affecting the financial standing of enterprises and households;
- actions taken by central bank (Federal Reserve System – FED, European Central Bank – ECB, Bank of Japan, People's Bank of China) translating into global money supply and liquidity on the financial markets;
- the impact of levels and exchange of interest rates announced by the National Bank of Poland on both the bond market and the whole capital market in Poland;
- absorption by the economy of the high inflation environment which will affect the rate of economic growth in Poland;
- propensity to allocate savings in investment and long-term solutions in the event of a higher inflation and greater debt servicing costs;
- increase in participation in Employee Capital Schemes through periodic information meetings.

Pension funds

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

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, which is affected by the war in Ukraine and which affects the value of the funds' assets, and the level of fees collected by pension fund companies for management;
- active asset allocation in view of the volatile situation in the capital markets;
- active participation in the work on enhancing the performance of the third pillar of the pension scheme, thus making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement.

3.5. Banking

3.5.1. Situation on the banking market in Poland

In 2023, the sector's performance was improved by growing interest result, fostered by a high interest rate environment following a series of increases in 2021 and 2022. On the other hand, deterioration of the economic outlook, for instance resulting from the Russia's military invasion against Ukraine, higher inflation and accelerated tightening of the monetary policy began exerting a negative impact on credit demand, which translated into reduced lending in the mortgage market in particular.

At the end of May 2023, there were 30 commercial banks, 492 cooperative banks and 34 branches of credit institutions operating in Poland. The banking network comprised a total of 5,034 branches, 2,386 offices, agencies and other customer service outlets and 2,767 representative offices (including partner centres). Therefore, the banking network comprised a total of 10,187 outlets, i.e. 115 fewer outlets than at the end of the previous year.

Headcount in the banking sector at the end of May 2023 rose to 143.7 thousand people and was 442 persons (0.3%) higher than at end of 2022.

By May 2023, the banking sector generated a net profit of PLN 17.0 billion, compared to PLN 12.9 billion in the corresponding period of the previous year, up PLN 4.1 billion. What had the largest impact on the higher net result was the interest income (up by 9.3 billion y/y) whose increase was determined by the environment of high interest rates. The commission income remained at a similar level (down by PLN 24.5 million).

In 2023, margins continued to improve. As interest rates grew higher, the net interest margin (NIM)[6] at the end of May was 3.51% compared to 3.20% at the end of December 2022.

After May 2023, the return on equity (ROE)[7] of the banking sector was 8.7%, representing an increase by 2.03 pp y/y. On the other hand, ROA[8] amounted to 0.59% in May 2023, that is an increase by 0.08 p.p. compared to the corresponding period in 2022. The smaller scale of write-offs caused the R/I ratio (the ratio of the banking sector's provisions and write-offs to operating income) to drop to 16.07% at the end of May 2023 (-2.95 pp y/y). A y/y growth in operating income with rising operating costs has kept the sector-wide C/I ratio above 50%, i.e. 51.01% at the end of May 2023.

At the end of May 2023, the asset value of the banking sector was PLN 2,852 billion, up 4.3% compared to December 2022.

The exacerbation of inflation and the high interest rate environment have not been conducive to lending. At the end of May 2023, the value of credits in the non-financial sector amounted to PLN 1.235 billion, a decrease of 0.3% compared to December 2022.

At the end of May 2023, deposits of the non-financial sector totalled PLN 1,710 billion, an increase of 3.6% compared to December 2022. In the structure of deposits, household deposits recorded the highest growth. Corporate deposits grew at a significantly slower rate than a year ago.

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR Regulation, was PLN 224 billion at the end of March 2023, up 5.9% compared to the end of March 2022.

In 2023, the sector's capital situation remains stable. The banking sector's total capital ratio at the end of March 2023 was 20.24%, while the Tier I capital ratio at the end of this period was 18.43%.

6) NIM indicator - the relation of the interest result of 12 consecutive months to average interest assets in the same period of 13 consecutive months.

7, 8) ROA and ROE indicator – the relation of the sum of the financial result of 12 consecutive months to, respectively, average assets and average capital in the same period of 12 consecutive months. ROE relates to the aggregate commercial and cooperative banking sector (without branches of credit institutions), ROA relates to the entire banking sector.

3.5.2. Activity and product offering

Bank Pekao Group

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

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

The Bank systematically strengthens its market position in the strategic areas of business.

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

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

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

New products and services

As part of its account offering, Bank Pekao concentrated its efforts on promoting its savings account – Konto Przekorzystne. In the first half of the year, an online and radio campaign was launched, combined with an attractive interest rate on the Savings Account for new customers. Opening accounts for young people supported by activities targeting parents and online activities to support the sale of selfie accounts.

Starting in June 2023, Pekao has prepared an attractive offer for new customers of the Konto Przekorzystne account. Account maintenance, debit card service, currency conversion and cash withdrawals at home and abroad are all for PLN 0. Customers do not pay for access to the PeoPay mobile app, which is part of the e-banking service. In cooperation with the Żabka shop chain and the Visa payment service provider, the bank has launched the promotion "Przekorzystnie z kartą Visa" [Super benefit with the Visa card], where customers receive a PLN 250 bonus, including a PLN 50 gift voucher to Żabka shops, for opening and actively using their account.

The Bank is continuing its special offer for citizens of Ukraine, under which the maintenance of Konto Przekorzystne, the operation of the account card and cash withdrawals from all ATMs in Poland and abroad (including Ukraine) are free of charge for a period of 24 months. In addition, outgoing transfers to banks in Ukraine and incoming transfers from banks in Ukraine are free until the end of the 2023. The bank promotes its products on one of the largest portals in Poland - ukrainianinpoland.pl

In H1 2023, Bank Pekao introduced a special offer for new holders of the Credit Card with a Bison, which allowed customers to gain as many as 64,000 points in the Bezcenne Chwile Mastercard [Priceless Moments Mastercard] Programme worth PLN 800.

For customers in the business segment, the bank has launched a new credit card sales process. The card is available as part of a multilimit, without unnecessary formalities on the basis of a prepared pre-limit, which positively influenced the increase in business credit card sales in H1 2023.

The bank has made an attractive gold debit card offer available to new customers. The card provides free cash withdrawals from all ATMs in Poland and abroad. Debit card payments abroad are converted at the Mastercard or Visa exchange rate. The bank does not charge any currency conversion commissions and thus the customer is guaranteed low exchange rates.

Bank Pekao's housing loan offering is continuously adapted to changing market conditions. In H1 2023, the offering was expanded to include, among other things, a residential mortgage and a construction and mortgage loan with a BGK guarantee, enabling customers to finance up to 100% of the value of the property, and a new, attractively priced life insurance offer.

In addition to this, at the beginning of July 2023, the bank introduced a 2% Safe Credit under the government's "Pierwsze Mieszkanie" [First Apartment] scheme. The programme has attracted strong customer interest, which represents the potential for further growth in housing loan sales in the coming months.

As part of the development of its loan offering this year, the bank began a partnership with Comperia, owner of the Comfino brand, running a payment gateway offering instalment loans for e-commerce.

In 2023, the investment product range has expanded to include the following products:

- Structured product with full capital protection on the redemption date in PLN: Certificate with Capital Protection Linked to Shares of BMW AG and Volkswagen AG for 1 year and 6 months in PLN issued by Goldman, Sachs & Co. Wertpapier GmbH;
- Structured products with full capital protection on the redemption date in EUR/USD: Two-year 100% Capital Protection Type Worst Of Bond linked to Carrefour SA and TotalEnergies SE Shares in EUR/USD, issued by SG Issuer,
- Structured product with full capital protection on the redemption date in PLN: Certificate with Capital Protection Linked to Shares of Walmart Inc. and Siemens AG for 1 year and 6 months in PLN issued by Goldman, Sachs & Co. Wertpapier GmbH;
- Two-Year Certificate with 100% Capital Protection Only at Maturity Worst Of Type Linked to NESTLE SA and HEINEKEN NV "European HIT" Shares;
- Two-year Worst Of Certificates Linked to Shares of L'Oreal SA and Roche Holding AG with Capital Protection Only at Maturity in EUR/USD;
- Certificate with Capital Protection Linked to Shares of BMW AG and Volkswagen AG for 1 year and 3 months in PLN issued by Goldman Sachs International.

For customers purchasing investment products via online applications, Bank Pekao has prepared preferential pricing conditions, actively encouraging customers to use remote channels for their day-to-day operations.

In Q1 2023, the bank introduced new solutions and capabilities in the PekaoBiznes24 e-banking: the messaging module was improved, the possibility of importing settlement instructions for securities transactions was introduced and an electronic application for micro-factoring was made available for SME customers, enabling customers to take advantage of the Pekao Factoring offer.

Since June 2023, Bank Pekao has enabled customers to open and maintain accounts for the Family Foundation. A family foundation is a new entity in Polish law, created with family businesses in mind and is intended to provide effective security for family assets and continuity in the operation of the business when the descendants of the entrepreneur are unwilling or unable to manage it directly.

In addition, the bank has enabled customers to open a WIRON-based Subsidiary Account to invest surplus funds, with a floating interest rate of 50% of the current index value, regardless of the amount of the balance in the account.

An overdraft facility at WIRON 1M Compound Rate was also made available to customers, which, in parallel with the WIBOR-based loans offered to date, can be made available either as new financing or as a continuation of current financing.

Subsequent products, based on the WIRON benchmark, will be made available to customers, according to an agreed timetable developed by the Steering Committee of the National Working Group.

Within corporate banking, the bank has signed an agreement with the National Chamber of Commerce to facilitate the international economic expansion of Polish entrepreneurs and support the development of Polish exports. In line with its assumptions, a number of joint activities have been launched that will translate into entrepreneurs' access to coordinated professional care, expertise and financial and non-financial solutions to support expansion into foreign markets.

Key projects financed by the bank in H1 2023 include, among others:

- granting a loan for the construction of a logistics centre in eastern Poland. Funding amounted to EUR 43 million;
- the provision of financing under a consortium agreement for a total amount of PLN 2.5 billion, linked to sustainable development for a company in the energy sector;
- the provision of working capital financing of PLN 80 million to an entity in the biofuel sector;
- participation in a consortium loan linked to the sustainability objectives of one of the largest groups in the media and telecommunications industry. Funding amounted to over PLN 10 million;
- the provision of investment funding for the construction of a wind farm in the amount of PLN 95 million. A project with a leader in the Polish energy industry;
- the provision of funding for the upgrade and expansion of the fibre optic network. A consortium loan of PLN 5.1 billion;
- the granting of a project finance loan in the form of a consortium of banks for a total amount of PLN 2.64 billion for the construction of a gas-steam unit.

In H1 2023, non-Treasury debt securities (companies, banks and local governments) were issued through the bank for a total amount of more than PLN 23.1 billion.

Pekao Bank has joined the international consortium that will finance the construction of a tramway line in Kraków under the public-private partnership formula. The European Investment Bank, the European Bank for Reconstruction and Development and the Polish Development Fund are also participants in the funding. The share of funding exceeds PLN 0.5 billion, and it is the largest project implemented under the public-private partnership formula in the area of urban public transport. The project is of strategic importance to the city of Kraków in terms of developing fast and low-emission urban transport.

Pekao TFI

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

As at the end of June 2023, the net asset value of Pekao TFI's investment funds (including ECSs) totalled PLN 21.4 billion, up by PLN 4.0 billion i.e. 22.9% compared to the corresponding period of 2022.

Alior Bank Group

The Alior Bank Group is headed by Alior Bank. Alior is a universal deposit and credit bank, providing services to natural persons, legal persons and other domestic and foreign entities. The bank's core business comprises maintaining bank accounts, granting cash loans, issuing bank securities and purchase and sale of foreign currencies. The bank also conducts brokerage activity, provides financial advisory and intermediation services, arranges corporate bond issues and provides other financial services. Alior Bank has been a part of the PZU Group since 2015.

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

At the end of 2022, Alior Bank was the 8th largest bank in Poland in terms of the value of its assets.

New products and services

The year 2022 was mostly dedicated to work on optimizing the existing and introducing new solutions for **Alior Online** and **Alior Mobile**. These efforts were correlated with the current strategy of Alior Bank and increasing revenue from the Internet and mobile channels. The bank continuously strives to improve the appeal of its flexible personal accounts offering by adding special options for key client segments (medical bundle, discounts and additional services for players).

In H1 2023, the Alior Mobile app and Alior Online internet banking underwent a number of changes regarding the appearance and handling of deposit and loan products, and further new functions were implemented. A new refreshed image of the start screen has been introduced at Alior Mobile. It shows not only the main product, but also two additional product cards, e.g. savings accounts. In addition, a "Shortcuts" widget was added where customers can add their most frequently used functions, e.g. for phone top-ups or the "My Bills" service.

As part of the continuation of the **Oferta dla graczy [Offer to Players]** , the option to change the background of the login screen has been made available. Currently, in the Alior Mobile app, the customer can choose from 6 wallpapers including a new gamer wallpaper - League of Legends. The option to select a new card image has also been introduced. This time, a gaming card featuring Yord's sorceress Lulu has been made available. The customer can order it from both Alior Online banking and the Alior Mobile application.

Within Alior Mobile for Alior Pay, a range of additional information has been made available to the customer about the limit and deferred transactions, as well as further operations on deferred and staggered transactions.

Until May 2023, Alior Bank offered the innovative “Deferred Loan”, which was made available last year and allowed the customer to repay the first instalment three months after concluding the agreement. This offer was additionally presented in a multi-channel marketing campaign at the beginning of the year.

The bank has also implemented a “Fixed Instalment Loan”. The loan can be used for any purpose. In an effort to ensure quality and appropriate customer contact with the bank in H1 2023, Alior Bank also released a new version of its mortgage simulators. Nowadays, using the simulators available on the website, the customer has the opportunity not only to simulate the mortgage himself, but also to leave a message that he is interested in the Bank's offer. In addition, customers have the option of requesting a contact from a specific facility.

The Bank has also adapted the offer of the “Megahipoteka” loan to the needs of customers by changing the term of the periodically fixed interest rate. The previous 7-year period for the periodically fixed interest rate was replaced by a 5-year period.

In Q2 of the year, Alior Bank worked intensively on its floating-rate loan offer based on the new WIRON benchmark and on the implementation of the government's First Housing and 2% Safe Loan programme.

Responding to the changes in the Clean Air Programme, the bank has made modifications to the cash loan application process. The loan can be allocated for purposes in line with the programme, e.g. for the replacement of old solid fuel heat sources.

In H1 2023, the offer for business customers was expanded with new products and services:

- FENG technology loan with a non-refundable technology bonus from Bank Gospodarstwa Kredytowego - up to 70% of eligible investment costs;
- a loan for Housing Associations and Cooperatives with a thermo-modernisation bonus of up to 31% and a renovation bonus of up to 25% (the thermo-modernisation bonus may be increased by a thermo-modernisation grant of 10% of the net investment costs). Funding can be used for the thermal modernisation of multi-family residential buildings across Poland;
- an environmental loan with a non-refundable premium from Bank Gospodarstwa Krajowego for partial repayment of financing - up to 80 per cent of the eligible investment costs;
- the possibility of financing flat-rate companies (for the current year and for the closed year) in a fast automatic process;
- the possibility of granting loans with a de minimis guarantee in euro;
- immediate posting to accounts of funds from closed deposits made at the cash desks of the Bank's branches. The limit for immediate posting is set on the basis of the client's average monthly cash deposit stream over the past 3 months and is set at between 60 and 80% of the deposit volume.

The bank has also implemented a state-of-the-art credit system with expert analyst assessment. The process is intuitive, has easy navigation and is as automated as possible. Thanks to the automatic retrieval of information from, among others, the CEiDG, REGON, KRS and BIK databases, the generation of a list of documents and clauses required to be fulfilled by the customer, the loan processing time was reduced.

In turn, companies making environmentally friendly investments were able to take advantage of the offer of financing:

- projects involving the thermal modernisation of buildings and the installation of sources of electricity and heat for own consumption,
- commercial photovoltaic and wind power plants that have received auction support - this proposal is aimed at SPVs and covers RES installations above 0.5 MW,
- projects that increase energy efficiency by modernising infrastructure and investing in new or improved products or processes (within the framework of a green loan with a BGK bonus).

Alior TFI

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

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

3.5.3. Factors, including threats and risks, that may affect banking business in H2 2023

Major risk factors include:

- the outlook for the economy, which will affect demand for banking products and changes in the cost of risk;
- the tax and regulatory environment, including in particular the existence of a tax on certain financial institutions, high equity requirements, contributions to Bank Guarantee Fund (BFG), costs of further adjustments to numerous regulatory solutions (e.g. MIFID II, GDPR, PSD II, MREL);
- one of the most important factors in terms of the institutional environment is still the issue of FX mortgage loans, as well as potential rulings by the Court of Justice of the European Union, the Supreme Court or other state institutions in this area;
- credit holiday and mortgage loans offered at 2% interest. The burden of the former was observed in Q3 2022, and this factor will remain present in 2023 as well. For each quarter of the year, borrowers will be entitled to one month of credit vacation. Mortgage loans with an interest rate of 2%, on the other hand, are a solution offered to people up to the age of 45 who do not have and have not had an apartment, house or cooperative right to an apartment or house. The maximum value of such a loan is PLN 500,000 for a single person and PLN 600,000 for a married couple or parents with a child. For 10 years of loan repayment, the government will subsidize the loan instalment, and the subsidy will cover the difference between the actual interest rate and the 2% offered;
- reform of the reference index, i.e., replacing the WIBOR index with WIRON.

3.6 Other areas

Changes in the structure of the PZU Group

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

In H1 2023 and up to the date of publication of this report, the following changes occurred in the structure of the PZU Group:

- on 1 January 2023, the liquidation of AQ was opened;
- on 14 March 2023, the company UAB "B10 biurai" was registered. The shares were subscribed for by Lietuvos Draudimas;
- on 14 March 2023, the company UAB "B10 apartamentai” was registered. The shares were subscribed for by Lietuvos Draudimas;
- on 31 May 2023, PZU Health acquired 100% of the shares in Boramed Centrum Medyczne, with its registered office in Warsaw;

Brief description of other PZU Group companies

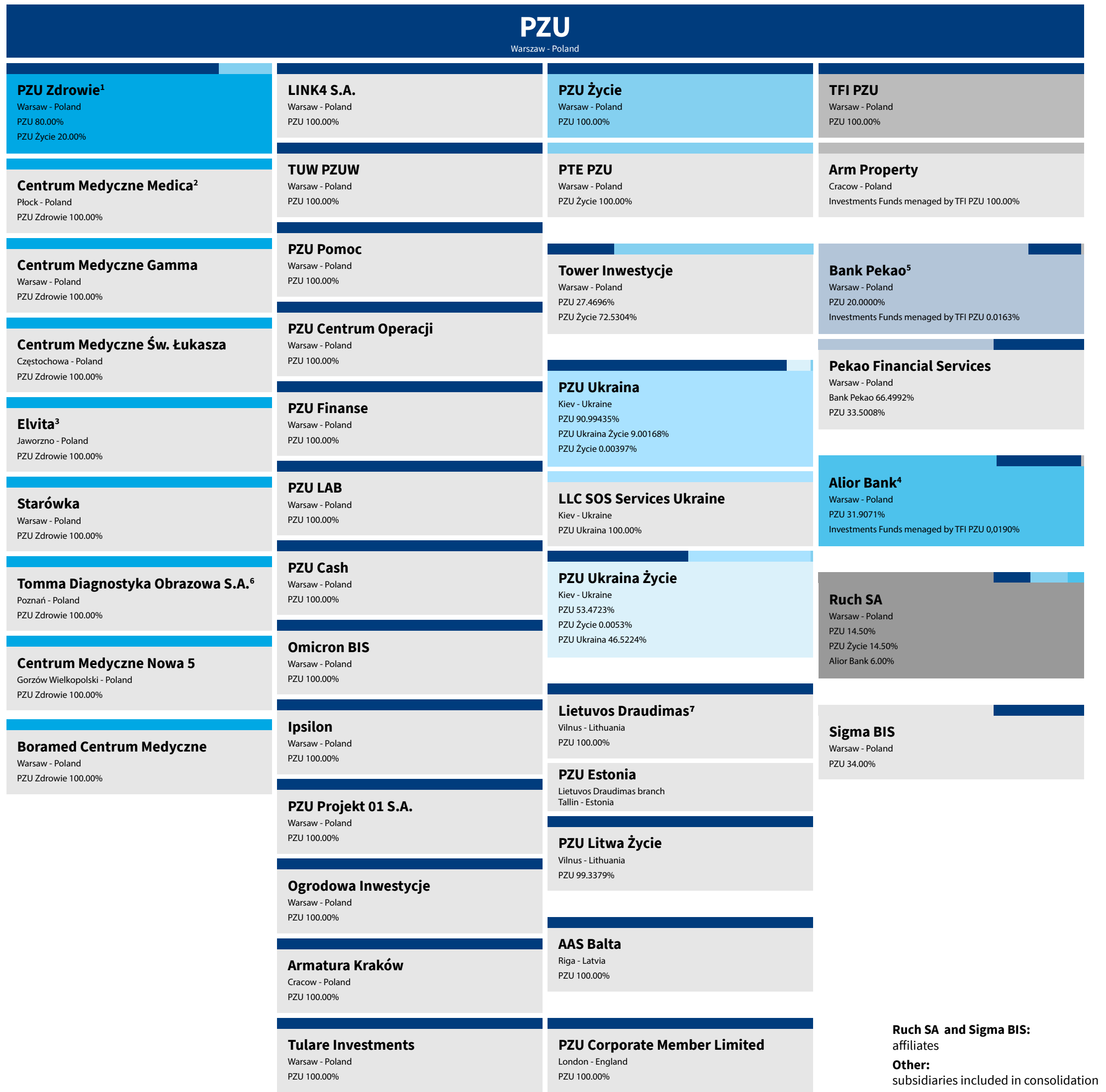
PZU Pomoc

PZU Pomoc provides auxiliary services to PZU Group companies:

- managing the PZU repair network – at the end of June 2023, the company cooperated with 849 repair shops;
- organizing motor assistance services for LINK4;
- conducting salvage auctions and sales after loss and damage incidents;
- supporting technical claims handling in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services);

3. Activity of the PZU Group

Structure of the PZU Group as of 30 June 2023



1) The following branches operate within PZU Zdrowie: CM FCM in Warsaw, CM Tarnów, CM Nasze Zdrowie in Warsaw, CM in Opole, CM Cordis in Poznań, CM in Warsaw, CM w Krakowie, CM in Poznań, CM in Wrocław, CM in Gdańsk, CM in Kielce, CM Warszawa Chmielna, CM in Radom, CM in Łódź.

2) The Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. with its registered office in Ciechocinek.

3) The Elvita Group consists of the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III Sp. z o.o., Przedsiębiorstwo Usług Medycznych PROELMED Sp. z o.o. with its registered office in Łaziska Górne.

4) The Alior Bank Group is composed of, among others: Alior Bank SA, Alior Services Sp. z o.o., Alior Leasing Sp. z o.o. (which holds 100% of the shares in AL Finance sp. z o.o. - until 5 August 2021 – Serwis Ubezpieczeniowy Sp. z o.o.), Meritum Services ICB SA, Alior TFI SA, Absource Sp. z o.o., CORSHAM Sp. z o.o., RBL_VC Sp. z o.o., RBL_VC sp. z o.o. ASI S.K.A.

5) The Bank Pekao Group is composed of, among others: Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing Sp. z o.o. (which holds 100% of shares in PEUF sp. z o.o.), Pekao Investment Banking SA, Pekao Faktoring Sp. z o.o., Centrum Kart SA, Pekao Financial Services Sp. z o.o., Pekao Direct Sp. z o.o. (until 16 January 2020 – Centrum Bankowości Bezpośredniej Sp. z o.o.), Pekao Investment Management SA (which holds 100% of shares in Pekao TFI SA), Krajowy Integrator Płatności SA.

6) The Tomma Group is composed of the following companies: Tomma Diagnostyka Obrazowa S.A., Bonus Diagnosta Sp. z o.o.

7) The Lietuvos Draudimas Group is composed of: UAB "B10 biurai", UAB "B10 apartamentai".

The structure chart does not include investment funds or companies in liquidation or under bankruptcy.

- managing the loyalty program, PZU Pomoc w Życiu Club - at the end of June 2023, over 2.2 million club members were able to take advantage of insurance discounts and products of cooperating companies (rebate programmes offered by partners);
- managing PZU Sport in the form of sports and recreation subscriptions, the PZU Benefits platform, and operating a loyalty program for individual shareholders of PZU called My PZU Shares.

PZU Cash

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

PZU LAB

PZU LAB is a company dedicated to advising and assisting in the implementation of all solutions to improve the security of PZU and TUW PZUW's strategic corporate clients.

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

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

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

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

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

PZU Centrum Operacji

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

PZU Finanse

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

Tower Inwestycje

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

The company carries out work on an office and service investment in a prestigious location in Wrocław, at 35 Oławska Street (Dominikański Square), on the site occupied for the last few decades by an office building belonging to PZU. This investment is partially intended for the PZU Group's needs and partially for lease.

Ogrodowa-Inwestycje

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

PZU Corporate Member Limited

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

3. Activity of the PZU Group

Armatura Kraków

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

The business of Armatura Kraków lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. It specializes in the manufacture of bathroom and kitchen taps, aluminium central heating radiators, a wide range of valves and sanitaryware.

4.

PZU Group Strategy in 2021-2024

Sustainable development, growth in key markets operations, high profitability and regular dividends are the PZU Group's most important goals until 2024.

4. PZU Group Strategy in 2021-2024

4.1. PZU Group Strategy in 2021-2024

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

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

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

Sustainable development was made an integral part of the Strategy in response to social and environmental challenges. The document presents directions for action in three areas:

- #Trusted Partner in green transformation – support of low carbon economy and sustainable transition;
- #Better quality of life – encouraging the society to lead sustainable and safe lifestyle;
- #Responsible organization – building a modern organization managed in a responsible manner.

With a sense of social responsibility, the Strategy also defines measures improving the situation of society as a whole in the areas of:

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

On 27 April 2023, the Management Board of PZU adopted and subsequently the Supervisory Board of PZU approved a document entitled "The impact of IFRS 17 implementation and changes in the macroeconomic environment on the indicators of the PZU Group Strategy for 2021–2024".

The International Financial Reporting Standard: IFRS 17 "Insurance Contracts", has been applicable to European insurance companies since 1 January 2023. Published five years ago by the International Accounting Standards Board (IASB), it replaced the IFRS 4 standard applicable until the end of 2022. The aim of the new standard is to introduce uniform principles of financial reporting of insurers, which will ensure greater comparability of statements between different insurance companies and better illustrate the impact of economic factors on the financial condition of their activities.

The implementation of IFRS 17 by PZU affected the method of presenting data in the financial statements and resulted in the need to update the key indicators of the applicable PZU Group Strategy for 2021-2024, which also took into account significant changes in the macroeconomic environment that have occurred since its development, in particular regarding the level of interest rates.

The impact of the new standard and changes in macroeconomic factors on the PZU Group Strategy indicators (as at 27 April 2023):

- **Gross insurance revenue higher than PLN 28 billion** - change in the KPI in connection with the IFRS 17 implementation; gross written premium (GWP) is replaced by a new measure - insurance revenue. The gross written premium will not be recognised directly in the profit and loss account. GPW will remain an observed financial measure.
- **Net profit attributable to the parent company's shareholders at a level of PLN 4.3 billion** - no impact of the change in the Standard on the shape of the measure (the value changes from PLN 3.4 billion to PLN 4.3 billion).
- **Adjusted return on equity – aROE at a level of 15.5%** - this is a new measure calculated on the basis of equity, excluding cumulative other comprehensive income on insurance activities (resulting from the effect of the impact of changes in the macroeconomic environment on the level of PZU Group's capital), which ensures a higher stability of the measure. The new measure replaces the former ROE measure determined at a level of 17.4%.
- **Revenue of PZU Zdrowie at a level of PLN 1.7 billion** - no impact of the change in the Standard, KPI remains unchanged.
- **Solvency II ratio at a level of at least 200%** - no impact of the change in the Standard, KPI remains unchanged.
- **Contribution of Pekao Bank and Alior Bank to the net result of the PZU Group at a level of PLN 1.0 billion** - no impact of the change in the Standard on the shape of the measure, the value changes from PLN 0.8 billion to PLN 1.0 billion as a consequence of strategy change in the the banking sector and changes in the macroeconomic environment.
- **Assets under management of TFI PZU, Pekao Towarzystwo Funduszy Inwestycyjnych SA and Alior Towarzystwo Funduszy Inwestycyjnych SA at a level of PLN 60 billion** - no impact of the change in the Standard, KPI remains unchanged.

The implementation of IFRS 17 has no impact on the PZU Group's strategy in the areas of products, distribution, pricing policy or the allocation of capital for the implementation of key business projects. All planned business projects remain unchanged.The PZU Group implements them in accordance with the schedules adopted. It also does not change anything in terms of sustaining the PZU Group's high ability to generate value and capital or maintaining its current dividend policy, which is attractive to shareholders.

4.2. Opportunities and challenges 2021+

The Strategy was adopted under very specific conditions following the COVID-19 pandemic. When it was announced, macroeconomic forecasts assumed a gradual recovery of the global economy. During this recovery period, consumption, investment, GDP are expected to rise, while unemployment should drop. The COVID-19 pandemic also caused significant social changes, materially influencing the components of the company's business model. In particular, the rise of remote working and remote sales channels was observed, coupled with deep changes in consumer behaviour and needs regarding digital and mobile solutions.

