TUnŻ „WARTA” S.A.

Solvency and financial condition report

for the year ended 31 December 2020

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Definitions and acronyms

A

Accounting Act – Accounting Act 29 September 1994 (Journal of Laws of 2021, item 217, as amended).

Act on Insurance and Reinsurance Activity – Act on Insurance and Reinsurance Activity of 11 September 2015 (Journal of Laws of 2020, item 895, as amended).

ALM (Asset Liability Management) – management process of the risk of mismatch resulting from diverging structure of assets and liabilities.

B

B-1 Directors – directors of organisational units in the Company reporting directly to a Member of the Management Board.

Back-test – verification of the adequacy of the model and its parameters (applied to verify actuarial calculations).

Balance sheet date – the day as at which the statutory report as well as this Solvency and financial condition report were made.

Best estimate – a liability of the Company determined as the sum of unencumbered discounted cash flows, weighted with the likelihood probability under the concluded insurance contracts.

BIA – Business Impact Analysis.

BondSpot S.A. – a joint stock company operating the OTC market in Poland.

BPV (Basic Point Value) – sensitivity of net items (present value of future cash flows from net assets and liabilities) to a growth of interest rate curves by 1 basis point.

Business Plan – a medium-term financial plan developed annually in compliance with the Company's Articles of Association by the Company's Management Board and submitted to the Company's Supervisory Board for approval.

C

Capital Management Policy – Company's policy defining the principles of capital management in the Company.

CMP (Compliance Monitoring Plan) – an action plan pursued by the Compliance Department ensuring detection of risks to Compliance at an early stage.

Code of Commercial Companies – Act of 29 September 2016 – Code of Commercial Companies (Journal of Laws 2020.1526, as amended).

Commission Implementing Regulations (EU) concerning the calculation of the Solvency Capital Requirement – Regulations laying down implementing technical standards with regard to:

- standard deviations in relation to health risk equalisation systems in accordance with the Solvency 2 Directive (2015/2013 of 11 November 2015),
- the equity index for the symmetric adjustment of the standard equity capital charge in accordance with the Solvency 2 Directive (2015/2016 of 11 November 2015),
- the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the central government in accordance with the Solvency 2 Directive (2015/2011 of 11 November 2015),
- the supervisory approval procedure to use undertaking-specific parameters, in accordance with the Solvency 2 Directive (2015/498 of 24 March 2015),
- the adjusted factors to calculate the capital requirement for currency risk for currencies pegged to the euro in accordance with the Solvency 2 Directive (2015/2017 of 11 November 2015).

Company Management – Company's Management Board and B-1 Directors, and managers appointed by them (managerial staff, managers of organisational units).

Company's Articles of Association , Articles of Association – Articles of Association of Towarzystwo Ubezpieczeń na Życie "WARTA" Spółka Akcyjna, approved by the Extraordinary General Assembly on 28 June 2016, registered on 7 December 2016.

CVAR (Conditional Value at Risk) – the average quantile of the worst rates of return.

D

Delegated Regulation – Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (OJ EU L 2015.12.1, as amended), issued on the basis of and additional to the Solvency 2 Directive.

Deposit ON - a deposit, which will be settled by the end of the next business day after the date of deposit.

DTA – Deferred Tax Assets.

DTL - Deferred Tax Liabilities.

Duration – a measure of interest rate risk interpreted as the average duration of an instrument.

E

Economic balance sheet – a specification of assets and liabilities valued in accordance with Solvency 2 requirements.

EIOPA – European Insurance and Occupational Pensions Authority

Entity manager (within the meaning of the Accounting Act) – a member of the management board or another managing body, and if the body is composed of several persons – members of the body, appointed to perform the function in compliance with the articles of association, Articles of Association or other legal regulations applicable to the entity. The above does not include proxies appointed by the entity.

F

Forward Contract – a derivative transaction consisting in the purchase or sale of an underlying with a pre-defined execution time and at a pre-defined execution price.

G

GIFI – General Inspector of Financial Information.
GUS – Central Statistical Office of Poland.

I

IFRS 16 - International Financial Reporting Standard no. 16 in the field of leasing (OJ EU of 9 November 2017, L291/1).
Investment limits – a system of investment limits set by the Company's Management Board.
IRS contract (Interest Rate Swap) – a derivative instrument being a contract covering an exchange of interest flows.

K

Key functions – internal audit function, compliance function, actuarial function, risk management function.
KPI (Key Performance Indicators) – financial and non-financial indicators used as metrics in the measuring process of goal accomplishment by an organisation.
KRI (Key Risk Indicators) – selected parameters of business processes describing changes to the operational risk profile of the process.

M

MCEV (Market Consistent Embedded Value) – present value of shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business. The allowance for risk should be calibrated to match the market price for risk where reliably observable.
MCR (Minimum Capital Requirement) – a capital requirement determined in compliance with the Act on Insurance and Reinsurance Activity.
Monte Carlo Simulation – a complex process of performing a large number of simulations for a specific financial model with an assumption that exact values of the selected variables of the model are not known in a specific future period while the development of the values of the variables is known in the past.

N

NBP – National Bank of Poland.
NewConnect – an organised stock market of the Warsaw Stock Exchange, outside the regulated market as an alternative trading system.

O

Organisational Unit – a department, bureau or centre equivalent to a department, with their respective component units.
Own Funds – own funds calculated in accordance with the Act on Insurance and Reinsurance Activity being unencumbered assets, available to cover losses resulting from unfavourable changes in the pursued business – both assuming continuation of the business and in the case of liquidation.

P

Persons supervising key functions – the directors managing the following: Internal Audit Department, Compliance Department, Risk Management Department and Actuarial Department.
PFSA, supervisory authority – Polish Financial Supervision Authority. The PFSA performs its tasks with the help of the Office of the Polish Financial Supervision Authority (hereinafter the OPFSA).
PUODO – President of the Personal Data Protection Office.

R

Regulation of the Minister of Finance laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments – Regulation of the Minister of Finance of 12 December 2001 laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments (Journal of Laws of 2017, item 277).
Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings – Regulation of the Minister of Finance of 12 April 2016 on specific accounting principles for insurance undertakings and reinsurance undertakings (Journal of Laws of 2016, item 562).
Report, SFCR – this Solvency and financial condition report of TUnŻ "WARTA" S.A.
Risk appetite – the volume of loss, adversely affecting the levels of profit or capitals that the Company is able to accept in the pursuance of its assumed goals and strategy. In the Company, risk appetite is defined in its risk budget.
Risk budget – maximum accepted level of Solvency Capital Requirement.
Risk Management Strategy – a document describing the risk management system functioning in the Company and setting forth the strategic objectives of risk management.
Risk margin – a part of technical provisions established for the purposes of Solvency 2 to ensure that the amount of technical provisions is equivalent to an amount that a third party would demand for taking over insurance and reinsurance liabilities and for complying therewith.
Risk profile – a scale and structure of risk exposure, taking into account the specifity of the business.
Risk Scan – a structured process of risk identification and assessment aimed at identifying material risks that may adversely affect the Company's financial results in one-year perspective, a description of control mechanisms for the

identified risks, an assessment of risks and adequacy of the controls as well as development of additional controls mitigating residual risks.

S

SCR (Solvency Capital Requirement) – Capital requirement determined in compliance with the applicable provision of the Act on Insurance and Reinsurance Activity and the Technical Specification. The Solvency Capital Requirement is determined as economic capital that must be held by an insurance undertaking or a reinsurance undertaking, to guarantee that bankruptcy may occur not more frequently than once in 200 cases, or possibly that there is a minimum likelihood probability of 99.5 % that the undertakings will continue to be able to comply with its obligations vis-a-vis policy holders and beneficiaries for the next 12 months after the balance sheet date.

Shareholder – entitiy holding 100% shares in the Company – TUiR "WARTA" S.A.

Solvency 2 (S2) – a system used to monitor the solvency of insurance undertakings, legally regulated in compliance with the Solvency 2 Directive and the regulations issued pursuant thereto. The previsions of the Solvency 2 Directive were transposed to Polish legislation in the Act on Insurance and Reinsurance Activity.

Solvency 2 Directive – Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (OJ EU of 25 November 2009, L335, as amended).

Solvency Ratio S2 – the ratio own funds and the Solvency Capital Requirement (coverage of the Solvency Capital Requirement with own funds).

Standard formula – a calculation algorithm of Solvency Capital Requirement, determined by the Technical Specification.

Statutory balance sheet – balance sheet which constitute an integral part of the statutory report. For the purposes of this Report this means: values corresponding to the statutory report values presented in accordance with relevant rules applied for Solvency 2 purposes, i.e. in the layout of the economic balance sheet.

Statutory report – financial statements prepared in compliance with the accounting principles applied in the territory of the Republic of Poland specified in the Accounting Act and prepared in compliance with the specific accounting principles specified in the Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings. For the purposes of this Report this means: values corresponding to the statutory report values presented in accordance with relevant rules applied for Solvency 2 purposes.

T

Talanx Group – capital group with Talanx A.G. being the parent entity, controlling inter alia HDI International A.G.

Technical Specification – the principles of valuation and determination of capital requirements, set forth in the Delegated Regulation, Commission Implementing Regulations (EU), concerning the calculation of the Solvency Capital Requirement, as well as in supplementary interpretations of the supervisory authority.

Treasury BondSpot Hurtowy – wholesale market for treasury bonds and treasury bills.

TUnŻ "WARTA" S.A. – Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. with its registered office in Warsaw, hereinafter referred to as the Company.

V

VAR (Value at risk) – a risk metric showing a limit loss level determined for a specific X which the likelihood probability that it will be reached. Another interpretation defines the term as an amount of cash that should be added to the item so that the likelihood probability of any loss (negative value) is less or equal to X.

W

WSE – Warsaw Stock Exchange.

Towarzystwo Ubezpieczeń na Życie “WARTA” S.A.
Solvency and financial condition report for the year ended on 31 December 2020

Basis of preparation

This Report was prepared to meet the requirements of Art. 284 Act on Insurance and Reinsurance Activity and in compliance with the requirements set forth in the Act on Insurance and Reinsurance Activity as well as in compliance with the requirements set forth in the Delegated Regulation and in the Guidelines on reporting and public disclosure (EIOPA-BoS-15/109).

Unless specified otherwise, the financial items disclosed in this Report are valuated in compliance with the Act on Insurance and Reinsurance Activity.

The Company valuates its assets and liabilities on a going concern basis (in compliance with Art. 7 of the Delegated Regulation).

The report is made up of five core parts as follows:

A. Business and Performance – this part contains characteristics of the Company’s business profile, a description and comments of the financial results in reporting and comparative period with specific focus on results from insurance and investment activities.

B. System of Governance – this part contains basic information on the system of governance in the Company, including the applied fit and proper requirements as well as characteristics of the key functions in the Company.

C. Risk Profile – this part contains characteristics of risks split into types, affecting the Company’s business and a description of management methods of the risks.

D. Valuation for Solvency Purposes – this part contains the valuation rules applied by the Company of its assets, technical provisions and other liabilities, in compliance with the Act on Insurance and Reinsurance Activity, and differences are identified in relation to the valuation principles for statutory reporting.

E. Capital Management – this part contains assumptions underlying the calculations of capital requirements and own funds, in compliance with the requirements set forth in the Act on Insurance and Reinsurance Activity, and an analysis of the calculation results of capital requirements and own funds as at 31 December 2020.

Unless specified otherwise, all financial data in this Report is presented in thousands of zlotys (hereinafter PLN ‘000).

President of the Management Board
JAROSŁAW PARKOT

Vice-President of the Management Board
JAROSŁAW PIĄTKOWSKI

Vice-President of the Management Board
PAWEŁ BEDNAREK

Vice-President of the Management Board
RAFAŁ STANKIEWICZ

Vice-President of the Management Board
GRZEGORZ BIELEC

Vice-President of the Management Board
ANNA ŚWIDERSKA

Vice-President of the Management Board
HUBERT MORDKA

Chief Accountant KATARZYNA KOŁODZIEJ

Vice-President of the Management Board
JAROSŁAW NIEMIROWSKI

Chief Actuary TOMASZ KOŁODZIEJCZYK

Warsaw, 24 March 2021

Summary

The core purpose of this Report is to help the recipient to understand business, by describing the governance system in the Company and its capital position, including the methods and assumptions used in calculation of this position. An integral part of the Report is the quantitative information showing basic financial measures, including the calculation of the coverage of the Solvency Capital Requirement with own funds.

THE KEY ELEMENTS OF THE COMPANY'S BUSINESS MODEL AND STRATEGY

In 2021 TUnŻ "WARTA" S.A. will continue the strategy oriented at profitable growth. The basic elements of this strategy will be as follows:

- continuation of the strong increase in protection insurance with a regular premium, in particular for group and individual insurance,
- offering investment products, as a supplement of the Company's offer, fully adapted to regulatory requirements meeting the parameter of adequate profitability,
- further improvement of operational efficiency and cost effectiveness, led by among others new technological solutions,
- developing standards and good practices in risk management.

The Company will implement its strategy while maintaining and improving a diversified distribution network, under which:

- there will be a network of agents dedicated to selling only life products,
- the model of cooperation with the non-life and life agents network will be continued, thanks to which the offer addressed to clients is comprehensive and supports client's attachment to the Company through insurance of additional risks, e.g. the conclusion of a group insurance contract by entity insuring their assets at TUiR "WARTA" SA, or the conclusion of an individual life insurance contract by a person who has motor insurance in a non-life company,
- cooperation with brokers in the Corpo segment will be developed,it is assumed to maintain cooperation with banks as an additional distribution channel.

The Company increases the efficiency of the operations through the use of technological innovations as a supporting measure, in particular: flexibility and efficiency of sales processes, improvement of underwriting practices and operational efficiency. One of the effects of the COVID-19 pandemic is a change in customer trends and behaviors towards individualization of offers and an electronic, fast and paperless method of concluding and handling insurance. In addition to introducing the possibility of acquiring and servicing customers at a distance through traditional sales networks, the situation also translated into the intensification of work on the development of the online sales channel and the introduction of products offered for sale via Internet.

With regards to investment activity, the Company will continue its policy of a conservative investment profile, which is determined by the dominating share of debt securities and local government units in general investment portfolio. The supplementary component, and at the same time improving the profitability of the portfolio will be exposure to market risk. Investments in higher-risk assets, e.g. in shares, will be taken tactically and on a small scale.

The Company will continue the risk and capital management strategy oriented at ensuring long-term solvency ratio at the level of at least 130%, i.e. significantly exceeding regulatory requirements and at the same time supporting the maintenance of the high credit rating.

THE COMPANY'S UNDERWRITING AND INVESTMENT PERFORMANCE

The Company's underwriting performance - analysed below - is in compliance with the rules applicable to the statutory report.

The Company's financial results achieved in 2020 confirm strong financial condition of the Company.

Gross premiums written from underwriting activities in 2020 amounted to PLN 983 373 thousand and increased compared to the previous year by PLN 10 680 thousand i.e. by 1.1% due to the increase of the sale of products with a regular premium, both group (by 17.0%) and individual (by 10.3%). In addition, in 2020 the Company recorded a strong decrease in the insurance line with a single premium (by 54.2%).

The technical result was at the level of PLN 50 777 thousand which means a slight decrease (by PLN 653 thousand, i.e. by 1.3%) compared to the previous year. This decrease was mainly due to an increase in large administrative costs (by PLN 9 308 thousand, ie by 9.9%), mainly due to the strong development of group insurance as well as investments in IT and projects. The increase in costs was largely compensated by a higher technical margin (by PLN 8 656 thousand, ie 5.9%), mainly due to group insurance.

In 2020, the Company recorded a decrease of the result on investment activity, mainly in part of the policy portfolio, where the investment risk is borne by the policyholders, which occurred in connection with the stock market declines at the start of the pandemic COVID-19.

In 2020, the Company generated a net profit of PLN 34 052 thousand. This means an increase compared to the previous year (by PLN 2 017 thousand i.e. by 6.3%) mainly as a result of increase in the undertaking activities.

MATERIAL LINES OF BUSINESS AND MATERIAL GEOGRAPHICAL AREAS WHRE THE BUSINESS IS CARRIED

The Company operates in the field of life insurance in Poland and does not conduct insurance activities through foreign branches. Detailed data indicating the geographical structure of sales are presented in chapter A.2.2 of this Report.

The business of the Company covers insurance activity in life insurance, covered with Section I of the Appendix to the Act on Insurance and Reinsurance Activity.

The Company has in its offer a wide range of insurance products of a protective nature (risk of death, loss of health, assets) as well as savings with protective elements.

In order to ensure effective management of such differentiated portfolio, the Company groups its products by uniform risk types. The resultant business segmentation is used for the purposes of the strategic and operational planning as well as control of results on an ongoing basis.

For statutory purposes and in compliance with Section II of the Appendix to the Act on Insurance and Reinsurance Activity the Company classifies risks according to statutory groups.

For reporting purposes in compliance with Solvency 2, the Company classifies risks to the following business lines:

- insurance with profit participation,
- unit-linked and index-linked insurance,
- other life insurance,
- health Insurance similar to non-life insurance.

The detailed description of the material business lines is presented in chapter A.1.1 of this Report.

THE KEY ELEMENTS OF THE SYSTEM OF GOVERNANCE

The Company's system of governance has been established and implemented as that at each level it ensures assurance of defined objectives of the Company, with maintaining at the same time the principle of regularity and caution, consistent with Solvency 2 principles.

In particular, the Company has a transparent and adequate organizational structure, in which the subordination, tasks, duties and responsibilities and reporting lines are clearly and appropriately allocated as well as an effective information disclosure system ensures proper communication on each its level.

Within the system of governance, the Company ensures that persons actually managing the Company or performing other key functions meet the fit and proper requirements - proportionally to the activities performed - in accordance with the Solvency 2 principles. The remuneration system including, in particular, the management of the Company, was determined in such a way as to prevent excessive risk-taking practices, i.e. basic salary constitutes an adequately high part of total remuneration.

The Company does not outsource neither management over the Company or any key functions. Any commissioning of decision authority (supervision) with respect key functions is prohibited. However, subject to approval by the Company's Management Board, it is possible to outsource certain activities performed within key functions subject to the service provider complying with the requirements of competence and propriety as set forth in Solvency 2.

It is allowed to outsource basic or valid activities, which include:

- making declarations of will on claims for damages or other benefits due under insurance contracts and insurance guarantee contracts,
- making declarations of will on claims for damages or other benefits due under active reinsurance contracts and retrocession.

The Company's uninterrupted operations are ensured by a functioning Crisis Management System, whose elements are annually updated and tested: Business Continuity Plan (BCP) and Emergency Recovery Plan (ERP).