Macroeconomic challenges

It is worth noting the ongoing disinflation in recent months. According to Statistics Poland (GUS), inflation peaked in February 2023 at 18.4 %, and inflation in May 2023 stood at 13.0 %. Globally, the availability of components for production has been strongly improving, so that orders can be fulfilled faster. This reduces cost pressures in manufacturing companies and leads to a decrease in tensions at the interface between demand and supply. Disinflation in producer prices is progressing rapidly. In addition, the Polish zloty has appreciated. Nevertheless, the high consumer price index translates into rising costs of claims, both for repair materials and services, resulting in a decrease in profitability, above all, of communication products. The results of the banking sector will also be affected by the CJEU ruling on loans denominated in Swiss francs of June 2023, which is unfavourable to banks. .

War in Ukraine

Due to the ongoing war, safe conducting business in Ukraine has become impossible, while the implementation of the adopted strategy by the companies in Ukraine bears many risks. Interest in insurance is secondary in the light of the ongoing armed struggle and the suspension of operations by many companies.

Digitalization and digitization

The trend of technological development and digitization, which has been dominating in recent years, will continue to exist. It generates multiple possibilities which the PZU Group may exploit. As data analysis tools, machine learning, artificial intelligence, chatbots, virtual assistants, data mining are being developed and the possibilities of integrating sales channels (omnichannel approach) are emerging, the PZU Group will be able to meet clients' needs faster and better.

4. PZU Group Strategy in 2021-2024

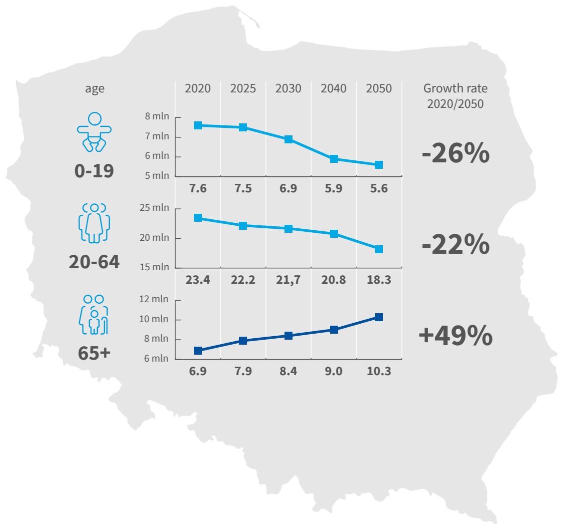
Better awareness of the environment and climate change impact

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

Demographic and social changes

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

Demographic and social changes



Source: Eurostat – Population projections (July 2020)

4.3. Strategic objectives

PZU Group Strategy in 2021-2024 identifies 4 main areas of ambition, in which the directions were set for strategic measures. In the chapter the description of individual areas is presented, taking into account the re-calibration of strategic measures of 27 April 2023.

Area I – Stable dividend and growing revenue

- **Maintaining growth in key business areas**

Insurance – maintaining the leading position and gross insurance revenue higher than PLN 28 billion.

Health– the fastest-growing company on the health care market; PZU Zdrowie revenues growth to PLN 1.7 billion, i.e. by 80%.

Investments – assets under management growth to PLN 60 billion, i.e. by 82%.

Banks– Alior Bank and Bank Pekao contribution growth to the Group's financial results to PLN 1.0 billion.

- **Maintaining cost discipline**

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

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

The Strategy assumes that with consistent measures carried out on all the markets where the PZU Group is present, at the end of 2024 it will be possible to generate the highest net result since the time when PZU went public of roughly PLN 4.3 billion.

- **Delivering high business profitability**

Maintaining and improving high profitability of business is an important part of the Group Strategy. The PZU Group plans to achieve the adjusted return on equity - aROE at a level of 15.5%. This is a new measure calculated on the basis of equity, excluding cumulative other comprehensive income on insurance activities (resulting from the effect of the impact of changes in the macroeconomic environment on the level of PZU Group's capital), which ensures a higher stability of the measure. This goal will be achieved as a result of a safe and sound business model predicated on business diversification, further streamlining of business, product and distribution processes.

- **Maintaining an attractive dividend policy**

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

Dividend policy in 2021-2024

Distribution of consolidated net profit in 2021-2024		Allocation of retained earnings
Disbursement of the annual dividend or retained earnings	≤ 20%	Capital possibly retained for organic growth and innovation purposes and implementation of growth initiatives
	≤ 30%	Achievement of the targets in the PZU Group's Strategy through mergers and acquisitions
Minimum level of dividend payout from consolidated profit	≥ 50%	

4. PZU Group Strategy in 2021-2024

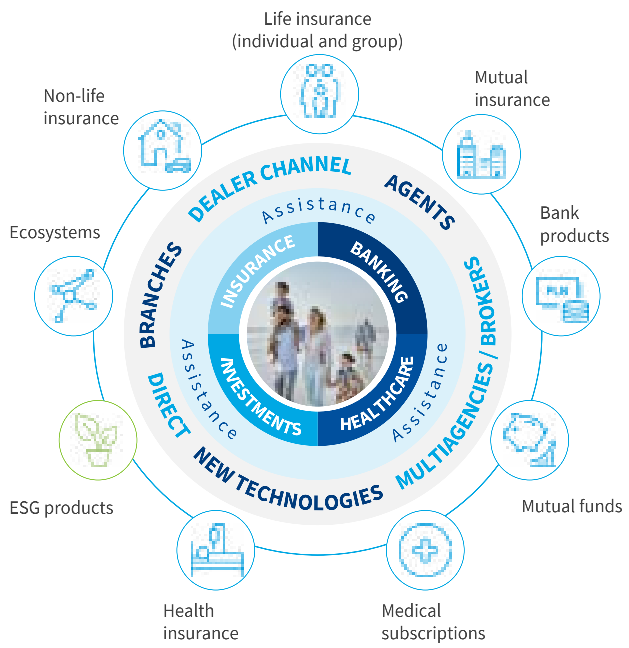
Area 2 – Leveraging the PZU Group's potential

- **Effective utilization of databases and knowledge of clients**

The PZU Group plans to use knowledge about its clients even more effectively. It will enable the Group to develop a top-quality offering responding to real client needs. By harnessing the potential of databases, it will be possible to personalize the offering, as well as provide coordinated care of relationship managers at each stage of the process and acquire new clients. The Group's strategic activities assume: harmonizing access to information sources and channels, rolling out analytical tools for machine learning and artificial intelligence, and incorporating them in our business processes.

- **Development of business collaboration with banks and strategic partners**

Together with Bank Pekao and Alior Bank, the PZU Group plans, within the time horizon of the strategy, to achieve cumulative gross written premium of about PLN 3 billion, by reaching the banks' clients with a comprehensive and unique offer of combined insurance and banking products. It plans to broaden the PZU Cash offer, strengthen the insurance position on the energy market and develop cooperation with strategic partners operating on the e-commerce market.



- **Utilisation of all distribution channels**

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

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

Recognition of damage on the basis of photos

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

Automatic data reading from documents

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

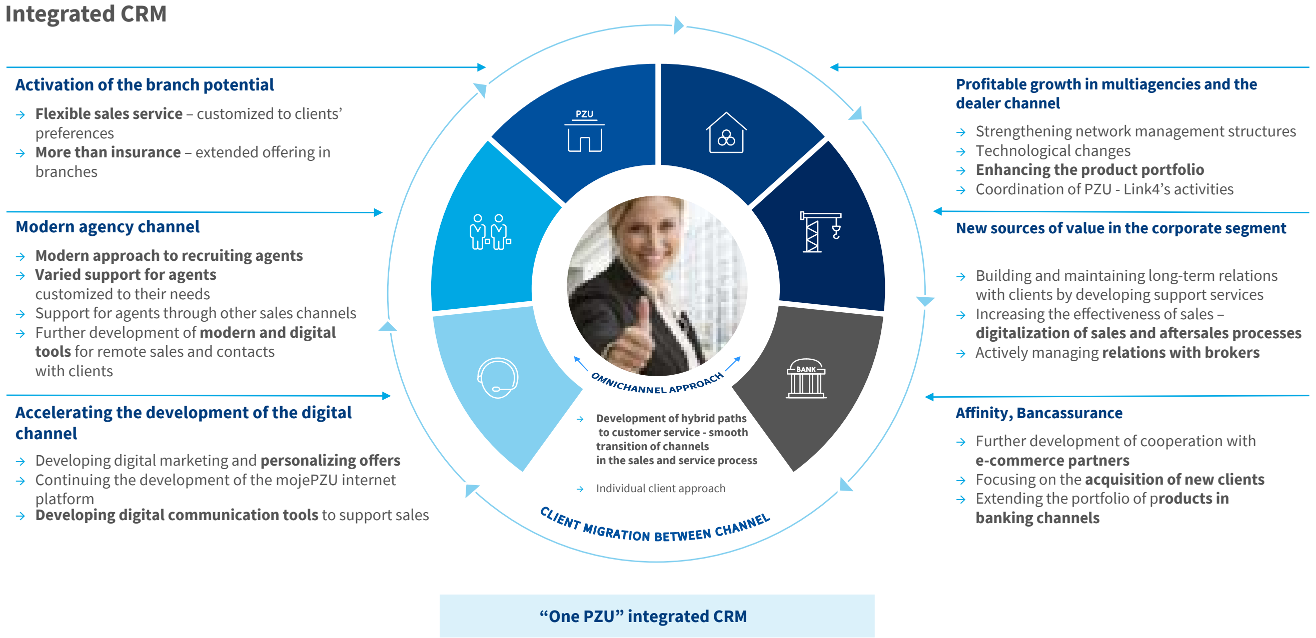
AI in the agent application

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

Using robots to search for a service provider

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

Integrated CRM



Anonymizing photos

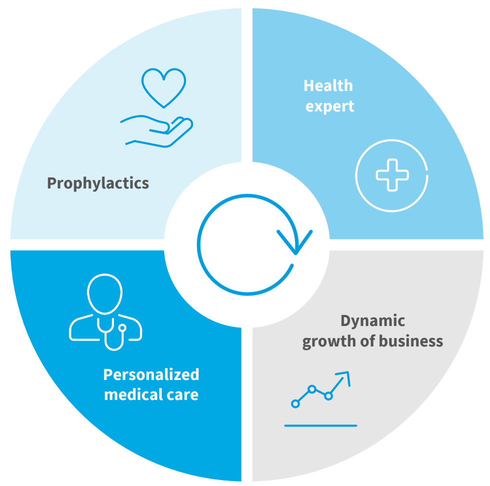
The model supports the process of preparing photos to put post-accident vehicles up for auction, thereby reducing the work done on manually handling photos.

Automatic segregation and classification of e-mails

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

- **New approach to health care in Poland**

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



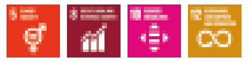
Area 3 – Innovative financial group

The PZU Group is developing the latest technologies in all areas of its activities:

- **digitalization and streamlining of processes** – continued implementation of solutions for clients that are simple, intuitive and universal;
- **use of AI, Big Data and advanced analytics** – implementation of new technologies should lead to improved operating efficiency and profitability of business, among others through automation and streamlining of decision-making processes;
- **mobility and omnichannel approach** –utilization of new digital distribution channels to supplement the traditional ones;
- **cloud computing** – support for technological transformation, including greater efficiency of the infrastructure;
- **cybersecurity** – protection of own IT networks; introduction of tools for estimating cybersecurity risk in the financial sector.

Area 4 – Sustainable growth

The results generated by the PZU Group place it in the top group of the most profitable institutions in Poland and Europe. However, the measures of the PZU Group's business success are not only its financial results, but also achieving them in a sustainable manner, which is the commitment assumed by the PZU Group towards its shareholders and clients. Fulfilling this commitment is possible because we do business with an eye to environmental conservation while showing our respect for social issues and acting in accordance with the best practices in corporate governance. The PZU Group understands that the

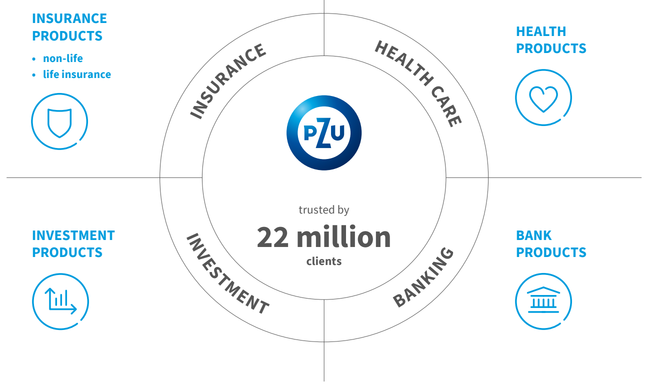
	#Responsible organization	#Trusted Partner in green transformation	#Better quality of life
	We build a modern organization, which is managed responsibly	We support the development of a low-emission economy, contributing to sustainable transformation	We encourage communities to adopt a sustainable and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

financial capital is not the only type of capital needed to do business and generate robust results; therefore, it puts natural, intellectual, human and social capital on an equal footing. The ESG "Balanced Growth" Strategy for the years 2021-2024 defines the ambitions of PZU and PZU Życie pertaining to environmental impact mitigation, corporate social responsibility and corporate governance. The key performance indicators of the ESG Strategy are an integral part of the PZU Group's strategy. The Group's companies have implemented selected elements of the ESG Strategy, adapting them to the specific context of their respective operations.

4.4. Strategy operationalization, selected achievements in H1 2023

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

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



In February 2023, new additional insurance was introduced for individually continued (IK) insurance clients - this is insurance against hospital treatment for heart attack, stroke or malignant tumour. Taking advantage of the current macroeconomic situation, PZU purchased bonds bearing favourable interest rates to secure provisions for unit-linked insurance and offered individual protection and unit-linked insurance with a higher profit share to customers. A product with guaranteed rate of return was also offered in Q1 2023 with another distributor, VeloBank S.A. At the beginning of 2023, PZU introduced Civil Liability for Environmental Damage, i.e. insurance that protects against third-party claims related to the environmental pollution caused by the customer. PZU has also implemented an innovative platform for comparing insurance coverage. The tool, introduced in cooperation with Danish insurtech, provides PZU with detailed comparative analyses of products available in the offerings of other insurers and enables it to effectively monitor changes in their offerings, mainly focusing on the range of products instead of their price.

- **Business support services**

The PZU Group is extending its offer for businesses to include support services, such as:

- risk management assistance through advisory services and implementation of advanced tools and
- providing an IT fleet management system (insurance administration, fleet risk management, advisory services, ongoing legal support for Polish international fleets).

PZU iFlota is available in the PZU offer - a modern vehicle fleet management system composed of three cooperating and complementary modules: (i) fleet management; (ii) insurance management; and (iii) safety management. The primary function of PZU iFlota is a possibility of fleet management with records of vehicles, drivers and various types of costs, as well as handling fuel cards and maintenance services, among other things. Furthermore, PZU iFlota also offers the option of insurance management, i.e. access to data on current policies and TPL and MOD claims, for the client and for the insurance intermediary, and reporting claims through the app. The third module is a preventive system aimed at improving fleet safety. The history and analyses of claims allow the fleet manager to obtain information on prevention activities that need to be undertaken to decrease the number and severity of claims. A new tool, PZU iFlota EV, has been introduced as part of the overall system aiming to electrify Polish fleets.In cooperation with VivaDrive, PZU is addressing the changing reality and facilitating the introduction of electric cars in Polish enterprises. The iFlota EV system provides comprehensive and professional assistance to reduce carbon emissions in the fleet. iFlota is able to guide the corporate client (insured with PZU) step by step through the process of introducing electric vehicles to the company and introduce the subject of their management. If the customer decides that electric cars are a good solution for them, iFlota (available on PZU's website), will offer calculations indicating how many of the company's fleet vehicles can be replaced by electric cars. The calculations will also show the savings that are possible to generate with this kind of investment, as well as what is most important - the reduction of the CO2 emissions in the enterprise.

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

By using the latest tools and new technologies, the PZU Group improves the management of relations with clients. For this purpose, it uses new analytical environments, which automate and support decision-making processes. Introduction of Interactive CRM will improve communication with the client and make sales processes more effective. Operational actions are also carried out between PZU and PZU Group banks, i.e., implementation of CRM campaigns for bank clients where banks were granted the marketing consent.

- **Developing modern business ecosystems**

The PZU Group wants to supply comprehensive solutions to help clients lead a healthy life and operate a sustainable business, provide medical care to their families or employees, protect their assets and help grow their assets, give them a feeling of stabilization and taking good care of their relatives regardless of what the future brings. The Group's goal is to develop business ecosystems, for institutional and individual clients

- **# Ecosystem – benefits**

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

The ecosystem consists of a set of advanced digital tools targeted at both employers and individual clients. As part of the Benefits Ecosystem clients receive:

- access to attractive third party offering;
- access to sport facilities within the PZU Sport subscription;
- a tool for digitalization of HR tasks, handling employee applications, animating employee communities, automation of internal document flow;
- a tool for management of subscription benefits: medical care, sport passes, etc., which creates a synergy with other areas of the PZU Group.

ECOSYSTEM BENEFITS

Convenient space to manage benefits unrelated to salary

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

Extensive offering of the PZU Group's benefits

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

Building a community

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

New to the market and attractive products

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

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

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

4. PZU Group Strategy in 2021-2024

- **# Ecosystem – drivers**

It is an extensive ecosystem that provides in-depth assistance, including support for buying or selling a car, vehicle health checks, possible repairs and legal assistance, discounts on services from Group partners, arranging a replacement car, among other things. All services are available in one place, through secure and user-friendly digital tools - the Non Stop Assistance Platform. The platform for drivers is available to anyone, even those without insurance. The latest services made available on the platform include: tire service, window service, towing and arranging a replacement car.

 # Ecosystem for Health

In the health area, the PZU Group offers services relating to healthy nutrition and physical activity, preventive medical testing and full medical care – in the form of insurance, subscriptions or for fee services. The system will include teleconsultations and remote patient monitoring and household treatment while at the same time giving all of the interested parties rapid direct access to physicians in PZU Zdrowie's proprietary outlet network that is constantly growing and undergoing integration. At the beginning of 2023, PZU Zdrowie took over Centrum Medyczne Nowa 5 in Gorzów Wielkopolski. The outlet provides care from more than 40 specialists and a wide range of rehabilitation. This is PZU Health's first proprietary outlet in the Lubuskie region. In 2023, PZU Zdrowie expanded its portfolio of telemedicine services with two new packages for the diagnosis and monitoring of heart rhythm disorders. The first to benefit will be the patients of the PZU Zdrowie Warsaw Stawki Medical Centre. The solutions will be provided by Telemedycyna Polska S.A. In 2023, PZU Zdrowie acquired 100% shares in Boramed which has two outlets in Warsaw and is a local leader in gynaecological and obstetric care. PZU Zdrowie has also signed an agreement with Vastint Poland, a developer, to lease space of 815 sqm in Gdynia. The medical operator will open a multi-specialist outlet there in the second half of 2023.

ECOSYSTEM FOR DRIVERS

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

- We will help **buy and sell** a car
- We will provide support **in financing purchases**
- We will provide **insurance products**

- We will check the vehicle's state of repair
- **We will organize its repair**
- We will provide legal support

- We will organize road assistance and a replacement vehicle
- We will propose a **repair workshop**

- We will remind clients of important dates
- We will made the **history of repairs** available

- We will prepare a **loyalty program**
- We will offer **additional discounts** on our partners' services

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




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

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

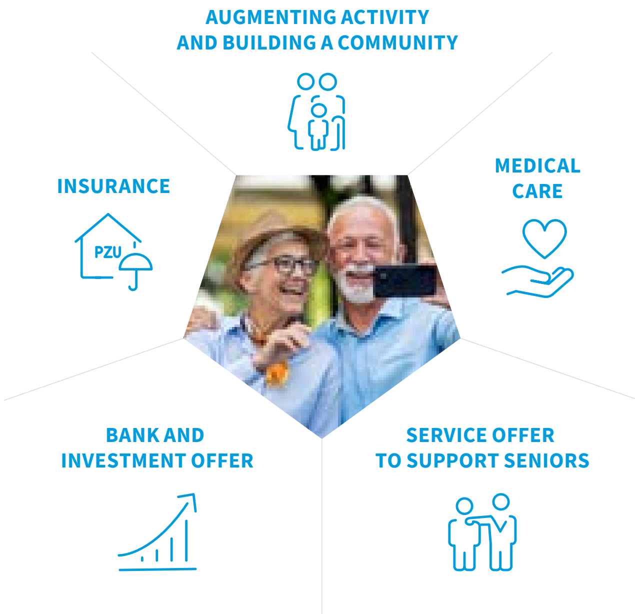
Not every driver is an expert in vehicle maintenance and that is why we want to provide support to him or her and act as a partner to care about comfort and safety

ECOSYSTEM FOR HEALTH

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

- **Special offer for seniors**

To address the challenges associated with demographic shifts, the PZU Group is introducing an offer to improve the well-being of seniors. The final offer will include the following: insurance corresponding to their expectations in terms of scope and sales and service channels, medical services with special emphasis placed on remote care at home and treatment in health spas, special safe bank and investment products and also a package of services to support seniors in their day-to-day life and community activities: ranging from assistance in travelling to see a physician, delivering medicines, organizing physical therapy, to household repairs or participation in sports classes and courses. The offer for seniors includes, among others, the "67+ Medical Package" to help adults take care of their health and take precautions in case it may deteriorate. In addition, we have introduced a new additional agreement to the Individual Continuation: insurance for hospital treatment of a heart attack, stroke or cancer.



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

In order to improve contacts with clients, the PZU Group takes measures to introduce a solution based on the omnichannel approach. It entails development of hybrid service paths in the service and sales process. Digitalization of sales and post-sales processes will ensure an increase of their efficiency and create a new channel for the activation of agents.

In 2023, PZU conducted a pilot project with the cux.io startup. The cux.io tool automates the work with the data and helps to formulate conclusions about the behaviour of website users at express speed. The algorithm translates emotions into figures, thereby enabling it to look at the business from the customer's perspective and detect places that can negatively affect conversion rates.

- **Leveraging the potential of PZU Group companies**

LINK4 – will generate a growth in the gross written premium of over 22% (up to PLN 1.3 billion) until 2024 thanks to, among others, further consistent digital transition. Analytics will be a source of growth and savings in marketing processes, sales, claims handling and better client management across all channels (omnichannel approach). This will also translate into an increase in LINK4's share in the TPL market to over 6 % and, as a consequence, an increase in the property insurance market share to approx. 3 %.

In H1 2023, LINK4 introduced video inspection for the purposes of MOD insurance, making the purchase of a policy simpler and more convenient. Vehicle inspections, which are required for MOD insurance in the direct channel, are already performed exclusively remotely.

At the end of H1 2023, the gross written premium of LINK4 amounted to PLN 0.6 billion.

TUW PZUW - will increase gross written premium by approx. 62% to about PLN 1 billion by 2024, which will translate into 2.3 % of additional market share for the PZU Group. The assumed increases will be achieved thanks to, among others, operating and cost efficiencies. New products will also be introduced, among others in the cybersecurity area.

Bank Pekao and Alior Bank – an increase in revenues from insurance and banking cooperation by approx. 200 % (during the term of the Strategy for 2021-2024) compared to the term of the previous Strategy (2017-2020). This means growth of the cumulative gross written premium in cooperation with banks up to approx. PLN 3 billion. This will be achieved by using the potential of the database of 22 million unique clients and providing them with extended comprehensive insurance and banking offer adapted to their needs, including, among others,

OMNICHANNEL APPROACH

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

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

motor, protection, credit, property, travel, leasing and group insurance.

In January 2023, Alior Bank's promotion for LINK4 motor insurance was launched, thanks to which the bank's customers can benefit from a discount of up to 13 % on the purchase of TPL or TPL/MOD insurance and buy ADD insurance at a promotional price. On the other hand, in June 2023, a promotional campaign of PZU and LINK4 motor insurance was launched at Bank Pekao . In addition, since April 2023, borrowers of mortgage loans at Bank Pekao can buy life insurance from PZU through remote channels: the PeoPay mobile app and Pekao24 internet banking.

- **Implementing new technologies in the claims and benefits handling process**

Through developing technologies such as artificial intelligence, robotization and big data, ultimately it will be possible to automate the claims and benefits handling process. Progress in this area will help satisfy client expectations and strengthen our competitive edge.

PZU was the first insurer in Poland to offer its clients innovative tools based on artificial intelligence (AI) to handle motor claims. The AI assistant prepares the initial repair cost estimate based on photos uploaded by the client via the app, which greatly enhances the claim estimation process. PZU used the AI assistance to handle over several thousands of motor claims amounting to several billion PLN.

In 2023, PZU set up a GPT Lab team to analyse and test generative artificial intelligence (GSI) in the operations of the company. GSI, represented by ChatGPT, enables the creation of contextual responses to questions and notifications. PZU intends to use this technology in a responsible and informed way.

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

The PZU Group keeps improving its claims and benefits handling procedures. Adapting to clients' new expectations will help ensure agile and friendly service processes. Access to an extensive vehicle repair network, an efficient service process and a quick disbursement of indemnification or benefits solidify the PZU Group's position as the most reliable insurer on the market.

Clients may use the mojePZU portal to, for example, purchase a policy, check their current insurance cover, report a claim and check its status, make a doctor's appointment. The service is continuously developed and supplemented with new functionalities and services, for instance, in sales of insurance products and renewals, handling claims and benefits, and in areas of health and investment.

At the end of H1 2023, the mojePZU portal was used by more than 3.7 million users.

- **Revolution in the private health care market**

The PZU Group wants to become a comprehensive medical advisor through a revolutionary approach to medical care. Owing to the Group's fresh and more proactive client relationship management model and improved sales of subscriptions and occupational medicine examinations (also in the form of telemedicine consultations), revenues will increase and relationships with clients will become even stronger. The Group's comprehensive offering of health insurance and related products within the Ecosystem for Health will help reach a greater number of individual clients. The Group's involvement in health education, active presence in social media and top quality of customer service improve awareness and image of the PZU Zdrowie brand. In addition to the implementation of the new model, the Group plans to cooperate with the external health care system and integrate its internal medical centres.

- **Further growth in the Baltic countries**

The PZU Group is committed to continuing organic growth in the Baltic countries. It also constantly monitors the market with an eye to attractive acquisition targets. The strategic objective is to maintain 8% of the PZU Group's overall growing written premium on international markets.

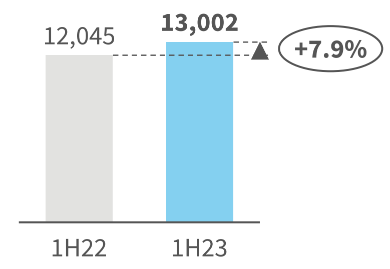
- **Sustainable development – ESG "Balanced Growth" Strategy**

As part of the adopted ESG Strategy, the PZU Group takes actions to strengthen its position as the leader and which comply with the principles of sustainable development. The PZU Group places environmental, climate and social factors on equal footing. PZU continues actions in 3 main areas (#organizational responsibility, #trusted partner in green transformation, #better quality of life).

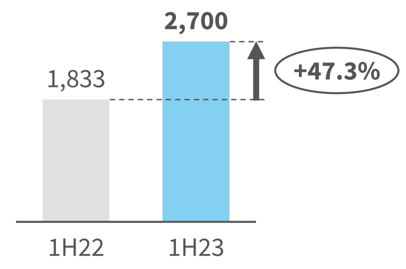
4.5. Indicators

Financial measures

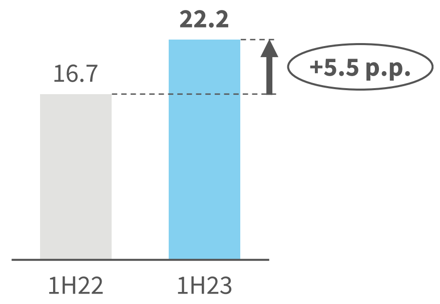
Gross insurance revenue (PLN m)[1]



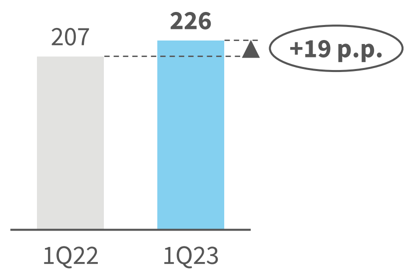
PZU Group net profit (PLN m)[2]



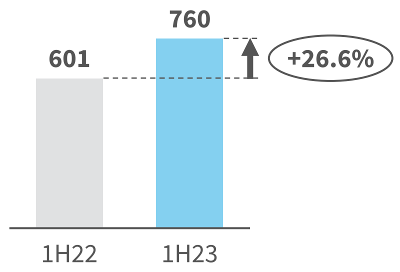
Adjusted return on equity aROE (%)



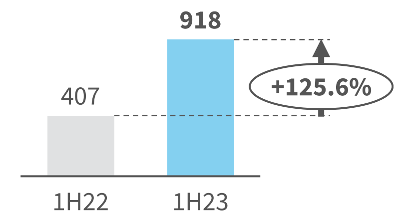
Solvency II ratio (%)



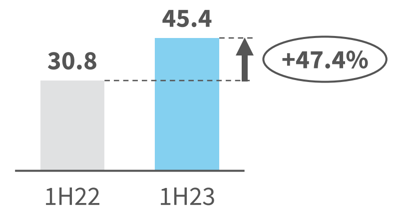
Health Pillar Revenue (PLN m)



Banks' contribution to PZU Group's net results (PLN m)[2]



Assets under management(PLN bn)[4]



1) PZU Group's gross insurance revenue.
2) Net profit attributable to the equity holders of the parent company.
3) Adjusted return on equity (aROE %). Calculated on the equity basis excluding other comprehensive income from insurance operations (being the impact of changes in the macroeconomic environment on the PZU Group's capital base).;
4) Data not subject to audit or auditor's review, indicator in accordance with the FSC circular letter to insurance companies dated 16.04.2021.
5) External client assets under the management of TFI PZU, Pekao TFI and Alior TFI.

4. PZU Group Strategy in 2021-2024

ESG indicators

Area	Target		Level of implementation 2022
#responsible organization	ESG goals in Senior Mgmt targets	Giving consideration to ESG targets in the Company's strategic objectives and handing them over for execution by Senior Management	ESG objectives included in the strategic objectives and communicated for implementation by management
	70%	The percentage of key processes of purchasing processes where ESG criteria were taken into account	46%
#Trusted Partner in green transformation	500 m	Increase of the current exposure in investments supporting climate and energy transformation by 500 m PLN in 2021-2024	PLN 716.7 m[1]
	55%	Assessment in terms of ESG factors 55% of largest corporate insurance clients From sectors sensitive to ESG risks	20%
	Scope 1 and 2	Reaching climate neutrality of own operations thanks to reduction of emissions, purchase of green energy and compensation of CO2 emissions	Reduction of CO2 emissions from own sources by 25.5% (location-based method). 81% of electricity contracted and purchased from RES. Offsetting 17,425 Mg of CO2 by purchase of CERs, UN Carbon Offset Platform (compensation for 2022)[2]
#lbetter quality of life	10-15 m	Number of recipients of social activities in the area of safety and sustainable lifestyle during the year	>12.2 m
	70%	Percentage of employees covered by the #Well-being program	> 32% employees taking advantage of #GoodStan offerings

1) Since 2021, PZU's and TFI PZU's commitment to investments supporting the climate-energy transition has increased by PLN 716.7 m

2) as at 30 June 2023

5.

Investment income

Return on equity attributable to the equity holders of the parent company (aROE) of 22.3%. The growth of profit attributable to the equity holders of the parent company up to PLN 2.72 billion. Income from insurance contracts greater by 7.9% y/y.

5. Investment income

5.1. Major factors having an impact on the financial results

In 1H 2023, net profit attributable to the shareholders of the PZU Group's parent company was PLN 2,700 million, compared to PLN 1,833 million in 1H 2023 (up 47.3%). Net profit reached PLN 5,836 million, i.e. 81.2% more than in the same period of 2022, and profit before tax stood at PLN 7,578 million compared to PLN 4,533 million the year before.

With the exclusion of non-recurring events[1], the net result rose by 39.8% compared to the last year.

Operating profit in 1H 2023 was PLN 7,574 million and was by PLN 66.5% greater than in the same period of 2022.

Operating profit was driven in particular by the following:

- the growth of profit from operating activities in the corporate property insurance segment as a result of an improvement in return on investments (the growth of revenue as a consequence of higher interest rates in Poland, as well as a higher level of assets to cover liabilities under insurance contracts) and the growth of net insurance service result (mainly due to a greater dynamics of sale of, in particular, MOD insurance);
- a higher result on operating activities in the segment of group and individually continued life insurance, mainly as a result of smaller claims and benefits due to a decrease in the mortality rates after the COVID-19 pandemic (due to the high and increasing average age of the policyholders the portfolio of group and individually continued life insurance was particularly vulnerable to the impact of increased mortality resulting from the pandemic and civilisation diseases);
- a greater result on operating activities in the segment of individual protective life insurance, mainly as a result of a movement in insurance finance income and expenses and a better insurance service result;
- lower profitability in the mass property insurance segment, including in particular motor insurance, partially limited by an improvement in return on investments that is allocated to the segment;
- an increase in the result of the segment of Baltic countries in connection with greater revenue from insurance contracts as a result of the growth of sales of motor and health insurance, partially compensated with higher liabilities for current year incurred claims and an increase in amortisation of acquisition expenses;
- an increase in the operating result in the investment segment due to greater revenue from money market instruments as a consequence of the growth of interest rates in Poland and an increase in income of the real property portfolio due to the growth of revenue from FX hedging instruments and revenue from rental;
- an increase in the result of banking activities, in particular due to the growth of interest result as a consequence of interest rate increases in 2022 and smaller mandatory charges to the BGF. Those effects were partially compensated with higher operating expenses of banks, mainly in the Bank Pekao Group due to the indexation of wages and greater real property maintenance costs and a higher provision for legal risk connected with foreign currency mortgage loans in Bank Pekao than in the previous year.

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

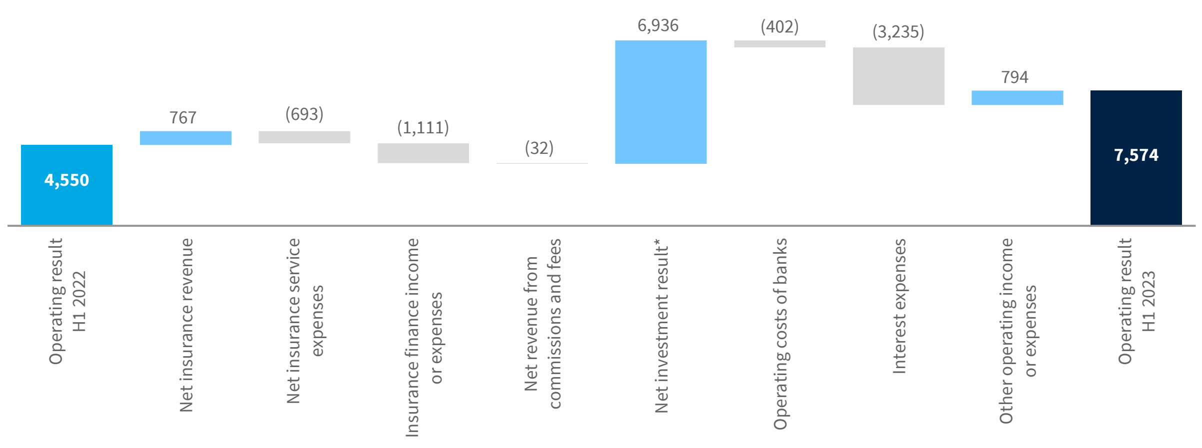
- an increase in insurance revenue by 7.9% up to PLN 13,002 million (+ PLN 767 million including the allocation of reinsurance premiums and a change in the reinsurer default risk), including the growth of amortisation of liability for remaining coverage (LRC) due to a greater rate of growth of sales, in particular the sales of MOD insurance (the growth of an average premium due to an increasing value of vehicles) and, to a smaller extent, TPL insurance (mainly in the portfolio of LINK4) and non-motor insurance in the segment of mass property insurance. Greater revenue recorded in the segment of Baltic countries due to the growth of sales of non-life insurance, including TPL and MOD motor insurance (due to the growth of tarrifs in the region), health and property insurance. The growth of revenue from insurance contracts also results from a higher (on a y/y basis) premium allocated to acquisition expenses in consequence of increasing sales and costs of commissions (a change in the structure of sales by channel);
- increased insurance service expenses, which amounted PLN 11,702 million, i.e. 18.4% more than in the same period of 2022. The expenses adjusted by amounts due from reinsurers increased by PLN 693 million and such a change resulted from:
  - greater administrative expenses of the insurance activity in the insurance segments in Poland in connection with the growth of HR costs and real property costs (indexation of prices of rental, utilities, costs of the new registered office and IT expenses related to group working tools),
  - the amortisation of insurance acquisition cash flows (the impact of a change in the structure of sales by channel);
  - greater liabilities for current year incurred claims, in particular in the segment of mass property insurance and in the Baltic companies, partially compensated with smaller claims and benefits in the segment of group and individually continued life insurance due a decrease in mortality after the COVID-19 pandemic;
  - the release of a greater surplus of net provisions for claims from previous years over the present projected value of payments (including the effect of the termination of the provision without payment in the contract guarantee of PLN 60.3 million in the corporate property insurance segment);
- income from investing activities greater by 102.5% without interest expenses and, by 67.1% with interest expenses[2] (increase from PLN 5,517 million to PLN 9,218 million). The growth included income from investments both in the banking and non-banking area. An increase in the result from banking activities was connected in particular with the growth of interest income of both banks due to a series of increases in interest rates in 2022 and smaller deductions for legal risks of mortgage loans in foreign currencies, which were established by Bank Pekao. At the same time, an increase in investment income was recorded, except for banking activities[3]. The investment income was higher than in 1H 2022 mainly due to the growth of investment income in the portfolio of assets held to cover investment products, as well as with regard to instruments based on a variable rate in consequence of increased interest rates in Poland. Higher investment results of the portfolio of assets held to cover the investment products do not affect the PZU Group's overall net result, because they are offset by insurance finance income and expenses;
- a decrease in net revenue from commissions and fees to PLN 1,854 million from PLN 1,886 million on a y/y basis, mainly to an increase in the cost of commissions from payment card transactions at banks;
- a movement in the negative balance of other operating income and expenses to PLN 1,516 million from PLN 2,310 million in 1H 2022. This resulted mainly from the non-recurring effects at banks in 1H 2022 in the form of the payment of PLN 636 million to the support fund in connection with the accession of Alior Bank and Bank Pekao to the Commercial Banks' Protection System. In addition, in 1H 2023, charges on account of payments to the Bank Guarantee Fund decreased by PLN 172 million.

1) Non-recurring events include: in 1H 2023 the provision established by Bank Pekao for legal risk of foreign currency mortgage loans and in 1H 2022 costs related to the accession of Alior Bank and the Bank Pekao to the Commercial Banks' Protection System; the provision established by Bank Pekao for legal risk of foreign currency mortgage loans, allowance for the impairment loss of financial assets and receivables in Ukrainian companies.

2) Including: interest income calculated using the effective interest rate, other net investment income, result on derecognition of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments, net movement in fair value of assets and liabilities measured at fair value, and interest expenses.

3) Banking activities: data of Bank Pekao and Alior Bank.

Operating result of the PZU Group in 1H 2023 (in PLN million)



5. Investment income

Basic amounts of the consolidated profit and loss account	1 January – 30 June 2022	1 January – 30 June 2023
	PLN million	PLN million
Profit (loss) from insurance services before reinsurance	2,161	1,300
Insurance revenue	12,045	13,002
Insurance service expenses	(9,884)	(11,702)
Income or expenses from reinsurance contracts held	(260)	675
Allocation of reinsurance premiums	(537)	(726)
Amounts recoverable from reinsurers	277	1,402
Change in reinsurer default risk	-	(1)
Insurance service result	1,901	1,975
Insurance finance income or expenses	231	(875)
Reinsurance finance income or expenses	18	13
Net revenue from commissions and fees	1,886	1,854
Net investment result*	6,768	13,704
Operating costs of banks	(2,693)	(3,095)
Interest expenses	(1,251)	(4,486)
Other operating income and expenses	(2,310)	(1,516)
Operating profit (loss)	4,550	7,574
Share of the net profit (loss) of entities measured by the equity method	(17)	4
Profit (loss) before tax	4,533	7,578
Income tax	(1,312)	(1,742)
Net profit (loss)	3,221	5,836
Profit (loss) after tax attributable to the equity holders of the parent company	1,833	2,700

*) Including: interest income calculated using the effective interest rate, other net investment income, result on derecognition of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value

5.2. PZU Group's income

Insurance revenue

In 1H 2023 the PZU Group's insurance revenue amounted PLN 13,002 million, i.e. 7.9% (PLN 957 million) more than in 1H 2022. This mostly resulted from:

- an increase of insurance revenue by PLN 449 million (+ 8.4% y/y to PLN 5,770 million) in the mass property insurance segment and by PLN 442 million including the allocation of reinsurance premiums, including the growth of amortisation of liability for remaining coverage (LRC) as a result of a greater rate of growth of sales, including in particular the sales of MOD insurance (an increase in an average premium) and to a smaller extent TPL insurance (mainly in the portfolio of LINK4) and non-motor insurance. The impact on the portfolio of MOD and TPL motor insurance was even greater due to an increase in the number of contracts, which resulted, among others, from an increase in the availability of vehicles in comparison with the previous year. The growth of revenue from insurance contracts also results from a higher (on a y/y basis) premium allocated to acquisition expenses in consequence of increasing sales and costs of commissions resulting from a change in the product mix and the structure of sales by channel;
- an increase by PLN 304 million (+18.4% y/y, to PLN 1,955 million) of revenue in the corporate property insurance segment, including amortisation of liability for remaining coverage (LRC) (+PLN 257 million), mainly as a result of an increase in the rate of growth of sales of MOD insurance. Taking into account the allocation of reinsurance premiums, the revenues increased by PLN 110 million. The growth of revenue from insurance contracts also results from a higher (on a y/y basis) premium allocated to acquisition expenses in consequence of increasing sales and costs of commissions resulting mainly from a change in the structure of sales by channel;
- an increase in insurance revenue in the segment of Baltic countries (growth of gross revenue by PLN 229 million y/y, growth of revenue including the allocation of reinsurance premiums by PLN 226 million) due to the growth of sales of non-life insurance, including TPL and MOD motor insurance (due to the growth of tarrifs in the region), health and property insurance;
- an increase in insurance revenue in the segment of individual protection insurance (by PLN 41 million y/y) as a result of a greater release of contractual service margin, which resulted from the lower mortality rates assumed for the calculation on the basis of observations
- a decrease in insurance revenue in the segment of group and individually continued life insurance (by PLN 29 million y/y) as a result of a lower level of premium necessary to cover expected claims and benefits, mainly due to the high level of expected claims in 2022, which was not reflected in the actual level of claims for one-year renewable group contracts. The movement in claims and benefits mainly resulted from a gradual return to lower mortality rates that were recorded before the COVID-19 pandemic, adequately to the frequency of deaths in Poland.

Net revenue from commissions and fees

In 1H 2023, net revenue from commissions and fees amounted PLN 1,854 million and was by PLN 32 million, i.e. 1.7%, smaller than the year before.

The revenue included primarily:

- net revenue from commissions and fees in the banking business of PLN 1,585 million, which was by PLN 27 million, i.e. 1.7%, smaller as compared to the previous year, mainly due to the growth of the cost of commissions for payment card transactions;
- revenue from pension insurance of PLN 69 million, which was by PLN 22 million, i.e. 24.2%, smaller as compared to the previous year, mainly due to revenue from the reserve account and the amount overpaid to the Guarantee Fund of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") recognised in 1H 2022;
- revenue and fees received from funds and mutual fund management companies of PLN 198 million, i.e. by PLN 17 million or 9.4%, higher than in 1H 2022.

Net investment result and interest expenses

Net investment result, including interest expenses, net of data from Bank Pekao and Alior Bank, was PLN 1,542 million in 1H 2023 in comparison with PLN 24 million in the corresponding period of the previous year. The growth by PLN 1,518 million resulted in particular from the result recorded in the portfolio of assets held to cover investment insurance, which does not have an impact on the total net result of the PZU Group because it is set off by insurance finance income and expenses.

At the same time, the Group recorded an increase in its results, excluding banking activities and the portfolio of assets held to cover investment insurance, in particular as a consequence of:

5. Investment income

Insurance segment (PLN million)	Insurance revenue	
	1 January – 30 June 2022	1 January – 30 June 2023
TOTAL	**12 045**	**13 002**
Total non-life insurance - Poland	**6,972**	**7,725**
Mass insurance - Poland	5,321	5,770
MTPL insurance	2,045	2,104
MOD insurance	1,367	1,590
Other products	1,909	2,076
Corporate insurance - Poland	1,651	1,955
MTPL insurance	323	323
MOD insurance	377	445
Other products	951	1,187
Total life insurance - Poland	**3,967**	**3,982**
Group insurance and individually continued insurance - Poland	3,672	3,643
Individual insurance - Poland	278	319
Investment insurance - Poland	17	20
Non-life insurance - Ukraine and Baltic countries	**1,057**	**1,252**
Ukraine - non-life insurance	111	80
Baltic countries - non-life insurance	946	1,172
Total life insurance - Ukraine and Baltic countries	**49**	**43**
Ukraine - life insurance	32	23
Baltic countries - life insurance	17	20

- the growth of revenue from money market instruments due to an increase in interest rates in Poland and assets;
- an increase in revenue from the corporate debt portfolio in connection with increased WIBOR rates;
- an increase in revenue from the property portfolio due to the growth of revenue from FX hedging instruments and revenue from rental.

The above increases were partially compensated with a weaker result from the Private Equity portfolio as a consequence of the adjustment of quotations in the private market to changes in the economic situation in the public market.

The growth of the investment result was accompanied by an increase in interest expenses by PLN 29 million y/y (+48.3% y/y) due to increased interest rates in Poland.

Result on other operating income and expenses

In 1H 2023 other operating income and expenses were negative and amounted PLN 1,516 million, compared to the negative balance of PLN 2,310 million in the same period of 2022. The balance change was caused by the following factors:

- the accession of Alior Bank and Bank Pekao to the Commercial Banks' Protection System in 1H 2022, which resulted in a contribution to the support fund of PLN 636 million, which was recognised in that period;
- in addition, in 1H 2023, payments to the Bank Guarantee Fund decreased by PLN 172 million and amounted PLN 249 million;
- higher levy on financial institutions, which in the case of PZU Group (insurance and banking activity in total) increased from PLN 709 million in 1H 2022 to PLN 741 million in 1H 2023, owing to the higher burden being attributable to the banking activity due to the increase in assets forming the taxable base (the rate of the levy did not change);
- a higher provision for legal risk related to foreign currency mortgage loans at Bank Pekao of PLN 132 million in comparison with PLN 111 million in 1H 2022.

5.3. Insurance service expenses of the PZU Group

Insurance service expenses amounted PLN 11,702 million, i.e. by 1,818 (18.4%) more than in the same period of the previous year. The expenses adjusted by amounts recoverable from reinsurers increased by PLN 693 million and such a change resulted from:

- in the segment of mass property insurance, greater liabilities for current year incurred claims, expenses, including the amortisation of acquisition expenses (the impact of an increasing share of the multiagency and dealer channel in the portfolio), a smaller use of the previous-year provision for claims;
- in the segment of corporate property insurance, greater y/y net liabilities for current year incurred claims and the amortisation of acquisition expenses, including the positive impact on the result of the previous-year provision for outstanding claims (the effect of the reversal of the provision without payout in the contractual guarantee of PLN 60.3 million);
- greater liabilities for current year incurred claims in the segment of Baltic countries as a result of the growth of the value of the portfolio, administrative expenses attributable to the insurance activities mainly due to increased HR costs and the amortisation of acquisition expenses;
- smaller claims and benefits in the segment of group and individually continued life insurance as a result of a decrease in the mortality rates after the COVID-19 pandemic (the portfolio is particularly exposed to the impact of increased mortality resulting from the pandemic and civilisation diseases: aging portfolio);
- the maintenance of the claims ratio of the current period and the amortisation of acquisition expenses in the segments of individual protection life insurance and investment insurance at the level similar to 1H 2022;
- greater administrative expenses of the insurance activity in the insurance segments in Poland in connection with the growth of HR costs and real property costs (indexation of prices of rental, utilities, costs of the new registered office and IT expenses related to group working tools).

5.4. Insurance finance income and expenses of the PZU Group

In 1H 2023 insurance finance income and expenses amounted minus PLN 875 million in comparison with PLN 231 million in 1H 2022 (including reinsurance finance income and expenses which amounted minus PLN 862 million and PLN 249 million, respectively). The expenses increased in particular as a result of the growth of the value of investments made at the policyholder's risk in investment insurance segment and the impact of changes in interest rates on the shorter discounting period effect.

5.5. Operating expenses of banks

In 1H 2023 operating expenses of banks amounted PLN 3,095 million in comparison with PLN 2,693 million in 1H 2022, which means that they increased by PLN 402 million y/y. The operating expenses increased in particular due to the indexation of wages and greater real property maintenance costs as a result of the growth of electricity prices and the minimum pay in Bank Pekao.

5.6. Drivers and atypical events affecting the results

In 1H 2023 the PZU Group's result was burdened due to the revaluation of a provision for loss in connection with foreign currency mortgage loans of Bank Pekao of PLN 106 million.

In the same period of the previous year, the PZU Group's result was burdened by non-recurring effects related to banking activities including:

- costs associated with the accession of Bank Pekao and Alior Bank to the Commercial Banks' Protection System of PLN 440 million and PLN 195 million respectively;
- the revaluation of the provision for legal risk related to foreign currency mortgage loans at Bank Pekao of PLN 419 million gross.

In addition, due to the Russian Federation's invasion of Ukraine on 24 February 2022, PZU's Management Board assessed the impact of this event on the PZU Group's operations, business continuity, financial position and going concern. As a result of this analysis and due to the downgrading of Ukraine's rating, the PZU Group decided to recognize write-downs in the consolidated income statement for H1 2022, mainly for financial assets and receivables. The impact of these write-downs on the PZU Group's consolidated net result reached PLN 94 million.

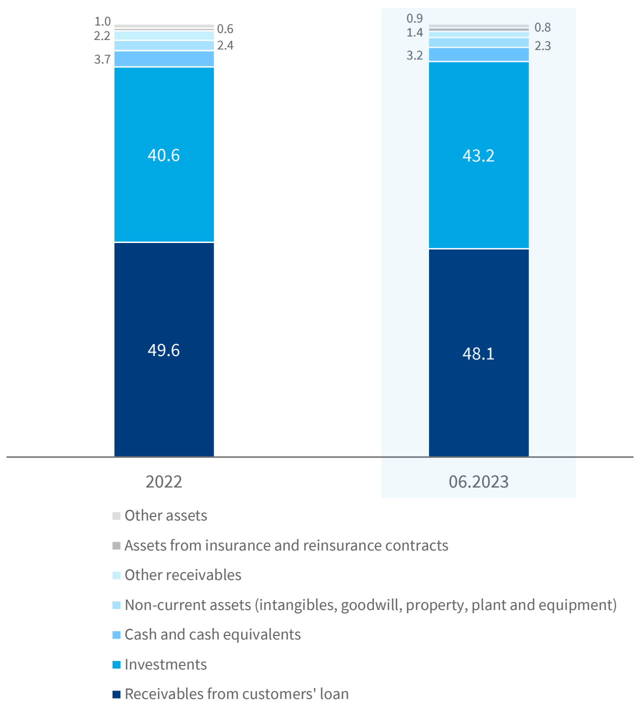
5.7. Structure of PZU Group's assets and liabilities

As at 30 June 2023, the PZU Group's total assets amounted PLN 441,529 million and were by PLN 12,351 million greater than as at the end of 2022.

Assets

Loan receivables from clients constituted 48.1% of the Group's assets (End of 2022: 49.6%). Those receivables reached PLN 212,510 million. They decreased in comparison with the end of 2022 by PLN 183 million mainly due to the decreasing amount

PZU Group's asset structure (in %)



of mortgage loans for retail clients partially compensated with the growth of factoring.

43.2% of assets (2022: 40.6%) included investments: investment financial assets, investment properties, derivatives and financial assets pledged as collateral for liabilities. In total, they amounted PLN 190,899 million and were by PLN 16,848 million greater than as at the end of the previous year. The increase in the value of investments was attributable in particular to Bank Pekao and was connected with an increase in the portfolio of debt securities. Net of the banking business, the investment portfolio increased compared to the level of the previous year, and changes in its balance are attributable to the generated investment result, and inflow of premiums driven by business growth.

2.3% of assets (2022: 2.4%) included non-current assets in the form of intangible assets, goodwill and property, plant and equipment. They amounted PLN 10,342 million and were by PLN 52 million smaller than as at the end of 2022. This decrease pertained to property, plant and equipment.

3.2% of assets (2022: 3.7%) included cash and cash equivalents. Cash and cash equivalents amounted PLN 14,152 million and were by PLN 1,808 million smaller than in the same period of the previous year. That mainly resulted from a decrease in funds kept in the Polish central bank by Bank Pekao.

1.4% of assets (2022: 2.2%) included the PZU Group's receivables, including current income tax receivables. They amounted PLN 6,068 million and were by PLN 3,351 million smaller than as at the end of 2022. Such a decrease resulted primarily from the smaller value of outstanding transactions on financial instruments.

0.1% of assets (2022: 0.2%) included assets held for sale. They decreased in 1H 2023 by PLN 23 million to PLN 631 million. It concerned mainly the properties held by real estate sector mutual funds as held for sale, since the expected investment horizon was reached.

Equity and liabilities

As at 30 June 2023, the PZU Group's consolidated equity amounted PLN 52,667 million, i.e. by PLN 4,149 million more than as at the end of 2022.

The value of non-controlling interests increased by PLN 3,611 million to PLN 25,874 million. This was driven by an increase in the value of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the result attributable to non-controlling shareholders of PLN 3,136 million (generated by Alior Bank and Bank Pekao).

Equity attributable to shareholders of the parent company increased by PLN 538 million to PLN 26,793 million. This is an effect of the net income earned in 1H 2023 and attributable to the parent company of PLN 2,700million and an increase in the value of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income partially compensated with a negative effect of changes in discount rates used to measure insurance liabilities in connection with a decreasing discount curve and the distribution of PZU's 2022 profit of PLN 1,637 million, increased by PLN 1,296 which was transferred from the supplementary capital established of the net profit of the year ended 31 December 2021, including the amount allocated to the payment of dividends of PLN 2,072 million.

65.3% of the Group's equity and liabilities as at 30 June 2023 included liabilities under deposits due to clients. They amounted PLN 288,245 million and were by PLN 10,187 million greater than as at the end of 2022. That resulted from an increase in term deposits of Bank Pekao and Alior Bank and overnight deposits of Bank Pekao.

As at 30 June 2023, the PZU Group's liabilities arising from its own debt securities amounted PLN 9,651 million, including:

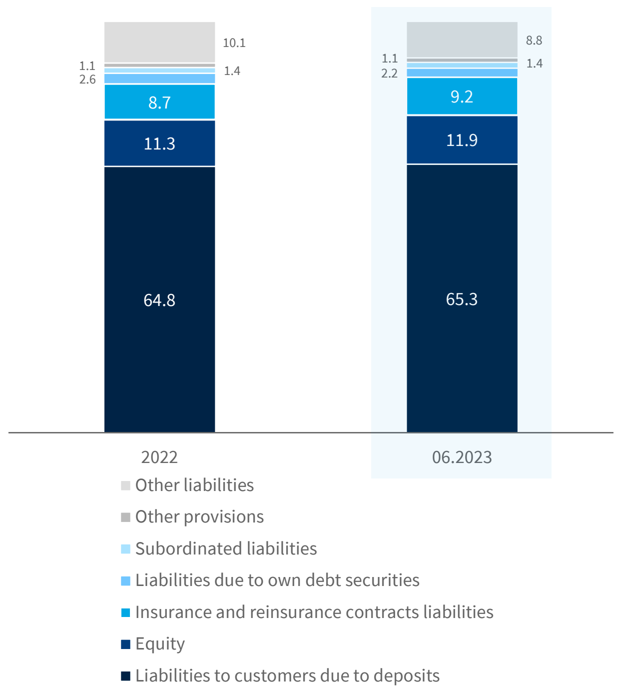
- PLN 7,188 million of bonds issued by Bank Pekao and Alior Bank;
- PLN 1,553 million of certificates of deposit issued by Bank Pekao and Alior Bank;
- PLN 910 million of covered bonds issued by Bank Pekao.

Subordinated liabilities of the PZU Group as at 30 June 2023 amounted PLN 6,176 million, which was close to the amount recorded as at the end of 2022.

Net insurance contract liabilities as at the end of 1H 2023 amounted PLN 40,781 million and constituted 9.2% of total equity and liabilities. Comparing to 31 December 2022, those liabilities increased by PLN 3,330 million. The growth resulted, among others, from an increase in BEL estimation for a claim of a high unit value, without greater impact on the result due to sufficient reinsurance coverage and an increase in the value of liabilities due to decreased interest rates.

4.0% of equity and liabilities as at the end of 1H 2023 included other liabilities of PLN 17,480 million. They were by PLN 2,855 million greater than as at the end of 2022. The balance of those liabilities changed in particular due to dividends payable to shareholders.

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



Cash flow statement

Net cash flows as at the end of 1H 2023 were PLN -1,641 million and decreased by PLN 12,021 million in comparison with the same period of the previous year. This drop was recorded in particular in cash flows from investment activities.

Material off-balance sheet items

As at 30 June 2023, the PZU Group's total contingent liabilities amounted PLN 74,613 million and were by PLN 6,063 million smaller than as at 31 December 2022. This was caused predominantly by:

- PLN 4,989 million of contingent liabilities for renewable limits in settlement accounts and credit cards;
- PLN 47,442 million of liabilities from loans and borrowings in tranches;
- PLN 8,768 million of liabilities in the form of guarantees and sureties granted by the Group;
- PLN 3,315 million of guarantees for the issue of securities;
- PLN 7,089 million of liabilities under factoring.