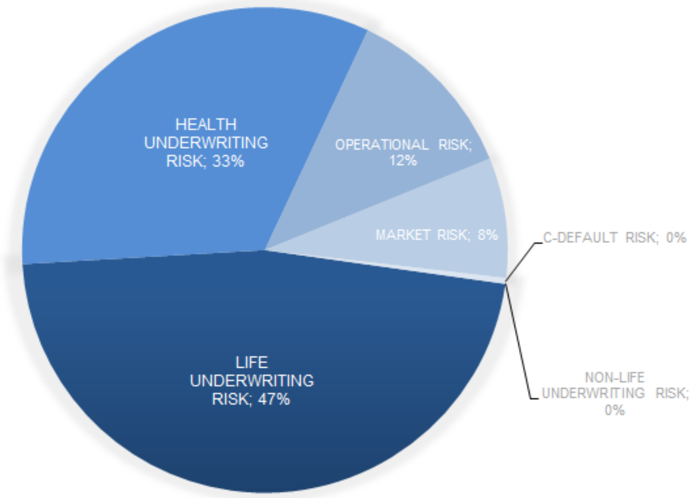
Once a year the system of governance is reviewed in terms of the nature, scale and complexity of the risks inherent in the Company's business. The Supervisory Board positively assessed the Company's system of governance, both in 2020 as well as in comparative year.

THE COMPANY'S KEY RISK

The key types of risk to which the Company is exposed within its operations and which, to a large extent, determined the implementation of the Company's business strategy, are healthy underwriting risk and life underwriting risk. Their total share in thel Solvency Capital Requirement, as at 31 December 2020, was 80%, of which 47 pp constituted underwriting risk in life insurance and 33 pp – underwriting risk in healthy insurance. Other 12 pp constituted operational risk. Taking into account the principle of proportionality and the scale and nature of operations, these risks are covered by the overall risk management process and additionally are subject to established internal limits and warning levels.

Other risk significantly affecting the operations of the Company and included in the standard formula is market risk, which total share in the Capital Solvency Requirement as at 31 December 2020 were 8%.

The chart below presents the Company's risk profile at the end of the reporting period in its main modules.



Apart from the above risks the Company also recognizes as significant: individual risks identified as part of the ORSA process and identified during the preparation of the Business Plan.

A detailed description of the risks, including those identified as part of the ORSA process in 2020 and during the preparation of the Business Plan, along with the risk management process was presented in part C of this Report.

THE COMPANY'S SOLVENCY RATIO AT THE END OF REPORTING PERIOD

The CAR S2 is the ratio of eligible own funds in the amount of PLN 549 258 thousand to the Solvency Capital Requirement of PLN 217 803 thousand.

All eligible own funds were classified as Tier 1, i.e. as of the highest quality in terms of availability in case of covering losses. The duration of all Company's own funds is unlimited.

The value of eligible own funds, described in detail in part E of this Report, represents an excess of assets over liabilities of PLN 602 387 thousand deducted by the accrued net financial result for 2019 and 2020 in the part intended for the expected dividend payment in the amount of PLN 46 499 thousand and an asset tax of PLN 6 630 thousand to be paid in the next 12 months.

The excess of assets over liabilities in the amount of PLN 602 387 thousand represents the difference between assets valued in compliance with the requirements of Solvency 2 in the amount of PLN 1 785 873 thousand and the liabilities valued in compliance with the requirements of Solvency 2 in the amount of PLN 1 183 486 thousand. Detailed information on methods and assumptions adopted for assets and liabilities and technical provisions valuation are in part D of this Report.

The Solvency Capital Requirement of PLN 217 803 thousand and Minimum Capital Requirement of PLN 98 012 thousand were calculated using the standard formula and is presented in part E of this Report.

The S2 ratio at the end of 2020 amounted to 252.2% is significantly higher than the legal requirements and target level (130%) specified in the Company's Capital Management Policy, as detailed in part E of this Report.

Considering the Business Plan, it is expected that the Solvency Capital Requirement and Minimum Capital Requirement coverage will be maintained at levels significantly above regulatory requirements.

SIGNIFICANT EVENTS WITH MATERIAL IMPACT ON THE SOLVENCY AND FINANCIAL CONDITION OCCURRED OVER THE REPORTING PERIOD

In 2020 thefollowing significant events occurred in the Company:

- the COVID-19 pandemic, the impact of which on the Company's operations is described in detail in Part C.7 of this Report,
- the changes in the composition of the Supervisory Board and the Management Board of the Company, described in detail in part B.1.1 of this Report,
- lack of dividend payment from the net profit for 2019, described in detail in part A.1.2 of this Report.

MATERIAL CHANGES OVER THE REPORTING PERIOD

The change in risk profile

Changes in the Company's product structure in 2020 affected changes in the Company's risk profile. New sales of individual life insurance and an increase in the share of group insurance in the Company's portfolio caused an increase in the significance of actuarial risk for life and health insurance.

The change in the valuation for Solvency 2

In 2020, there were no significant changes in the valuation for Solvency 2 purposes.

Apart from the above, other significant changes in the scope of business and performance, system of governance, risk profile, valuation for solvency purposes and capital management did not occur in the reporting period.

ANNUAL REPORTING IN THE SOLVENCY 2 SYSTEM

This Report prepared as at 31 December 2020, including qualitative information and quantitative information (in the form of annexes to the Report) is the Report prepared in accordance with the requirements of Solvency 2.

This Report has been reviewed by a certified auditor and received an unqualified opinion.

The report is public and after approval is posted on the Company's website.

In the extension to this Report and in accordance with the principles of Solvency 2, the Company submits the following reports to the supervisory authority:

- Regular Report for the purpose of UKNF supervision (RSR),
- annual reporting templates prepared on the basis of Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015.

The Reports as at 31 December 2019, including data for the financial year ended 31 December 2019, were submitted to the supervisory authority on 7 April 2020.

The date of submitting the above reports as at 31 December 2020, covering data for the financial year ended 31 December 2020, is on 8 April 2021.

CONCLUSIONS

According to the Report for 2020, the Company meets the requirements of the new Solvency 2 regime, in the scope of:

- implementation of the governance system, including key functions, fit and proper reqirements and outsourcing rules,
- valuation of assets, liabilities and technical provisions,
- calculation of own funds and capital requirements,
- reporting and monitoring the current and expected (in the perspective of the Business Plan) the CAR S2.

As at 31 December 2020 the Company's S2 ratio amounted to 252.2%. i.e. significantly higher than the legal requirements and higher by 122.2 pp. than target level specified in the Company's Capital Management Policy. Such a strong solvency ratio confirms that TUnŻ "WARTA" S.A., despite the crisis caused by the pandemic COVID-19, maintains a strong and stable financial condition.

A Business and Performance

This chapter contains characteristics of the Company's business profile and comments of the financial results in reporting and comparative period with specific focus on results from insurance and investment activities.

A.1 Business

A.1.1 Information on the Company

THE COMPANY'S BUSINESS NAME AND REGISTERED OFFICE

The Company operates under the name of Towarzystwo Ubezpieczeń na Życie "WARTA" Spółka Akcyjna and it may use the following abbreviations: Towarzystwo Ubezpieczeń na Życie "WARTA" S.A. or TUnŻ "WARTA" S.A. The registered office of the Company is in Warsaw, at Chmielna 85/87.

REGISTRATION WITH THE COMMERCIAL COURT

The Company is registered with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000023648. The duration of the Company is unlimited.

SHARE CAPITAL

The share capital of the Company amounts to PLN 311 592 900,00 and is composed of 3 115 929 registered shares having the nominal value of PLN 100,00 (PLN one hundred) each.

NAME AND REGISTERED OFFICE OF THE PARENT ENTITY

The parent entity of the Company (Shareholder) is Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" S.A. with its registered office in Warsaw, holding 3 115 929 shares entitling it to 100% votes at general meetings.

NAME AND REGISTERED OFFICE OF THE PARENT ENTITY OF THE COMPANY'S SHAREHOLDER

The parent entity of the Shareholder, holding 14 234 560 shares equivalent to 75.74% votes at its General Assembly, is HDI International AG, member of Talanx Group, with its registered office in Hannover (Federal Republic of Germany) at HDI-Platz 1.

Talanx Group companies operate under various brands operating in over 150 countries around the world.

The Talanx Group operates in the areas shown in the organizational chart published on the website https://www.talanx.com/media/Files/talanx-gruppe/pdf/k-struktur.pdf.

NAME AND REGISTERED OFFICE OF A MINORITY SHAREHOLDER OF THE COMPANY'S PARENT ENTITY

The minority shareholder of the Company's parent entity, holding 4 559 298 shares equivalent to 24.26% votes at its General Assembly, is Meiji Yasuda Life Insurance Company with its registered office in Tokyo (Japan) at 1-1, Marunouchi 2-chome, Chiyoda-ku.

The ownership structure of the Company and its Shareholders, which additionally includes Polish companies included in the Talanx Group, is presented in the diagram below.

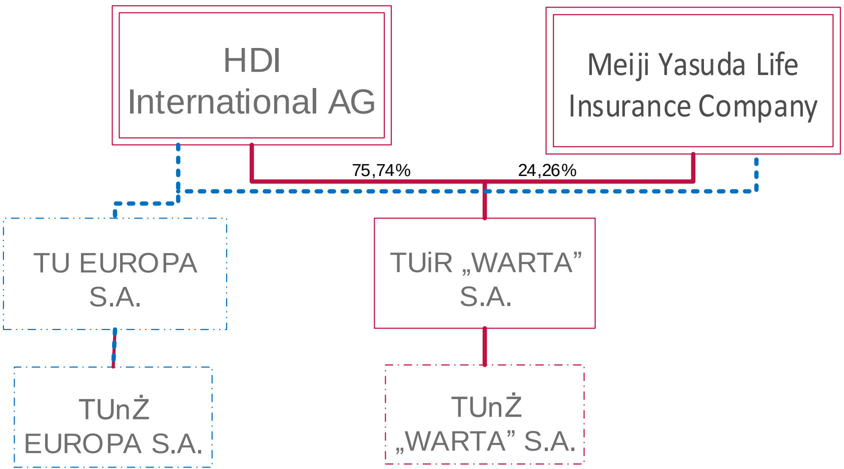


Figure 1.
The ownership structure of the Company and its Shareholders, which additionally includes Polish companies included in the Talanx Group

NAME AND REGISTERED OFFICE OF SUBSIDIARY COMPANY

TUnŻ "WARTA" S.A. holds no interests in subsidiary entities.

NAME AND REGISTERED OFFICE OF THE SUPERVISORY AUTHORITY

The supervisory authority of the Company is the Polish Financial Supervision Authority with its registered office in Warsaw at Piękna 20 street.

The supervisory authority of the Talanx Group is Bundesanstalt für Finanzdienstleistungsaufsicht with its registered office in Bonn (Federal Republic of Germany) at Graurheindorfer 108.

NAME AND REGISTERED OFFICE OF THE AUDITOR

The auditor responsible for the audit of this Solvency and financial condition report is Tomasz Orłowski (registration no. 12045), representing PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. with its registered office in Warsaw at Polna 11.

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. is an entity authorised to audit financial statements, listed under number 144.

Pursuant to competences referred to in Art. 24.17 of the TUNŻ "WARTA" S.A. Articles of Association, the Company's Supervisory Board approved choice of the entity authorised to audit the report in its resolution No. 01/2020- of 17 March 2020 .

CHARACTERISTICS OF MAJOR BUSINESS LINES OF THE COMPANY

Within the meaning of Solvency 2, the Company operates in the following business lines defined in Annex I to the Delegated Regulation:

Insurance with profit participation

The most important types of insurance offered in this business line are Life and Term Insurance (also called Mixed-Mutual Insurance), combining term life insurance and life insurance. These are protection and savings products that guarantee the payment of money both in the event of death living of the insured on the policy's maturity date. In addition, this business line includes universal and disability insurance. Products of this type offer the policy holders the share of profits from investments, which cover the provisions.

Unit-linked and index-linked insurance

This line of business includes unit-linked products, structured products, and associated contractual agreements that are part of traditional and group and individual products. The insurance products within this line are primarily investment. They combine the insurance components (both the risk of death and the additional risk) and the saving ones that guarantee the policyholder to use of the collected equity funds in the future.

Other life insurance

This line includes products that do not meet the definition of other business lines under life insurance obligations. The Company provides products that offer protection mainly against the risk of death, in particular: Group insurance, Individual insurance continuation of group insurance, Term life insurance, Loan repayment insurance (mortgage, instalment loan, credit cards), Mortgage, Credit cards, Short-term endowment insurance.

Income protection insurance

All accident and illness risks offered by group insurance and individual continuation constitute this line of business. There is a different nature of the risks (health risks) and other construction similar to non-life insurance (the agreements are mainly annual, renewable).

A.1.2 Material economic events

MATERIAL BUSINESS EVENTS

Dividend for 2019

As consequence of announced the epidemics in 2020 in Poland and the possible negative economic consequences of this state and the expected impact on the insurance sector, on 26 March 2020 the Chairman of the PFSA sent all insurance companies a letter with a recomendation that they should retain all profit generated in previous years. Based on that letter the Company did not pay out any dividend from the net financial result from 2019.

LEGAL ENVIRONMENT

In 2020, a number of amended and new legal regulations entered into force, the scope of which also covered the area of operation of entities conducting insurance activity.

The most important regulatory changes include:

Act of 19 July 2019 amending the act on reducing payment gridlocks entered into force on 1 January 2020. It is the implementation of Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions.
The amendment includes increasing payment discipline in

business transactions and strengthening the legal protection of the weaker side of economic relations, i.e. micro, small and medium-sized enterprises in relation to large entities.

From insurance companies point of view the main amendment is introduction of an obligation for annual reporting on contracts concluded (excluding payments from insurance contracts) in the previous year.

Throughout 2020, the government adopted a number of legislative initiatives, commonly known as anti-crisis shields, aimed at protecting the Polish state, employers and employees against the crisis caused by the corona virus COVID-19 pandemic. Shields are packages of legislative solutions based on five pillars: protection of jobs and safety of employees, financing of entrepreneurs, health protection, strengthening the financial system, public investments.

From the employers' point of view, the most important new regulations introduced by the shields include inter alia:
- possibility of instructing an employee to go on “home office”,
- additional care allowance - if a nursery, children's club, kindergarten or school is closed due to COVID-19,
- introducing in the Commercial Companies Code the possibility of voting and participating in meetings of Management Boards, Supervisory Boards and General Assemblies by means of direct remote communication,
- changing in the Act on Statutory Auditors, Audit Firms and Public Supervision, the provision on limiting the 5 years maximum time of uninterrupted duration of statutory audit engagements carried out by the same auditing company to 10 years,
- possibility of changing payment dates and deadlines of filing tax declarations, repayment in instalments, accounting for the loss of 2020 in 2019, extending the deadlines for preparing transfer pricing documentation.

Act of 28 November 2020 amending the act on personal income tax, the act on corporate income tax, the act on flat-rate income tax on certain revenues generated by natural persons and certain other acts.

The main objective of the act is to tighten the corporate income tax system so as to ensure that the amount of tax paid by large enterprises, in particular international enterprises, is linked to the actual place of their income. The main goal of changes in transfer pricing is to combat the so-called tax havens and the reduction of bureaucratic and administrative burdens for entrepreneurs in the field of transfer pricing, during the period of an epidemic threat or epidemic in connection with COVID-19.

MATERIAL EVENTS IN THE AREA OF RISK MANAGEMENT

On 1 January 2020, the amended Implementing Regulation 2019/2102 entered into force in the part concerning the disclosure of information used to calculate the adjustment for deferred income taxes capacity to absorb the losses. Therefore, the Company has developed a detailed policy in this regard.

The SARS-CoV-2 pandemic has significantly changed the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. The impact of the related situation from COVID-19 to the Company concerns short-term and long-term perspectives. The timing of the crisis will be decisive in determining the severity of its consequences.

During the 2020 year, the Company implemented detailed, cyclical monitoring and reporting of the impact of COVID-19 on the results and the solvency of the Company, both for internal purposes and the needs of the supervisory authority.

More detailed information in this regard is presented in chapter C.7.

A.2 Underwriting Performance

The underwriting performance, analysed below, is in compliance with the rules applicable to the statutory report.

The net written premium in 2020 amounted to PLN 975 733 thousand and was higher by PLN 11 307 thousand (i.e. 1.2%) in comparison to 2019. The increase of premium results from higher regular premium despite significant decrease in the single premium in unit-linked products.

As per Appendix 2 to this Report, the Company's costs include: net claims incurred with changes in other technical provisions, expenses incurred and other expenses. The shares of these cost categories in total costs accounted for 68.9%, 30.4% and 0.6% of the total costs, respectively.

In 2020, total costs amounted to PLN 1 007 801 thousand and they are at the same level as in the previous year.

While in relation to the net earned premium with investment result the above categories of costs were: net claims incurred with changes in other technical provisions - 65.6%, expenses incurred - 29.0%, other expenses - 0.6%, and total costs – 95.2%.

Compared to 2019, the level of the total costs ratio in relation to the net earned premium with investment result shows a slight increase (by 0.2 pp), as an effect of an increase in expenses incurred and a decrease in net claims incurred with changes in other technical provisions.

TABLE 1. UNDERWRITING PERFORMANCE

Data in compliance with Appendix 2	2020	2019	Y/Y
Gross premium written	983 373	972 694	1%
Net premium written	975 733	964 426	1%
Net premium earned	973 754	963 430	1%
Net claims incurred, of which:	791 477	776 456	2%
Decrease in other technical provisions	96 810	35 559	172%
Incurred expenses, of which:	306 787	261 943	17%
liquidation costs + change of provisions for liquidation costs	11 411	10 708	7%
investment costs	650	1 265	-49%
Other expenses, of which:	6 347	4 579	39%
other technical costs	6 347	4 579	39%
Complementary data according to statutory report			
Investment result	84 487	96 651	-13%

A.2.1 Underwriting performance split into lines of business

The level of gross written premium in 2020 amounted to PLN 983 373 thousand and was higher by 1.1% than in 2019.

The structure of gross written premium in years 2020 and 2019 split into lines of business shows the figure below:

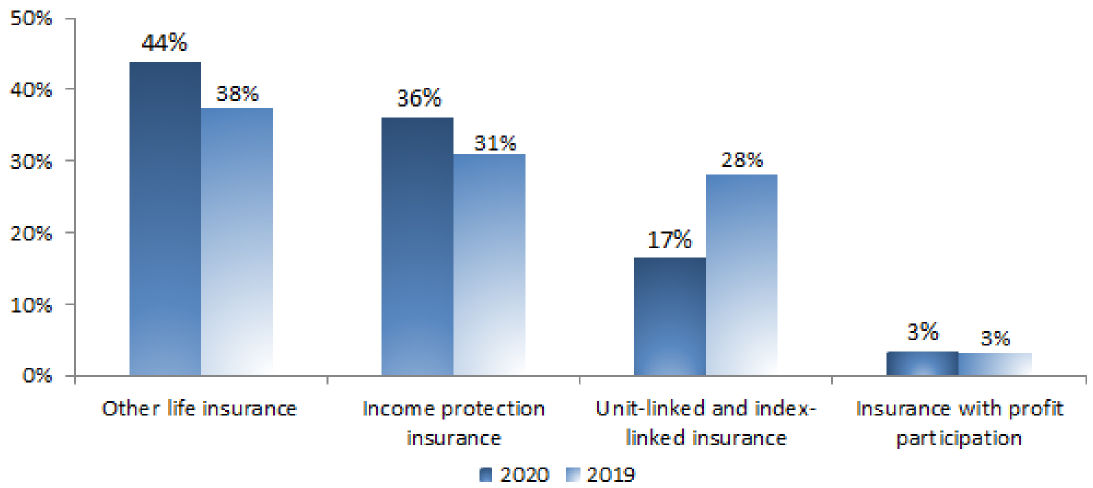


Figure 2.
Gross premium written split into business lines

The other life insurance has the highest share in the Company's portfolio. Within this line, the Company sells products providing death benefit, in group, terms and credit life insurance products.

Another line of business which has high share in the Company's portfolio is the income protection insurance line. This line consist of products offering financial compensation for loss of income due to illness, accident or disablement. The lowest share in the portfolio is insurance with profit participation in individual endowments products and individual dowry insurance.

Lower share in the premium structure is held by the line Index-linked and unit-linked insurance. The decrease in volume of sales in this line is caused by the COVID-19 negative impact.

In 2020 – according to the Company's strategy – there was a significant advantage of protective products with a regular premium in the Company's portfolio. The share of the regular premium in total premium in 2020 amounted to 90.6% while the dynamics of total regular premium in the same period amounted to 115.6%.

The incomes and expenses of the Company include: net earned premium, net claims incurred, changes in other technical provisions and expenses incurred with added investment result according to the statutory report. Incomes and expenses for year 2020 split into business lines was as follows:

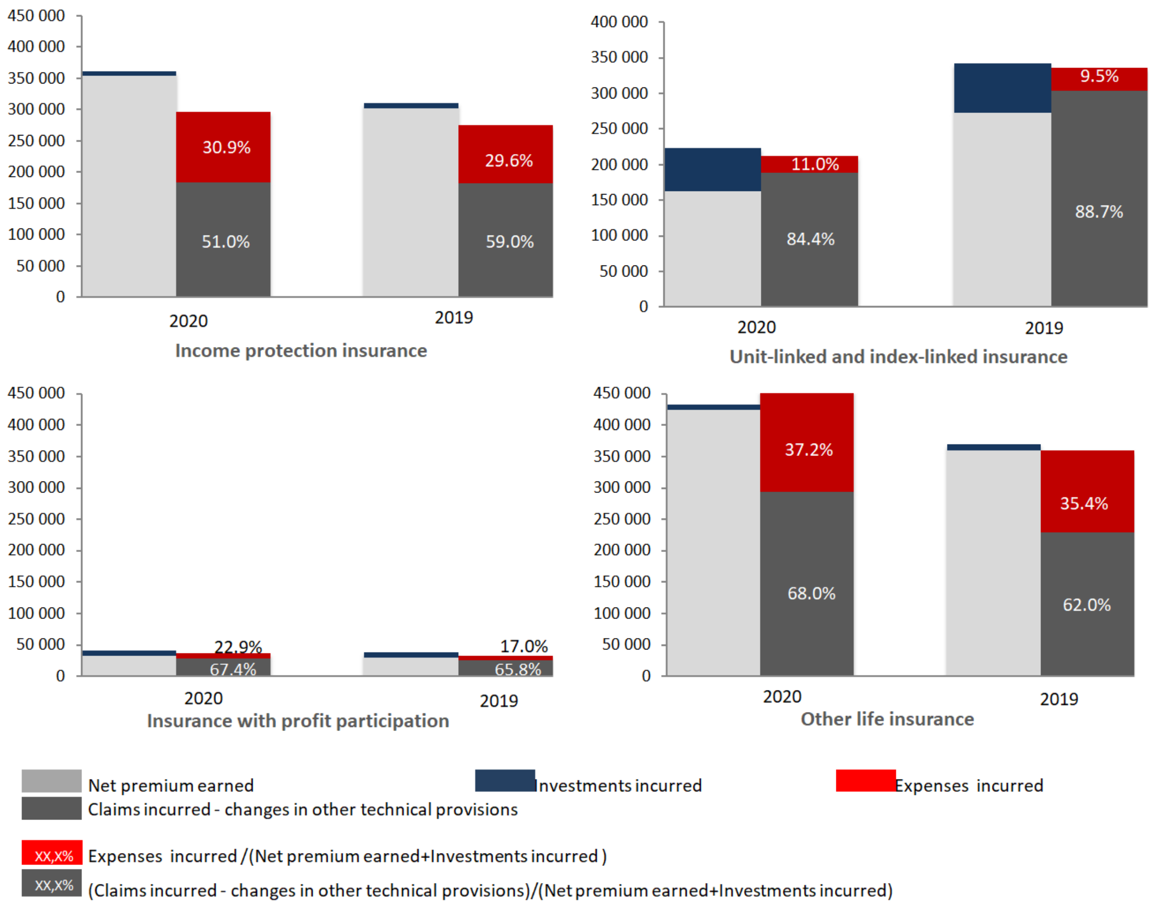


Figure 3.
Revenues and costs split into business lines

The total net combined ratio remained at a level similar to last year and amounted to 95.2%, although the evolution of the ratio in individual business lines is due to the strong impact of COVID-19 in 2020. In particular, there is an improvement in profitability in the Income protection insurance due to the lower number of accident benefits and treatment costs due to limited mobility and fear of infection, as well as deterioration of profitability in the Other life insurance due to the increase in mortality in the fourth quarter 2020.

A.2.2 Insurance activity split into geographical areas (regions)

The Company does not operate insurance business through foreign branches. Total sales in 2020 and in 2019 concerned the risks located in Poland.

A.3 Investment Performance

The investment performance, analysed below, is in compliance with the rules applicable to the statutory report.

According to accounting and financial reporting rules the positions of technical profit and loss statement regarding investment activity cover all the investments of the Company, i.e. including investments for the benefit of life assurance policyholders who bear the investment risk. The structure of these assets and thus the structure of the technical profit and loss statement depend significantly on the policyholders' decisions. The results of the investments for the benefit of life assurance policyholders who bear the investment risk have no direct effect on the result of the Company because they are offset by appropriate change of technical provisions.

TABLE 2. INVESTMENT PERFORMANCE

Investment activity	2020	2019	Y/Y
Investment income	62 126	76 712	-19%
Investment income from interests, shares, other variable-income securities, participations units and investment certificates in investment funds	6 094	7 779	-22%
Investment income from debt securities and other securities with fixed income	27 115	32 116	-16%
Investment income from deposits with credit institutions	537	1 614	-67%
Investment income from other investments	387	1 889	-80%
Gain on realisation of investments	27 994	33 314	-16%
Unrealised gains on investments	55 970	37 609	49%
Costs of investments activities	29 701	14 419	106%
Other costs of investments activities	5 680	7 875	-28%
Loss on realisation of investments	24 020	6 545	267%
Unrealised losses on investments	7 819	6 681	17%
Investment revenue	80 576	93 221	-14%
Changes of revaluation reserve	13 578	6 710	102%
Total investment revenue	94 154	99 931	-6%

In terms of investment income, the most important components were:

- income on debt securities and other fixed-income securities, mostly other than investments for the benefit of life assurance policyholders who bear the investment risk, where the decrease vs. previous year is related mainly to lower interest rates and bond yields,
- gain on realization of investments mostly related to investments for the benefit of life assurance policyholders who bear the investment risk (sale of securities, redemptions of units of investment funds, realization of results on derivatives), where decrease vs. previous year is mainly due to lower realizations on units of investment funds,
- income from shares, participating interests and other variable-yield securities, units and investment certificates in investment funds, mostly related to units of investment funds.

Unrealized gains on investments resulted mostly from investments for the benefit of life assurance policyholders who bear the investment risk, mainly units of investment funds in unit-linked portfolios. Increase vs. previous year was due to increased valuation on debt markets related to interest rate cuts and lower bond yields.

In terms of investment charges, the most important elements were:

- other investment charges, covering mainly direct and indirect asset management costs, and partly also payments to counterparties (resulting from transactions on derivatives),
- losses on the realization of investments, largely resulting from life insurance assets, when the investment risk is borne by the policyholders (sale of securities, redemption of units of funds, realization of the result on derivatives), with the increase compared to the previous year was due to unfavourable valuations of realized positions related to worse market situation in particular during first period of the pandemic.

Unrealized losses on investments result primarily from life insurance assets when the investment risk is borne by the policyholders.

Gains and losses recognized directly in shareholders' equity as the change of revaluation capital are caused mainly by the revaluation of assets classified as Available for Sale and partly by realization of results related to revaluation of securities recognized previously in the revaluation capital. Increase versus previous year was the result of valuation changes due to interest rate cuts and falling bond yields.

A.3.1 Asset classes

The volume of investment assets as of 31 December 2020 was ca 1% lower vs end of 2019. This decrease was due to decrease of investments for the benefit of life assurance policyholders who bear the investment risk, partly compensated by the increasing volume of other investments.

The structure of asset portfolio at the end of reporting period is presented below.

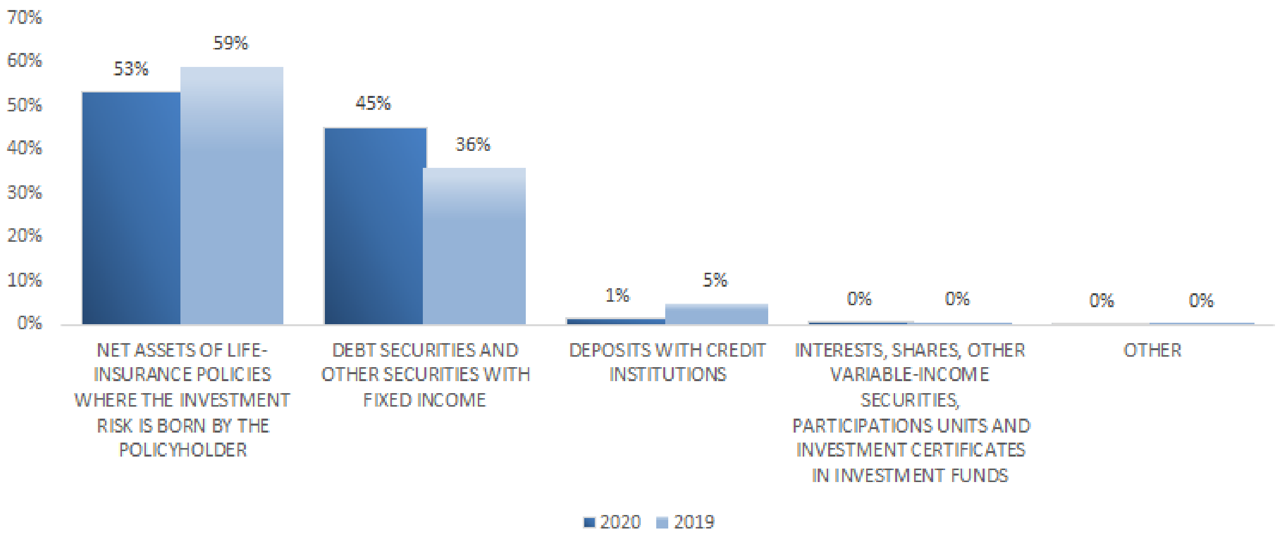


Figure 4.
Structure of investment portfolio

Structure of assets is characterized by some overweight of investments for the benefit of life assurance policyholders who bear the investment risk over the investments for the risk of the Company.

The investments other than for the benefit of life assurance policyholders who bear the investment risk are almost only safe assets, like bonds or bank deposits.

The investment result by asset classes are presented below:

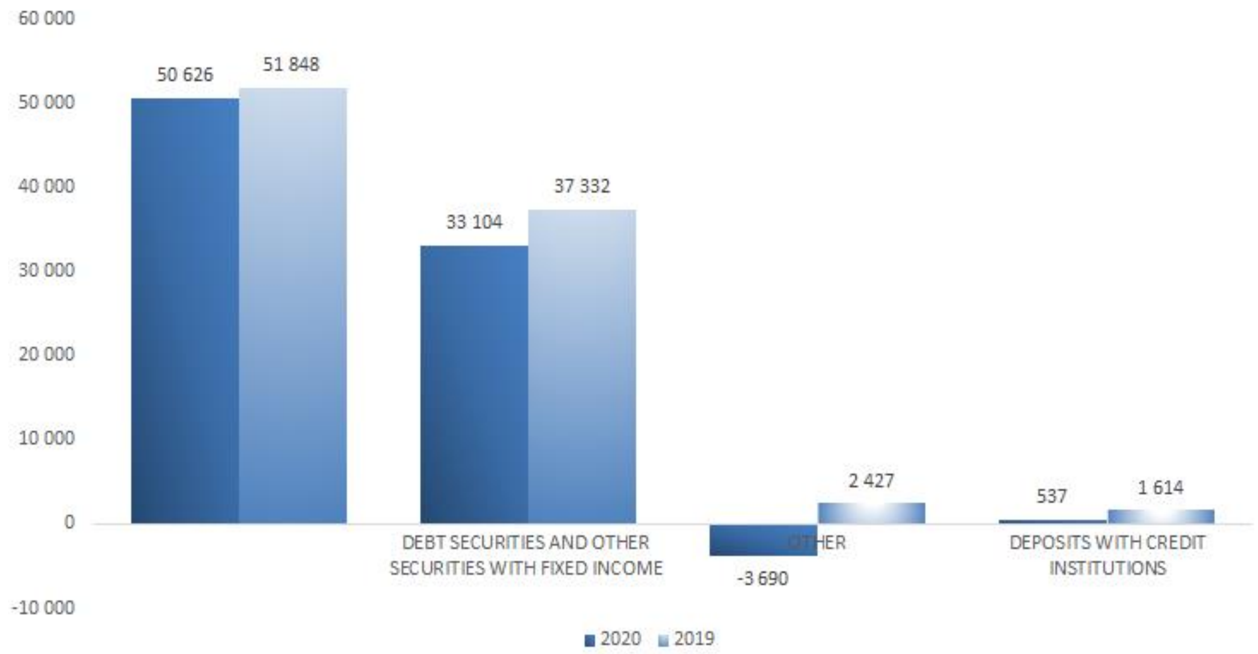


Figure 5.
Investment results in by asset classes

Income from shares, participating interests and other variable-yield securities, units and investment certificates in investment funds resulted mainly from equity-type instruments (mostly units of investment funds) in unit-linked funds. The small part was due to investment on own account of the insurance undertaking.

Income from debt securities and other fixed-income securities resulted mostly from the main part of the investment portfolio on own account of the Company and small part was due to securities in the unit-linked portfolios. Decrease vs. previous year is related mainly to lower interest rates and bond yields.

Income from deposits with credit institutions resulted partly from short-term investment of cash hold for liquidity needs of investment portfolio, both unit-linked and on own account, as well as for operating activity of the Company.

Income on other investments was caused mainly by the result on derivatives, mostly as part of the assets related to unit-linked products, FX-result on FX-denominated instruments as well as investment charges. Decrease vs previous year results mainly from higher derivative-related costs in unit-linked portfolios.

A.3.2 Securitization investments

In the reporting period the Company did not invest in securitization.

A.4 Performance of other activities

A.4.1 Other operating expenses and income

The table 3 presents results on the core areas of other activity.

TABLE 3. PERFORMANCE OF OTHER ACTIVITIES

Other activity	2020	2019	Y/Y
Performance of other activity	-5 841	-8 956	-35%

The main item of the performance from other operating activities is the other operating expenses related to the introduced tax of certain financial institutions. The value of the tax in 2020 amounted to PLN 4 995 thousand compared to PLN 7 424 thousand in 2019, the decrease in the tax results from the positive impact of the settlement of the tax adjustment on assets in the amount of PLN 2 074 thousand.

A.4.2 Leasing arrangements

For the purposes of the statutory report leasing arrangements where the lessor maintains substantially all risks and rewards incidental to ownership of the leased assets are classified as an operating leasing agreements.

As at 31 December 2020 all leasing arrangements concluded by the Company were classified as an operating lease due to the extent to which the risk and rewards incidental to ownership of the leased assets are held by the Company as the lessee or the lessor.

A lessee recognizes lease payments under an operating lease and the subsequent lease instalments as operational expenses in P&L on a straight-line basis over the lease term.

A lessor recognizes lease instalments under an operating lease as income in P&L on a straight-line basis.

TUnŻ „Warta" S.A. as a lessee

Significant lease arrangements where the Company is a lessee are presented in the table 4. With regard to the leased properties, the costs included rent expenses and additionally – in accordance with IFRS 16 – values of right-of-use assets and lease liabilities were presented.

TUnŻ "Warta" S.A. as a lessor

There is no significant lease arrangements signed by the Company which would have to be disclosed in this Report.

TABLE 4. SIGNIFICANT LEASE ARRANGEMENTS

Asset type	Contract start date	Contract end date	Expense 2020	Right-of-use assets	Lease liabilities	Security deposit and terms for its return	Renewal terms (contractual options)
Property	15.04.2013	unspecified period of time, 3-month termination notice	2 792	3 617	3 681	none	none
Property	15.10.2010, replaced by a new agreement starting on 29.08.2019	unspecified period of time, 6-month termination notice	1 994	2 718	2 763	none	none

A.5 Any other information

All material information was presented above.

B System of Governance

This chapter contains basic information on the system of governance in the Company, including the applied fit and proper requirements as well as characteristics of the key functions in the Company.

B.1 General information on the system of governance

B.1.1 Structure of the system of governance

AUTHORITIES OF THE COMPANY

The bodies of the Company, in compliance with Art. 17 of the Company's Articles of Association are as follows:

- The General Assembly,
- The Supervisory Board,
- The Management Board.

THE GENERAL ASSEMBLY

The TUnŻ "WARTA" S.A. General Assembly performs its tasks on the basis of the provisions of the Commercial Companies Code and the Company's Articles of Association, during convened by the Company's Management Board, ordinary General Assemblies that are held within 6 months of the end of each financial year, and at extraordinary General Assembly convened as need arises, held in the Company's premises. Minutes of General Assembly documenting the proceedings, are made as notary deeds and kept in the Corporate Legal Office in the Legal Department.

In accordance with the provisions of the Company's Articles of Association, the tasks of the General AssemblyAssembly include in particular:

- consideration and approval of the Management Board report from operations of the Company and financial statements of the Company for the previous financial year,
- determination of profit distribution, including dividend payment or loss coverage,
- setting up and releasing of special purpose funds and capitals,
- appointment and dismissal of members of the Supervisory Board, determination of their remuneration and granting a vote of approval to members of the Company's bodies for the performance of their responsibilities,
- decisions related to merger, dissolution or liquidation of the Company,
- any change concerning share capital (in particular increase or decrease of the Company's share capital) and issuance of the Company's new shares,
- other matters stipulated in the provisions of the Commercial Companies Code.

SUPERVISORY BOARD

The Supervisory Board performs its tasks on the basis of the Code of Commercial Companies and the Company's Articles of Association and the Regulations of the Supervisory Board. The Supervisory Board performs overall supervision over the business of the Company in all areas of its operation. Decisions of the Supervisory Board are made in the form of resolutions at its Assemblys or in justified circumstances with the use of means of remote communication or by correspondence. Minutes documenting the proceedings of the Assembly and resolutions approved outside of Assembly, are stored in the Corporate Legal Office in the Legal Department or – in case of confidential personnel decisions – in the HR Department.