5.8. Contribution made by the market segments to the consolidated result

The following industry segments were identified in order to facilitate management of the PZU Group:

- corporate insurance (non-life insurance) – a wide range of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU and TUW PZUW;
- mass insurance (non-life insurance) – property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and LINK4;
- group and individually continued protection insurance (life insurance) - group insurance addressed by PZU Życie to groups of employees and other official groups (e.g. trade unions), pursuant to which persons under a legal relationship with the policyholder (e.g. the employer, the trade union) enter into the insurance agreement and individually continued insurance where a policyholder acquired the right to individual continuation during the group phase;
- individual protection insurance (life insurance) - insurance offered by PZU Życie to individual clients where the insurance agreement applies to a specific policyholder who is subject to individual underwriting;
- unit-linked life insurance where material insurance risk exists (investment agreements other than investment contracts);
- investments – the segment comprises investments of available funds, understood as the surplus of investment portfolio over the level allocated to cover insurance liabilities of PZU, and PZU Życie;
- pension insurance – the segment includes income and expenses of PZU OFE pension funds;
- banking – a broad range of banking products offered to corporate and retail clients by Bank Pekao and Alior Bank;
- Baltic countries – non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- Ukraine – non-life insurance and life insurance products provided in the territory of Ukraine;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract; these are some of the products with a guaranteed rate of return and in unit-linked form;
- other – consolidated companies that are not classified in any of the enumerated segments.

Corporate insurance

The result in the corporate insurance segment in H1 2023 was PLN 487 million, meaning that it was up by PLN 129 million, i.e., 36.0% compared to H1 2022. The improvement in the operating result was driven to a similar extent by an improvement in the investment income (+PLN 76 million y/y) and an increase in the net insurance service result (+PLN 64 million y/y).

The result was affected mainly by:

- **increase in revenue from insurance contracts** by PLN 304 million compared to H1 2022, i.e.: +18.4% y/y (PLN +110 million y/y including the allocation of reinsurance premium). As part of the revenue, an increase in the amortisation of liabilities (LRC) was recorded as a consequence of a higher sales growth mainly in MOD insurance and, to a lesser extent, in non-motor insurance. In MOD it mainly means the impact of the rise in the average premium as a consequence of a growing value of vehicles (which translates into an increase in sums insured). The effect was compounded by a higher availability of vehicles than a year ago and the consequent recovery in the leasing market, which translated into an increase in the number of contracts. The increase in LRC amortisation in non-motor insurance is mainly a consequence of portfolio growth, including the acquisition of several large contracts in H2 2022 and, to a lesser extent, in the current period. A higher level of revenue from insurance contracts is also the result of a higher y/y level of premium allocated for covering acquisition costs as a consequence of growing sales while commission costs increased, which mainly results from a change in the distribution of sales by channel;
- PLN 46 million y/y (+5.1% y/y) **higher level of net insurance service expenses** which, with the growth in revenue from insurance contracts by 9.1% y/y means an improvement in profitability measured by the combined ratio (COR) by 2.8p.p. The growth in net insurance service expenses results, among others, from:
  - higher costs, including acquisition and administrative expenses attributable to insurance activity. The increase in administrative expenses is mainly the result of higher personnel costs (as a result of wage increases) and property costs - indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools,
  - release of a higher net surplus of claim provisions from previous years over the current projected payout value (including the effect of the reversal of the provision without payout in the contractual guarantee of PLN 60.3 million);
- **increase** by PLN 76 million (+87.4% y/y) of **investment income** resulted in particular from a higher level of interest rates and a higher balance of assets to cover liabilities partly offset by an adverse impact of foreign exchange rate differences. At the level of the PZU Group's overall net result, this currency effect was partly offset by the changed level of insurance liabilities covered by foreign currency assets;

Result in the corporate insurance segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**1,651**	**1,955**	**18.4%**
Net insurance revenue	**1,207**	**1,317**	**9.1%**
Amortisation of liabilities for remaining coverage (PAA)	965	1,028	6.5%
Allocation of a part of premium related to recovery of acquisition costs	242	289	19.4%
(Net) insurance service expenses	**(907)**	**(953)**	**5.1%**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(593)	(593)	-
Administrative expenses	(71)	(93)	31.0%
Amortisation of loss component	58	91	56.9%
Establishing loss component	(59)	(68)	15.3%
Amortization of acquisition cash flows	(242)	(289)	19.4%
Change in reinsurer's risk of default	-	(1)	-
Insurance service result	**300**	**364**	**21.3%**
Insurance finance income and expenses	(29)	(40)	37.9%
Investment income	87	163	87.4%
Operating profit	**358**	**487**	**36.0%**
COR	**75.1%**	**72.4%**	**(2.8) p.p.**

- insurance **finance income or expenses** (taking including reinsurance) amounting to PLN -40 million, which means an increase in costs of PLN 11 million y/y, mainly as a consequence of interest rate change. Rising interest rates result in increasingly higher weighted average locked-in rates for discounting insurance liabilities at the initial recognition. As a consequence, the effect of "unwinding" the discount as a result of the over time is getting stronger.

In H1 2023, the segment recorded a loss of PLN 360 million from gross loss insurance services, which was affected by an increase of more than PLN 1.2 billion in the provision against previous years' claims in Q1 2023 (the occurrence of a claim with a customer from the fuel industry), but due to the high level of reinsurance (more than 98%) without a significant impact on the net insurance service result, which amounted to +PLN 364.0 million.

Mass insurance

The result in the mass insurance segment in H1 2023 **amounted to PLN 987 million**, PLN 49 million, i.e., 4.7% less compared to H1 2022. A lower profit results from the improvement in the investment income (PLN +44 million) and a decrease of net insurance service result (PLN -89 million).

The result was affected mainly by:

- **increase in revenue from insurance contracts** by PLN 449 million compared to H1 2022, i.e.: +8.4 y/y (PLN +442 million y/y including the allocation of reinsurance premium). As part of the revenue, an increase in the amortisation of liabilities (LRC) was recorded as a consequence of a higher sales growth in H2 2022 and, to a lesser extent, a current year premium - refers mainly to MOD and TPL insurance (primarily in the LINK4 portfolio) and to non-motor insurance. In MOD it mainly means the impact of the rise in the average premium as a consequence of a growing value of vehicles (which translates into an increase in sums insured) and a higher number of insurance contracts (the effect of a higher availability of vehicles than a year ago and, as a consequence,a recovery in the dealer channel and better adjustment of the offer to the risk). The increase in LRC amortisation in non-motor insurance mainly resulted from the growth of the PZU Dom, PZU Firma insurance portfolio, as well as the recovery of high sales growth in travel insurance and earning of premiums from long-term bancassurance despite the deceleration of current sales. A higher level of revenue from insurance contracts is also the result of a higher y/y level of premium allocated for covering acquisition costs as a consequence of growing sales while commission costs increased, which mainly results from a change in the mix of products and sales channels;
- PLN 531 million y/y (+12% y/y) **higher level of net insurance service expenses** which, with the growth in net revenue from insurance contracts by 8.4% y/y means an deterioration in profitability measured by the combined ratio (COR) by 2.8 p.p. The growth in net insurance service expenses results, among others, from:
  - higher y/y liabilities for current year claims and costs, including acquisition costs resulting from the increasing share of the multiagency and dealer channel in the portfolio and administrative costs attributable to the insurance activity. The increase in administrative expenses is mainly the result of higher personnel costs and property costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools),
  - recognition of a loss component for the 2023 cohort of contracts, including on the active reinsurance portfolio with the PZU Group companies representing the resulting increase in inflation of claims and an update of assumptions regarding the expected level of indirect costs. The total surplus of amortisation over the loss component amounted to PLN 39 million, thus maintaining positive results in both motor and non-motor insurance,
  - the release of a lower y/y surplus of net claim provisions of previous years over the current projected value of payouts;
- **increase** by PLN 44 million (+13.7% y/y) of **investment income** in relation to the comparable period of the previous year resulted in particular from a higher level of interest rates and a higher balance of assets to cover liabilities partly offset by an adverse impact of foreign exchange rate differences. At the level of the PZU Group's overall net result, this currency effect was partly offset by the changed level of insurance liabilities covered by foreign currency assets;
- Insurance **finance income or expenses** (taking into account reinsurance) amounted to PLN -123 million, which means a growth in costs by PLN 4 million y/y, mainly as a consequence of interest rate change.

Result in the mass insurance segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**5,321**	**5,770**	**8.4%**
Net insurance revenue	**5,252**	**5,694**	**8.4%**
Amortisation of liabilities for remaining coverage (PAA)	4,110	4,403	7.1%
Allocation of a part of premium related to recovery of acquisition costs	1,142	1,291	13.0%
(Net) insurance service expenses	**(4,418)**	**(4,949)**	**12.0%**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(2,908)	(3,272)	12.5%
Administrative expenses	(381)	(425)	11.5%
Amortisation of loss component	157	256	63.1%
Establishing loss component	(144)	(217)	50.7%
Amortisation of acquisition cash flows	(1,142)	(1,291)	13.0%
Change in reinsurer's risk of default	-	-	-
Insurance service result	**834**	**745**	**(10.7%)**
Insurance finance income and expenses	(119)	(123)	3.4%
Investment income	321	365	13.7%
Operating profit	**1,036**	**987**	**(4.7%)**
COR	**84.1%**	**86.9%**	**2.8 p.p.**

Group and individually continued insurance

In H1 2023, the group and individually continued insurance segment achieved **operating profit of PLN 713 million**, up by PLN 115 million, i.e. 19.2%, compared with the same period of the previous year. The result was affected mainly by:

- **a lower level of insurance revenue** representing the result of:
  - a lower y/y level of premium required to cover expected claims and benefits (PLN -137 million) due to the assumed high level of expected claims in 2022, which was not reflected in the actual level of realised claims (for annual renewable group contracts). The change in claims and benefits mainly results from a gradual recovery to lower mortality rates prior to the COVID-19 pandemic, corresponding to the frequency of deaths in Poland,
  - increase in revenues to cover rising acquisition costs (+5.8% y/y) due to the rising share of remuneration for intermediaries,
  - higher release of contractual service margin allocated to the first half of 2023 mainly due to lower expected mortality;
- **decrease in net insurance service expenses** by PLN 54 million y/y (-1.7% y/y), which, with a 0.8% decrease in net insurance contract revenues, represents a 0.8 p.p.

5. Investment income

improvement in profitability as measured by the ratio of insurance service result to insurance revenues. The decline in net insurance service expenses results, among others, from:

- lower claims and benefits as a result of a decline in mortality after the COVID-19 pandemic period. The group and individually continued insurance portfolio was particularly exposed to the impact of increased mortality induced by the pandemic and diseases of civilisation, due to the high and increasing average age of the insured,
- higher administrative expenses as a result of an increase in personnel costs as a result of wage increases) and property maintenance costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools),

- a PLN 118 million y/y **increase** (+40.3% y/y) in **investment income** is in particular the result of a rise in income from variable coupon instruments associated with the higher level of interest rates in Poland, particularly in the debt and money market portfolios, as well as a higher level of assets to cover liabilities;
- insurance **finance income or expenses** (taking into account reinsurance) amounting to PLN -249 million, which means an increase in costs by PLN 28 million y/y, mainly as a consequence of interest rate change.

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

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**3,672**	**3,643**	**(0.8%)**
Net insurance revenue	**3,672**	**3,643**	**(0.8%)**
Expected claims and benefits and costs (GMM, VFA)	3,126	3,032	(3.0%)
Release of contractual service margin (GMM, VFA)	518	600	15.8%
Other	28	11	(60.7%)
Insurance service expenses	**(3,146)**	**(3,092)**	**(1.7%)**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(2,589)	(2,463)	(4.9%)
Administrative expenses	(356)	(408)	14.6%
Release of loss component	240	187	(22.1%)
Establishing loss component	(235)	(190)	(19.1%)
Amortization of acquisition cash flows	(206)	(218)	5.8%
Insurance service result	**526**	**551**	**4.8%**
Insurance finance income and expenses	(221)	(249)	12.7%
Investment income	293	411	40.3%
Operating profit	**598**	**713**	**19.2%**
Margin of insurance activity	**16.3%**	**19.6%**	**3.3 p.p.**

Individual insurance

The **operating result** in the individual insurance segment in H1 2023 was **PLN 130 million**, up by PLN 59 million, i.e. 83.1%, compared with the same period of the previous year. It was primarily driven by a change in the level of finance income or expenses (PLN +37 million y/y), accompanied by an improvement in the insurance service result (PLN +23 million y/y) and balanced investment income allocated to the segment (PLN -1 million y/y).

Factors affecting the result included mainly:

- **higher level of insurance revenue** (PLN + 41 million y/y) being the resultant of:
  - higher y/y level of contractual service margin release, mainly as a consequence of the demographic changes observed (lower mortality) and updated assumptions, including lower morbidity rates;
  - lower premium written to cover acquisition costs with balanced levels of expected claims and benefits as a result of a decline in the bancassurance portfolio and a rise in life and endowment insurance (Type J) in own channels.
- **increase in net insurance service expenses** by PLN 18 million y/y (+9.8% y/y), which, with a 14.7% increase in net insurance contract revenues, represents a 2.8 p.p. improvement in profitability as measured by the ratio of insurance service result to insurance contract revenues. The growth in insurance service expenses results, among others, from:

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

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**278**	**319**	**14.7%**
Net insurance revenue	**278**	**319**	**14.7%**
Expected claims and benefits and costs (GMM, VFA)	223	214	(4.0%)
Release of contractual service margin (GMM, VFA)	66	97	47%
Other	(11)	8	(172.7%)
Insurance service expenses	**(183)**	**(201)**	**9.8%**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(45)	(47)	4.4%
Administrative expenses	(37)	(43)	16.2%
Release of loss component	13	5	(61.5%)
Establishing loss component	(12)	(16)	33.3%
Amortization of acquisition cash flows	(102)	(100)	(2.0%)
Insurance service result	**95**	**118**	**24.2%**
Insurance finance income and expenses	(82)	(45)	(45.1%)
Investment income	58	57	(1.7%)
Operating profit	**71**	**130**	**83.1%**
Margin of insurance activity	**25.5%**	**40.8%**	**15.2 p.p.**

- higher administrative expenses as a consequence of an increase in personnel costs and property maintenance costs,
- an increase in the loss component with a PLN -11 million y/y impact on the result as a cumulative effect of establishing a new loss component higher by PLN 4 million y/y and lower amortisation of the loss component for active cohorts of the previous periods, with a change on the result amounting to PLN -8 million y/y. The change is mainly a consequence of a slower amortisation of the loss component compared to the previous year;

- **the level of investment income** was slightly **lower** than in the comparable period of the previous year (PLN -1 million, or -1.7% y/y) as a consequence of the lower level of the portfolio assets to cover liabilities;
- insurance **finance income or expenses** (taking into account reinsurance) at a level of PLN -45 million, which means a decline in costs by PLN 37 million y/y, mainly as a consequence of non-recurring recognition of difference in the measurement of liabilities for products with discretionary profit share based on current rates and locked-in rates in the first quarter of 2022 as the first reporting period after transition date.

Unit-linked life insurance

In H1 2023, the unit-linked life insurance segment generated the operating income of PLN 20 million, marking a material rise compared to the corresponding period of the previous year. The y/y change is the result of increased sales of the new life and endowment insurance with guaranteed rate of return launched in H2 2022 and higher fees charged to customers as a consequence of lower value of unit-linked insurance funds.

Insurance result in the investment life insurance segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**17**	**20**	**17.6%**
Net insurance revenue	**17**	**20**	**17.6%**
Expected claims and benefits and costs (GMM, VFA)	0	1	-
Release of contractual service margin (GMM, VFA)	9	12	22.2%
Other	8	7	(12.5%)
Insurance service expenses	**(9)**	**(7)**	**(22.2%)**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(11)	(7)	(36.4%)
Administrative expenses	6	(3)	(150.0%)
Release of loss component	2	8	300.0%
Establishing loss component	(4)	(2)	(50.0%)
Amortization of acquisition cash flows	(2)	(3)	50.0%
Insurance service result	**8**	**13**	**62.5%**
Insurance finance income and expenses	676	(388)	(157.4%)
Investment income	(677)	395	(158.3%)
Operating profit	**7**	**20**	**185.7%**

The investment income amounted to PLN 395 million, against a negative level in the comparable period of the previous year (PLN -677 million), particularly in PPE and IKE products. However, the increase in net investment income does not affect the PZU Group's total net result, as it is offset by a change in the level of liabilities due to insurance contracts. (a y/y increase of PLN 1,064 million in insurance finance expenses).

Investments

The segment of investments comprises investments of available funds, understood as the surplus of investment portfolio over the level allocated to cover insurance liabilities of PZU, and PZU Życie. In H1 2023, the segment recorded an increase in investment income of PLN 78 million (+45% y/y) compared to H1 2022, as a result of:

- an increased level of income of the property portfolio driven by higher revenue on FX hedging instruments as well as rental income;
- higher result of the listed stock portfolio due to improved market conditions;
- an increase in income on money market instruments as a result of a higher level of interest rates in Poland;
- a higher yield on Treasury bonds as a result of a slowdown in last year's yield hikes;
- a negative result on the Private Equity portfolio as a result of the adjustment of private market valuations to changes in the public market;
- increased allocation to insurance segments.

The rise in investment income was accompanied by a PLN 47 million y/y (+70% y/y) higher level of interest expenses as a consequence of a higher level of interest rates in Poland.

Insurance result in the investment segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Investment income	175	253	78
Fee and commission income	41	48	7
Interest expenses	(67)	(114)	(47)
Other operating revenues and costs	(43)	(57)	(14)
Operating profit	**106**	**130**	**24**

Banking segment / banking activity

The operating profit in the banking segment (without amortization of intangible assets acquired as part of the bank acquisition transactions), composed of the Bank Pekao and Alior Bank groups, amounted to PLN 5,240 million in 2023 and was higher by PLN 2,663 million than one year before.

Bank Pekao's contribution to the PZU Group's operating profit in the banking segment (net of the amortization of intangible assets acquired as part of the acquisition transaction) was PLN 4,054 million, while Alior Bank's contribution was PLN 1,186 million.

Investment income, being the key component of the banking segment's revenue, increased to PLN 11,998 million (+81.9% y/y). It consists of interest and dividend income, trading result and result on impairment losses. The segment income was positively affected by higher interest income in the environment of interest rate hikes. In addition, as part of its interest income in the second quarter of the year, Bank Pekao recorded a non-recurring revenue of PLN 80.3 million in connection with the revaluation of provision related to the modification of agreements for PLN mortgage loans granted to consumers due to their suspension of loan repayments (the so-called credit vacations). The H1 2022 results were affected by the recognition of allowances for legal risk related to foreign currency mortgage loans.

The total portfolio of loan receivables in both banks decreased by PLN 0.2 billion (-0.1% y/y) at the end of H1 compared to the end of 2022. This was chiefly caused by an increase in receivables from clients on account of mortgage loans which find less interest in a high interest rate environment.

5. Investment income

The value of allowances for expected credit losses and impairment losses on financial instruments totalled PLN 397 million in Bank Pekao and PLN 412 million in Alior Bank, and was lower y/y by PLN 268 million and PLN 61 million, respectively. Such a significant decline in Bank Pekao is the result of an additional provision for the legal risk of foreign currency mortgage loans created in H1 2022 (the total provision amounted to PLN 419.3 million, the result of allowances was charged with the amount of PLN 308.7 million and PLN 110.6 million to other operating expenses).

The profitability measured by the net interest margin was 4.23% for Bank Pekao and was higher by 44 bps relative to H1 2022, while in Alior Bank it stood at 5.91%, i.e. 105 bps more than in the corresponding period of the previous year. The difference in the net interest margin level between Bank Pekao and Alior Bank resulted from the structure of the loan receivables portfolio. In both banks, the net interest margin increased due to a series of interest rate hikes continuing in 2022 which ended in H1 2023.

The fee and commission income in the banking segment decreased by 0.7% relative to the previous year and reached PLN 1,805 million. The main reasons for lower commission income included the adjustment of the offer to market conditions and a high margin on foreign currency transactions with clients in Bank Pekao in the previous year.

The segment banks' operating expenses increased to PLN 3,180 million, and were 13.0% higher compared to H1 2022. For Bank Pekao, they totalled PLN 2,275 million, and for Alior Bank – PLN 905 million. The increase resulted mainly from higher property maintenance costs due to increased energy prices and a rise of minimum wage in Bank Pekao.

In addition, other contributors to the operating result included other operating income and expenses, where the main components include the BFG fees (PLN 249 million) and the levy on other financial institutions (PLN 568 million).

The Cost/Income ratio was 32% for both banks (31% for Bank Pekao and 34% for Alior Bank), or 5.9 p.p. less than the year before. The improved value of the ratio was a consequence of income growing faster than costs. The increase in income was experienced chiefly in the area of interest income.

Pension insurance

The operating profit in the pension insurance segment in H1 2023 amounted to PLN 58 million, i.e., 31.0% less than in the comparable period of 2022.

Factors affecting the level of the operating result and its movement:

- a decrease in net fee and commission income to PLN 68 million due to the recognition of income from the reserve account (PLN 6.0 million) and income from the surcharge to the Guarantee Fund in the National Depository for Securities (KDPW) (PLN 16.5 million) in H1 2022;
- an increase in the negative balance of other operating income and expenses to PLN -19 million due to higher costs of fund operations (surcharge to the Guarantee Fund in KDPW in the amount of PLN 7 million);
- an increase in the investment result by PLN 5 million to PLN 9 million, due to the market interest rate hikes.

Operating result in the banking segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Investment income	6,597	11,998	5,401
Fee and commission income	1,817	1,805	(12)
Banks' operating expenses	(2,815)	(3,180)	(365)
Interest expenses	(1,191)	(4,397)	(3,206)
Other operating revenues and costs	(1,831)	(986)	845
Operating profit	**2,577**	**5,240**	**2,663**

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

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Investment income	4	9	5
Fee and commission income	91	68	(23)
Banks' operating expenses	-	-	-
Interest expenses	-	-	-
Other operating revenues and costs	(11)	(19)	(8)
Operating profit	**84**	**58**	**(26)**

Baltic countries

As part of its operations in the Baltic countries, the PZU Group offers non-life insurance and life insurance. Non-life insurance is provided by: Lietuvos Draudimas (LD) - the market leader in Lithuania, Balta - the market leader in Latvia and the LD branch in Estonia. Life insurance is sold through PZU LT GD in Lithuania.

The share in the Lithuanian non-life insurance market measured by gross written premium stood at 28.8% at the end of June 2023, while in life insurance it stood at 6.7% At the end of June, the PZU Group's share in the Estonian non-life insurance market reached 15.6% In the Latvian non-life insurance market at the end of March 2023, the share was 30.0%.

On account of its operations in the Baltic countries, the PZU Group generated operating result of PLN 177 million in H1 2023 compared with PLN 97 million at the end of June last year.

In H1 2023, revenues from insurance contracts increased by PLN 229 million, or +23.8% y/y, including allocated reinsurance premiums by PLN 226 million, compared with H1 2022. As part of its revenues, an increase in the amortisation of liabilities (LRC) was recorded as a consequence of a higher level of sales. Sales were up by PLN 255 million, generated in non-life insurance chiefly as a result of a considerable growth in sales of motor TPL and MOD insurance (+24.9% in the functional currency) as a result of growth of tariffs in the region, property insurance (+23.4% in the functional currency), among others, as a result of concluding new contracts of material value and health insurance (+41.4% in the functional currency) as a consequence of a higher number of policies. In life insurance, sales increased by PLN 3 million. A higher level of revenue from insurance contracts is also the result of a higher y/y level of premium allocated for covering acquisition costs as a consequence of growing sales.

The insurance service expenses adjusted for amounts due from reinsurers increased by PLN 152 million y/y (i.e. + 17.7%). The area of non-life insurance recorded a growth of PLN 148 million y/y (+17.4% y/y) which, with the growth in revenue from insurance contracts by 23.9% y/y means an improvement in profitability measured by the combined ratio (COR) by 4.7 p.p.

The growth in net insurance service expenses of the segment results, among others, from:

- higher y/y liabilities due to claims and benefits as a result of the growth in the portfolio value;
- the release of a lower y/y surplus of net claim provisions of previous years over the current projected value of payouts;
- change in the loss component with a PLN +4 million y/y impact on the result of insurance services as an effect of establishing a new loss component lower by PLN 32 million compared to the corresponding period of the previous year and a change of assumptions for active previous years' cohorts with an impact on the result amounting to PLN -28 million y/y;
- 18.9% y/y/ higher administrative expenses, mainly as a result of increased personnel costs. At the same time, the ratio of segment administrative expenses calculated against net insurance revenue fell by 0.4 p.p. to arrive at 10.7%;

5. Investment income

- PLN 32 million higher amortisation of acquisition cash flows. The acquisition cost ratio stood at 17.8% posting a y/y decline of 0.9 p.p.

Insurance finance income or expenses amounted to PLN -17 million, which means a growth in costs by PLN 41 million y/y, mainly as a consequence of interest rate change.

The rise in investment result relative to the comparable period of the previous year was due in particular to the increase in income from variable coupon instruments.

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

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**963**	**1,192**	**23.8%**
Net insurance revenue	**954**	**1,180**	**23.7%**
Amortization of liabilities for remaining coverage (PAA)	760	953	25.4%
Expected claims and benefits and costs (GMM, VFA)	9	9	0.0%
Release of contractual service margin (GMM, VFA)	6	7	16.7%
Release of adjustment due to non-financial risk (GMM, VFA)	1	1	0.0%
Allocation of a part of premium related to recovery of acquisition costs	178	210	18.0%
Other	-	-	x
(Net) insurance service expenses	**(861)**	**(1,013)**	**17.7%**
Claims and benefits (excluding the investment component), including the unwinding of claim provision of previous years	(571)	(675)	18.2%
Administrative expenses	(106)	(126)	18.9%
Release of loss component	104	76	(26.9)%
Establishing loss component	(110)	(78)	(29.1)%
Amortization of acquisition cash flows	(178)	(210)	18.0%
Insurance service result	**93**	**167**	**79.6%**
Insurance finance income and expenses	24	(17)	x
Investment income	(21)	26	x
Fee and commission income	1	1	0.0%
Operating profit	**97**	**177**	**82.5%**
Combined ratio (COR) for non-life insurance	**90.6%**	**85.9%**	**(4.7) p.p.**
Insurance activity margin for life insurance	**41.2%**	**25.0%**	**(16.2) p.p.**

Ukraine

As part of its operations in Ukraine, the PZU Group offers non-life insurance and life insurance through the following companies: PZU Ukraine and PZU Ukraine Life.

As a consequence of the outbreak of the war, operating activities have been limited by both companies since 24 February 2022. In the areas affected by the hostilities, all branches are closed. Customers can purchase selected insurance groups remotely. Sales take place both in the area of renewed and new insurance within three main business

Operating result in the Ukraine segment (in PLN m)

Profit and loss account (compliant with IFRS 17)	06.2022	06.2023	Change y/y
Gross insurance revenue	**143**	**103**	**(28.0)%**
Net insurance revenue	**128**	**103**	**(19.5)%**
Amortization of liabilities for remaining coverage (PAA)	83	65	(21.7)%
Expected claims and benefits and costs (GMM, VFA)	23	17	(26.1)%
Release of contractual service margin (GMM, VFA)	-	-	-
Release of adjustment due to non-financial risk (GMM, VFA)	-	-	
Allocation of a part of premium related to recovery of acquisition costs	22	21	(4.5)%
Other	-	-	-
Koszty (netto) usług ubezpieczenia	**(83)**	**(86)**	**3.6%**
Claims and benefits (excluding the investment component) including the unwinding of claim provision of previous years	(44)	(49)	11.4%
Administrative expenses	(17)	(16)	(5.9)%
Release of loss component	-	-	-
Establishing loss component	-	-	-
Amortization of acquisition cash flows	(22)	(21)	(4.5)%
Insurance service result	**45**	**17**	**(62.2)%**
Insurance finance income and expenses	-	-	-
Investment income	(78)	26	-
Fee and commission income	-	-	-
Operating profit	**(33)**	**43**	**-**
Combined ratio (COR) for non-life insurance	**49.5%**	**75.0%**	**25.5 p.p.**

lines: motor insurance MTPL, MOD and Green Card, property insurance and casualty insurance. In life insurance, the sale of new policies has been suspended since 1 March 2022; however, the sale of short-term products with limited risk in the banking channel has been resumed since June.

The share of the Ukrainian non-life insurance market measured by gross premiums written stood at 3.5% at the end of Q1 2023, in the life insurance market - at 8.4%.

The Ukraine segment closed H1 2023 with an operating result of PLN 43 million compared to a loss of PLN 33 million at the end of June last year.

In H1 2023, revenues from insurance contracts decreased by PLN 40 million, i.e. 28.0% y/y (-9.4% y/y in functional currency), including allocated reinsurance premiums by PLN 25 million, as a result of a decline in sales growth in H2 2022. The y/y sales decreased by PLN 5 million, or -4.3%, with an increase in functional currency by 158 million hryvnia, i.e. 20.4% y/y. In non-life insurance, sales increased by PLN 4 million, i.e. +4.5%, with a growth of 31.5% y/y in functional currency mainly as a result of higher sales of Green Card insurance (up 69.7% y/y), MTPL and MOD insurance (up 44.8% y/y in total) and health insurance (up 51.3% y/y). In life insurance, sales were down by PLN 9 million, i.e. 28.5% y/y, while in functional currency sales were down by 10.1% y/y.