In accordance with the provisions of the Company's Articles of Association , the tasks of the Supervisory Board include in particular:

- evaluating of the Management Board report on the Company's operations and financial statements for the previous financial year with regard to their conformity with the books and documents as well as with the actual state of affairs,
- evaluating proposals made by the Management Board concerning profit allocation or loss coverage,
- submission to the General Assembly of an annual written report from the results of the above reviews,
- appointment of the external auditor to perform audits of the Company's financial statements,
- appointment and dismissal of members of the Management Board,
- conclusion, amendment or termination of employment contracts with members of the Management Board or other contracts related to the function of members of the Management Board; those tasks are performed by the Chairman or Vice Chairman on behalf of the Supervisory Board,
- approval of Business Plans and Budgets,
- approval of performing important actions e.g. acquisition or sale of significant real estate, acquisition of an enterprise or disposal of it or its part, merger with another entity,
- approval and amendments to the Regulations of the Supervisory Board and approval of the Regulations of the Management Board,

- approval of other issues related inter alia to:
  - purchase or disposal of the enterprise,
  - purchase of shares, ownership rights or perpetual usufruct rights,
  - merger or joining a joint venture,
  - expenditures by the Company resulting in an excess of the Budget approved for the year,
  - granting of loans to third parties,
  - modifications to the Company's share capital and dividend payment.

As at 31 December 2020, the Supervisory Board was composed of:

- Sven Fokkema – Chairman of the Supervisory Board,
- Oliver Schmid – Vicechairman of the Supervisory Board,
- Takeshi Kamoshita – Member of the Supervisory Board,
- Krzysztof Kokot – Member of the Supervisory Board,
- Christian Müller – Member of the Supervisory Board,
- Michael Schmidt-Rosin – Member of the Supervisory Board,
- Wiesław Thor – Member of the Supervisory Board.

On 26 November 2020, Mr. Sven Fokkema resigned from the function of the Chairman of the TUnŻ "WARTA" S.A. Supervisory Board and from membership in the TUnŻ "WARTA" S.A. Supervisory Board effective at the end of 31 December 2020. On 22 December 2020 the Extraordinary General Assembly appointed Mr. Wilm Langenbach to the Company's Supervisory Board, who by resolution of the Supervisory Board of 15 January 2021 was appointed the Chairman of the Compny's Supervisory Board.

COMMITTEES ESTABLISHED IN THE COMPANY BY THE COMPANY'S SUPERVISORY BOARD

In 2020 the following committees established by the Supervisory Board functioned in the Company:

- Audit Committee,
- Remuneration Committee.

Audit Committee

The main purpose of operations of the Audit Committee is to support the Supervisory Board in the exercise of its statutory supervisory duties, mainly by providing the Supervisory Board with reliable information and opinions to facilitate efficient decision making on monitoring the financial reporting, monitoring the effectiveness of the internal control system (including internal audit function) and the risk management system, cooperation with certified auditors and monitoring of financial statements auditing activities and ensuring the independence of internal and external auditors.

Remuneration Committee

The core objective of the Remuneration Committee is to control the development, implementation and functioning of rules and practices related to remuneration of members of the Management Board and employees of TUnŻ "WARTA" S.A.

MANAGEMENT BOARD OF THE COMPANY

The Management Board of the Company is a managing body, established to manage the affairs of the Company and to represent the Company, operating pursuant to applicable laws, Articles of Association of the Company, Regulations of the Management Board taking care of the Company's interests and ensuring maximisation of its capital value.

The Company may be represented by two members of the Company's Management Board or one member of the Management Board jointly with a proxy, or by two proxies. The Management Board may not take any decisions reserved to the sole competences of the General Assembly or the Company's Supervisory Board.

The core document that sets forth the authority and duties, principles of operation, mode of proceedings and methods to documents with works of the Company's Management Board is the Regulations of the Management Board in compliance with which the following decisions require resolutions of the Company's Management Board:

- approval of draft resolutions and materials submitted to the General Assembly and the Supervisory Board,
- purchase or disposal of the enterprise, stock or shares in other companies or property or rights held by the Company, purchase or sale of property rights or perpetual usufruct rights, joining a joint venture, decisions on obtaining financing from third parties, subject to the provisions of the Company's Articles of Association,
- determination of the scope of tasks and split of authority between individual members of the Management Board, approval of the Company's Organisational Regulations, establishment and liquidation of the Company's organisational units,
- approval of general insurance terms and conditions and approval of premium tariffs and commission rates,
- determination of assumptions underlying the investment policy, risk management strategy, accounting policies, rules and mode of establishing technical provisions and other provisions, Work Regulations and Regulations of the Company Social Benefit Fund, principles of personnel selection and approval of candidates for managerial positions,
- other issues generating high economic risk or otherwise materially affecting the Company's business as well as matters submitted by the President or other members of the Company's Management Board.

Assembly of the Management Board are held once a week. In urgent instances, the President of the Management Board may convene an additional Assembly of the Management Board. Minutes documenting Assembly of the Company's Management Board are kept in the Corporate Legal Bureau of the Management Department; in case of confidential personnel decisions – in the HR Department.

Due to the scale of the Company's business, the Management Board acting within its authority decided to split the tasks among the individual members of the Management Board and identified their respective reporting organisational units for which they are responsible (a detailed description with a graphic illustration presenting the split into organisational divisions is presented in the section Company's organisational structure and key processes). In accordance with the split, members of the Management Board in their reporting areas have been assigned authority to manage the Company's business, including to issue regulations with the exception of decisions reserved to the sole competences of the Management Board.

The Company's business is controlled by the Management Board at all stages of operations and in all business areas, and is supported with the following:

- structural mechanisms – tasks of each organisational unit embedded in the Company's organisational structure whereby decisions have been split from control mechanisms,
- process mechanisms – principles implemented in the Company's internal regulations with details of process in the Company, with tasks of all participants and their interrelations and responsibilities (including selection mechanisms of managerial staff ensuring effective and legally compliant functioning of the Company),
- control mechanisms – covering functional and institutional control systems (carried out by competent organisational units and described in more detail is chapter B.4.1 hereof).

The mechanisms referred to above and the implemented reporting system provide the Management Board with comprehensive knowledge on material events relating to the Company's operations, supporting effective and legally compliant functioning of the Company and ensure that the Management Board receives adequate information on the functioning of the Company. Such comprehensive information supports the Company's Management Board in flexible responding to market conditions in the insurance market and internal events in the Company.

As at 31 December 2020, the Company's Management Board was composed of:

- Jarosław Parkot – President of the Management Board,
- Paweł Bednarek – Vice President of the Management Board,
- Grzegorz Bielec – Vice President of the Management Board,
- Hubert Mordka – Vice President of the Management Board,
- Jarosław Niemirowski – Vice President of the Management Board,
- Jarosław Piątkowski – Vice President of the Management Board,
- Rafał Stankiewicz – Vice President of the Management Board,
- Anna Świderska – Vice President of the Management Board.

On 28 April 2020 Mr. Witold Walkowiak submitted his resignation from membership in the Company's Management Board, effective as of 30 June 2020. On 12 May 2020, the Supervisory Board appointed Mrs. Anna Świderska to the Company's Management Board as of 1 July 2020.

COMMITTEES ESTABLISHED IN THE COMPANY BY THE COMPANY'S MANAGEMENT BOARD

Within its competences in the Company's organisational structure, the Company's Management Board established the following additional committees that are to support the Management Board in the performance of its duties:

- Underwriting Committee,
- Risk Committee,
- Asset and Liability Committee – ALCO,
- Project Committee,
- Data Quality Committee,
- Systems Development and Maintenance Committee,
- Insurance committee with insurance capital funds.

Underwriting Committee

The tasks of the Underwriting Committee include decisions relating to risk acceptance, amounts of reserved portions and insurance terms and conditions of individual insurance contracts / risks (also as part of inward reinsurance).

Risk Committee

The core task of the Risk Committee is to support the Management Board and the risk management function in maintaining an effective risk management system in the following areas: actuarial risk, credit risk in reinsurance and operational risk.

The tasks of the Risk Committee include in particular:

- coordination of tasks related to risk management,
- support of organisational units in the process,
- development of recommendations relating to business operations affecting risk levels,
- recommending actions in risk management,
- coordination of the provision validation process,
- ensuring compliance of the solutions relating to risk management with the Risk Management Strategy,
- acting as an arbiter in case of disputes between various organisational units with respect to the process,
- reporting to the Management Board via the Risk Management Department of all material information and recommendations approved by the Committee.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is a body established by the Company's Management Board to coordinate and supervise the investment process and the market and credit risk management process with respect to investment activities and monitoring of the Company's capital position.

ALCO issues opinions and recommendations relating to the operations of the organisational units that materially affect the levels of market and credit risk.

The competences of the Committee include in particular:

- supervision over the allocation of assets and utilisation of investment limits,
- support to investment and business decisions,
- implementation and supervision over the market and credit risk management process,
- support to the Management Board in determining the risk appetite and economic capital allocation for the purposes of market and credit risk as well as reporting on the capital,
- modification of investment limits,
- making investment decisions,
- ongoing supervision over the capital management process.

Within the Committee there is a specialised body – Investment Committee, established and supervised by ALCO. The tasks of the Investment Committee include operational monitoring and analysis of financial markets, their current condition as well as short- and medium-term prospects. On the basis of such analysis, opinions are formulated on investment decisions with respect to individual market risk types, within the approved investment limits.

Project Committee

The Project Committee supervises implementation of material changes to the organisational structure, ITC or process structure that frequently require high capital outlays, intensified or additional involvement of managers and that are different than current routine operations of the Company. The Company carries out such tasks in the form of special-purpose projects.

The Company's Management Board is responsible for managing projects in the Company. Each member of the Management Board directly supervises the projects in their respective areas of responsibility, acting as project sponsors.

Data Quality Committee

The Data Quality Committee is a body established by the Management Board to provide support in maintaining an effective data quality management system in the Company.

The tasks and authority of the Committee include in particular:

- decisions concerning the strategy of data quality management in the Company,
- identification of priorities and materiality of each area and process in terms of management of the area,
- monitoring of core data quality metrics, implementation of initiatives and projects aimed at improvement thereof on a quarterly basis,
- annual verification of the control mechanisms applied adequately to the Company's needs,
- acting as an arbiter in case of disputes relating to the data quality management system between organisational units,
- periodic reporting to the Management Board of all material information and recommendations approved by the Committee,
- issue of recommendations and approval of procedures relating to data quality management to the Company's organisational units.

Systems Development and Maintenance Committee

The primary task of Systems Development and Maintenance Committee is managing current change in ICT from the moment the idea appears to the post-implementation review by allocating resources necessary to maintain ICT systems and introduce modifications and system improvements to a smaller scale in line with the Company's business priorities.

Insurance committee with insurance capital funds

The committee was established to provide the support in the field of insurance with unit-linked. The tasks of the Committee include, in particular:

- monitoring insurance sales processes from unit-linked insurance,
- monitoring of unit-linked insurance,
- monitoring legal conditions regarding insurance from unit-linked,
- formulating recommendations relating to the business activities in the field of insurance with unit-linked,
- recommending activities in the area of insurance with unit-linked,
- ensuring the compliance of the solutions adopted in the field of insurance with unit-linked with legal provisions and recommendations / guidelines of supervisory authorities.

COMPANY'S ORGANISATIONAL STRUCTURE AND KEY PROCESSES

The Company's organisational structure is split into 7 divisions:

- CEO,
- Insurance,
- Development & Insurance Sales for Corporate Clients,
- Sales,
- Claims Services,
- Finance,
- IT.

The Management Board decided to create as of 1 October 2020 Direct Sales Department within the Sales Departmnet in Development & Insurance Sales for Corporate Clients Division. On 1 July 2020 within the Sales Department three new Regional Sales Centers were established: RCS Bydgoszcz, RCS Tarnów and RCS Katowice 3.

The Organizational Chart of the Company as at 31 December 2020 is presented in the diagram below.

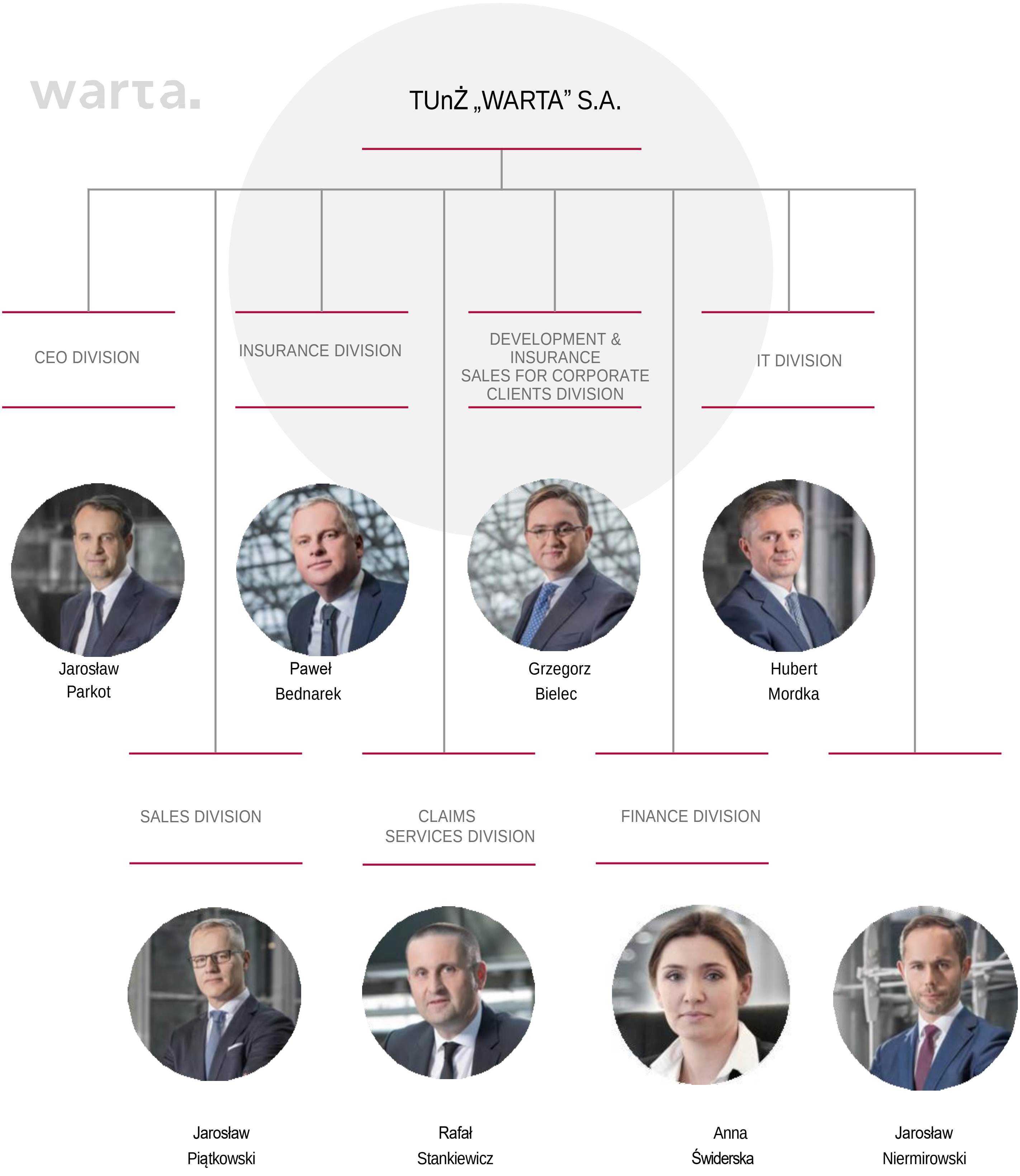


Figure 6.
The organizational structure of the Company

Additionally, the Company's organisational structure contains the position of the Data Protection Officer DPO, directly reporting to the President of the Management Board.

CEO Division

Mr Jarosław Parkot is the President of the Management Board and he is responsible for managing the Company and supervising the organisational units, functions and processes within the Division of the President of the Management Board.

The main tasks of the Division of the President of the Management Board include: ensuring the functioning of the Company in compliance with law and internal regulations, making independent assessment of processes as well as identification and assessment of risks relevant to the Company's operations occurring in these processes, managing the human potential, HR and payroll handling and marketing strategy as well as public relations activities.

Insurance Division

Paweł Bednarek is the Vice President of the Management Board who is responsible for supervising organizational units, functions and processes within the Insurance Division.

The main tasks of the Insurance Division are the development of products for the bancassurance channel, funds, group and individual life products, conducting service processes (including those related to insurance risk assessment) as well as underwriting risk assessment and actuarial calculations.

Development & Insurance Sales for Corporate Clients Division

Grzegorz Bielec is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Development & Insurance Sales for Corporate Clients Division.

The main tasks of the Development & Insurance Sales for Corporate Clients Division include: management of projects aimed at sales development, optimization of service processes, in particular in the scope of claims management and operations as well as in the scope of adaptation of processes in the Company to new regulatory requirements), management of corporate insurance sales via brokers, reinsurance (construction, implementation and settlement of reinsurance programs and contracts) and sales processes of bancassurance insurance products.

Sales Division

Jarosław Piątkowski is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Sales Division.

The main tasks of the Sales Division include sales processes of insurance products, i.e. insurance for individual customers and group insurance for corporate customers. Another, no less important task of the Division is, among others: providing all distribution channels with training processes in order to increase sales efficiency and achieve goals in line with the Company's strategy.

Claims Services Division

Rafał Stankiewicz is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Claims Services Division.

The main tasks of the Claims Services Division include: loss adjustment and benefit disbursement as well as handling of recourses policy registration, collection and after sale services.

Finance Division

Anna Świderska is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the Finance Division.

The main tasks of the Finance Divisions include: accounting records and finance reporting, management accounting, business planning, management of investment portfolios, risk management and property management as well as general administrative support.

IT Division

Hubert Mordka is the Vice President of the Management Board who is responsible for supervising the organisational units, functions and processes within the IT Division.
The main tasks of the IT Division include: designing, development and maintenance of ITC infrastructure in the Company as well as ensuring ITC security.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE REPORTING ORGANISATIONAL UNITS

In accordance with the corporate governance principles, the Company has a transparent and adequate organizational structure, in which the subordination, tasks, duties and responsibilities and reporting lines are clearly and appropriately allocated to the scale of the activity and risks involved. The organizational structure is precisely defined in the Company's Organizational Regulations, so that there are no doubts as to the scope of tasks and responsibilities of appropriate organizational units and management positions, and in particular, so that duties and responsibilities are not overlapped.

Endeavouring to ensure an adequate level of internal communication, at least once a week members of the Management Board hold regular meetings with their reporting B-1 directors. The meetings are held to exchange information within each organisational division and to discuss the completed, current and future tasks of each organisational unit. In 2020, due to the COVID-19 pandemic prevailing in the country, most meetings were held using means of direct remote communication.

Meetings of the Management Board with all B-1 directors held at least once a year have similar objectives. The objectives of such meetings also include integration of the Company's managerial staff, discussion of financial results, current condition of the Company and its market position as well as its plans and future objectives. However, due to the exceptional situation in 2020, the Management Board resigned from the annual meeting with B-1 directors, and instead a remote meeting of the Management Board with all employees of the Company was organized.