Insurance service expenses adjusted for amounts due from reinsurers increased by PLN 3 million y/y, i.e. + 3.6% (+30.0% in functional currency). The growth in net insurance service expenses of the segment results, among others, from:

- higher y/y liabilities due to claims and benefits as a result of the growth in the portfolio value;
- decline in administrative expenses by 5.9% y/y (growth a 17.2% in functional currency). At the same time, the administrative expense ratio calculated against net insurance revenue increased by 2.3 p.p. to the level of 15.5%;
- PLN 1 million lower amortization of acquisition cash flows (an increase of UAH 29 million in functional currency, i.e. +19.2% y/y). The acquisition expense ratio increased by 3.2 p.p. to 20.4%.

The investment result stood at PLN 26 million and was PLN 104 million y/y higher.

Investment contracts

Segment includes PZU Życie products that do not transfer material insurance risk within the meaning of IFRS 17 and do not satisfy the definition of insurance contract; these are some of the products with a guaranteed rate of return and in unit-linked form. These products are recognized in accordance with the requirements of IFRS 9.

In H1 2023 the investment contract segment marketed the PZU Stabilne Jutro life and endowment insurance.

The operating result in the investment contracts segment in H1 2023 amounted to PLN 3 million and maintained at a constant level y/y.

Alternative Performance Measures

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

The profitability and operational efficiency indicators presented herein, constituting standard measures applied generally in financial analysis, provide, in the opinion of the Management Board, significant additional information about the PZU Group's financial performance. Their usefulness was analysed in terms of information, delivered to the investors, regarding the Group's financial standing and financial performance.

Profitability indicators

To facilitate the analysis of PZU Group's profitability, such indicators were selected that best describe this profitability in the opinion of the Management Board.

The return on equity (ROE), the adjusted return on equity (aROE) and the return on assets (ROA) indicate the degree to which the Company is capable of generating profit when using its resources, i.e. equity or assets. They belong to the most frequently applied indicators in the analysis of profitability of companies and groups regardless of the sector in which they operate.

Return on equity (ROE) is a measure of profitability. It allows for an assessment of the degree to which the company multiplies the funds entrusted to it by the owners (investors). This is a ratio of the generated profit to the equity held, i.e. financial resources at the Group's disposal for an indefinite term which were contributed to the enterprise by its owners. In the case of the PZU Group, the value of net profit and equity differ considerably depending on whether they are provided excluding or including the profit/equity of minority shareholders. Therefore, both return on equity (ROE) – attributable to equity holders of the parent, and return on equity (ROE) – consolidated, without excluding profit and equity attributable to non-controlling shareholders, are presented. In addition, the PZU Group presents the adjusted return on equity (aROE), calculated on an equity basis excluding accumulated other comprehensive income relating to insurance and reinsurance finance income or expenses (representing the impact of changes in the macroeconomic environment on the PZU Group's equity), which provides greater stability to the measure.

Return on assets (ROA) reflects their capability of generating profit. This indicator specifies the amount of net profit attributable to a unit of financing sources engaged in the company's assets.

Return on equity attributable to equity holders of the parent (PZU) for H1 2023 amounted to 20.4% and the aROE - to 22.2% At the same time, they were respectively 4.4 p.p. and 5.5 p.p. higher than the ratios achieved in the corresponding period of the previous year, which stemmed primarily from the higher results in the banking segment supported by the increased result in insurance services.

Return on assets (ROA) of the PZU Group for H1 2023 was 2.7%, i.e. 1.1 p.p. higher than in H1 2022. This was caused in particular by improved results in the banking segment due to an increase in interest income and last year's non-recurring effects charged to the banks' results in the corresponding period of 2022, including:

- costs associated with the accession of Bank Pekao and Alior Bank to the Commercial Banks' Protection System in the gross amount of PLN 636 million;
- updating the provision for legal risk related to foreign currency mortgage loans at Bank Pekao in the gross amount of PLN 419 million (the current period result charged with the amount of PLN 106 million on this account).

Operational efficiency ratios

To facilitate the analysis of the PZU Group's performance, such indicators were selected, that, in the opinion of the Management Board, best describe performance in the case of insurance companies and those pursuing banking activity. Some indicators refer the costs of pursuit of insurance activity to premiums, hence reflect which portion of the premium was allocated to costs and which portion – to margin. For the banking activity, the Cost/Income (C/I) ratio was selected as the relation which best reflects the performance of this area of the activity in the opinion of the Management Board. All indicators are widely applied by other companies from the corresponding sectors and by investors and serve an analysis of efficiency and profitability of these companies.

One of the fundamental measures of operational efficiency and performance of an insurance company is COR (Combined Ratio) calculated, due to its specific nature, for the non-life

Basic performance indicators of the PZU Group	1 January – 30 June 2022	1 January – 30 June 2023
Adjusted Return on Equity (aROE) - attributable to the parent company *(annualized net profit / average shareholders' equity excluding other accumulated total income related to insurance and reinsurance finance income and expenses) x 100%*	16.7%	22.2%
Return on equity (ROE) - attributable to the parent company *(annualized net profit / average shareholders' equity) x 100%*	16.0%	20.4%
Return on equity (ROE) - consolidated *(annualized net profit / average shareholders' equity) x 100%*	14.4%	23.1%
Return on assets (ROA) *(annualized net profit / average assets) x 100%*	1.6%	2.7%

5. Investment income

insurance sector (Section II) This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the earned premium for a given period.

The combined ratio (for non-life insurance) of the PZU Group has been maintained at a low level ensuring high profitability of business.

In H1 2023, it stood at 84.7%, 1.2 p.p. higher than in the corresponding period of 2022, driven in particular by higher administrative expenses attributable to the insurance activities in the Polish insurance business segments due to an increase in personnel and property maintenance costs as well as higher amortisation of acquisition cash flows (impact of the growing share of the multiagency and dealer channel in the portfolio).

Operating profit margin in life insurance is also an important indicator, i.e. the profitability of life insurance segments calculated as the ratio of the result on operating activity to net insurance revenue. In H1 2023, the indicator reached 21.9%, and its increase by 6.0 p.p. in comparison to the corresponding period of 2022 was in particular associated with a lower claim and benefit ratio in group and individually continued life insurance as a consequence of a decline in mortality following the COVID-19 pandemic.

As regards banking activities, efficiency is measured by the cost to income ratio, i.e. the quotient of administrative expenses and the sum of operating income, excluding the BFG charge, the levy on other financial institutions and the movements in allowances for expected credit losses and impairment losses on financial instruments. In H1 2023, the cost to income ratio in the PZU Group's banking business reached 31.7%, and was lower than in the corresponding period of 2022 by 5.9 p.p. It was the result of the rate of growth in income surpassing that in costs. The increase in income was experienced chiefly in the area of interest income of both banks as a result of a series of interest rate hikes.

	Operational efficiency ratios	1 January – 30 June 2022	1 January – 30 June 2023
1	**Administrative expense ratio for insurance segments** *(administrative expenses / net insurance revenue) x 100%*	8.4%	9.1%
2	**Combined ratio in non-life insurance** *(net insurance service expenses / net insurance revenue)*	83.5%	84.7%
3	**Operating profit margin in life insurance** *(operating profit / net insurance revenue) x 100%*	15.9%	21.9%
4	**Cost/income ratio – banking activity**	37.5%	31.7%

6.

Risk management

We put a lot of effort in to constantly developing advanced risk management procedures. They are of fundamental significance to us. It is important for us that our clients have peace of mind and feel safe with us and the Group's results remain predictable.

6. Risk management

6.1. Objective of risk management

Risk management in the PZU Group aims to build value for all stakeholders. It involves active and deliberate management of the quantum of risk accepted. The essence of this process also involves preventing the acceptance of risk at a level that could pose a threat to the financial stability of the PZU Group or the PZU Financial Conglomerate.

Risk management in the PZU Group consists in analysing risk in all processes and units and therefore is an integral part of the management process.

The main elements of the PZU Group's risk management system have been implemented to ensure sectoral consistency and the execution of the various entities' strategic plans and the overall PZU Group's business objectives. These elements include, among others:

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- allocation of competences in the risk management process, in which the Management Boards and Supervisory Boards of the entities and appointed committees play a key role.

Entities from the financial sector are additionally obligated to apply standards appropriate for their respective sector. Their internal regulations refer to, among others:

- processes, methods and procedures facilitating risk measurement and management;
- distribution of responsibilities in the risk management process;
- scope and conditions and the frequency of risk management reporting.

PZU exercises supervision over the entire PZU Group's risk management system. This is based on mutual cooperation agreements entered into with the subsidiaries and the information provided thereunder. PZU manages risk at the Group level on an aggregate basis, especially with respect to capital requirements.

In addition, PZU, as a leading entity, manages risk concentration on the level of the whole PZU Financial Conglomerate. It also defines the risk concentration management standards, in particular through introduction of rules for identification, measurement and assessment, monitoring and reporting of significant risk concentration and making managerial decisions. Internal guidelines and regulations for managing risk concentration at the level of the PZU Financial Conglomerate also apply, which precisely define the obligations of the leading entity and the regulated entities.

Effectiveness of risk management at the Group level is ensured by an additional recommendation issued by PZU (as the parent company) regarding the organisation of the risk management system in the subsidiaries from the insurance and banking sector. Additionally, guidelines regulating precisely the individual risk management processes in Group companies are in place.

The management process for managing various risk categories comprises requirements of sustainable development, and the same applies at the level of each PZU Group subsidiary, in compliance with prevailing provisions of law and individually defined PZU Group internal policies, including the ESG Strategy which constitutes an integral part of the PZU Group's Strategy.

The Management Boards of PZU Group entities are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national and international law. In particular, they are responsible for implementation of an adequate and effective risk management system.

Supervision over the risk management systems in the financial sector entities is exercised by Supervisory Boards. PZU designates its representatives to the Supervisory Boards. It particularly pertains to the Supervisory Boards of Alior Bank and Bank Pekao.

6.2. Risk management system

The risk management system in the PZU Group involves:

- distribution of competence and tasks performed by statutory bodies, committees and individual organisational entities and units in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions; the framework for this process is universal among financial market entities.

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

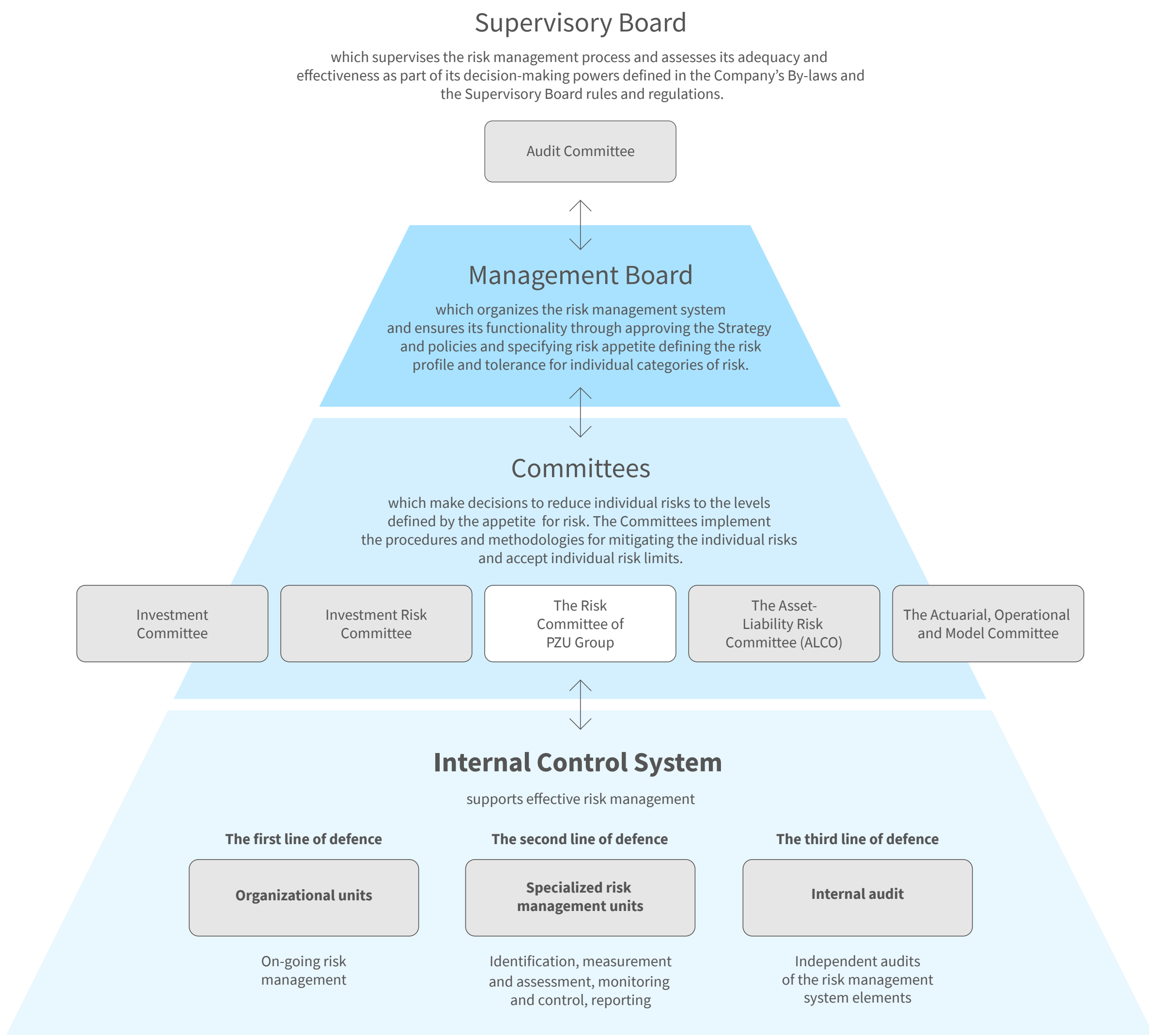
The first three include:

- **The Supervisory Board**, which supervises the risk management process and assesses its adequacy and effectiveness; performs duties as part of its decision-making powers defined in the entity's Articles of Association and the Supervisory Board Rules and Regulations, as well as through the Audit Committee;
- **The Management Board**, which organises and ensures the risk management system and ensures that it is operational, by adopting strategies and policies, setting the level of risk appetite, defining the risk profile as well as tolerance levels for the individual categories of risk;
- **The committees**, which decide about limiting the levels of individual risks to fit the risk appetite framework they have defined, adopt procedures and methodologies for mitigating the individual risks and accept the limits for individual risk types.

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

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

Chart of the organisational structure for the risk management system



The role of **the PZU Group's Risk Committee** is to support members of the PZU Group in implementing an effective risk management system that is consistent for the entire PZU Group. The objective of the PZU Group's Risk Committee is to coordinate actions and oversee the management systems and processes for individual risks within the PZU Group.

6.3. Risk appetite

PZU Group's risk appetite - the level of risk assumed to achieve business objectives, measured by the level of potential financial losses, decrease in the value of assets or increase in the value of liabilities within one year.

Risk appetite defines the maximum permissible risk level while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance entities in the PZU Group. The Management Board of each entity determines the risk appetite, risk profile and risk tolerance reflecting its financial plans, business strategy and the objectives of the entire PZU Group. This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial stability of individual entities or the entire PZU Group. The determination of the appropriate level of risk in each entity is the Management Board's responsibility, whereas a review of the risk appetite values is conducted at least once a year by the unit responsible for risk. All these measures are coordinated at the PZU Group level.

The risk appetite is set at least once a year also by the two banks from the PZU Group. They do it in accordance with the supervisory regulations (including those following from recovery plans) and the best practices. However, this process is personalised to reflect the business strategy and capital structure of each entity. Risk appetite in these companies is consulted with the PZU Group's leading company and the subject matter of opinions issued by the PZU Group Risk Committee. The aim is to ensure consistency between the activities carried out by the banks and the strategic plans and business objectives of the PZU Group as a whole and maintain an acceptable level of risk at the entire Group level. Once agreed, the level of risk appetite is then approved by the banks' Supervisory Boards.

6.4. Risk management process

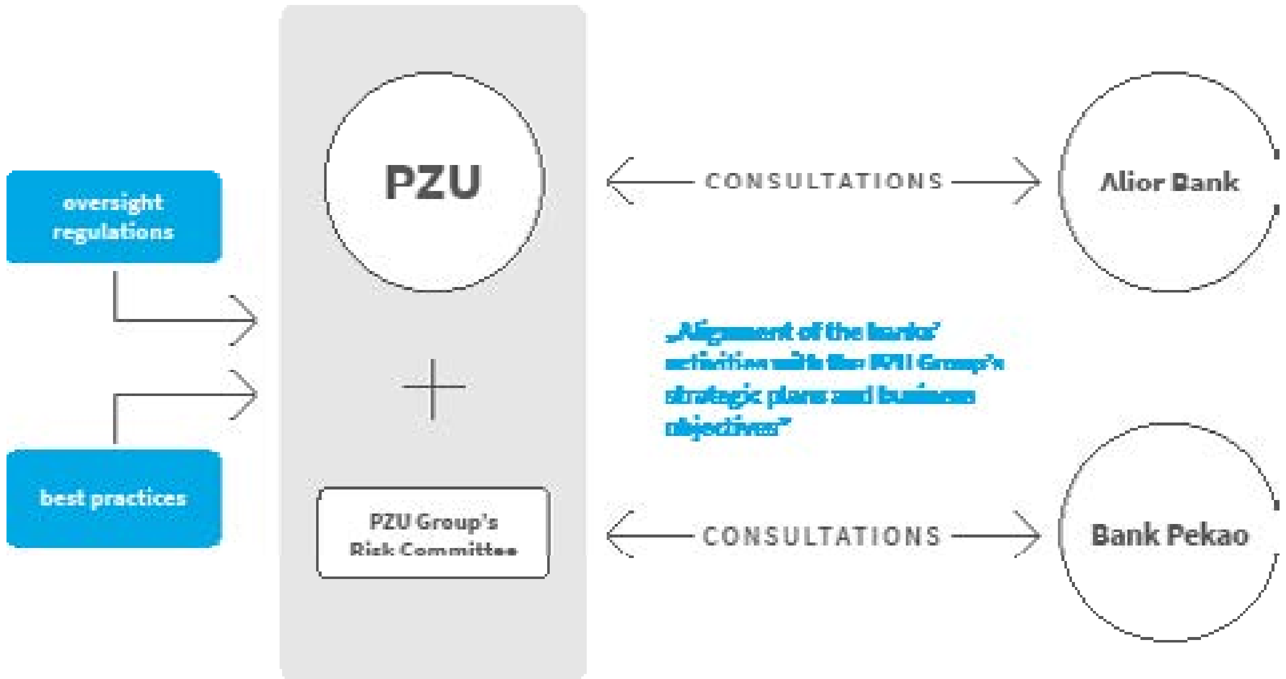
Two levels are distinguished in the risk management process:

I – GROUP LEVEL – monitoring the limits and risks specific to the Group

Risk management at this level is supposed to ensure that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred. The PZU Group provides its subsidiaries with support in the implementation of a risk management system.

Risk management on the Group level includes the introduction of compatible mechanisms, standards and organisation of an efficient internal control system (with special emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system. It also involves their ongoing monitoring. The PZU Group's designated personnel cooperates with the Management Boards of entities and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of mutual cooperation agreements.

Process of determining the risk appetite in the PZU Group



The risk management process consists of the following stages:

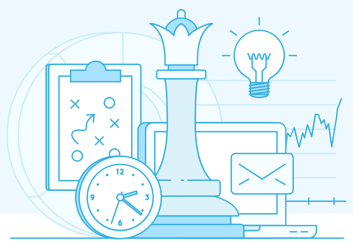
Identification
Begins with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process, as well upon the occurrence of any other event which potentially results in a risk. The identification process takes place until the expiry of the liabilities,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

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

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

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

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



In connection with the PZU Group obtaining the status of a financial conglomerate, a risk concentration management system has also been implemented. Thanks to that, individual entities execute their business objectives, maintaining their own financial stability and the financial stability of the entire PZU Financial Conglomerate. The system monitors the risk concentration measures and their limits and threshold values. Risk measurement permits identification of the sources of concentration in individual risks at the level of both the PZU Financial Conglomerate and individual regulated entities. It also makes it possible to assess the impact of the concentrations on financial stability.

- **II – ENTITY LEVEL – monitoring the limits and risks specific to the entity**

Risk management at this level is supposed to ensure that individual PZU Group entities attain their business objectives in a safe manner appropriate to fit the scale of the risk incurred. This is supported by:

- monitoring of the limits and unique risk categories existing in the given entity,
- implementation of effective mechanisms and standards,
- organisation of an effective internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system in the PZU Group.

6.5. PZU Group's risk profile

Major risks in the PZU Group

6. Risk management

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

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

The overall risk of the banking sector entities, taking into account PZU's shares in both banks, accounts for approximately 31% of the PZU Group's total risk (Q1 2022), while the largest contribution occurs in credit risk.

In H1 2023, an increase in regulatory risk was identified. Despite the high level of market interest rates, no excessive increase in credit risk reflected by a deterioration in the credit quality of PZU Group banks' portfolios has been identified so far. In H1 2023, following a short-term revaluation of Polish debt at the turn of February and March, yields on Polish bonds remained in a lateral trend. The result of this situation was a decreasing volatility of market interest rates and, consequently, minor changes in the valuation of securities portfolios observed in both PZU Group banks. Such a situation, accompanied by the good financial results of PZU Group banks at the end of 2022, had a positive impact on their solvency levels in H1 2023. The cost of risk remained stable in the period under analysis, despite the high level of the NBP reference rate. The situation was positively influenced by the falling inflation rate and the first signs of economic recovery recorded. In addition, in February 2023, KNF issued a recommendation on downgrading the requirements used to assess customers' creditworthiness, which should lead to an increase in sales, especially in the segment of mortgage loans.

On the other hand, as a result of the negative opinion of the CJEU Advocate General and the CJEU judgement sharing his position, the banks had to increase their provisions due to the increasing number of lawsuits and settlements concerning loans denominated in Swiss francs. Moreover, banks may be burdened with additional regulatory costs of limited impact (possible extension of loan repayment holidays to 2024 based on the application of the income criterion). The above two factors will have an adverse impact on the financial performance of PZU Group banks, but should not constrain their capital base given the low level of exposure to financing of the Swiss franc loan portfolio relative to the sector and the limited financial impact of the extension of the loan repayment holidays, due to the probable application of the income criterion.

In H1 2023, initiatives were continued to improve the identification, measurement, assessment and monitoring of the risks associated with sustainable development, in particular with climate changes. Internal regulations were reviewed with the aim of better reflecting the incorporation of sustainability factors in risk assessment. The main risks in this area include transition risks and physical risks, which are managed as part of individual risk categories specified below in this Report.

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

The management process for managing various risk categories comprises requirements of sustainable development, and the same applies at the level of each PZU Group subsidiary, in compliance with prevailing provisions of law and individually defined PZU Group internal policies, including the ESG Strategy which constitutes an integral part of the PZU Group Strategy.

Actuarial risk

This is the likelihood of a loss or an adverse change in the value of liabilities under the existing insurance contracts and insurance guarantee agreements, due to inadequate assumptions regarding premium pricing and creating technical provisions.

Risk identification commences with a proposal to develop an insurance product and continues until the expiry of the related liabilities. The identification of actuarial risk takes place, among others, through:

- analysing the general terms and conditions of insurance with respect to the risk being undertaken and compliance with the generally binding legal regulations;
- analysing the general / specific terms and conditions of insurance or other model agreements with respect to the actuarial risk being undertaken on their basis;
- recognizing the potential risks related to a given product to measure and monitor them at a later time;
- analysing the impact exerted by the introduction of new insurance products on capital requirements and risk margin computed using the standard formula;
- verifying and validating modifications to insurance products;
- assessing actuarial risk against the backdrop of similar existing insurance products;
- monitoring of existing products;
- analysing the policy of underwriting (assessment of the risk accepted for insurance), tariffs, technical provisions and reinsurance and the claims and benefits handling process.

The assessment of actuarial risk consists in the identification of the degree of the risk or a group of risks that may lead to a loss, and in an analysis of risk elements in order to make an underwriting decision.

The measurement of actuarial risk is performed using:

- an analysis of selected ratios;
- the scenario method - an analysis of impairment arising from an assumed change in risk factors;
- the factor method - a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures;
- expert knowledge of employees.

The monitoring and control of actuarial risk includes a risk level analysis by means of a set of reports on selected ratios.

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

The management actions contemplated in the actuarial risk management process are performed through:

- defining the level of tolerance for actuarial risk and monitoring it;
- business decisions and sales plans;
- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, monitoring of current estimates and assessment of the premium adequacy;
- the process of assessment, valuation and acceptance of actuarial risk;
- application of tools designed to mitigate actuarial risk, including in particular reinsurance and prevention.

Moreover, mitigation of the actuarial risk inherent in current operations is supported by:

- defining the scopes of liability in the general / specific terms and conditions of insurance or other model agreements;
- co-insurance and reinsurance;
- application of an adequate tariff policy;
- application of the appropriate methodology for calculating technical provisions;
- application of the appropriate procedure to assess underwriting risk;
- application of a correct claims or benefits handling procedure;
- sales decisions and plans;
- prevention.

Market risk, including liquidity risk

Market risk is understood as the risk of a loss or an adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, as well as value of liabilities and financial instruments.

The risk management process for the credit spread and concentration risk has a different set of traits from the process of managing the other sub-categories of market risk and has been described in a subsequent section (credit risk and concentration risk) along including the process for managing counterparty insolvency risk.

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with the remaining asset portfolios (other than ALM portfolios), i.e., designating the optimum medium-term asset structure;
- banking operations - in conjunction with them the PZU Group has a material exposure to interest rate risk.

Numerous documents approved by supervisory boards, management boards and relevant committees govern investment activity in the PZU Group entities.

Market risk identification consists in the identification of actual and potential sources of this type of risk. For assets, the identification of risk begins with the decision to commence transactions in a given type of financial instrument. Units that make a decision to start entering into such transactions draw up a description of the instrument containing, in particular, a description of the risk factors. They convey this description to the unit responsible for risk that identifies and assesses market risk on that basis.

6. Risk management

The identification of market risk associated with insurance liabilities commences with the process of developing an insurance product. It involves identification of the relationship between the cash flows generated by that product and the relevant market risk factors. The identified market risks are subject to assessment using the criterion of materiality, specifying whether the materialisation of risk entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures:

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

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

Market risk measurement is divided into stages, in particular:

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

The risk measurement is performed:

- daily - for exposure and sensitivity measures of the instruments in systems used by individual PZU Group companies;
- monthly - when using the value at risk model for market risk or a standard formula;
- quarterly - by using the standard formula.

Monitoring and control of market risk involves an analysis of the level of risk and of the utilisation of the designated limits.

Reporting involves communicating to the various decision-making levels information concerning the level of market risk and the results of its monitoring and controlling. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions in respect of market risk involve in particular:

- execution of transactions serving the purpose of mitigation of market risk, i.e., selling a financial instrument, closing a position on a derivative, purchasing a derivative to hedge a position;
- diversification of the asset portfolio, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

The application of limits is the primary management tool to maintain a risk position within the acceptable level of risk tolerance. The structure of limits for the various categories of market risk and also for the various organisational units is established by appointed committees in such a manner that the limits are consistent with risk tolerance as agreed by the management boards of the subsidiaries.

Banking sector entities are in this respect subject to additional requirements in the form of sector regulations. The existing interest rate volatility may impact the level of solvency ratios through decreasing valuations of debt securities in portfolios of the PZU Group entities. An increase in interest rates and turmoil in financial markets brought about by the Russia-Ukraine war resulted in higher use of market risk limits in banks. However, it still remains at a safe level.

Changes in financial markets also pertain to PZU and PZU Życie portfolios. Nevertheless, most portfolios are HTM in accounting terms and therefore these changes do not affect their value and profitability.

No threat of exceeding the risk appetite was recorded, while solvency ratios in both companies prove their strong capital position.

Considering the market changes, the insurance market is subject to additional stress tests imposed by the regulatory authority.

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the PZU Group's liabilities to its clients or counterparties. The liquidity risk management system aims to maintain the capacity of fulfilling the entity's liabilities on an ongoing basis. Liquidity risk is managed separately for the insurance part and the bancassurance part.

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

- shortage of liquid cash to satisfy the current needs of the PZU Group entity;
- lack of liquidity of financial instruments held;
- the structural mismatch between the maturity of assets and liabilities

Risk assessment and measurement involve estimation of the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:

- liquidity gaps (static, long-term financial liquidity risk) - by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;
- potential shortage of financial funds (medium-term financial liquidity risk) - through analysis of historical and expected cash flows from the operating activity;
- stress tests {medium-term financial liquidity risk) - by estimating the possibility of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;
- current statements of estimates (short-term financial liquidity risk) - by monitoring demand for cash reported by business units of an insurance undertaking in the PZU Group by the date defined in regulations which are in force in that entity.

The banks in the PZU Group employ the liquidity risk management metrics stemming from sector regulations, including Recommendation P issued by the Polish Financial Supervision Authority.

To manage the liquidity of the banks in the PZU Group, liquidity ratios are used for different periods ranging from 7 days, to a month, to 12 months and to above 12 months.

Within management of liquidity risk, banks in the PZU Group also analyse the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:

- stability of liabilities with indefinite maturities (e.g., current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g., mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

Monitoring and controlling financial liquidity risk involves analysing the utilization of the defined limits.

In the first half of 2023, the banking sector experienced increasing liquidity. It mostly resulted from an increase in the volume of term deposits and investing liquidity surpluses in securities.

In the first half of 2023, PZU Group banks recorded improved liquidity ratios. Increase in liquidity measures, as in the sector, resulted from an increase in the volume of term deposits while simultaneously decreasing dynamics of loans granted and from a lower volatility in measurement of derivative and debt instruments. Due to the limited scope of lending development, PZU Group banks invested their liquidity surpluses in short-term securities, which also increased liquidity levels.

The liquidity ratios of both PZU Group banks in H1 2023 stabilised at high and safe levels.

The current conditions did not have a material impact on liquidity risk of PZU Group's insurance business in 2023. This liquidity was maintained at a safe level, and there were no grounds to take extraordinary management measures in terms of liquidity risk. As part of routine management measures regarding liquidity risk, the PZU Group constantly monitored the level of available liquid funds and the utilization of liquidity limits.

Liquidity risk reporting involves communicating the level of financial liquidity to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level. The following measures aim to reduce financial liquidity risk in the insurance segment:

- 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 specific foreign currency;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU to at most 3 days after a request for cash is filed;
- keeping open credit facilities in banks and/or the possibility of performing sell-buy-back transactions on treasury securities, including those held until maturity;

- centralisation of management of portfolios/funds by TFI PZU;

Limits of liquidity ratios are mainly applied in the banking segment.

Credit risk and concentration risk

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

- spread;
- counterparty default risk;
- credit risk in financial insurance.

Concentration risk is understood as a possibility of incurring loss stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Credit risk and concentration risk are identified at the stage of making a decision on an investment in a new type of financial instrument or on accepting credit exposure. It involves an analysis of whether the contemplated investment entails credit risk or concentration risk, as well as factors determining its level and what volatility over time. Actual and potential sources of credit risk and concentration risk are identified.

Risk assessment consists of estimating the probability of risk materialisation and the potential impact exerted by risk materialisation on a given entity's financial standing.

The measurement of credit risk is performed using:

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

Concentration risk for a single entity is calculated using the standard formula.

A measure of total concentration risk is the sum of concentration risks for all entities treated separately. In the case of related parties, concentration risk is calculated for all related parties jointly.

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices. Credit risk is measured using a set of loan portfolio quality metrics.

Monitoring and control of credit risk and concentration risk involves an analysis of the current risk level, assessment of creditworthiness and calculation of the degree of utilization of existing limits. Such monitoring is performed, without limitation, on a daily, monthly and quarterly basis.

The monitoring pertains to:

- credit exposure in investment portfolios;
- credit risk exposures in financial insurance;
- exposures to reinsurance;
- exposure limits and risk tolerance limits;
- credit exposures in the processes in effect in banking entities.

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

Management actions in respect of credit risk and concentration risk involve in particular:

- setting limits to curtail exposure to a single entity, group of entities, sectors or countries;
- diversification of the portfolio of assets and financial insurance, especially with regard to the country and sector;
- acceptance of collateral;
- execution of transactions to mitigate credit risk, i.e., selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring of debt granted;
- reinsurance of the financial insurance portfolio.

The structure of credit risk limits and concentration risk limits for various issuers is established by appointed committees in such a manner that the limits are consistent with the adopted risk tolerance determined by the management boards of the respective subsidiaries and in such a manner that they make it possible to minimize the risk of 'i–nfection' between concentrated exposures.

In banking activity, the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a credit decision is performed using tools devised to support the credit process, including a scoring or rating system, external information and the internal databases of a given PZU Group bank. Credit products are granted in accordance with the binding operational procedures stating the relevant actions performed in the lending process, the units responsible for that and the tools used.

To mitigate credit risk, adequate collateral is established in line with the credit risk incurred. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

PZU Group banks did not record material deterioration of portfolio credit quality in 2023. Nonetheless, despite economic downturn, the credit risk cost remained stable.

As a result of the continued high level of interest rates in H1 2023, loan instalments remain high for loans bearing a floating interest rate. So far, this has not materially deteriorated the quality of credit portfolios of PZU Group banks. The problems that borrowers may have faced in H1 2023 were effectively mitigated by maintaining payment moratoria – the so-called credit holiday and, subsequently, by using public aid tools of the Borrower Support Fund.

The continuing Russian-Ukrainian war did not directly affect the worsening of the credit portfolio quality. Banks identified exposures to clients at high risk that are either direct (stemming from operations conducted in Ukraine, Russia or Belarus, holding assets there and business relations in terms of deliveries or sales) or indirect (i.e., high share of imports or exports, high share of Ukrainian employees). The exposures are covered by special monitoring; however, the risk has not yet materialised to a significant degree. Banks introduced and continue to use special guidelines to limit financing for entities exposed to the risk of armed conflict by, among others, disallowing stronger involvement, necessity to replenish the loan collateral to 100% of the debt collection value, withdrawal from processing of applications in line with simplified terms excluding risk.

Operational risk

Operational risk is the risk of suffering a loss resulting from improper or erroneous internal processes, human activities, system failures or external events.

Operational risk Is Identified In particular by:

- accumulation and analysis of information on operational risk incidents and the reasons for their occurrence;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:

- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

Monitoring and control of operational risk is supported mainly by an established system of operational risk indicators and limits enabling assessment of changes in the level of operational risk over time and assessment of factors that affect the level of this risk in the business.

Reporting involves communicating to the various decision-making levels information concerning the level of operational risk and the results of monitoring and controlling it. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management measures involving the response to any identified and assessed operational risks involve primarily:

- taking risk mitigation measures, 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 excessive level of operational risk is ascertained and where the costs involved in risk mitigation are unprofitable;
- risk acceptance - approval of consequences of a possible operational risk materialisation unless they pose threat to exceeding the operational risk tolerance level.

Both banks in the PZU Group, upon KNF's consent, apply advanced individual models to measure operational risk and to estimate capital requirements on account of this risk. The implementation of the CRR3 and CRD6 regulations from 1 January 2025 will result in the replacement of individual advanced models with a single non-model-based approach, the so-called New Standardised Approach, to be applied by all banks under EU jurisdiction in order to simplify the operational risk framework.

6. Risk management

On 28 January 2022, PZU and PZU Życie established the Crisis Management Team in face of the attack by the armed forces of the Russian Federation on Ukraine. The announced Crisis Situation means that there is ongoing monitoring of the current political and market situation, and adequate measures are introduced to ensure, in particular:

- safety of employees;
- business continuity of the companies and security of financial assets of the PZU Group;
- additional safety measures in terms of cybersecurity and physical safety.

In addition, the Crisis Management Team continuously verifies the situation of Ukrainian companies, also in terms of reaching the assumptions of the crisis situation management plan prepared by them.

PZU continues the support to employees of PZU Ukraine and their families as well as charity initiatives addressed to Ukraine and its nationals, undertaken individually or in cooperation with state administrative bodies and PZU Group entities, including in particular with PZU Zdrowie and the PZU Foundation.

Due to the nationwide application of CRP Third Alert Level (CHARLIE-CRP) and Second Alert Level (BRAVO), an elevated state of preparedness of the physical and cyber security areas is maintained. Anomalies in the area of cyber threats, extending to subsidiaries, are under the ongoing continuous 24/7 monitoring. Additional cyber security measures were introduced to mitigate risk with increasing probability of materialisation.

The Crisis Management Team also remains on standby to undertaking action related to the epidemic emergency.

Model risk

Model risk, classified by the PZU Group as significant, is defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models.

The formal identification and assessment process for this risk was implemented in PZU and PZU Życie to ensure high-quality practices for model risk assessment.

The model risk management process involves:

- risk identification, which takes place through regular identification of the models used in the areas covered by the process; identified models are assessed for materiality;
- risk measurement, which is based on the results of independent model validations and monitoring;
- risk monitoring, which involves ongoing analysis of deviations from the adopted points of reference regarding the model risk (e.g., verification of the recommendation execution method, verification whether the risk level of the models is acceptable in terms of the model risk management policy);
- risk reporting, which involves communicating the process results on the appropriate management level, in particular results of risk monitoring, validation and measurement;
- management measures, which aim to mitigate the model risk level; they can be active (e.g., recommendations resulting from completed validations) and passive (developing model management and model risk management standards).

In the entities from the banking sector, given the high significance of model risk, the risk management was implemented in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both PZU Group banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operation, simultaneously ensuring appropriate corporate governance solutions.

Compliance risk

The compliance risk understood as the risk that the PZU Group may fail to comply with infringe the law, internal regulations and adopted standards of conduct, including ethical standards, which results or may result in:

- being subject to legal sanctions;
- incurring financial loss;
- or loss of reputation or credibility.

PZU makes efforts aimed at ensuring adequate and uniform standards of compliance solutions in all subsidiaries and monitors compliance risk throughout the entire Group.

In H1 2023, the PZU Group entities had in place compliance systems aligned with the standards set by PZU and adequate to their profile and business scale.

The provision of full information on compliance risk in Group companies is the responsibility of their compliance units. They are required to assess and measure compliance risk, undertake and implement appropriate remedial actions, which reduce the likelihood of materialisation of this risk.

PZU Group entities are obligated to provide ongoing information on compliance risk to the PZU Compliance Department. The Compliance Department analyses and processes information received from PZU Group entities, in particular to:

- assess compliance risk at the level of the PZU Group and execute the compliance function in the PZU Group;
- prepare reports and management information regarding the efficiency and adequacy of the compliance function in the PZU Group, and submit them to the Management Board and the Supervisory Board of PZU;
- prepare and develop uniform standards pertaining to the functioning of the effective internal control system in the PZU Group entities;
- develop, improve and promote common training and information standards.

The tasks of the PZU Compliance Department also include:

- issuing guidelines and recommendations in the area of compliance, taking into account principles of proportionality and adequacy as well as monitoring of their implementation;
- Providing substantive support and advisory for the PZU Group entities in performing the compliance function tasks.

Compliance risk includes, in particular, the risk that the operations performed by PZU Group entities will be out of line with the changing legal environment. This risk may materialise as a result of delayed implementation or absence of clear and unambiguous laws, or what is known as a legal gap. This may cause irregularities in the PZU Group's business and, as a result, contribute to higher costs (for instance, administrative penalties, other financial sanctions) and an elevated risk of reputation loss.

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation predominantly inherent in the Group's insurance companies and banks.

The identification and assessment of compliance risk for individual internal processes in PZU Group entities is the responsibility of the heads of organisational units, in accordance with the distribution of responsibility for reporting. Moreover, compliance units in PZU Group entities identify compliance risk on the basis of own activities and acquired information, including information resulting from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries sent to them.

Compliance risk is assessed and measured by calculating the effects of risk materialisation of the following types:

- financial risks, resulting among others from the possibility of imposing administrative penalties (e.g., KNF, UOKiK), court judgements, contractual penalties and damages,
- non-financial risks pertaining to the loss of reputation in the scope of the PZU Group's image and brand.

Compliance risk is monitored through:

- compliance analyses;
- systemic analysis of the regular reports received from the heads of organisational entities and units;
- reviews and monitoring of regulatory requirements;
- participation in the legislative work on amendments to generally prevailing provisions of law;
- performing diverse activities in industry organisations;
- coordination of external control processes;
- monitoring of implementation of recommendations issued following internal audits;
- coordination of the fulfilment of disclosure obligations imposed by the stock exchange (PZU) and statutory obligations;
- monitoring of antitrust case-law and proceedings conducted by the President of UOKIK;
- review of the implementation of recommendations issued by compliance units;

Management actions in response to compliance risk include in particular:

- acceptance of the risk arising, without limitation, from legal and regulatory changes;
- mitigation of the risk, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of arranging marketing activities;
- avoidance of risk by preventing any involvement of PZU Group entities in activities that not compliant with the applicable regulatory requirements, best market practices or activities that may have an unfavourable impact on the PZU Group's image.

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:

- continuous implementation of an effective compliance function as a key management function;
- participation in consultations with legislative and regulatory authorities (supervised entities within the PZU Group) at the stage of development of the regulations (social consultations);
- delegating representatives of the PZU Group's supervised entities to participate in the work of commissions of regulatory authorities and the Polish Insurance Association;
- supporting the cooperation with the Insurance Guarantee Fund;
- participation in implementation projects for new regulations;
- training of staff on new regulations and standards of conduct;
- issuing opinions on internal regulations and recommending possible amendments to ensure compliance with the applicable laws and accepted standards of conduct;
- verifying procedures and processes in the context of their compliance with the applicable laws and accepted standards of conduct;
- aligning documentation to upcoming changes in legal requirements before they are enacted;
- systemic supervision exercised by PZU over the execution of the compliance function in PZU Group entities;
- analyses and ongoing monitoring of the application of "Chinese wall" rules - in connection with the additional investor commitments made by PZU on 21 April 2017 in connection with the proceedings under the notification on the intent to purchase Bank Pekao's shares;
- ongoing monitoring of changes in the legal and regulatory environment in order to identify gaps or areas requiring action to ensure compliance.

The actions taken in H1 2023 in the compliance area were also associated with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence applying supplementary oversight to it under the Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate.

Moreover, the compliance area was involved in the work on aligning the Company to the requirements stemming among others from the following legal acts:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector;
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088;
- Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings;
- Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 with regard to regulatory technical standards specifying the presentation of information in relation to sustainability indicators;
- Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law and the draft Act on the protection of persons who report breaches of the law;
- International Financial Reporting Standard 17 "Insurance Contracts" (IFRS 17);
- draft Act amending certain acts in connection with commitment to develop financial market and protect investors on that market;
- Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 ("DORA") and Directives in the field of cyber security, in particular the Directive on measures for a high common level of cyber security within the Union (NIS 2);
- the draft Regulation of the European Parliament and of the Council laying down harmonised rules on artificial intelligence;
- Act of 18 November 2020 on Electronic Deliveries;
- Act of 26 May 2023 on mCitizen (mObywatel) application;
- Amendments to the Act - Labour Code in the scope of:
  - implementation into the national law of Directive 2019/1152 of 20 June 2019 on transparent and predictable working conditions in the European Union (Information Directive) and Directive 2019/1158 of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU (Work-Life Balance Directive),
  - introduction of provisions concerning the possibility for employers to conduct sobriety checks on employees and rules on remote working;
- a draft package of amendments at the European level pertaining to RIS (regulations on increasing the protection of clients' interests in the area of investment and insurance products);
- draft amended recommendations of the Office of the Polish Financial Supervision Authority (UKNF) (Recommendation U regarding good practices in the bancassurance market and Recommendation concerning the assessment of the adequacy of unit-linked products).

Risk concentration

When managing the various categories of risk, the PZU Group identifies, measures and monitors risk concentration. Compliance with the regulatory obligations imposed on groups identified as financial conglomerates is supported by the model introduced in 2020 to manage significant risk concentration in the PZU Financial Conglomerate in keeping with the requirements of the Supplementary Supervision Act.

Supplementary supervision protects the financial stability of lending institutions, Insurance undertakings, reinsurance undertakings and investment firms being members of financial conglomerates. The supervision is exercised, among others, through measuring the risk concentration level in the financial conglomerate as a whole, also from the perspective of regulated entities being its members.

The implementation of this model served the purpose of defining the risk concentration management principles and supporting the units involved in the process, in particular through:

- defining the roles and responsibilities of individual participants of the significant risk concentration management process;
- introducing consistent risk definitions;
- introducing the principles of identifying, measuring and assessing risk;
- determining the expected risk profile of exposures identified as material concentration;
- defining the risk limits and threshold values;
- defining the principles of monitoring significant risk concentrations;
- introducing the principles of reporting and management decision-making.

Regulated subsidiaries monitor and submit regular reports to the leading entity in the PZU Financial Conglomerate on the measures and data required to identify risk concentrations. In the case of identification of an excessive risk concentration, management actions are implemented on the level of the given entity or the whole financial conglomerate.

Risk concentration is measured and monitored, in particular, in the following dimensions:

- concentration per counterparty or group of counterparties;
- concentration per currency;
- concentration per sector of economy;
- concentration per country;
- concentration per asset type.

Combined stress scenarios are used to identify key risk factors, determine the degree of sensitivity of the PZU Financial Conglomerate to changes in key risk factors and determine the impact of potential adverse changes in the environment on the risk profile of the PZU Financial Conglomerate.

6.6. Reinsurance operations

Reinsurance protection in the PZU Group secures insurance activity, limiting the consequences of the occurrence of catastrophic phenomena that could adversely affect the financial standing of insurance undertakings. This task is performed through obligatory reinsurance contracts supplemented by facultative reinsurance.

Reinsurance treaties in PZU

PZU consciously and adequately protects the Company's financial result against the results of materialisation of natural risks, e.g., severe storms, floods, droughts or fires, associated with, among others, the climate change. For this purpose, the PZU Group runs, among others, periodic analyses of the non-life insurance portfolio for its exposure to natural disasters. The portfolio is divided into zones with specific degrees of exposure to the risk of floods and cyclones has been introduced. The values of prospective losses are assigned to each one of the zones under analysis. They correspond to the severity of a given phenomenon and, consequently, its specific probability level. On this basis, as part of the annual reinsurance cover program design process, the distribution of the level of possible catastrophic loss is estimated.

PZU uses reinsurance treaties to limit its risk related to catastrophic losses among others through a catastrophic non-proportional excess of loss treaty and a non-proportional excess of loss treaty for crop insurance. On the other hand, the risk related to the consequences of large single losses is mitigated under non-proportional reinsurance treaties to protect its portfolios of property, technical, marine, air, third party liability and third-party liability motor insurance.

PZU's risk is also mitigated by proportional and non-proportional reinsurance of the financial insurance portfolio (e.g., guarantees, commercial credit) and proportionate reinsurance of cyber risks.

PZU's reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and affords the Company security.

PZU's inward reinsurance business involves the PZU Group's other insurance companies. As a result of the exposure to protect Baltic companies, LINK4 and TUW PZUW, PZU continues to generate a high written premium by virtue thereof.

In addition, PZU generates gross written premium on inward reinsurance on domestic business through facultative and obligatory reinsurance.

Reinsurance treaties in PZU Życie

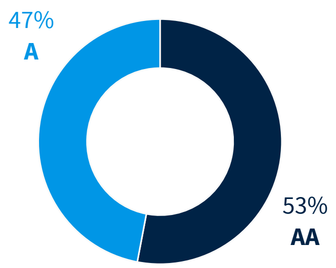
The outward reinsurance treaty entered into by PZU Życie protects the company's entire portfolio against the accumulation of risk and individual policies with higher sums insured.

Reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and ensures the security to the Company.

Reinsurance treaties in the PZU Group's international companies, LINK4 and TUW PZUW

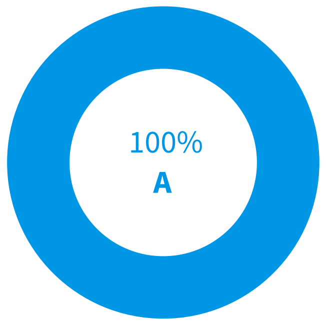
The PZU Group's other insurance companies, i.e., Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate obligatory treaty. Reinsurance cover is provided for the most part by PZU, which transfers a portion of the accepted risk outside the Group.

Reinsurance premium under PZU's obligatory treaties according to the S&P/AM Best rating



Main reinsurers in 2023: Munich Re, Hannover Re, Swiss Re, Gen Re, VIG Re.

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



Main reinsurers in 2023: QBE, DEVK, Mapfre, VIG Re, Nacional de Reaseguros

6.7. Capital management

On 25 March 2021, the PZU Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2021-2024. The adopted policy is a continuation of the principles set forth in the PZU Group's Capital and Dividend Policy for 2016-2020.

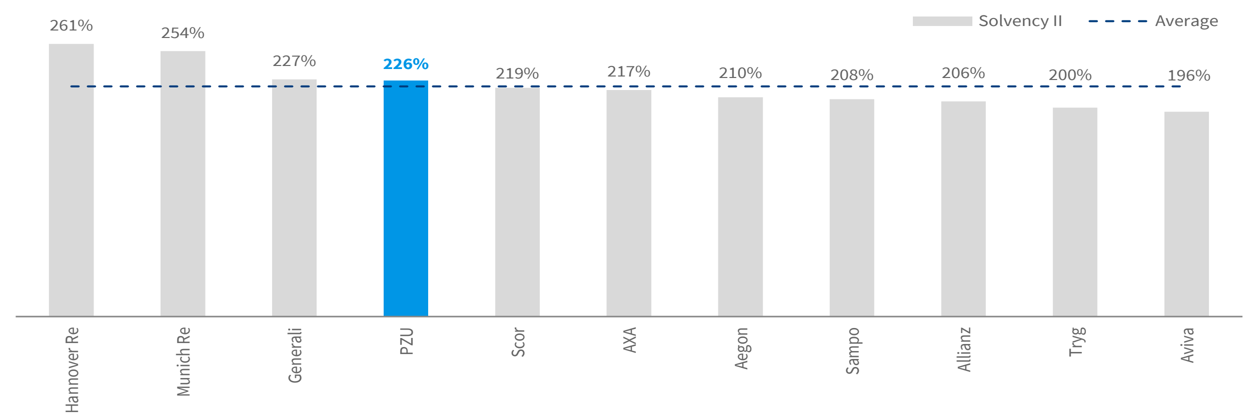
In accordance with the Policy, the PZU Group strives to:

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through organic growth and acquisitions;
- ensure sufficient financial means to cover the Group's liabilities to its clients.

The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- PZU will not issue any new shares for the duration of this Policy.

The Solvency II ratio for the PZU Group compared to European insurers



Source and data : data as at the end of Q3 2022; PZU data (unaudited)

It is assumed that certain temporary deviations in the actual solvency ratio above or below the target level may occasionally occur.

As at the end of Q3 2022, the estimated solvency ratio (calculated according to the standard Solvency II equation) stood at 230% and remained at a level above the average solvency ratio reported by insurance groups in Europe.

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

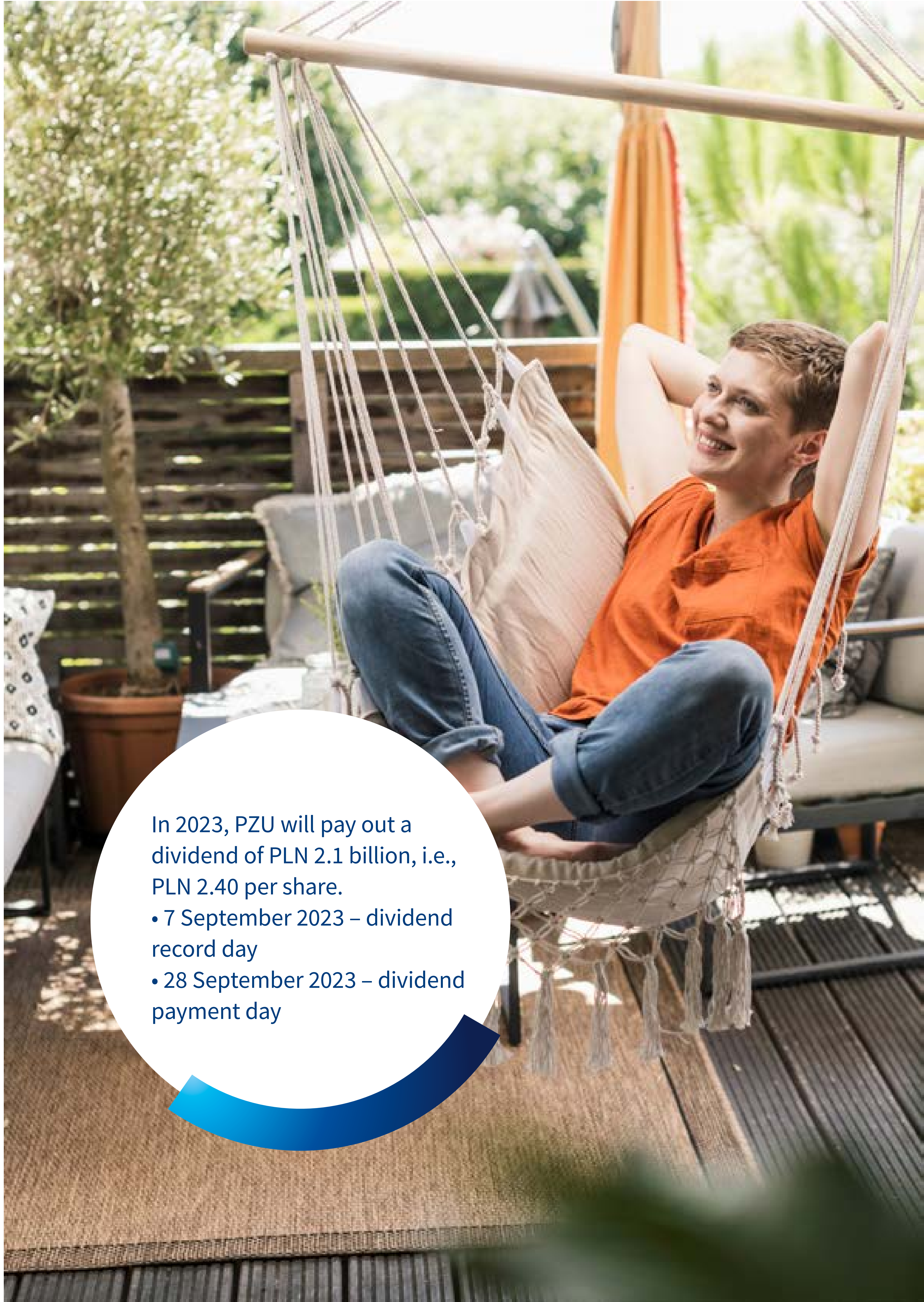
Solvency ratio	2022	Q1 2023*
SCR		
PZU Group	240%	226%
PZU	267%	269%
PZU Życie	369%	331%
MCR		
PZU Group	430%	393%
PZU	987%	997%
PZU Życie	820%	736%

CRR	2022	Q1 2023
PZU Group – total solvency ratio	17.4%	17.1%
Tier 1	15.6%	15.4%
Alior Bank Group – total solvency ratio	16.2%	15.1%
Tier 1	15.0%	14.2%

* Q1 2023 was neither audited nor reviewed by the Statutory Auditor

7.

PZU Group on the capital and debt markets



7. PZU Group on the capital and debt markets

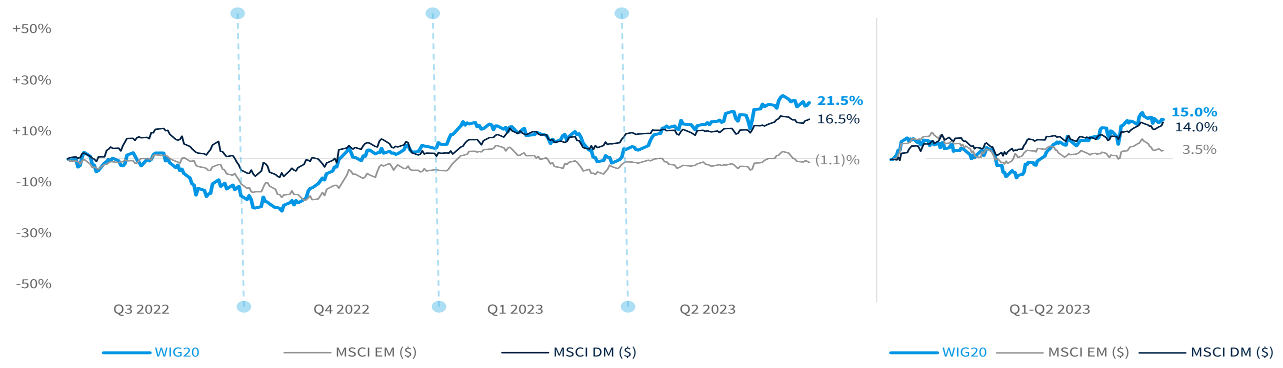
7.1. Significant factors affecting PZU share price

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

Situation on the financial markets

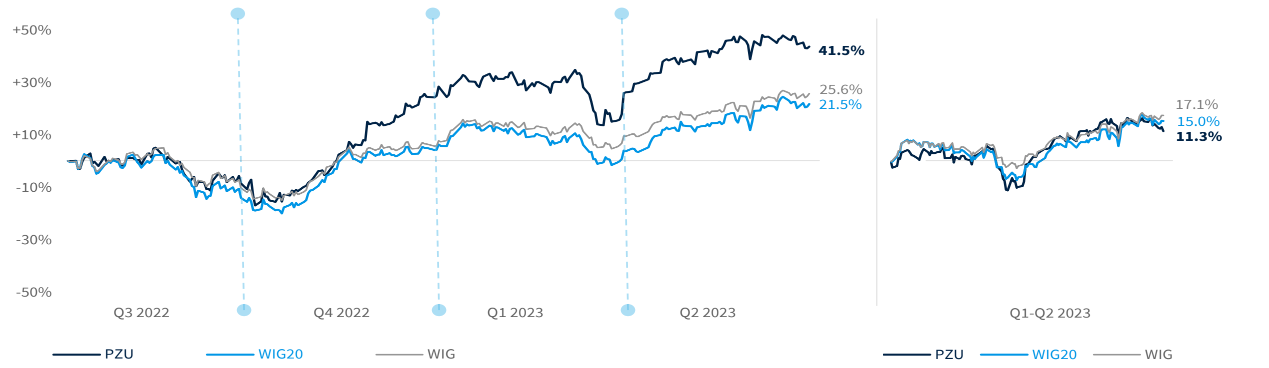
The first half of 2023 saw a rebound in financial markets after a difficult 2022, which was dominated by negative developments related to the war between Russia and Ukraine and soaring energy and food prices. The improved sentiment in the first half of 2023 was linked to a partial stabilisation of the geopolitical situation and the macroeconomic environment. Inflation readings indicated a gradual deceleration of continued price increases, which marked an increasing chance for the markets of monetary easing by key central banks. Against a backdrop of gradually improving sentiment, indices began to rebound from losses of up to several per cent incurred in 2022. The MSCI DM Developed Markets Index recorded a y/y increase of 14.0 per cent in the first half of 2023 while the MSCI EM Emerging Markets Index was up 3.5 per cent y/y. The relatively lower performance of the emerging markets index was primarily attributable to the deteriorating situation of Chinese companies, which are predominant in this index. In this context, the performance of the WIG20 index was similar to developed markets. In the first half of the year, the growth rate reached 15.0% y/y.