In order to optimise the cooperation between the Company's Management Board and department directors, attention is paid at the recruitment stage for managerial positions that the future managers meet the following criteria: compliance of the candidate's profile with the position profile in terms of competences, experience, knowledge, motivation, managerial skills as well as personality and team building skills that is to achieve the assumed objectives.

KEY FUNCTIONS

In order to ensure an effective system of governance that is a material element of the Solvency 2 system, the Company operates the following key functions:

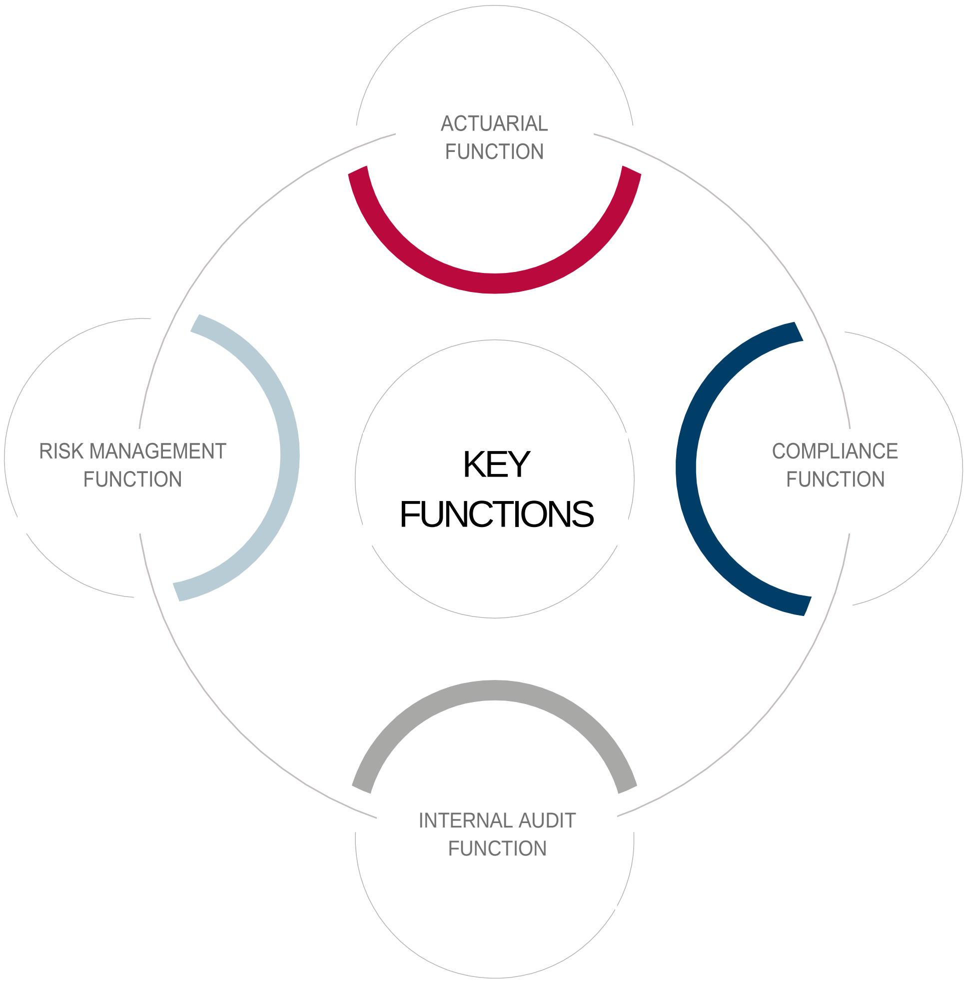


Figure 7.
Key functions in the Company

Each key function contains developed and documented rules of its operation, roles and responsibilities of the organisational units that perform the activities related to each function as well as reporting processes have been developed related to their cooperation with the Management Board and the Supervisory Board and their supporting committees.

The tasks performed within the key functions serve to ensure prudent and stable risk, capital and liquidity management; additionally, with the three lines of defence they create conditions to ensure good standing of the Company.

A detailed description of implementing the key function is presented below:

B.3.2 (risk management function), B.4.2 (compliance function), B.5 (internal audit function) and B.6 (actuarial function) of this Report.

THREE LINES OF DEFENCE MODEL

Business Owners	1st Line of Defence	**RISK OWNERS** • Risk management, i.e. risk identification, valuation and assessment, response to risk and risk monitoring and reporting • Proceeding in compliance with the risk management process • Compliance with law and internal regulations that have impact on the effective and efficient functioning of the internal control system and the risk management system	Customer Service, Selling activities Loss adjustment Underwriting Marketing
Developed by Procedures	2nd Line of Defence	**OWNERS OF THE RISK MANAGEMENT PROCESS** • Development of strategies, methods, processes and procedures of risk identification, assessment, monitoring and reporting • Relationship of risk management with the Company's strategy • Advisory services and coordination of actions by risk owners • Identification of trends, synergies and opportunities	Function: actuarial compliance, risk management
Independent Assessment	2nd 3rd Line of Defence	**INDEPENDENT ASSESSMENT OF THE RISK MANAGEMENT PROCESS** Objective and independent assessment of the adequacy and effectiveness of the internal control system and other element of the system of governance, in particular with respect to risk management and implementation and application of control mechanisms	Internal audit function

Figure 8.
Three lines of defence model

INFORMATION DISCLOSURE SYSTEM

The Company applies an effective information disclosure system by effective reporting within each competence area and adequate communication at all levels of the organisational structure. The effectiveness of the process is assessed additionally within an annual review performed by key function holders and the results are submitted to the Company's Management Board.

With respect to information disclosure to external addressees, in particular to the supervisory authority, the Company acts in compliance with the internal regulation Rules of information disclosure and providing responses to letters of the Office of the Polish Financial Supervision Authority and public administration bodies and compliance with reporting duties at TUnŻ "WARTA" S.A., approved by a Resolution of the Management Board. On the basis of the regulation, the Company set forth the rules of developing, registration and submission of reports and other required documents to public administration bodies and the organisational unit responsible for performing the duties is identified.

B.1.2 Remuneration scheme

REMUNERATION POLICY

Remuneration policy at TUnŻ „WARTA" S.A. in force with the Company is developed in compliance with the Company's operating strategy, in particular with the risk management strategy, risk profile, objectives, practices of risk management as well as long-term interests and results of the entire Company.

The Remuneration policy at TUnŻ „WARTA" S.A. concerns the Company's employees, including the persons who supervise the key functions. In addition, the Company is subject to the rules of remuneration – currently applicable *Remuneration Regulations for employees of Towarzystwo Ubezpieczeń na Życie "WARTA" S.A.* was introduced on 30 May 2019.

According to the above mentioned rules of remuneration employee's remuneration covers the following remuneration components:

- base salary,
- variable component of remuneration.

Base salaries are set on the basis of a valuation of the tasks performed within the working time (function) and subject to the position as set forth in the employment contract. The base salary level is set subject to an internal and external benchmark.

The base salary is a sufficiently high proportion of the employees' total remuneration which prevents the employees from being excessively relying on variable components and supports the Company in applying fully flexible rules applicable to bonus thus providing for non-payment of the variable component of remuneration in objectively justified situations.

The type and structure of variable components of remuneration (bonus or discretionary bonus) are subject to the type of work performed (function) and assignment of the employee to one of three groups (sales, operations, support). Employees in the sales and operational areas are covered with bonus plans while employees in the support area are covered with an annual discretionary bonus.

Bonus plans provide for the specific nature of work of each employee and the tasks of their respective organisational unit which is translated into varied bonus systems such as:

- annual bonus plan – for employees in the asset management area and employees performing underwriters' tasks in international programs,
- quarterly bonus plan – for employees assigned to the sales and operations groups,
- monthly task-related bonus plan – in the area of claims adjustment and the Contact Center Department,
- annual discretionary bonus with the amount subject to the result of each employee's annual assessment – for employees in the support area, including those supervising the key functions, to which no bonus plan applies

The core criteria underlying the awarding and amount of a variable component of remuneration include the Company's performance, employee's individual performance and assessment of the employee's work and attitude. Considering the specific nature of tasks performed, adjustments are made in that respect for certain employee groups.

REMUNERATION OF PERSONS SUPERVISING THE COMPANY'S KEY FUNCTIONS

The remuneration principles of employees supervising the Company's key functions are compliant with the Delegated Regulation, in particular, they take into account the degree of implementation of tasks related to these functions.

REMUNERATION TO THE MANAGEMENT BOARD MEMBERS

The remuneration principles applicable to members of the Company's Management Board in force in 2020 were approved by the Company's Supervisory Board.

The amount of individual remuneration of the Company's Management Board is set by the Supervisory Board in the form of a resolution, subject to recommendations by the Remuneration Committee.

Remuneration of each member of the Management Board is composed of:

- base salary,
- annual bonus,
- other benefits.

The remuneration structure of the Management Board members is composed in such a way as to limit the potential propensity to take excessive risk. This ensures, in particular, maintaining the relationship of mutual significance between fixed and variable components of remuneration. It should also be noted that the amount of the variable (bonus) depends not only on the extent to which the quantitative business objectives are met, but also on the qualitative assessment of a given member of the Management Board, which takes into account aspects relating to the effectiveness of risk management. In addition, there is a possibility of non-payment of bonuses under the applicable bonus rules.

The right to an annual bonus and the amount thereof are subject to:

- accomplishment level of key performance indicators (KPIs) set by the Supervisory Board for each calendar year,
- result of an annual assessment of each member of the Management Board subject to – together with the individual targets realization – their respective responsibility in terms of managing the Company's operations, including risk profile and capital cost, and covering in particular the following elements:
- capital position,
- data on the utilisation of the budget risk and investment limits,
- results of an analysis of material risks along with information on mitigating efforts/control mechanisms.

Payment of a significant part of the annual bonus is deferred for a period of not less than 3 years.

REMUNERATION OF MEMBERS OF THE COMPANY'S SUPERVISORY BOARD

With respect to members of the Supervisory Board, as a matter of principle the membership in the Supervisory Board generates no remuneration, unless the General Assembly of the Company decides to award remuneration for a given member of the Supervisory Board of the Company.

Pursuant to the adopted rule, in 2020 the right to remuneration for performing functions in the Audit Committee of the Supervisory Board had only independent persons, within the meaning of art. 129 par. 3 of the Act on Certified Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws 2020.1415 unifortm text) members of the Supervisory Board.

PENSION SCHEME

The Company operates an Employee Pension Program, where the basic contribution is financed by the Company in the same amount for all participants in the program. The premium does not exceed 7% of the employee's remuneration.

In 2020, the Employee Capital Plans (ECP) introduced on the basis of the ECP management agreement concluded by the Company (operating on the principles set out in the Act of October 4, 2018 on Employee Capital Plans was in operation in the Company.

B.1.3 Material changes to the system of governance

Apart from the changes in the composition of the Supervisory Board and the Management Board of the Company described above, there were no other significant changes in the management system in the reporting period.
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B.1.4 Information on material transactions with shareholders, persons with material impact on the Company, members of the Management Board and of the Supervisory Board

During 2020 the Company granted no loans, guarantees or advances to:

- Shareholder and members of its management or supervisory body,
- members of the Company's Management Board and Supervisory Board and members of their families,
- other persons with material impact on the Company, including the key function holders.

B.1.5 Assessment of the adequacy of the system of governance

The review of the management system in the Company is carried out in the 4Q of each year and includes the following areas:

- organisational structure,
- information flow and reporting system,
- risk management and business continuity,
- compliance function,
- internal audit function,
- actuarial function,
- outsourcing,
- fit & proper requirements and their fulfilment,
- internal control system,
- insurance distribution.

The review of individual elements of the management system is carried out by selected organisational units. Analysis conducted in 2020 did not reveal a need to introduce significant changes within the management system of the Company. The review report was approved by the Management Board of the Company.

The internal audit unit independently assesses the internal control system of the Company. In 2020 no areas of operations was identified as a subject of urgent corrective actions. The results of assessment are presented to the Management Board and the Audit Committee of the Company which performs its own assessment of adequacy and effectiveness of the internal control system of the Company, concerning, in particular, financial reporting, compliance function and internal audit function.

Taking into account the above information as well as the results of regular reporting of other key functions, results of financial statements audit and reports from external controls, the Management Board assessed that in 2020 the management system including the internal control system was adequate to the scale and complexity of business operations and allowed to effectively identify and manage risks that could have affected achievement of business goals by the Company.

The Supervisory Board of the Company issued a positive assessment of the management system as well as the adequacy, efficiency and effectiveness of the internal control system in the Company in 2020.

B.2 Fit and proper requirements

B.2.1 Fit and proper policy

The Company has implemented Policy of TUnŻ “WARTA” S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions. The Policy was approved by the Company's Extraordinary General Assembly.

The Policy sets criteria to be satisfied by members of the Management Board, members of the Supervisory Board and employees supervising the key functions in the Company.

The objective of the Policy is to ensure continuous
The details of the fit and proper requirements are presented in the figure 9:

compliance of the fit and proper requirements – within the meaning of Art. 42 of the Solvency 2 Directive – by persons who actually manage the Company or perform other key functions.

As part of *the TUnŻ Policy "WARTA" S.A. in the scope of meeting the fit and proper requirements by persons who actually manage the Company or perform other key functions*, the principle of annual self-assessment of members of the Management Board and the Supervisory Board is in operation.

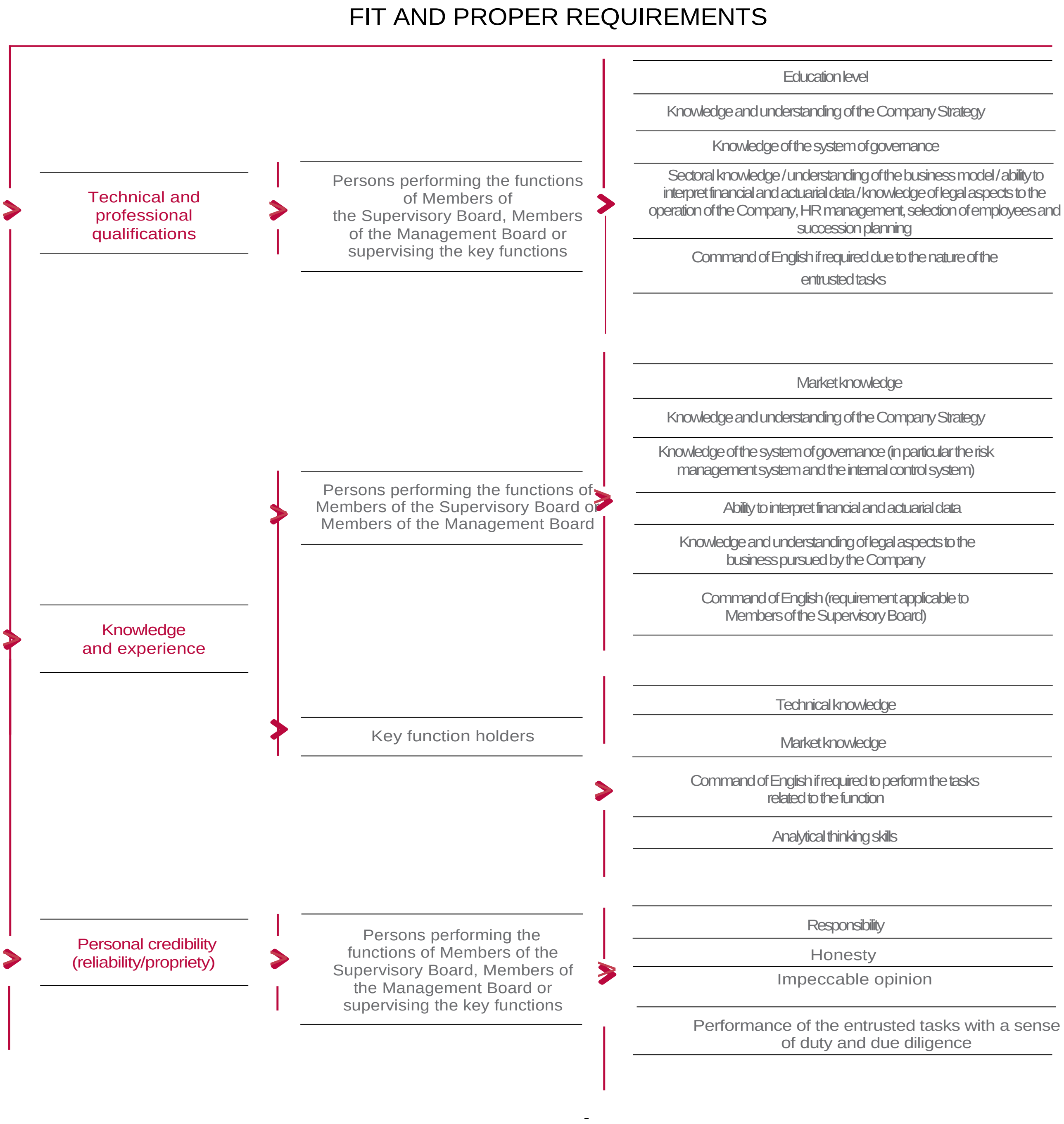

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Figure 9.
Requirements concerning fitness and propriety

The requirements specified above, relating to fitness and propriety, have to be complied with all the persons who actually manage the Company and supervise the key functions, and subject to the following:

- individual fitness of each member of the Management Board / Supervisory Board shall be complementary in order to ensure an adequate level of collective management / supervision over all business areas of the Company,
- in case of personal changes in the composition of the Management Board / Supervisory Board, collective management / supervision over the Company and technical and professional skills of the members of the Management Board / Supervisory Board shall be maintained,
- the requirements concerning technical and professional knowledge of the key function holders are closely related to the specific tasks assigned to each function,
- the assessment of the technical and professional knowledge of the key function holders is subject to the proportionality principle which means that risks are taken into account that are related to the Company's business and the tasks assigned to each key function,
- the key function holder shall have professional experience required to perform such tasks,
- the key function holders shall regularly improve their professional qualifications and submit appropriate evidencing documents to the Company,
- before a person is appointed to the Management Board / Supervisory Board or before a person is entrusted with the supervision over a key function, it is necessary to verify if the candidate meets the requirements specified in the Act on Insurance and Reinsurance Activity.

When the Company decides to outsource a key function, the Company shall ensure that persons employed by the service provider responsible for the services have adequate technical and professional qualifications and appropriate personal credibility (reliability/propriety).

REQUIREMENTS APPLICABLE TO EMPLOYEES PERFORMING ACTIVITIES WITHIN THE KEY FUNCTIONS

Candidates for the positions where key functions are performed shall comply with the requirements of competences (required professional experience) and warranty to perform the tasks in a reliable manner – in proportion to the performed tasks.

B.2.2 Assessment process of fitness and propriety

ASSESSMENT OF FITNESS AND PROPRIETY AT THE RECRUITMENT STAGE

The employee recruitment policy, including for positions responsible for supervising the key functions, provides that the core criterion underlying candidate selection is compliance with the required position profile in terms of competences, experience, knowledge, motivation, integrity and fairness. The requirements concerning education, knowledge in specific areas, experience and skills required for correct performance of tasks in specific positions are specified in the job description questionnaire.