MSCI EM and DM indices



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

PZU share price versus WIG and WIG20



Source: stooq.pl, infostrefa.com

Indicators

PZU's shares*	2019	2020	2021	2022	H1 2023**
C/WK (P/BV) Market share price / book value per share	2.1x	1.5x	1.8x	1.7x	1.3x
WKNA (zł) BVPS (PLN) Book value per share	18.7	21.7	19.8	20.3	31.1
C/Z (P/E) Market share price / net return per share	10.5x	14.6x	9.2x	9.1x	7.4x
ZNA (zł) EPS (PLN) Net profit (loss) / number of shares outstanding	3.8	2.2	3.9	3.9	5.3

* Calculation on PZU Group data (according to IFRS); for annual data, share price and book value at year-end and net profit for 12 months; for semi-annual data, share price and book value at the end of H1 and net profit for 12 months (on a moving basis); number of PZU shares: 863,523,000

** Data according to MSSF17 standard

PZU against local indices

Local equity indices also posted gains amid expectations of further economic stabilisation.

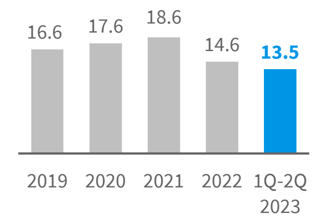
The WIG index ended the first half of 2023 at 67,283 points, posting a 25.6% y/y increase and a 17.1% rise compared to the end of 2022; similarly, the WIG20 recorded a 21.5% and 15.0% increase. Against this backdrop, PZU shares performed very well, recording a 41.5%[1] y/y increase in 12-month terms.

Trading liquidity

PZU's shares remained highly liquid in H1 2023. PZU accounted for 5.7% of WSE's overall trading volume (ranking 7th), while its average buy/sell spread for shares was 6 basis points (the mean for the twenty most heavily traded companies was 13 basis points). PZU's market value at the end of June 2023 was PLN 34.0 billion (11.3% rise over the 6-month period, i.e. from the beginning of 2023). The total capitalization of the Warsaw Stock Exchange (domestic and foreign companies) increased by 18.7% in this period.

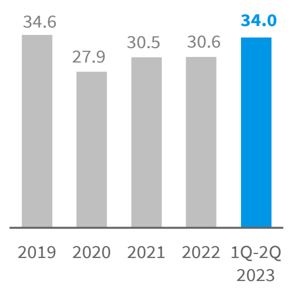
1) Value adjusted for dividends paid

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



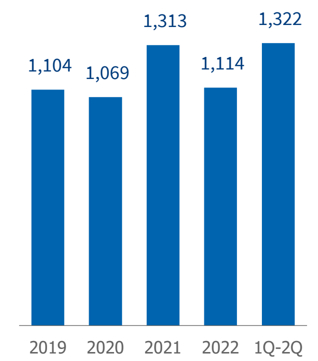
Source: www.infostrefa.com; www.gpw.com

PZU capitalization (PLN billion)



Source: www.infostrefa.com; www.gpw.com

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



Source: www.infostrefa.com; www.gpw.com

7. PZU Group on the capital and debt markets

PZU's stock-related statistics	2019	2020	2021	2022	H1 2023*
Maximum price (PLN)	45.39	41.80	41.65	37.82	41.14
Minimum price (PLN)	35.79	20.55	29.27	23.16	23.16
Closing price on the last trading session (PLN)	40.03	32.36	35.35	35.42	39.41
Average trading session price (PLN)	40.61	30.06	35.86	30.97	33.16
Trading value (PLN million)	16,620	17,588	18,565	14,645	13,478
Average turnover per session (PLN million)	67.0	69.8	73.9	58.3	53.7
Number of transactions (units)	928,493	1,523,449	1,353,198	1,285,691	1,216,421
Average number of trades per session	3,744	6,045	5,391	5,122	4,846
Trading volume (units)	408,999,167	595,296,291	517,939,229	472,866,103	409,575,426
Average trading volume per session (units)	1,649,190	2,362,287	2,063,503	1,883,929	1,631,775

Source: www.infostrefa.com

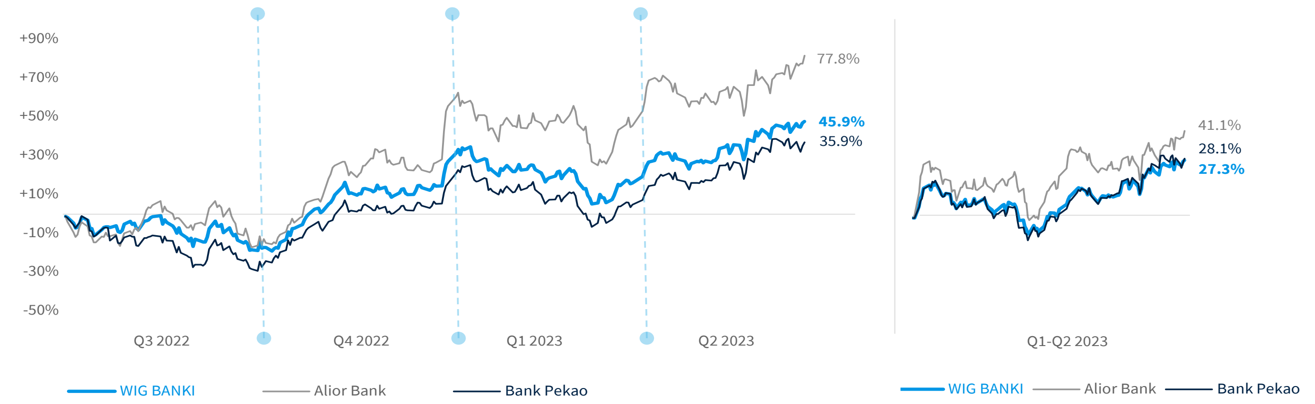
* moving data for a 12-month period

7.2. Significant factors for Pekao and Alior Bank share prices

In H1 2023, the WIG Banks index recorded a rise of 27.3% following an upward trend started in Q4 2022. Consequently, it was one of the strongest growing sector indices on the WSE.

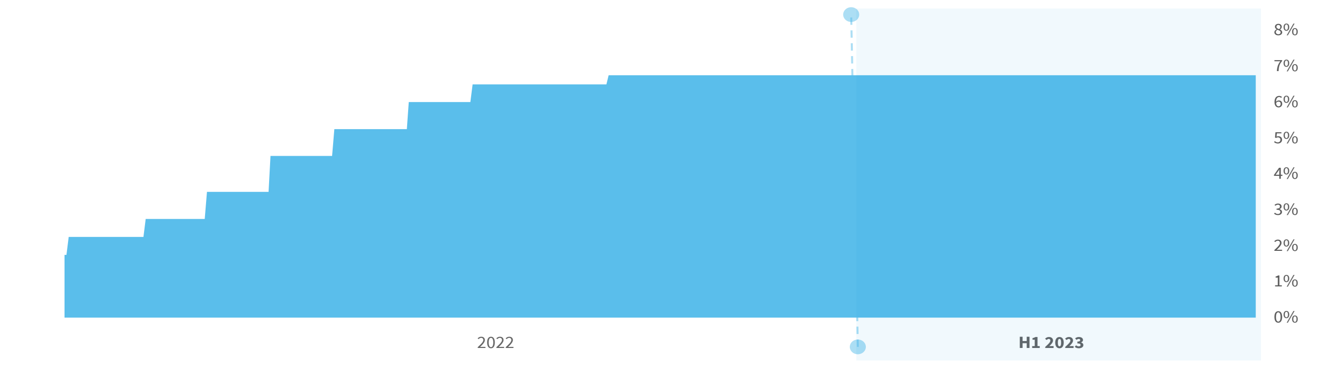
In 12-month terms, the WIG Bank index saw a 45.9% y/y increase at the end of H1 2023. This was mainly driven by an improvement in bank yields, following an interest rate hike and a recovery in net interest income. From October 2021 to September 2022, the Monetary Policy Council increased interest rates 11 times. As a consequence, the NBP's main interest rate rose from 0.1% to 6.75%. i.e. to the highest level seen in 20 years.

Pekao and Alior Bank against WIG BANKI index



Source: www.infostrefa.com

Key NBP interest (reference) rate



Source: https://www.nbp.pl/

As a result of the high rate of increases, the return on banks' assets grew faster than their cost of funding, which was the main driver of the banks' improving performance and consequently a change in investors' perception of the banks' asset value. The shares of the PZU Group's banks (Alior Bank and Bank Pekao) accounted for more than 6.8 % of the trading volume on the WSE main market at the end of H1 2023. Alior Bank's share price at the end of June 2023 was PLN 48.4, having increased 41.1% since the beginning of the year. In the corresponding period, the price of Bank Pekao's shares rose by 28.1% to PLN 110.8 per share (34.3% including the dividend).

On 6 June 2023, the General Meeting of Shareholders of Bank Pekao resolved to pay out the 2022 dividend of PLN 5.4 per share (PLN 1.4 billion). In 2022, the dividend paid amounted to PLN 4.3 per share (PLN 1.1 billion).

7.3. Debt financing of PZU, Bank Pekao and Alior Bank

PZU

Subordinated bonds (in compliance with Solvency II) - value of PLN 2.25 billion, bearing interest at WIBOR6M + 180 bps, issued on 30 June 2017. The maturity date is 29 July 2027, or 10 years after the issue date with an early redemption option 5 years after the issue date. The bonds are listed on the Catalyst ASO WSE/Bondspot.

In 1H 2022, the PZU Management Board analysed options of new issued of subordinated bonds of up to PLN 3 billion and early redemption of this bond series of PLN 2.25 billion. Due to unfavourable market conditions, on 31 May 2022, the PZU Management Board announced its decision to quit any such further works (current report 11/2022).

Alior Bank

Bonds - On 26 June 2023, the Bank issued 1,000 M-series bearer bonds with a nominal value of PLN 400 thousand per bond and the total nominal value of PLN 400 million. ("Bonds"). The issue was carried out by way of a public offering in accordance with Article 33(1) of the Bond Act, as part of the Offering Programme and on the basis of the resolution of the Management Board of the Bank of 31 May 2023 concerning the decision to issue series M bonds and determining the final terms of issue for these bonds. Pursuant to Article 97a(1)(2) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee system and resolution, the Bonds issued will represent eligible liabilities of the Bank (MREL Bonds). The Bonds bear interest at a floating rate which is the sum of WIBOR 6M and a margin of 3.10% per annum. The Final Redemption Date of the Bonds falls on 26 June 2026, with the Bank having the right of early redemption of the Bonds after two years from the date of issue. The Bonds were registered with the National Depository for Securities (KDPW S.A.) and designated with the ISIN code PLALIOR00250. On 16 June 2023, the Management Board of the Warsaw Stock Exchange adopted a resolution to admit the Bonds to trading on the main market under Catalyst, while on 28 June 2023 it adopted a resolution to introduce the Bonds to trading on the main market under Catalyst as of 30 June 2023 and to list them in the continuous trading system under the abbreviated name ALR1225.

No redemption of the Bank's own bonds was scheduled in the first half of 2023. The Bank also did not perform any early redemption of bonds.

Bank Securities and structured products - in 1H 2023, a subscription of 11 bank securities (BPW) series was carried out under the 2nd Bank Securities Issue Programme based on the base prospectus, with a total volume of PLN 280 million, EUR 4 million and USD 20 million.

7. PZU Group on the capital and debt markets

For clients of Private Banking, there were 7 subscriptions of certificates and structured products, such as Auto Call, with limited capital guarantee and/ or conditional early redemption. The total nominal value of the subscriptions of certificates/structured bonds amounted to PLN 166 million.

In H1 2023, 9 Auto Call certificates, 1 Reverse Convertible certificate and 4 structured products of external issuers of Structured Debt Securities type were completed.

Pekao Bank

Structured Certificates of Deposit

Structured Certificates of Deposit are an alternative investment product to traditional bank deposits for the Bank's customers. The total value of the Bank's liabilities on this account (capital) at the end of June 2023 amounted to PLN 401.4 million. Four issues of Structured Certificates of Deposit in PLN are active, with a maximum maturity of 20 December 2023.

Subordinated bonds

On 30 October 2017, the Bank issued 10-year subordinated bonds with a nominal value of PLN 1.25 billion. The proceeds from the issue were earmarked - following the approval of the Polish Financial Supervision Authority of 21 December 2017 - to increase the Bank's supplementary funds, in accordance with Article 127(2)(2) of the Act on Banking Law and Article 63 of Regulation EU No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were listed on the ASO Catalyst market.

On 15 October 2018, the Bank issued 10-year subordinated bonds with a nominal value of PLN 0.55 billion. The proceeds from the issue were earmarked - following the approval of the Polish Financial Supervision Authority of 16 November 2018 - to increase the Bank's supplementary funds, in accordance with Article 127(2)(2) of the Act on Banking Law and Article 63 of Regulation EU No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were listed on the ASO Catalyst market.

On 15 October 2018, the Bank issued 15-year subordinated bonds with a nominal value of PLN 0.20 billion. The proceeds from the issue were earmarked - following the approval of the Polish Financial Supervision Authority of 18 October 2018 - to increase the Bank's supplementary funds, in accordance with Article 127(2)(2) of the Act on Banking Law and Article 63 of Regulation EU No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were listed on the ASO Catalyst market.

On 4 June 2019, the Bank issued 12-year subordinated bonds with a nominal value of PLN 0.35 billion. The proceeds from the issue were earmarked - following the approval of the Polish Financial Supervision Authority of 8 July 2019 - to increase the Bank's supplementary funds, in accordance with Article 127(2)(2) of the Act on Banking Law and Article 63 of Regulation EU No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were listed on the ASO Catalyst market.

On 4 December 2019, the Bank issued 12-year subordinated bonds with a nominal value of PLN 0.40 billion. The proceeds from the issue were earmarked - following the approval of the Polish Financial Supervision Authority of 10 December 2019 - to increase the Bank's supplementary funds, in accordance with Article 127(2)(2) of the Act on Banking Law and Article 63 of Regulation EU No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The bonds were listed on the ASO Catalyst market.

Senior bonds

On 3 April 2023, the Bank issued 3-year senior non-preferred bonds ("SNP bonds") with a total nominal value of PLN 0.75 billion. The SNP Bonds carry an option granting the Bank the right of early redemption within 2 years from the date of issue, subject to the approval of the Bank Guarantee Fund. Pursuant to Article 97a(1)(2) of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and resolution, the SNP Bonds will constitute eligible liabilities of the Bank. The bonds were listed on the ASO Catalyst market.

Pekao Group companies

Covered bonds - Pekao Bank Hipoteczny issues long-term debt securities secured on its loan portfolio. The issue is uncapped in value. Covered bonds of Pekao Bank Hipoteczny have been rated by Fitch at BBB+ with a stable outlook (one notch above the rating for Pekao Bank Hipoteczny whose risk Fitch assesses at BBB).

At the end of June 2023, the carrying amount of the covered bonds issued by the Bank was PLN 2.0 billion (including EUR 50 million in the original currency), which represents roughly a 11.9% market share in the market for covered bonds issued by mortgage banks operating in Poland. The liabilities by virtue of covered bonds (mortgage and public bonds) with a maturity of up to 1 year accounted for 15.2%, from 1 to 3 years for 39.4%, from 3 to 5 years 45.4% of the total carrying amount.

Unsecured bonds - the Pekao Group's various entities conduct programmes to issue unsecured bonds backed by Bank Pekao. These instruments are used to diversify funding sources; in particular, they elevate the percentage of the Bank's subsidiaries' assets funded directly from the wholesale market.

Regularly renewed securities with maturities of mainly up to 1 year are the most prevalent among the issues conducted by Pekao Leasing (issue programme of PLN 6 billion), Pekao Faktoring (issue programme of PLN 5 billion) and PKO Bank Hipoteczny (issue programme of PLN 1 billion). The total liabilities on account of these three entities' issues as at 30 June 2023 amounted to PLN 7.37 billion.

The total liabilities on account of these three entities' issues as at 30 June 2023, taking into account the settlements in the Pekao Group amounted to PLN 6.06 billion.

7.4. Dividend

6 December 2022 - KNF's recommendation on paying dividends in 2023

On 6 December 2022, KNF adopted a position on the dividend policy of insurance companies and reinsurance companies in 2023. It permitted insurance undertakings to:

1) pay out a dividend of up to 100% of the profit generated in 2021 (including dividends paid to date from the 2021 profits),
2) pay out a dividend of up to 50% of the profit generated in 2022

provided that the criteria set by KNF have been fulfilled.

These criteria include a Supervisory Review and Evaluation Process (SREP) (i.e., risk assessment) and the coverage of a specific capital requirement on a standalone basis. Moreover, a company intending to disburse a dividend must not have experienced a situation involving a shortage of own funds to cover the capital requirement in any quarter and must not be covered by a short-term financial plan or remedial plan.

KNF also pointed out that when deciding on the level of dividends, insurance undertakings should take into account their additional capital needs within the period of 12 months from the approval date of the 2022 financial statements, which may result, among others, from changes in the market and legal environment, in particular from the high degree of uncertainty about the macroeconomic perspective regarding, among others, inflation, interest rates, currency exchange rates, energy resources or effects brought about by the invasion of Russia on Ukraine.

Full text: https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_dot_polityki_dywidendowej_w_2023_80488.pdf

Dividend paid by PZU from its profit in the 2019 – H1 2023 financial years	2019	2020	2021	2022	H1 2023
Consolidated profit attributable to the parent company (PLN million)	3,295	1,912	3,336	3,374	2,700***
PZU's standalone profit (PLN million)	2,651	1,919	2,028	1,637	2,687
Dividend paid for the year (PLN million)	**	3,022	1,675	2,072	-
Dividend per share for the year (PLN)	**	3.50	1.94	2.40	-
Dividend per share on the date of record (PLN)	2.80	**	3.50	1.94	2.40
(a) Change in share price	(8.8)%	(19.2)%	9.2%	0.2%	11.3%
(b) Annual dividend ratio (%)*	6.4%	**	10.8%	5.5%	6.8%
(a+b) TSR Total Shareholders Return	(2.4)%	(19.2)%	20.1%	5.7%	18.1%

* Ratio calculated as dividend (according to the year in which the right was established) compared to share price as at the end of the previous reporting year.

** In 2020, the Ordinary Shareholder Meeting of PZU did not allocate profit to pay out the dividend (following the recommendation of the KNF of 26 March 2020); in 2021, the OSM of PZU resolved on the distribution of the profit generated in 2020 increased by the amount transferred from the supplementary capital created from net profit generated in the year ending on 31 December 2019.

*** Data according to MSSF17 standard.

Source: PZU figures

4 May 2023 - Motion of the PZU Management Board regarding the distribution of the profit generated in 2022 increased by the amount transferred from the supplementary capital created from the profit generated in 2021.

In connection with the aforementioned recommendation of the KNF, the PZU SA Management Board recommended distribution of the profit generated in 2022 (including the amount transferred from the supplementary capital created from the profit generated in 2021). The proposed dividend amount was PLN 2.1 billion, i.e., PLN 2.40 per share.

On 10 May 2023, the Supervisory Board issued a positive opinion on the Management Board's motion and recommended the Ordinary Shareholder Meeting of PZU to accept the profit distribution and the payment dates in accordance with the proposal.

7 June 2023 – Ordinary Shareholder Meeting's resolution on the distribution of PZU's net profit

The Ordinary Shareholder Meeting of PZU adopted a resolution on distribution of PZU's net profit, in which it decided to distribute the profit generated in 2022 increased by the amount transferred from the supplementary capital created from the profit generated in 2021. The amount of PLN 2.1 million was designated for the dividend payment. The dividend record date was set for 7 September 2023 and the dividend payout date was set for 28 September 2023.

7.5. Rating of PZU, Bank Pekao and Alior Bank

PZU

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

Recent rating/outlook changes: On 6 April 2020, the rating agency of S&P Global Ratings (S&P) revised the rating outlook of PZU from "positive" to "stable". The financial strength and credit ratings of PZU remained at A-.

Recent rating/ outlook affirmation: 27 June 2023, the rating agency S&P Global Rating (S&P) affirmed the financial strenght and credit ratings of PZU at A- with a stable outlook

Alior Bank

In H1 2023, the Fitch Ratings rating agency did not introduce any changes to the outlook or rating of the Bank. The last report concerning the Bank was published on 29 November 2022. In its report, the agency affirmed a long-term IDR at BB with a stable outlook, as well as a VR rating at bb, and announced the upgrading of the domestic short-term rating from F2(pol) to F1(pol).

On 27 June 2023, the S&P Global Ratings agency announced that it had upgraded the Bank's long-term rating had been upgraded to BB+, from BB and maintained its short-term rating at B. This is the highest rating in Alior Bank's history. In the justification of the decision, the agency indicated that the rating upgrading was mainly driven by an improvement in the capitalisation level and the Bank's ability to build capital internally by, among others, reducing credit risk. According to S&P Global Ratings, the Bank is able to maintain a high capital buffer to support its growth, even if it starts paying out

	Currently		Previously	
Company name	Rating and outlook	Last change	Rating and outlook	Update date
PZU				
Financial strength rating	**A- /stable/**	6 April 2020	**A- /positive/**	14 June 2019
Credit reliability rating	**A- /stable/**	6 April 2020	**A- /positive/**	14 June 2019
PZU Życie				
Financial strength rating	**A- /stable/**	6 April 2020	**A- /positive/**	14 June 2019
Credit reliability rating	**A- /stable/**	6 April 2020	**A- /positive/**	14 June 2019
TUW PZUW				
Financial strength rating	**A- /stable/**	6 April 2020	**A- /positive/**	14 June 2019

Poland's rating

	Currently		Previously	
Country	Rating and outlook	Last change	Rating and outlook	Update date
Poland[2]				
Credit reliability rating (long-term, local currency)	**A /stable/**	12 October 2018	**A- /positive/**	13 April 2018
Credit reliability rating (long-term, foreign currency)	**A- /stable/**	12 October 2018	**BBB+ /positive/**	13 April 2018
Credit reliability rating (short-term, local currency)	**A-1**	12 October 2018	**A-2**	13 April 2018
Credit reliability rating (short-term, foreign currency)	**A-2**	13 April 2018	**A-2**	13 April 2018

Source: S&P Global Ratings

2) On 24 June 2023, the S&P rating agency decided to affirm the rating at A- and A-2 for long- and short-term liabilities in foreign currencies, respectively, and at A and A-1 for long- and short-term liabilities in the domestic currency, respectively

FITCH RATINGS	ALIOR BANK	POLAND
Long-term issuer's rating (IDR)	**BB**	**A-**
Short-term issuer's rating (IDR)	**B**	**F1**
Viability rating	**bb**	-
Government subsidy rating (GSR)	**ns**	-
Outlook	**Stable**	**Stable**

S&P GLOBAL RATINGS	ALIOR BANK	POLAND
Long-term rating in domestic currency	**BB+**	**A**
Short-term rating in domestic currency	**B**	**A-1**
Stand-alone rating	**bb**	-
Outlook	**Stable**	**Stable**

dividends. The Bank's minor exposure to Swiss franc (CHF)-denominated mortgage loans received a positive assessment. The gradual increase in the share of residential mortgage loans and the reduction in the share of uncovered consumer loans, contributed to increasing the Bank's risk-weighted capital buffer. In the justification, the decreasing share of higher-risk loans was also highlighted and the continuation of the ongoing efforts to reduce the portfolio of non-performing loans was appreciated.

Pekao Bank

Bank Pekao cooperates with three leading rating agencies: Fitch Ratings (Fitch), S&P Global Ratings (S&P) and Moody’s Investors Service (Moody’s). The first two agencies prepare the rating at the Bank’s request on the basis of concluded contracts; however, the Bank does not have a contract with the Moody’s rating agency and their rating is based on publicly available information and review meetings.

S&P Global Ratings

On 27 June 2023, the S&P Global Ratings agency informed the Bank that it had affirmed the Bank's ratings at the current level and the Bank's stable rating outlook, and assigned a long-term rating at BBB+ to the "Senior Preferred" SP1 Series bond issue.

According to the rationale provided by S&P, the ratings reflect the Bank's limited exposure to CHF denominated mortgage loans, which places the Bank in a comfortable position with regard to the legal risks associated with these loans. Moreover, given its strong capitalisation, Pekao can benefit from the capital constraints of its competitors and gain market share in its corporate and retail business should the demand for loans increase in the future. According to S&P, Pekao's strong capital position and sound profitability provide comfortable buffers to absorb the costs of potentially adverse scenarios. The Bank's presence in the PZU Group benefits the corporate banking business and also supports the placement of MREL instruments in the domestic market.

FITCH RATINGS	PEKAO BANK	POLAND
Long-term issuer’s rating (IDR)	**BBB**	**A-**
Short-term issuer’s rating (IDR)	**F2**	**F1**
Viability rating	**bbb**	-
Government subsidy rating	No subsidy	-
Outlook	**Stable**	**Stable**
Domestic long-term rating	**AA-(pol) (Outlook: stable)**	–
Domestic short-term rating	**F1+(pol)**	-

S&P GLOBAL RATINGS	PEKAO BANK	POLAND
Long-term rating in foreign currencies	**BBB+**	**A-**
Long-term rating in domestic currency	**BBB+**	**A**
Short-term rating in foreign currencies	**A-2**	**A-2**
Short-term rating in domestic currency	**A-2**	**A-1**
Stand-alone rating	**bbb+**	-
Outlook	**Stable**	**Stable**

S&P GLOBAL RATINGS (COUNTERPARTY RATING IN THE EVENT OF RESOLUTION)	PEKAO BANK	POLAND
Long-Term Foreign Currency Rating for liabilities	**A-**	-
Short-Term Foreign Currency Rating for liabilities	**A-2**	-
Long-Term Domestic Currency Rating for liabilities	**A-**	-
Short-Term Domestic Currency Rating for liabilities	**A-2**	-

S&P GLOBAL RATINGS (RATING OF INSTRUMENTS ISSUED)	PEKAO BANK	POLAND
Long-term rating of SP bonds of SP1 series	**BBB+**	–

MOODY’S INVESTORS SERVICE (RATINGS NOT PROCURED BY THE BANK)	PEKAO BANK	POLAND
Long-term deposit rating in foreign currencies	**A2**	**A2**
Short-term deposit rating	**Prime-1**	**Prime-1**
Baseline Credit Assessment	**baa2**	-
Long-term counterparty credit risk rating	**A2(cr)**	-
Short-term counterparty credit risk rating	**Prime-1(cr)**	-
Outlook	**Stable**	**Stable**
Long-term Counterparty Risk Rating	**A2**	-
Short-term Counterparty Risk Rating	**Prime-1**	-

7.6. Calendar of PZU Group's reports published in 2023

Report	PZU	Pekao Bank	Alior Bank
2022 **Annual Report**	30 March	2 March	3 March
Quarterly Report for Q1 2023	25 May	27 April	26 April
Quarterly Report for H1 2023	31 August	3 August	2 August
Quarterly Report for Q3 2023	23 November	8 November	26 October

7.7. Contact details for investors

Magdalena Komaracka, CFA
IR Director
tel. +48 22 582 22 93

IR website:

https://www.pzu.pl/en/investor-relations/reports

Contact:

https://www.pzu.pl/en/investor-relations/kontakt-dla-inwestorow

irpzu@pzu.pl

IR website:

https://www.aliorbank.pl/en/investor-relations/investor-relations.html

Contact:

https://www.aliorbank.pl/en/investor-relations/contact-for-investors.html

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IR website:

https://www.pekao.com.pl/en/investors-relations.html

Contact:

https://www.pekao.com.pl/en/investors-relations.html

8.

Corporate governance statement

8.1. Audit firm auditing the financial statements

On 23 May 2019, KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt to audit the standalone and consolidated financial statements. In this manner, the Supervisory Board made the decision to continue cooperation with the auditor to audit the 2019-2020 financial statements.

The scope of the concluded agreement comprises, in particular:

- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

The Act of 31 March 2020 Amending the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them and Certain Other Acts (known as the Special Act) repealed the provision of the Act on Statutory Auditors according to which "the maximum permissible uninterrupted duration of the statutory audit engagements referred to in Article 17(1) second paragraph of Regulation No 537/2014, performed by the same audit firm or an audit firm associated with this audit firm or any member of a network operating in the European Union states of which these firms are members may not exceed 5 years." The Special Act introduced similar amendments to the Accounting Act.