In compliance with the Policy of TUnŻ "WARTA" S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions, a function in the Company's Management Board, the Company's Supervisory Board may be entrusted or a person may be employed to supervise a key function or to perform operations for a key function, solely subject to prior verification if such person meets the requirements specified in the Policy and the regulations issued pursuant thereto.

With respect to candidates to the Management Board, such verification is performed by the Company's Supervisory Board. With respect to candidates for positions to supervise a key function or to perform operations for a key function, the verification process is compliant with the detailed principles set forth in the Recruitment Policy and the Internal Manual Detailed requirements concerning recruitment to positions related to the supervision of key functions and to functions performing operations of key functions within the requirements of Solvency 2 at TUnŻ "WARTA" S.A.

The recruitment process covers two stages of interviews (in line with the four-eye principle). The final decision on the employment of a candidate to the Management Board of the Company belongs to the Supervisory Board and the employment of a person supervising the key function and the position at which activities are performed for a given key function, to a member of the Management Board supervising the organizational unit in the Company or B-1 responsible for supervising the key function, respectively. In case of the person managing the Internal Audit Department, the employment of a candidate is to be agreed with the Audit Committee.

ONGOING ASSESSMENT OF FITNESS AND PROPRIETY

Compliance with the requirements by members of the Management Board and all employees, including key function holders and employees performing activities within key functions, is verified by the Supervisory Board and the employee's line manager respectively. The verification covers inter alia the scope of correct performance of the entrusted duties and appropriate approach requirements.

Regular assessment of performance is carried out in compliance with the principles set forth in the Policy of annual assessment at TUnŻ "WARTA" S.A. and such assessment covers the performance level of the employee's targets, quality of work, displayed attitude and commitment in comparison to other employees. Such assessment is performed on the basis of effectiveness and behavioural criteria. B-1 directors are subject to annual assessment performed by the members of the Management Board with the use of an assessment sheet developed for persons in managerial positions.

The employees, including those who are responsible for supervising key functions, are obliged to adhere to the Code of Conduct of TUnŻ "WARTA" S.A. containing a set guidelines, principles and rules resulting from general moral and ethical standards that are for particular importance for the business of the Company. This means that in the performance of their duties, the employees of the Company are expected to follow the principles of fairness, loyalty, professionalism, reliability and diligence.

The Policy of TUnŻ "WARTA" S.A. relating to compliance with the fit and proper requirements by persons who actually manage the Company or perform other key functions further provides for:

- periodic verification performed at least every 5 years, of the requirements relating to persons actually managing the Company or performing other key functions in the Company, in order to ensure they remain adequate to the tasks performed by each affected person or the changing market environment,
- verification, irrespective of the periodic assessment referred to above, of the requirements relating to persons actually managing the Company or performing other key functions in the Company, in the following instances:
  - the Company acquires information that is material to further performance by such persons of their functions, relating in particular to:
    - potential activities contrary to generally applicable laws,
    - instances of inappropriate behaviour adversely affecting the Company's image,
    - facts questioning the possibility that the requirements relating to technical knowledge are complied with,
    - facts questioning the possibility of performing the duties entrusted by the Company with due caution and diligence,
  - changes are made to the key function supervised by the person:
    - functional – relating in particular to a material extension or a material change to the supervised area of the Company's business,
    - with respect to technical requirements – resulting in particular from general legal regulations applicable to the supervised function.

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

B.3.1 Risk management system

OBJECTIVES, TASKS AND FUNCTIONING OF THE RISK MANAGEMENT SYSTEM

The strategic objective in the area of risk management is to avoid situations that may pose a hazard to the accomplishment of the planned business objectives and to continued operations of the Company while seizing the occurring business objectives. In particular, this is aimed at reducing the probability of occurring unexpected losses by implementing an effective risk management process, adequate to the current risk profile.

The tasks of the system include:

- providing information on the identified individual risks and on the Company's risk profile,
- ensuring an adequate response thereto,
- monitoring of the risk level versus the defined internal limits / warning levels / risk budget,
- reporting of the results of capital adequacy.

The risk management system covers all principles in force with the Company. Within the system, the Company:

- applies a uniform risk classification and terminology related to risk management,
- has defined the roles and responsibilities in the process,
- has set the risk management function,
- applies formalised policies/procedures describing the process in order to identify, valuate or assess risks as well as to monitor and report the risks inherent in the Company's business.

In order to ensure effective management of the risk, the Company's Management Board determines and approves the following:

- the materiality level to be used in the analysis process of the risks related to product launch,
- risk severity level that is applied as a quantitative criterion for identification that may have a serious, permanent and adverse impact on the Company's financial condition, net assets or financial results,
- risk budget with sub-base allocation, separately for each of the main modules of the standard formula and, in justified cases, for other risks not included in the

standard formula. The risk budget specifies the maximum acceptable level of the Solvency Capital Requirement and defines the Company's risk appetite.

RISK MANAGEMENT PROCESS

In the risk management process, the Company applies a uniform catalogue of risk types to ensure that all risks to which the Company may be exposed are identified and adequately controlled. The risk management process is a continuous process, covering the following stages:

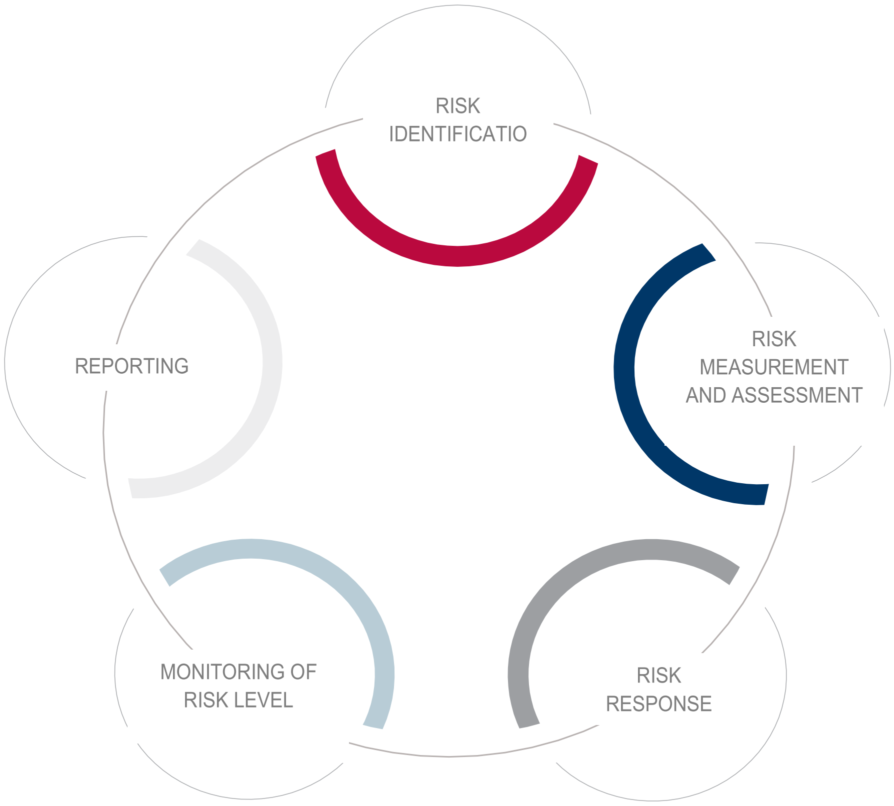

Figure 10.
Risk management process

Risk Identification

The risk identification process consists in detecting risks that may have a positive or negative impact on the accomplishment of the Company's goals, including identification of the causes and areas of occurrence thereof. Risk identification should apply to all types of activities, products, processes and systems in the Company.

Risk Measurement

Risk measurement is defined as a qualitative or quantitative estimate of the Company's exposure thereto – identification of the impact and materialisation probability of the identified risk. The valuation process includes selection of tools used for the purpose.

In justified instances the Company may apply simplified risk measurement methods (including expert judgement).

Risk Assessment

The goal of risk assessment is to determine if it is material for the Company subject to pre-defined criteria. This is performed on the basis of results of risk measurement.

Risk Response

The goal of efforts taken in response to risk is to limit threats and use of emerging opportunities. The actions are expected to maintain the overall risk exposure within the adopted risk budget.

The Company applies the following types of actions taken in response to risk:

- avoidance – not engaging in specific business activity,
- mitigation – actions aimed at reducing impact of the risk or the probability of its occurrence,
- transfer – conclusion of an additional contract, insurance contract, partnership agreement, etc. to transfer the risk to the other party of the contract,
- acceptance – acceptance of the possible consequences arising from risk materialisation,
- increase – decisions to increase the risk incurred to improve the performance.

Monitoring

Monitoring is a systematised method to prepare and analyse risk information. The process is continuous and covers:

- monitoring of risk level and profile,
- monitoring of the implementation status of the mitigating actions undertaken,
- assessment of the effectiveness thereof.

Reporting

Reporting means a regular presentation of quantitative and qualitative data in accordance with the requirements of the various risk management techniques and tools. Information concerning risk identification, valuation and assessment should be processed and presented to the relevant recipients in such a form and with such frequency to ensure correct performance of duties and incorporation of risk aspects in the decision making process.

Within the risk management process, the Company has established a risk management function and defined a clear split of roles and responsibilities for participants in the risk management process.

The process is subject to the proportionality principle which means that the processes, techniques and methodologies are proportional to the complexity of the Company and the materiality of each risk type.

Each stage of the risk management process for each specific area is described in the corresponding detailed policies (e.g. Actuarial, operational, ALM Risk Policies). Each description covers:

- definition of the stages and a detailed description of each stage,
- the principles pursued by the Company in designing, developing, implementing, execution, monitoring and reviewing each activity,
- identification of the techniques and tools applied at each stage of the process as well as references to the relevant internal regulations,
- a set of instruments required to develop and implement the risk management process in practice, e.g. templates, instructions.

Apart from the specific policies dedicated to each risk type, the Company has set up master principles of risk identification and reporting.

INDIVIDUAL RISK IDENTIFICATION AND ASSESSMENT AND MANAGEMENT REPORTING

The identification and assessment of individual risks is made as follows:

- on an ongoing basis – within the processes/actions carried out by the organisational unit.

Organisational units identify risks on an ongoing basis in their own processes/actions of operations and of other units. When any risk is identified in another unit, such unit is notified thereof. Material risks are reported on an ongoing basis and incorporated in proposals to the Management Board.

- in a systematic formalised manner in the Risk Scan process.

In order to identify the most significant risks types, a risk self-assessment process is performed semi-annually – a Risk Scan. The process consists in identification, valuation, monitoring and reporting of the risk types that may pose a hazard to accomplishing the approved financial plans of the Company. The self-assessment process applies to all types of risks, in compliance with catalogue definied in Company’s Strategy of risk management, including e.g. actuarial, market, credit, operational risk. The self-assessment in particular covers those risks that may materially affect the Company's results/capital over the next year.

- in a systematic and formalised manner in the identification and assessment process of newly emerging risks.

The Company also identifies and assesses emerging risks at least once a year. The process relies on expert judgement.

- when developing a Business Plan and apply to those risk that may materialise during the implementation of the Plan over a long-time perspective.

CATALOGUE OF RISK TYPES IDENTIFIED IN THE COMPANY AND THE RELATED RISK MANAGEMENT PROCESS

In compliance with the Risk management strategy, approved by the Company's Supervisory Board, risk is defined as a probability of events – both negative and positive – that may affect the accomplishment of the Company's intended business objectives.

In order to ensure complete identification thereof, the Company applies a uniform risk catalogue.

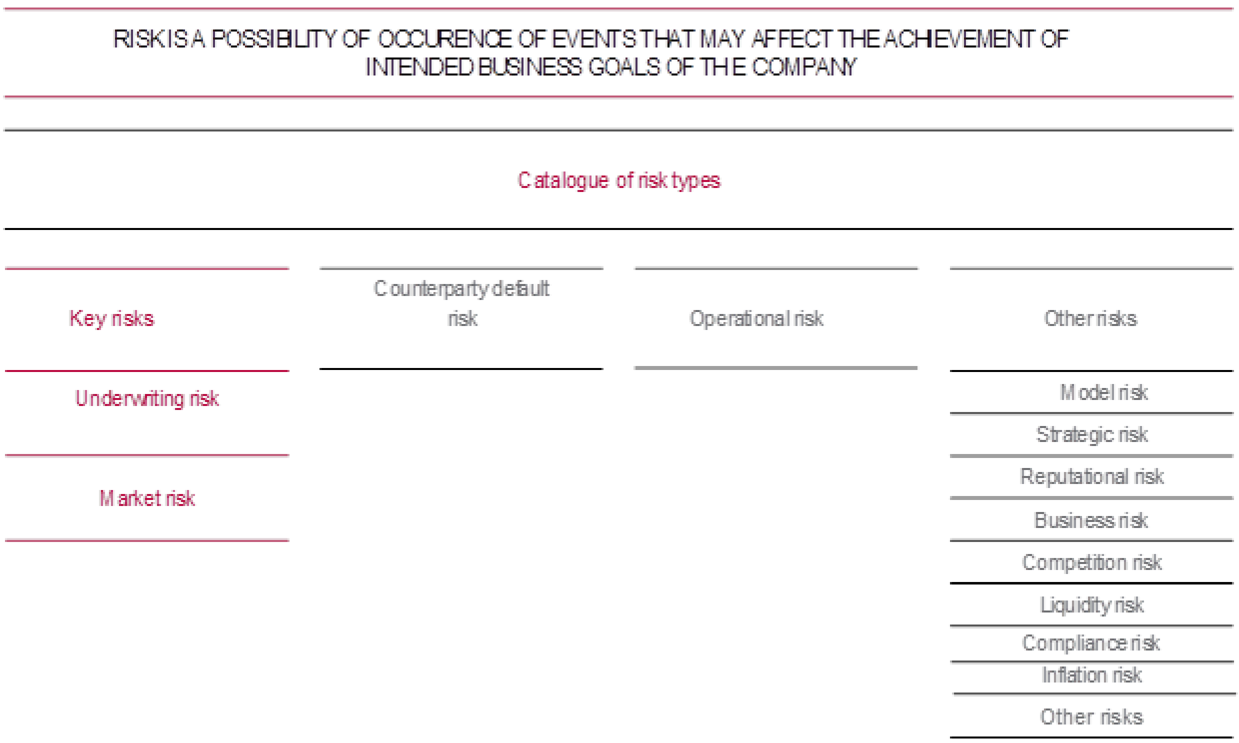

Figure 11.
Catalogue of risk types

The core types of risks to which the Company is exposed in its business operations and that materially affect the accomplishment of the Company's business strategy include underwriting risk and market risk. Considering the principle of proportionality and the scale and nature of operations, the risks are covered with a comprehensive risk management process and additionally are subject to the approved internal limits and warning levels.

Underwriting risk

The process of underwriting risk management covers the following stages:

- identification – profitability analysis of newly launched products and review of their sensitivity, analysis and design of newly launched products and modifications to the existing products,
- valuation and assessment – MCEV calculation of portfolio and the capital requirements of the individual products, holding tests of provision adequacy, calculation of best estimates thereof, calculation of limits of capital at risk,
- response to risk – the decision on next steps (acceptance, mitigation, transfer, avoidance or increase) is taken by the unit where the risk occurs; acceptance requires an assessment of the risk level vis-a-vis the limits in force in the Company and the relevant risk appetite defined in the Risk Budget. Recommendation of appropriate remedial actions in the risk management area is also a task of the Risk Committee.
- monitoring and reporting – submission of reports with risk metrics and limits to the Risk Committee.

Market and credit risk resulting from investment activities

The Company's ALM and Credit Risk Management Policy, regulating the area, is focused on maximising portfolio profitability with limits set for each risk type resulting from the Company's sub-budget for market and credit risk. It provides for the specific nature of each provision and insurance product portfolio as well as liquidity requirements in each portfolio held by the Company.

The process of market and credit risk management covers the following stages:

- identification – review of impact on risks and limits of newly acquired instruments,
- valuation and assessment – calculation of VAR in various capital models, BPV, duration for the portfolio and a number of limits for the portfolio market and credit risk,
- response to risk – the decision on the actions to be taken (acceptance, mitigation, transfer or avoidance) is taken by the Investment Committee and ALCO,
- monitoring and reporting – submission of reports with risk metrics and limits to ALCO.

Operational risk

The process of operational risk management covers the following stages:

- identification – the Company applies various methods of operational risk identification:
    - data collection process on operational incidents,
    - Risk Scan – a structured process to identify material risks that may adversely affect the Company's financial result over the next year, preventing the accomplishment of its approved financial plans,
    - key risk indicators (KRIs) – an analysis of current values of the indicators for operational risks and their volatility in time,
    - analysis of audit recommendations – an analysis of weaknesses of the internal control system, identified by the Internal Audit Department,
    - scenario analysis – review of the impact of historic or hypothetical operational incidents on the Company's financial condition. The objective of such scenario analysis is to verify the control mechanisms applied in the Company – if they are adequate to prevent or minimize losses, if an event occurs,
    - business impact analysis (BIA) – analysis of business processes and effects that may result from disruptions to business operations.
- valuation and assessment – subject to the applied technique, the operational risk level is determined quantitatively (by identifying the volume and frequency of its occurrence) or qualitatively (expert judgement),
- response to risk – the decision with respect to response to risk is taken by the risk owner being the unit managing the risk. Recommendation of appropriate remedial actions in the risk management area is also a task of the Risk Committee.
- monitoring and reporting are performed in the following areas:
    - results of the Risk Scan process,
    - current KRI values, trends in relation to the previous reporting period,
    - number of operational incidents and amount of operational losses.

The above reports are submitted to the Risk Committee.