As a consequence, the maximum permissible uninterrupted duration of the statutory audit engagements for an audit firm will be a period of 10 years, as specified in Article 17(1) second paragraph of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

On this basis, the Supervisory Board decided to renew, for 2021-2022, with an option to extend until 2023, and subsequently to exercise the option and extend until 2023 the orders for KPMG Audyt to review and audit the standalone financial statements of PZU and the consolidated financial statements of the PZU Group. The recommendation regarding the selection of the audit firm to carry out the audit fulfilled the conditions in force.

In 2021, the audit firm auditing the financial statements rendered permitted non-audit services to PZU, which was approved, following an assessment of the company's independence, by the Audit Committee.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

Main assumptions underlying the policy for selecting the audit firm

The following are among the main assumptions underlying PZU's policy for selecting the audit firm:

- ensuring the accuracy of the process of selecting the audit firm and determining the responsibility and the duties of participants in this process;
- analysing when selecting the audit firm the recommendations issued by the Audit Committee;
- giving consideration to the rule of rotating the audit firm and the key statutory auditor in the embraced time horizon.

The main objectives of the policy for the provision of permitted non-audit services by the audit firm conducting the statutory audit, its related entities and by a member of the audit firm's network were as follows:

- ensuring correctness in the process of procuring permitted services;
- determining the responsibility and the duties of the participants in this process;
- defining the catalogue of permitted services;
- establishing the procedure for procuring permitted services.

On 24 August 2022, the Supervisory Board passed a resolution on the selection of PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. as the audit firm to conduct audits and reviews of financial statements and audits of reports on the solvency and financial condition of PZU and the PZU Group for the five fiscal years 2024-2028, with an option to extend the contract for two more fiscal years 2029-2030.

The work referred to above will be performed for five consecutive fiscal years ending 31 December 2024, 31 December 2025, 31 December 2026, 31 December 2027, 31 December 2028, respectively, with an option to extend for two consecutive years ending 31 December 2029 and 31December 2030. The Supervisory Board decided to select PwC as the auditing firm for the audit of the financial statements in accordance with applicable regulations and professional standards.

8.2. Shareholders and issuer's securities

PZU's shares

PZU's share capital is divided into 863,523,000 ordinary shares with a nominal value of PLN 0.10 per share giving the right to 863,523,000 votes at the Shareholder Meeting[1].

As at 30 June 2023, PZU shareholders holding significant equity stakes (at least 5%) were:

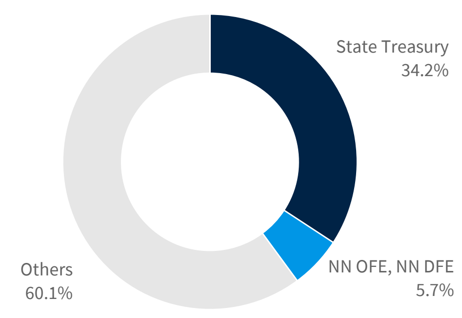
- The State Treasury of the Republic of Poland holding 295,217,300 shares constituting 34.19% of PZU's share capital and giving it the right to 295,217,300 votes at the Shareholder Meeting;
- Allianz Polska Otwarty Fundusz Emerytalny (Open-ended Pension Fund) and Allianz Polska Dobrowolny Fundusz Emerytalny (Voluntary Pension Fund) that held 45,742,250 shares at PZU's Ordinary Shareholder Meeting held on 7 June 2023, constituting 5.30% of PZU's share capital and giving it 45,742,250 votes at the Shareholder Meeting;
- Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open-ended Pension Fund) that held 43,680,074 shares at PZU's Ordinary Shareholder Meeting held on 7 June 2023, constituting 5.06% of PZU's share capital and giving it 43,680,074 votes at the Shareholder Meeting.

1) On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10 and did not affect the amount of PZU's share capital.

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

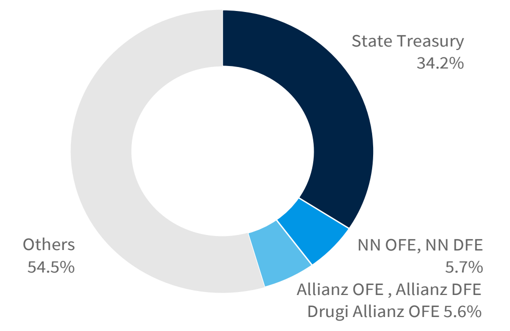
On 24 November 2015, the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date for splitting 86,348,289 PZU shares with a nominal value of PLN 1 per share into 863,482,890 PZU shares with a nominal value of PLN 0.10 per share.

PZU's shareholder structure as at 31 December 2022



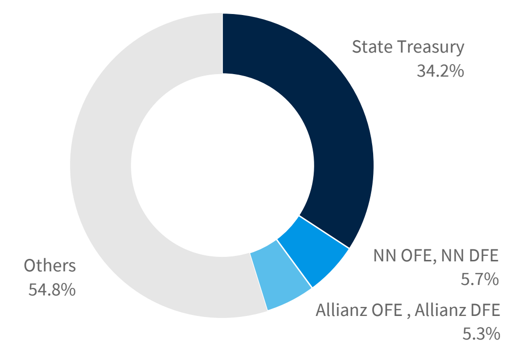
Source: Current report 25/2022

PZU's shareholder structure as at 4 January 2023



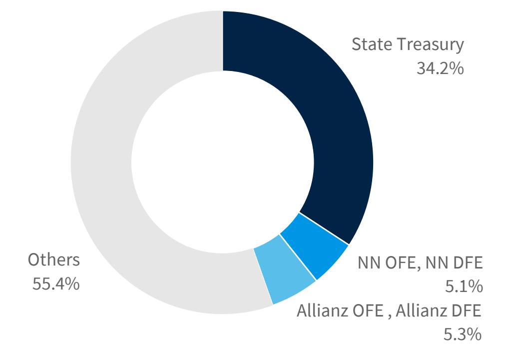
Source: Current report 1/2023

PZU's shareholder structure as at 17 May 2023



Source: Current report 10/2023

PZU's shareholder structure as at 07 June 2023



Source: Current report 16/2023

Shareholders holding significant equity stakes	Number of shares and votes at the Shareholder Meeting			Shares in the share capital and in the total number of votes at the Shareholder Meeting		
	31 December 2021	31 December 2022	30 June 2023	31 December 2021	31 December 2022	30 June 2023
State Treasury	295,217,300	295,217,300	295,217,300	34.19%	34.19%	34.19%
Nationale-Nederlanden OFE		49,223,000	43,680,074		5.70%	5.06%
Nationale-Nederlanden OFE, Nationale-Nederlanden DFE	45,167,000			5.23%		
Allianz OFE, Allianz DFE and Second Allianz OFE*			45,742,250			5.30%
Others	523,138,700	519,082,700	478,883,376	60.58%	60.11%	55.45%
Total	**863,523,000**	**863,523,000**	**863,523,000**	**100.00%**	**100.00%**	**100.00%**

* Allianz OFE and Allianz DFE are managed by PTE Allianz Polska S.A.

PZU's bonds

As at 31 December 2022, PZU held subordinated bonds (ISIN PLPZU0000037) worth PLN 2.25 billion, bearing interest at WIBOR6M + 180 bps, issued on 30 June 2017. The maturity date for these bonds is 29 July 2027, or 10 years after issue with an early redemption option 5 years after the issue date. The bonds are listed on the Catalyst ASO WSE/Bondspot.

Entitlements and restrictions on PZU shares

All PZU shares are ordinary shares with no preferential rights attached to them, in particular no special control rights. Each share carries the right to one vote at the Shareholder Meeting and the same right to dividends.

However, PZU's Articles of Association limit voting rights on PZU shares in certain cases. The shareholders' voting rights is limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance and Reinsurance Activity Act, such limitation of voting rights shall be deemed not to exist. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes (i.e. the State Treasury);
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are summed up in accordance with the rules described in the Articles of Association. The aforementioned restrictions on shareholders' voting rights will expire as soon as the State Treasury's stake in PZU's share capital falls below 5%.

In addition, the Articles of Association grant certain powers to the State Treasury as a shareholder of PZU to appoint Members of the Supervisory Board.

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

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

In 2013-2023 and in 1H 2023, PZU did not have any employee stock programmes in place.

Limitations on transferring the title to the issuer's securities

The PZU Articles of Association contain no provisions restricting the transfer of the title to the issuer's securities. Nor are there any other known limitations arising from documents other than the Articles of Association that would be applicable in this context, except for limitations resulting from generally applicable laws in precisely defined situations, in particular:

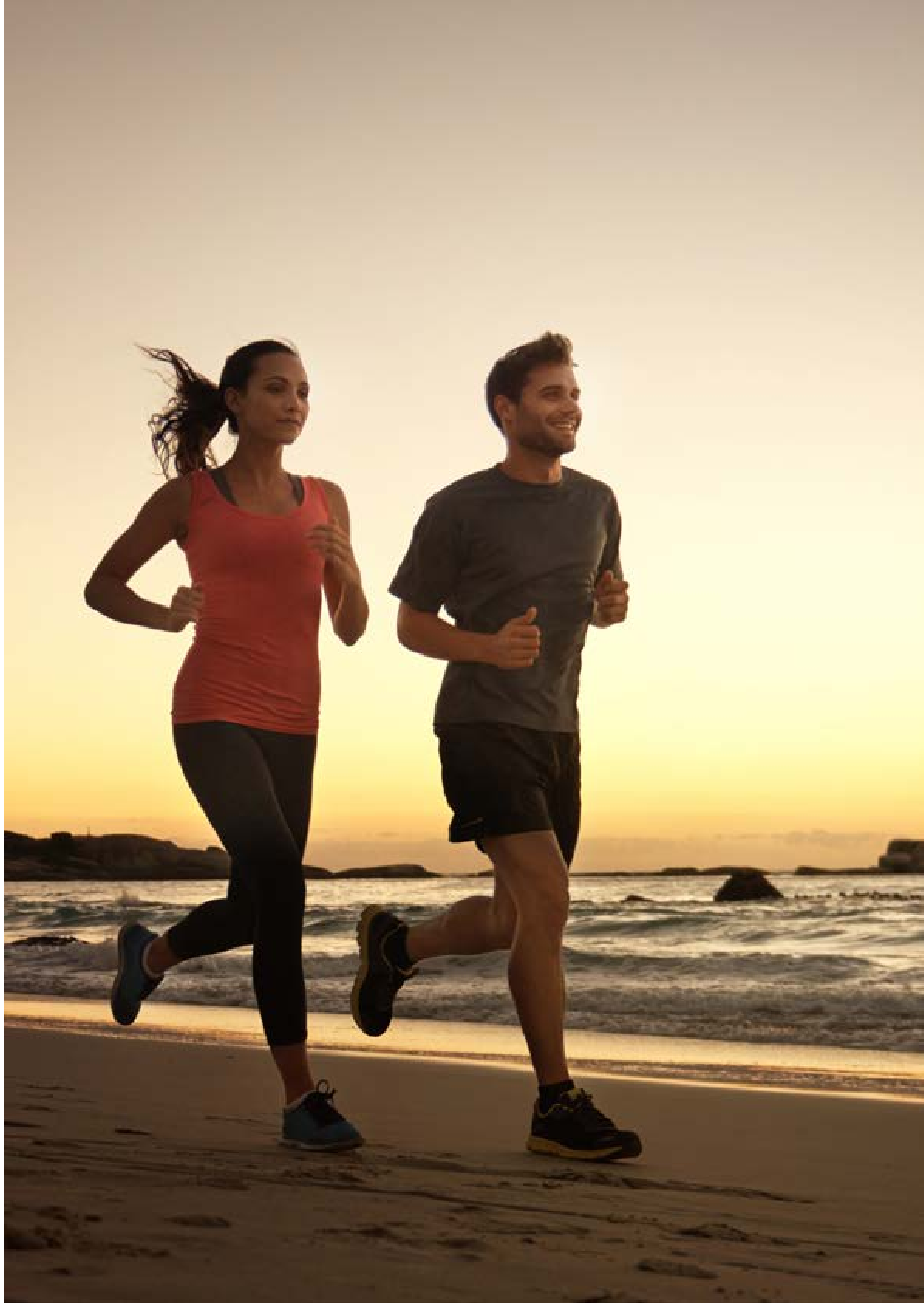
- limitations resulting from the provisions of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organised Trading System and on Public Companies (Journal of Laws of 2022, item 2554, as amended), namely:
  - from Article 75(4) - shares encumbered with a pledge, until the date of its expiration, may not be traded, except in a situation where the acquisition of such shares takes place in the performance of an agreement on the establishment of financial security within the meaning of the Act of 2 April 2004 on Certain Forms of Financial Security,
  - from Article 88a - temporary limitations on the direct or indirect acquisition of or subscription for shares in a public company by an entity required to perform the obligations specified in Article 73(1) of the Act or Article 74(2) and (5) of the Act, which in the company in question exceeded the threshold of the total number of votes specified in these regulations - until the date of fulfilment of such obligations;
- limitations arising from Article 362 of the Commercial Company Code, regarding the prohibition of the acquisition of treasury shares by the issuer, except for the cases specified therein and limitations on the acquisition of the parent company's treasury shares by a subsidiary company or a subsidiary cooperative and persons acting on their behalf;
- limitations pertaining to the closed period referred to in Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) and insider dealing within the meaning of the provisions of MAR;
- possible objection by the regulatory authority, in the form of a decision, to the acquisition of or subscription for shares or rights attaching to shares in a domestic insurance undertaking in a quantity ensuring the achievement or exceeding of, as the case may be, one-tenth, one-fifth, one-third, one-second of the total number of votes at the Shareholder Meeting or of a stake in share capital - in accordance with Article 90(1) of the Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2022, item 2283, 2640), if:
  - the entity submitting the notification referred to in Article 82(1) failed to remove the deficiencies in its notification or in the documents or information attached to the notification within the prescribed time limit,
  - the entity submitting the notification referred to in Article 82(1) failed to provide additional information or documents required by the regulatory authority within the prescribed time limit,
  - it is justified by the need of prudent and stable management of the domestic insurance undertaking due to a possible impact of the entity submitting the notification referred to in Article 82(1) on the domestic insurance undertaking or due to the assessment of the financial standing of the entity submitting the notification;
- possible setting of a time limit for the acquisition of or subscription for shares or rights attaching to shares, by the regulatory authority, in accordance with Article 90(4) and (5) of the Act referred to in item 4, in a decision declaring the absence of grounds for filing an objection;
- possible issuance by the regulatory authority, in accordance with Article 98(5) of the Act referred to in item 4, of a decision requiring the disposal of shares within the prescribed time limit in the event that the authority issues a decision prohibiting the exercise of voting rights attaching to shares in a domestic insurance company for the reasons specified in Article 98(1) of this Act;
- prohibition to sell shares or rights attaching to shares held by the State Treasury under Article 13(1)(27) of the Act of 16 December 2016 on Rules for Managing State Property (Journal of Laws of 2021, item 1933); with the exclusion referred to in Article13(2)(1) of this Act.

Shares or rights to shares held by members of management or supervisory bodies and PZU Group Directors

As at the date of conveying this Management Board Activity Report, only Tomasz Kulik, Member of the PZU Management Board, held 2,847 PZU shares, which the company reported in current report no. 23/2018. No changes have occurred since the date of conveying the 2022 consolidated financial statements (i.e. 30 March 2023) with respect to Members of the Management Board and Supervisory Board or PZU Group Directors holding PZU shares or rights to shares.

9.

Other information



9. Other information

Representation by the Parent Company's Management Board on the preparation of standalone and consolidated financial statements and the activity report

To the best knowledge of the PZU Management Board, the PZU Group's interim consolidated financial statements and PZU's interim standalone financial statements for 6 months ended 30 June 2023, as well as comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's and PZU's assets, financial position, and financial result. To the best knowledge of the PZU Management Board, the report on the activities of the PZU Group contains a true picture of the development, achievements and situation of the PZU Group, including a description of basic threats and risks.

Information about significant agreements between executed shareholders

The PZU Management Board does not have any information about agreements on the activity of the PZU Group which were executed between shareholders till this Report date and could contribute to changes in the percentages of shares held by the existing shareholders to date.

Information about significant executed agreements

No agreements significant to the Issuer's business were entered into in the first half of 2023

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

In the first half of 2023, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance, individually or collectively, and were executed on terms other than on an arm's length basis.

Purchase of treasury shares in the financial year

As reported in the consolidated financial statements, as at 30 June 2023 consolidated funds held 134,609 PZU shares.

PZU did not hold any treasury shares as at 30 June 2023.

Granted and received guarantees and sureties

In the first half of 2023 neither PZU nor its subsidiaries issued any sureties for loans or borrowings or any guarantees, jointly to a single entity or its subsidiary, if the total amount of the existing sureties or guarantees had been material.

Information on off-balance-sheet items as at 30 June 2023 is presented in SECTION 5.7. "STUCTURE OF PZU GROUP'S ASSETS AND LIABILITIES".

Preparation rules

The rules for preparing the annual consolidated financial statements are described in the PZU Group's consolidated financial statements.

Assessment of the management of financial resources, including the capacity to meet the liabilities and the specification of possible threats and actions taken or to be taken by the Issuer to counter these threats. Assessment of the performance of investment-related intentions

The PZU Group and the Issuer are in very good financial standing and meet all the safety criteria imposed by the legal regulations and the Polish Financial Supervision Authority. The 'A-' rating of the Issuer by S&P and the stable rating outlook confirm that PZU has a strong business position, with a high level of equity, including for the implementation of investment intentions.

Financial forecasts

The PZU Group has not published any forecasts of its financial results.

Litigations

In the first half of 2023 and till the date of the signing of consolidated financial statements, PZU Group companies were no parties to any pending proceedings before courts, competent arbitration authorities or public authority authorities concerning liabilities or receivables of PZU or PZU's direct or indirect subsidiaries whose unit value would be material, except for issues described in the PZU Group's consolidated financial statements for 6 months ended 30 June 2023.

As at 30 June 2023, the total value of litigation of all 249,987 (31 December 2022: 265,937) cases pending before courts, competent arbitration authorities or public administration authorities at PZU Group companies amounted PLN 10,279 million (31 December 2022: PLN 9,033), including PLN 6,496 million (31 December 2022: PLN 5,586 million) of liabilities and PLN 3,783 million (31 December 2022: PLN 3,447 million) of receivables of PZU Group companies.

This Report on the activity of the PZU Capital Group for the first half of 2023 is made of 161 consecutively numbered pages.

Signatures of PZU Management Board Members

Tomasz Kulik – Board Member

Beata Kozłowska-Chyła – President

Piotr Nowak – Board Member

Ernest Bejda – Board Member

Maciej Rapkiewicz – Board Member

Małgorzata Kot – Board Member

Małgorzata Sadurska – Board Member

Krzysztof Kozłowski – Board Member

Warsaw, 30 August 2023

Appendix

Appendix 1 – Glossary of terms

Appendix 2 – Alternative Performance Measures

Appendix 1: Glossary of terms

Act on Statutory Auditors– Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2020, no. 1415, Item 1089, as amended)

assurbanking – distribution of banking products by insurance companies

bancassurance – distribution of insurance products by banks

BEL - the value of the best estimate liability, the amount required to ensure payment of services and benefits to the insured according to best estimates, i.e. when everything happens as predicted (best estimate assumptions).

Civil Code – Act of 23 April 1964 entitled Civil Code

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code

coverage units - units of insurance services provided used to determine contractual service margin amortisation (CSM) schemes

credit scoring – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is usually presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

cross-selling – sales strategy for selling an insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example.

CRR (Capital Requirements Regulation) - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation)

CSM (Contractual Service Margin), a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides insurance contract services in the future. Changes in actuarial assumptions recognised over time pass through the CSM.

CSM release - The release of the Contractual Service Margin (CSM) presented in financial result – CSM is released in the current period based on proportion of total insurance service provided in the period.

DPS (Dividend Per Share) – market multiple specifying the dividend per share

DY (Dividend Yield) – market multiple specifying the ratio of the dividend per share to the market share price

ECSs – Employee Capital Schemes defined by the provisions of the Act of 4 October 2018 on Employee Capital Schemes

EPS (Earnings Per Share) – market multiple specifying earnings per share

GDPR (General Data Protection Regulation) - Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

GMM (General Measurement Model) - the default IFRS 17 model in which insurance liabilities are calculated as the sum of discounted estimated future cash flows (BEL), non-financial risk adjustments and CSM.

Gross insurance revenue - remuneration (excluding any investment components) in return for the provision of services under insurance contracts

gross written premium - the amounts of gross written premiums (net of the reinsurer's share) due by virtue of the insurance contracts executed in the reporting period, notwithstanding the term of liability stemming from these agreements

IDD – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

IFIE (Insurance Finance Income or Expenses) - the effect of the time value of money and financial risks and changes therein presented in the income statement.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2021, no. 1130, Item 1844), with most regulations in force as of 1 January 2016. This Act introduced Solvency II requirements to the Polish legal system.

insurance agent – commercial undertaking conducting agency activity pursuant to an agreement executed with an insurance undertaking. The activity of agents focuses on acquiring customers, entering into insurance contracts, participating in the administration and performance of insurance contracts and organising and supervising agency activity

insurance broker – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favour of an entity seeking insurance cover

inward reinsurance – reinsurance activity whereby a reinsurer or reinsurers accept a portion of insurance or a class of insurance transferred by a cedent.

IPO (Initial Public Offering) – public offering of specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded publicly.

IR - initial recognition - the date of recognition of an insurance contract.**P/BV (Price to Book Value) -** indicator specifying the ratio of the market price to the book value per share

Lock-in rates - interest rates at initial recognition

NDIC - Non-distinct Investment Component, represents the part of the benefit payable to the insured that will always be paid to the insured regardless of whether or not an insured event occurs

net earned premium - the gross written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in the provisions for unearned premiums and the reinsurers' share

outward reinsurance – reinsurance activity whereby the insurer (cedent) transfers a portion of the concluded insurance to a reinsurer or reinsurers in the form of a reinsurance agreement

P/E (Price to Earnings) - indicator specifying the ratio of the company's market price (per share) to earnings per share

PAA - Premium Allocation Approach - a simplified approach whereby the measurement of the liability for remaining coverage corresponds to the IFRS 4 premium provision mechanism (without separate presentation of a risk adjustment for non-financial risks and contractual service margin), and the liabilities for incurred claims are measured in the same way as for the general measurement model. The PAA method is applied to short duration contracts that meet the relevant eligibility criteria at the initial recognition.

PRIIP – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance based investment products.

prudent person principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk.

RA (Risk adjustment for non-financial risk) - the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognising the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, item 757)

reinsurance – transfer to some other insurance undertaking – the reinsurer – of all or part of the insured risk or class of risks along with the pertinent portion of the premiums. As a result of reinsurance, a secondary split of risks transpires to minimize the risks to the insurance market.

Release of non-financial risk adjustment (RA) presented in the financial result - compensation required by the entity due to the uncertainty incurred regarding the amount and timing of cash flows, resulting from non-financial risks during the entity's performance of insurance contracts.

risk-free rate – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments

sell-side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers

Solvency II – solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016.

spread – the difference between the purchase and sale price of a financial instrument

sum insured – amount in cash for which an insured object is insured. In non-life insurance the sum insured usually constitutes the upper limit of the insurer's liability

technical provisions (PSR) – provisions that should ensure full coverage of current and future liabilities that may result from executed insurance contracts. The following, in particular, are included in technical provisions: provision for unearned premiums, provision for outstanding claims

Appendix 1 – Glossary of terms

and benefits, provision for unexpired risks, provision for investment risk borne by policyholders and provision for bonuses and discounts for insureds

Transition - Date of transition to valuation in accordance with IFRS 17 standard, January 1st, 2022

TSR (Total Shareholder Return) – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year and is expressed as a percentage on an annualized basis

Unit-linked – Unit-linked insurance fund, a separate fund consisting of assets constituting a provision consisting of insurance premiums invested in the manner specified in the insurance contract, a constituent part of unit-linked life insurance also referred to as an investment policy.

UoA - Unit of Account, the lowest level at which valuation under IFRS 17 is conducted, only at this level compensation of profit and loss of insurance contracts is allowed.

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

UX (User Experience) – area related to the experiences of users of the respective tool (or, more broadly, of a process, or interacting with the brand in general). It is associated directly with web usability, which is an empirical field of knowledge dealing with the design and testing of tools (in this case: online tools) in consideration of the needs and preferences of target users. In the context of websites, it involves broadly construed usefulness and effectiveness in attaining specific goals.

VFA (Variable Fee Approach) - method based on the building block approach, applied for contracts with direct participating features, where changes in economic assumptions pass through CSM over the life of contract, method applied e.g. for Unit-Linked contracts.

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market.

Appendix 2: Alternative Performance Measures

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

The profitability and operational efficiency indicators presented herein, constituting standard measures applied generally in financial analysis, provide, in the opinion of the Management Board, significant additional information about the PZU Group's financial performance. Their usefulness was analysed in terms of information, delivered to the investors, regarding the Group's financial standing and financial performance.

aROE - adjusted return on equity, calculated on a capital basis excluding accumulated other comprehensive income relating to finance income or expenses from insurance and reinsurance.

Assets of external clients of TFI PZU and PTE PZU (PLN billion) – assets of external clients accumulated in the PZU "Złota Jesień" Open-End Pension Fund and the PZU Voluntary Pension Fund as well as all assets accumulated and managed by TFI PZU, other than those constituting own funds of PZU Group companies. Compared to the values reported before 2021, PPE products sold past PZU Życie as UFK and managed by TFI PZU as asset management were also included. An increase in this indicator means that the inflows of assets into the funds are greater than the outflows from the funds and/or that the funds generated positive rates of return on assets under management.

COR – combined operating ratio, calculated for the non-life insurance sector. This is the ratio of insurance service expenses, including amounts due from reinsurers to the net insurance revenue; a decrease in the value of this indicator signifies an improvement in efficiency.

Interest margin – the difference between a bank's interest income earned on income-generating assets and interest expenses incurred on liabilities. It is the ratio of a bank's earnings generated on interest to average assets net of matured interest on at-risk receivables; an increase in the value of this indicator signifies an improvement in efficiency.

Operating margin in life insurance – profitability of life insurance segments, calculated as the ratio of the result on operating activity to net insurance revenue; an increase in the value of this indicator signifies an improvement in efficiency

Operating margin in group and individually continued insurance – profitability of the segment of group and individually continued insurance, calculated as the ratio of the result on operating activity to net insurance revenue; an increase in the value of this indicator signifies an improvement in efficiency.

Revenues of the Health pillar/area - gross premium written from health insurance (non-life and life) and revenues from: medical subscriptions, occupational medicine, services under contracts with the National Health Fund and fee-for-service products provided at PZU Zdrowie medical centres (in branches and subsidiaries of PZU Zdrowie), excluding intragroup transactions.

Number of Health pillar/area contracts - the number of contracts of clients of PZU Group health products (PZU Życie, PZU SA, PZU Zdrowie, TUW, LINK4), i.e., the number of contracts of clients having: group or individual health insurance, subscription of medical services or occupational medicine services. For group contracts, the customer is either the insured or the beneficiary.

ROA (Return on Assets) – return on assets, calculated as the ratio of the annual net profit to the arithmetic mean of total assets at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency, i.e. a greater ability of the assets to generate profits.

ROE (Return on Equity) - attributable to equity holders of the parent – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners (investors).

Consolidated ROE (Return on Equity) – return on equity calculated as the ratio of the annual net profit to the arithmetic mean of consolidated equity at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners.

Administrative expense ratio – the quotient of administrative expenses and net insurance revenue; this indicator specifies the percentage share of administrative expenses in the net insurance revenue and a decrease in its value signifies an improvement in efficiency.

Cost/Income ratio, C/I ratio (banking sector) – the quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realisation and impairment losses on investments; a decrease in the value of this indicator signifies an improvement in efficiency.

PZU Group's solvency ratio – the level of coverage of the solvency capital requirement with the PZU Group's own funds within the meaning of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended and supplemented with related documents; an increase in the value of this indicator signifies an increase in the capital surplus.

These Financial Statements contain forward-looking statements concerning the strategic operations. Such forward-looking statements are exposed to both known and unknown types of risks, involve uncertainties and are subject to other significant factors which may cause that the actual results, operations, or achievements of PZU Group considerably differ from future results, operations, or achievements expressed or implied in the forwards-looking statements. The statements are based on a number of assumptions concerning the current and future business strategy of PZU Group and the external environment in which the Group will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Management Board's report on the activity of the PZU Group and PZU, which shall aim to reflect the changes in PZU expectations or changes in events, conditions, or circumstances on which a given assumption has been made, unless provisions of the law provided otherwise. PZU stipulates that the forwardlooking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Management Board's report on the activity of the PZU Group and PZU. Moreover, even if the PZU Group's financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Management Board's report on the activity of the PZU Group and PZU, such results or events may not be treated as a guideline as to the results or events in the subsequent periods.

PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Management Board's report on the activity of the PZU Group and PZU if the strategic operations or plans of PZU shall change, or in the case of facts or events that shall affect such operations or plans of PZU, unless such an obligation to inform resulted from applicable provisions of the law.

PZU Group is not liable for the effects of decisions made following the reading of the Management Board's report on the activity of the PZU Group and PZU.

At the same time, these Management Board's report on the activity of the PZU Group and PZU may not be treated as a part of a call or an offer to purchase securities or make an investment. The Management Board's report on the activity of the PZU Group and PZU does not constitute also an offer or a call to effect any other transactions concerning securities.