ORGANISATION STRUCTURE IN THE RISK MANAGEMENT PROCESS

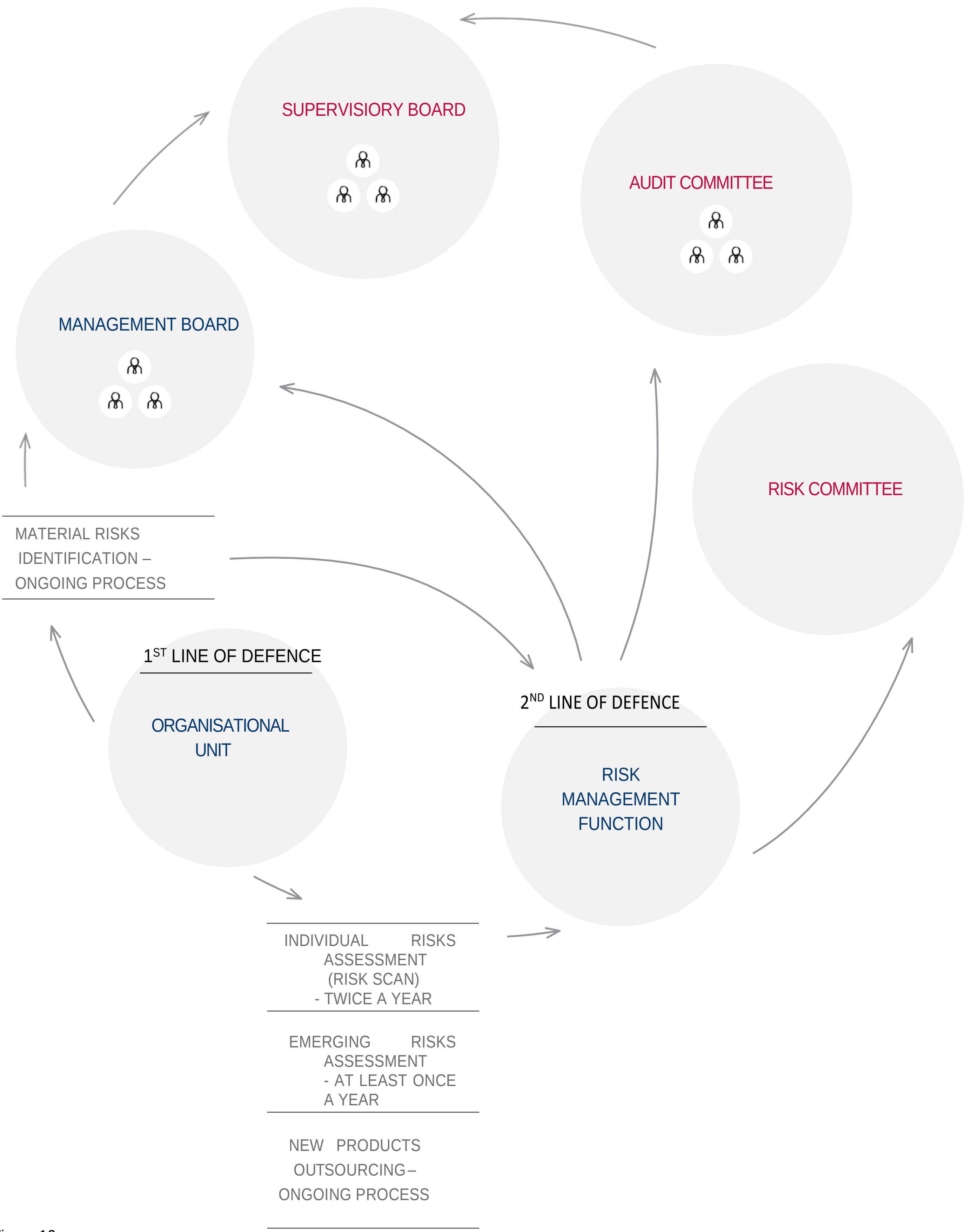

Figure 12.
Organisational structure in the risk management process

The main participants in the risk management process are as follows:

- the Supervisory Board that performs overall supervision over the business of the Company in all areas of its operation, also in this area. In its role, the Supervisory Board in particular:
  - receives information on risk exposure and the risk management system,
  - accepts business plans subject to risk aspects,
  - provides opinion on proposals on profit distribution subject to the Company's capital needs related to risk exposure,
- the Audit Committee which receives detailed information on risk exposure, capital adequacy level as well as the status and initiatives relating to development of the risk management system,
- the Company's Management Board as a body is responsible for comprehensive management of the Company's business, including risk management, in particular by:
  - setting the organisational structure of the risk management system with respect to the risk management function and other organisational units of the Company involved in the risk management process,
  - regular review of the Company's risk exposure and information on the functioning of the risk management system,
  - determination of directions, support and direct supervision of the development of the risk management system,
  - pursuing the Company's business and preparation of development plans subject to risk aspects,
  - defining of risk appetite by approving related budgets,
  - setting risk limits with reference to each risk type,
  - approval of materiality level and significance level of each risk,
- the risk management function with the tasks detailed in chapter B.3.2 hereof,
- the Risk Committee with the tasks detailed in chapter B.1.1 hereof,
- the Company's organisational units are responsible for direct management of the risks identified in the processes/areas managed by them. As risk owners, they are responsible for each stage of risk management processes, in particular:
  - they identify risks in their own business processes/area as well as in other areas on an ongoing basis – then they notify the organisational units responsible for those processes/areas,
  - assess and report the identified risks to their managers or to the Company's Management Board; in particular, material risks should be reported to the Management Board,
  - prepare proposals to respond to such risks and implement them if required subject to prior approval by their respective managers or the Company's Management Board,
  - report such identified material risks also to the organisational unit that acts as the risk management function,
  - report potential decisions that may materially affect the Company's capital condition or risk profile to the organisational unit that acts as the risk management function.

RELATIONSHIP OF THE RISK MANAGEMENT SYSTEM WITH OTHER ELEMENTS OF THE SYSTEM OF GOVERNANCE

The risk management system is related to other elements of the Company's system of governance, in particular to:

- the internal control system which is a set of actions performed by the Company's bodies, management and other employees of the Company in order to mitigate risks inherent in its business and thus to increase the likelihood that the Company's approved objectives are accomplished in all its areas of operation,
- the internal audit function which is responsible for the assessment of effectiveness, improvement and provision of information on the functioning of the internal control system, in particular with respect to risk management, application of controls and management processes,
- the compliance function ensuring compliance of the Company's operations with law,
- the actuarial function which coordinates in particular the process of setting the amounts of technical provisions for solvency purposes,
- the capital management process covering in particular assessment of the Company's capital needs related to the risk undertaken.

B.3.2 Risk management function

The risk management function was set up and implemented pursuant to the Risk Management Strategy, approved by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE RISK MANAGEMENT FUNCTION

The objective of the risk management function is to implement and maintain an effective risk management system.

The core tasks of the function include:

- coordination of tasks related to risk management in the Company,
- development of strategies, methods, processes and procedures of risk identification, assessment, monitoring and reporting,
- monitoring of the overall risk situation in the Company subject to relations between individual risk types:
  - developing and supervising the process of risk self-assessment by persons responsible for particular areas of the Company's operations,
  - coordination of the own risk solvency assessment,
  - development and supervision of the implementation of the process of identifying and assessing newly emerging risks (so-called emerging risks),
- reporting concerning risk management in the Company, including the aggregated risk profile,
- providing advice to the Management Board with respect to risk management and support in the use of the risk management system in the decision making process,
- monitoring of the risk management system,
- support to the managers of organisational units and other functions within the system of governance in the risk management process,
- promotion of risk management culture within the organisation.

The risk management function is performed in the Risk Management Department and supervised by the Director of the Department (Chief Risk Officer, person supervising the risk management function).

The Risk Management Department is responsible for designing a professional integrated risk management system. The Risk Management Department operates independently of business units – it means that business units take risks while the Risk Management Department acts as an advisor, controller and supports organisational units in applying risk management instruments and techniques. Additionally, the Department also monitors the system.

REPORTING OF THE RISK MANAGEMENT FUNCTION

Quarterly, synthetic reports on the status of risk management are prepared in the Company to be submitted to the Company's Management Board, Audit Committee and the Supervisory Board.

B.3.3 Own Risk and Solvency Assessment

Within the risk management system, the Company performs its Own Risk and Solvency Assessment which covers:

- an analysis of the risk profile and projections thereof on the basis of financial data and assumptions underlying the Business Plan and a number of "risk scenarios" (scenarios with assumptions that are alternative to the assumptions underlying the Business Plan),
- calculation of overall solvency needs and assessment of the extent of accomplishment of those needs over a medium-term perspective (both with the assumptions underlying the 3-years Business Plan and those underlying the "risk scenarios"),
- assessment of prospective continuous compliance with the Solvency Capital Requirement and the requirements concerning the calculation of technical provisions,
- analysis of deviations of the Company's risk profile from the assumptions underlying the standard formula,
- the other aspects of the Own Risk and Solvency Assessment covering: an analysis of relations between the risk profile, approved risk tolerance limits and overall solvency needs; incorporation of the results of the Own Risk and Solvency Assessment in the development of new product initiatives.

The objective of the Own Risk and Solvency Assessment is to improve the awareness of the relations between the current and future exposure of the Company to risks and improved awareness of internal capital needs related to such exposures.

A regular Own Risk and Solvency Assessment is carried out in the following manner:

- regularly – once a year in compliance with the development schedule of the Business Plan and
- extraordinary mode in the following situations:
  - merger with another entity,
  - acquisition of another entity,
  - modifications to the Business plan during the year.

OWN RISK AND SOLVENCY ASSESSMENT PROCESS

The process of Own Risk and Solvency Assessment is regulated in the Policy of Own Risk and Solvency Assessment, approved by the Company's Management Board.

The performance of the Assessment in the Company is coordinated by the Risk Management Department which is also responsible for the following elements:

- determination of the Company's risk profile and projections of the profile,
- calculation of overall solvency needs and assessment of the extent to which they are satisfied,
- assessment of prospective continuous compliance with the Solvency Capital Requirement and the requirements concerning the calculation of technical provisions with respect to risk margins,
- analysis of deviations of the Company's risk profile from

the assumptions underlying the standard formula.

The Management Board (who actively participates in the development of risk scenarios and accepts the final report on the Own Risk and Solvency Assessment) as well as other organisational units of the Company are involved in the process which is responsible for the following assessment elements, among others:

- Controlling Department – development of the Business Plan to the extent required to prepare solvency projections and development of risk scenarios (in cooperation with the Risk Management Department),
- Corporate Legal Bureau – coordination of the qualitative assessment of the system of governance with respect to the organisational structure and decision-making structure,
- Actuarial Department – ensuring and assessing continuous compliance with the requirements related to the calculation of technical provisions (with the exception of risk margins for which the Risk Management Department is responsible).

ASSESSMENT OF OVERALL SOLVENCY NEEDS

COMPANY'S RISK PROFILE AND SOLVENCY CAPITAL REQUIREMENT

Within its Own Risk and Solvency Assessment, the Company's risk profile is determined.

The profile is described in a report prepared by the Risk Management Department within its periodic reporting. Risk quantification and calculation of the Solvency Capital Requirement, incorporated in the report, is developed in compliance with the Delegated Regulation.

The risk profile contains additional risks, not covered with the standard formula, identified in the Business Plan or in the Risk Scan process.

GENERAL NEEDS RELATED TO SOLVENCY AND OWN FUNDS

Calculation of general solvency needs is an analysis process as a result of which threshold values are determined for the levels of Solvency Ratio S2, determining the ranges referred to in the Capital Management Policy – minimum, warning, watch and target ranges.

The analysis covered all potential events that in view of the Company's risk profile could result in a decrease of own funds to the minimum level – 100% coverage of the Solvency Capital Requirement.

The table 5 presents values of the solvency S2 ratio for each range:

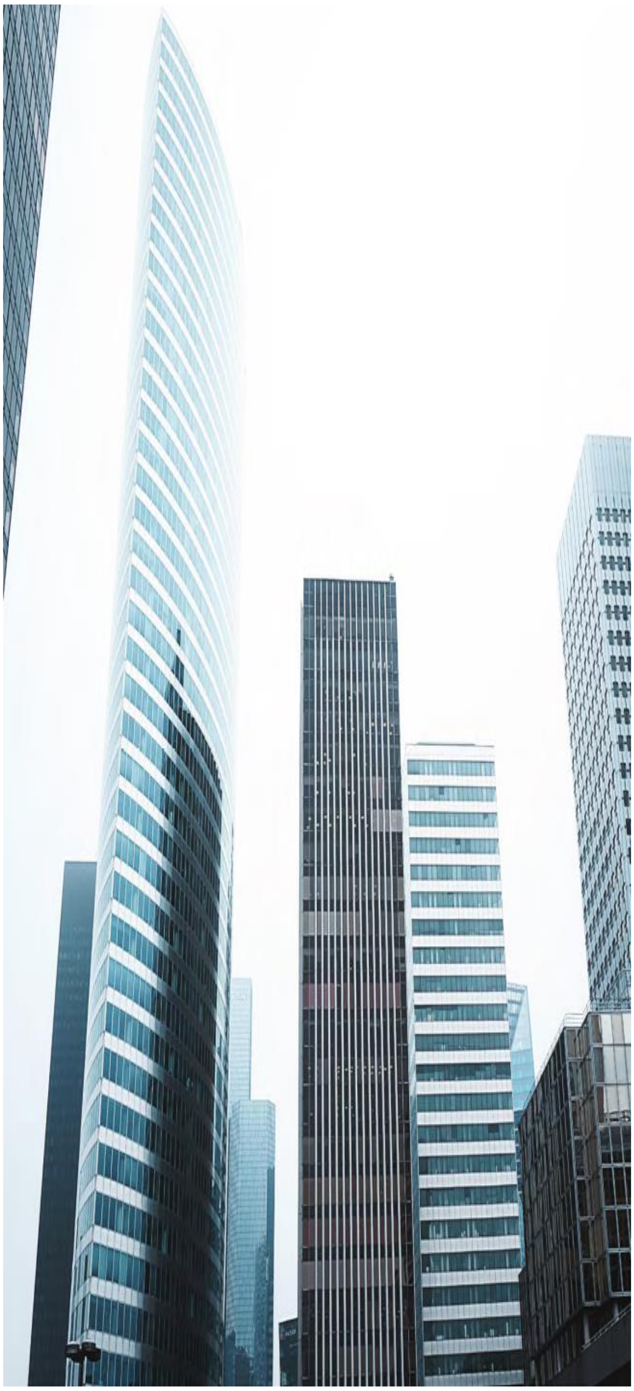

TABLE 5. THE LEVELS OF S2 RATIO

Solvency ratio	Minimum level	Warning level	Watch level	Target level
S2	100%	100%-115%	115%-130%	>130%

The process of determining the levels of the solvency S2 ratio as specified above, provides for the results of stress tests, reverse stress tests and sensitivity analysis.

The results of the analyses covering stress tests and reverse stress tests for market risks (interest rate risk, equity risk, property risk, exchange rate risk, credit risk, and credit spread risks), health underwriting risk (premium and reserve risk) as well as life underwriting risk (risk of increased benefit payments resulting from withdrawals) and operational risk concducted by the Company, indicate that a 30% surplus buffer for the S2 ratio is adequate.

When the S2 ratio drops under the target level, the Company's operations in the risk management area and capital management are being extended and intensified in order to ensure continuous compliance with the Solvency Capital Requirement. The scope and intensity of the actions taken are proportional to the difference between S2 ratio and the target level.

Own funds are determined by the Risk Management Department in compliance with the Delegated Regulations and the Capital Management Policy and Procedure, in force in the Company.

PROJECTION OF RISK PROFILE, OWN FUNDS AND SOLVENCY LEVEL

The projections of the risk profile, own funds and solvency level in the future are based on results of analyses covering the risks affecting the functioning of the Company. The projections are calculated on the basis of financial data and assumptions underlying the Business Plan. Projections are also calculated for risk scenarios.

Projections of own funds are made by the Risk Management Department on the basis of assumptions detailed in the Protocol from Own Risk and Solvency Assessment and the Company's Capital Management Policy, containing inter alia a split of own funds into various categories.

REPORTING OF RESULTS

Details of performing the Own Risk and Solvency Assessment, including qualitative and quantitative results, are specified in the Protocol from Own Risk and Solvency Assessment.

On the basis of the information in the Protocol, a Report from Own Risk and Solvency Assessment is prepared.
The Report contains a summary of qualitative and quantitative results of the assessment, conclusions and details of the applied methods and main assumptions.

It is prepared by the Risk Management Department and approved by the Company's Management Board.
The Report from Own Risk and Solvency Assessment is annually submitted to PFSA within two weeks of approval by the Company's Management Board.

CONCLUSIONS FROM OWN RISK AND SOLVENCY ASSESSMENT

The conclusions drawn from the Own Risk and Solvency Assessment are taken into account in the following:

- the capital management process, in line with the provisions of the Capital Management Policy, inter alia, by monitoring the level of the S2 solvency ratio and taking (as need arises) of appropriate actions as provided in the Capital Management Policy,
- planning of the Company's business during the development of the Business Plan, by implementing solutions ensuring the maintenance of the S2 solvency ratio above the warning level,
- product development and planning.

SIGNIFICANT CHANGES IN THE REPORTING PERIOD

Due to the changes to the Delegated Regulation, which entered into force in 2020, the regulation on integrating the risk management system with regards to the loss-absorbing capacity of deferred taxes was implemented.

B.4 Internal control system

B.4.1 Description of the internal control system

The task of the internal control system in the Company is to ensure good organisation of the business operations subject to prudent requirements and clearly identified targets, economical and effective use of resources, identification and adequate control of risks, safeguard of assets, integrity and reliability of financial information, management information and compliance with laws and internal regulations.

The internal control system in the Company is adequate to the nature, scale and complexity of its business. It covers:

- administrative and accounting regulations,
- organisation of internal control in the Company,
- appropriate arrangements related to reporting at all levels of the Company's organisational structure,
- compliance with laws, internal regulations and standards of conduct pursued by the Company.

In particular, the internal control system is composed of the following inter-related elements:

- control environment – actions taken by the Company's Management Board and managers of organisational units aimed at developing the awareness of the importance of the internal control system and risk management in the Company,
- goals setting – actions at the strategic level and underlying the setting of the Company's operational goals and monitoring of accomplishment thereof,
- identification, valuation, assessment and response to risk understood as a possibility of occurrence of the events that may positively or negatively affect the accomplishment of the Company's planned business goals,
- control mechanisms – processes, procedures/rules and actions verifying the correct performance of business processes in order to prevent errors in the Company's functioning (prevention), detection of irregularities (detection) and adequate response to risk (in particular operational risk) that may have the following forms:

  - functional control – performed by each employee in terms of quality and correctness of their activities, and additionally, performed by their direct supervisors and co-workers. This control aims to ensure compliance of the performed activities with procedures, limits and laws, as well as to guarantee ongoing influence and response to shortcomings and violations, and to monitor the effectiveness of the implemented control mechanisms,
  - institutional control – in the form of audit tasks (performed by the internal audit unit) and control proceedings held by authorised organisational units (e.g. compliance unit). The objective of control is to review, detect gaps, assess and improve the control mechanisms in the company and their operational application,

- information and communication (reporting) – definition, obtaining and communication in an appropriate form and time of information supporting the addressees in correct decision making and carrying out of their duties,
- monitoring – an ongoing review of correct and effective functioning of the internal control system.

The internal control system in the Company is a set of tasks pursued by bodies, the management and employees of the Company in order to mitigate risks inherent in its business and thus to increase the likelihood of accomplishing the set goals in all areas of the Company's business:

- the Supervisory Board exercises regular supervision over the Company's business in all areas of its operations as well as over the internal control system,
- the Company's Management Board is responsible, inter alia, for implementing the rules and decisions of the Company's Supervisory Board concerning the functioning of the internal control system and for appropriate organisation and ongoing supervision over the system. The Company's Management Board takes decisions ensuring the performance, inter alia, of the following tasks:

  - establishment of an adequate and effective internal control system and periodic reviews thereof,
  - pursuing actions to develop awareness among employees as to the importance of the internal control system and risk management and promotion of ethical standards among the Company's staff,
  - development and maintenance of an organisational structure that is compliant with the Company's approved operational strategy and that will precisely and clearly specify the competences and responsibilities and reporting lines of the Company's organisational units,

- the first line of defence – each organisational unit in the Company responsible, inter alia, for risk management (in particular operational and compliance risk) that is for risk identification, valuation and assessment, response to risk and monitoring and reporting thereof in each business area, processes, products and IT systems owned by each unit. Thus, it is responsible for the development, implementation, operation and monitoring of an effective and efficient internal control system within their respective areas of responsibilities. Within the first line of defence, all employees of the Company are responsible for the functioning of an effective internal control system within their respective duties/tasks,
- the second line of defence – it directly supports and coordinates the operations of the first line. It monitors, advices and facilitates the implementation of effective risk management and supports the first line in identification, assessment and reporting appropriate information related to the internal control system (including risks) within the Company. In order to support the monitoring process of the internal control system in the Company, apart from the operations of the internal audit function, the second line of defence provides specified information to the Company's Management Board and/or Supervisory Board. Within the second line of defence of the Company's internal control system one can distinguish three key functions: risk management, actuarial and compliance functions,
- the third line of defence – it support the Company's management in accomplishing the set targets by performing independent audits. As a result, the Company's management receives an objective and independent assessment (reasonable assurance) of the adequacy and effectiveness of the internal control system and other elements of the management system, in particular with respect to risk management and implementation and application of control mechanisms. The third line of defence in the Company contains the internal audit function.

B.4.2 Compliance function

The compliance function was set up and implemented pursuant to the Compliance Charter, approved by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE COMPLIANCE FUNCTION

The core objective of the compliance function is to implement and maintain an effective compliance risk management system –- ensuring continuous compliance of the Company's business with the applicable internal and external regulations.

The compliance function is an independent function operating within internal control system with the operating conditions set forth in the Company's internal regulation, including the Compliance Charter with details set out in the Compliance Function Policy.

The tasks of the compliance function include in particular:

- identification, assessment, monitoring, testing and consulting in the sphere of compliance risk,
- ensuring compliance with laws, recommendations/guidelines of the supervisory authority, PUODO and GIFI, internal regulations and standards of conduct approved by the Company.

The compliance function is coordinated by the corresponding organisational unit of the Company (Compliance Department) in which all staff members report to the Director of the Compliance (Compliance Officer, person supervising the compliance function, reporting directly to the President of the Company's Management Board). The organisational independence of the Department guarantees the independence of the compliance function and ensures it is correctly pursued.

Due to the fact that the compliance function is an element of the internal control system, it is necessary that the function performs no tasks – with the exception of its operations within the compliance area – that are performed by units that the function is to monitor and/or control.

The compliance function covers:

- advice to the Management Board and Supervisory Board in the area of compliance,
- assessment of potential impact on all changes to the legal environment on the Company's business,
- identification and assessment of the risk related to non-compliance with laws, internal regulations and the standards of conduct approved by the Company,
- coordination of the overall compliance process and compliance risk management,
- monitoring and reporting compliance risk.

The compliance function is subject to a periodic review by internal audit

COMPLIANCE FUNCTION IN THE COMPANY'S ORGANISATIONAL STRUCTURE

The chart below presents the location of the compliance function in the Company..

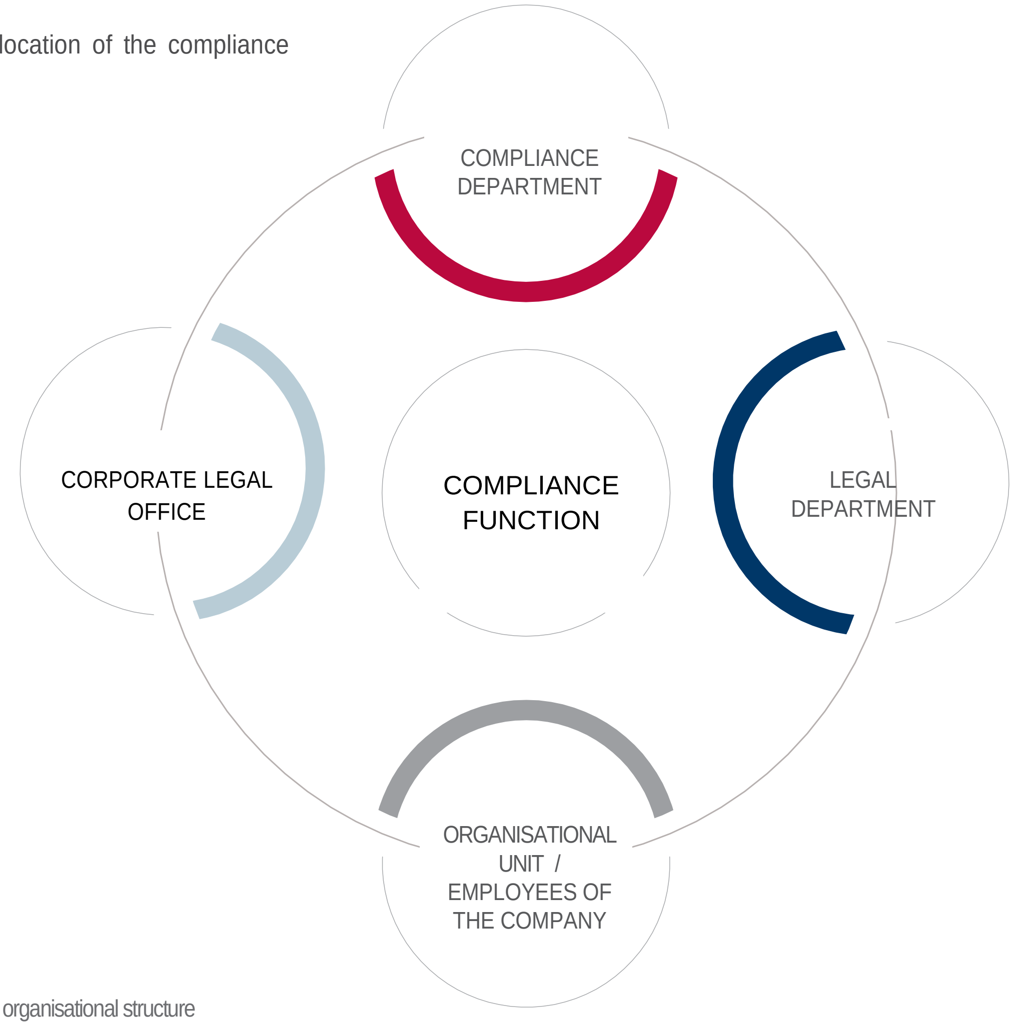

Figure 13.
Compliance function in the Company's organisational structure

COMPLIANCE DEPARTMENT

- supports the Management Board in ensuring compliance with laws and implementation and maintenance of an effective compliance management system,
- performs tasks within compliance areas (prevention to money laundering and terrorism financing, FATCA and CRS law, prevention of financial fraud, protection of investors in the area of reliable information for customers and no discrimination, adherence to and development of financial ethic rules, including insurance secrets, personal data and confidential information, cooperation with a supervisory authority,PUODO and GIFI)
- coordinates the compliance process / management of compliance risk.

LEGAL DEPARTMENT

- advises to the Management Board and Supervisory Board in the area of compliance,
- supports the Company's organisational units in the area of compliance of the Company's operations with applicable laws by providing final and binding interpretation thereof.

ORGANISATIONAL UNITS /EMPLOYEES OF THE COMPANY

- organisational units are obliged to manage compliance risk by: identification, valuation and assessment, reporting, response to and/or adjustment of operations of the section/unit to the applicable laws in cooperation with the Legal Department,
- the employees are obliged to operate in accordance with laws and internal regulations and are involved in the compliance risk management process,
- business process owners manage compliance risk in terms of compliance of the processes they manage and the supporting applications with the applicable laws.

CORPORATE LEGAL OFFICE

- organises the internal legislation process and supervises the maintenance of corporate standards in the area of legislation,
- supports organisational units in the development of internal regulations.

COMPLIANCE PROGRAM

The compliance function is pursued with the Compliance program, aimed at:

- preventing breach of Compliance rules (prevention),
- detection of potential breaches that may arise despite the preventive actions (detection),
- immediate remedy of the detected breaches (response).

Preventive actions

The Compliance Department – in order to prevent breaches of Compliance rules – takes various measures and actions, including:

- development of a Code of Conduct, Compliance Function Policy, Anti-corruption Policy and Prevention Policy to Money Laundering and Terrorism Financing aimed at a formal presentation of the ethical aspect of the performance of employee duties and providing the employees with guidelines, principles and rules of conduct resulting from general moral and ethical standards that are of special importance for the Company's business,
- development of appropriate standards, resulting in uniform and binding principles in the entire Company for all the staff, including in particular:
  - the principles concerning the mitigation of corruption risk (Anti-corruption Policy),
  - the principles concerning gifts, entertainment, donations and sponsoring ("Gifts Instruction"),
  - the principles concerning protection of people reporting any noticed abuse, irregularities and negligence ("Whistleblowers Instruction"),
  - the principles concerning the management of conflicts of interest in the Company's investment activities,
  - the principles concerning personal data protection (developed by the Data Protection Officer),
  - providing the employees with all assistance in access to and understanding the guidelines, principles and rules of ethical conduct. To this end, the Compliance Department operates a "competence centre" – Compliance Helpdesk to which employees may send e-mails with inquiries concerning ethical aspects of Compliance,
- development of other preventive measures to mitigate compliance risk on the basis of an analysis of reported problems and queries,
- dissemination and propagation among employees of the guidelines, principles and rules of ethical conduct by arranging training on issues relating to Compliance and dispatch e-mail messages related to ethics.

Detecting activities

All kinds of breaches of Compliance rules may pose a material risk to the Company and its employees. In view of the above, compliance with the standards/rules and guidelines related to ethics and law is a priority to the Company's business operations. In order to ensure compliance with the above standards/rules, processes have been developed to ensure effective identification, clarification and immediate remedy of all breaches of compliance rules in the Company.

In accordance with the applicable internal regulations (Code of Conduct, "Whistleblowers Instruction"), employees are required to notify the Compliance Department of any irregularities, instances of abuse and negligence that may occur in the Company. The reported information is analysed by the Department which also verifies and clarifies all reported irregularities, instances of abuse and negligence.

When the Compliance Department has reasons to believe that employees of the Company may have breached Compliance rules, the employees of the Department open an investigation to identify the reasons and scale of such breaches and the persons responsible therefor.

In order to that the risk of Compliance breach is detected at a possibly early stage, the Compliance Department does the following in the Company:

- performs monitoring of certain mechanisms in business processes,
- performs control actions including a check and verification of the internal regulations in force in the Company,
- operates a Compliance Monitoring Plan (CMP) which covers periodic compliance tests and assesses the adequacy and effectiveness of the compliance control measures and procedures in the Company; additionally, actions are taken to remedy the gaps in that respect.

Response

When any clarification, control, monitoring activities or compliance tests indicate a breach of Compliance rules, the Compliance Department prepares appropriate recommendations and submits them to competent persons in order to prevent recurrence. The Compliance Department carries our regular monitoring of the recommendations it has issued.

It further analyses the root reasons of the breach of standards/rules in force in the Company in order to apply the conclusions to detect and effectively eliminate the detected weaknesses in the Compliance Program. Such approach to the detected breaches supports ongoing enhancement and development of the Program and ensures system effectiveness.
Breaches of Compliance rules that generate recommendations issued by the Compliance Department may generate certain sanctions that are proposed by the Compliance Department and submitted to the Company's competent organisational units for decision.

PERIODIC REVIEW

The Compliance program is subject to periodic reviews and assessment of implementation. On that basis and also on the basis of the performed tasks and collected know-how and experience, the Compliance Department develops an action plan for the next period.

REPORTING OF THE COMPLIANCE FUNCTION

The Compliance Department submits periodic reports from the operation of the compliance function to the Company's Management Board / Audit Committee / Supervisory Board.

The reports also contain details of any detected breaches of Compliance principles and remedial actions taken by the Company's management, adequately to the needs.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The internal audit function (hereinafter internal audit) established and implemented in the Company carries out its tasks on the basis of the Internal Audit Charter, approved by Management Board and adopted for application by the Company's Supervisory Board.

OBJECTIVE AND TASKS OF THE INTERNAL AUDIT FUNCTION

The main objective of internal audit in the Company is a comprehensive view of the Company's operations and its organization, independent evaluation of activities undertaken by the first and second line of defence in the internal control system, identification of opportunities and threats to ensure synergy, add value and improve the operations of the Company as well as improving the adequacy and effectiveness of the internal control system and other elements of the management system.

The execution of internal audit function at the Company has been entrusted to the Chief Audit Executive and subordinate internal auditors employed in the internal audit unit.

Internal audit performs the following tasks in the Company:

- the assurance services, consisting in the performance of internal audit tasks of key areas of the Company's operations, through identification and assessment of significant risks and assessment of the internal control system occurring in the areas of operations, products, processes and IT systems in the Company,
- advisory and supporting services, consisting in particular in providing opinion on draft internal regulations, assessment, advisory support and educational activities within the Company with respect to risk control mechanisms; monitoring of recommendations issued, inter alia, by internal audit, external auditors, audit firm auditing the financial statements of the Company and competent supervisory authorities; other tasks imposed by the Audit Committee / Supervisory Board or the President of the Management Board.

In order to perform its duties, internal audit systematically, in an ordered manner, professionally, objectively and independently analyses the functioning of the Company in all areas of its business. Within the performance of audit tasks in organisational units, internal audit verifies the audited processes, paying special attention to compliance of the data input to the IT systems with the data in source documents, correct functioning of significant control mechanisms and compliance of operations with the applicable internal regulations and laws.

The basic audit method at the Company is the risk analysis-oriented approach. Internal audit performs its tasks by making periodical reviews and assessment of the areas that are the most exposed to risk in compliance with the annual and long-term internal audit plan. Apart from the tasks stipulated by the annual audit plan, the Audit Committee /Supervisory Board or the President of the Management Board may commission ad hoc (unscheduled) tasks. Additional tasks may be also carried out at the own initiative of Chief Audit Executive, having obtained consent of the President of the Management Board.

B.5.2 Independence and impartiality of the internal audit function

To ensure appropriate authority and independence of the internal audit unit (Internal Audit Department), the function reports directly to the Company's President of the Management Board. Chief Audit Executive:

- at least once a year confirms the organisational independence of internal audit to the Supervisory Board,
- is authorised to direct contact with the Chairman of the Company's Supervisory Board and the Chairman and each Member of the Company's Audit Committee,
- is authorised to attend Meeting of the Company's Management Board and Audit Committee if the meeting covers issues related to the internal control system or the internal audit function.

Internal audit performs the tasks assigned to it in an independent and objective manner:

- internal auditors are independent from the activity they examine and, consequently, must not accept responsibility for non-audit functions and tasks in the Company that are subject to periodic internal audit assessment including: development of internal regulations and design, implementation or operation of

products, processes and IT systems,
- recommending the internal control standards for products, processes and IT systems by internal auditors as well as the internal regulations review in specific areas of the Company's operations prior to their implementation, do not negatively affect the auditors' objectivity,
- it is prohibited to exert any pressure on internal auditors which could distort the objectivity of their work,
- internal auditors are obliged to immediately inform the Chief Audit Executive of any situations that can be reasonably assessed as being or potentially threatening their independence or objectivity. Internal auditors are also obliged to inform of situations which raise their doubts in this respect,
- internal auditors who used to work in other organisational units, must refrain from the assessment of the operating activity they were previously responsible for minimum 12 months,
- internal auditors may provide advisory services also with respect to operations they were responsible for earlier. If in connection with such services, the independence or objectivity of internal auditor may be impaired, such information shall be disclosed to the commissioning party before the task is commenced,
- the method of determining the remuneration of internal auditors does not influence their objectivity and independence.

The Company's Audit Committee monitors the internal audit activities, with particular emphasis on the issues of independence, professionalism and the level of skills and substantive knowledge of internal auditors, in particular through:

- ensuring compliance with the principles of the Internal Audit Charter, adopted for application by the Supervisory Board of the Company,
- analysis of periodic reports regarding the implementation of the internal audit function in the Company,
- review of the activities undertaken and structure of the internal audit in order to ensure the proper functioning of the internal audit in the Company,
- giving consent to the annual audit plan approved by the Management Board of the Company and significant adjustments to the plan, monitoring the execution of the plan and the possibility of initiating additional audit tasks in the Company,
- analysis of the implementation status of recommendations issued as a result of audit tasks and recommendations / post-control recommendations issued by authorized external entities,
- issuing opinions on the candidates for the Chief Audit Executive position and approval on appointment or dismissal of the Chief Audit Executive,
- periodic assessment of adequacy and effectiveness of the internal audit function.

In order to properly carry out the internal audit activities, the Management Board of the Company is responsible in particular for:

- establishing, ensuring independence and proper operation of internal audit,
- exercising by the President of the Management Board direct, organizational supervision over the internal audit,
- approval of the Internal Audit Charter,
- approving an annual audit plan based on risk analysis and plan adjustments,
- making decisions regarding the appointment and dismissal of the Chief Audit Executive,
- making decisions on the actions to be taken in relation to the internal audit results and recommendations and for ensuring the execution of these actions,
- submitting, at least yearly, information to the Supervisory Board on the implementation of the internal audit activities, including execution of the internal audit plan and the results of monitoring the implementation of the recommendations formulated by internal audit or external institutions.

REPORTING OF THE AUDIT FUNCTION

The internal audit unit reports quarterly on, among others, execution of the internal audit plan, performed audit tasks, results of work, other tasks performed and available resources to the Management Board and the Company's Audit Committee. The President of the Management Board of the Company receives information on the status of the implementation of audit recommendations and other tasks performed by the internal audit unit on a monthly basis. Other Members of the Management Board receive detailed information on the status of recommendations in the areas they supervise. Reports of the completed audit tasks are presented on a current basis to the Management Board of the Company.

The internal audit unit prepares an annual report on its operations, which is presented to the Audit Committee and the Management Board of the Company

B.6 Actuarial function

The actuarial function was established and implemented on the basis of Guidelines relating on actuarial function at TUnŻ “WARTA” S.A., approved by the Company's Management Board.

OBJECTIVE AND TASKS OF THE ACTUARIAL FUNCTION

The main goal of the actuarial function is to coordinate the calculation of technical provisions. The coordination is pursued inter alia by ensuring appropriate methodologies and applied models as well as assumptions made in the calculation of the technical provisions along with an assessment of the data used to calculate the provisions is adequate and of an appropriate quality.

The works of the actuarial function are supervised and coordinated by the Director of the Actuarial Department (Person Supervising the Actuarial Function). Specific tasks of the actuarial function are performed by the Actuarial Department and the other involved organisational units in compliance with their respective delegation of duties within the activities for the needs of the actuarial function.

The tasks of the actuarial function include in particular:

- with respect to the calculation of technical provisions for solvency purposes:
  - coordination of the calculation of technical provisions for solvency purposes,
  - ensuring an appropriate methodology of the applied model and the assumptions made in the calculation of technical provisions for solvency purposes,
  - comparison of the best estimates against the data resulting from accumulated experience,
  - submitting information to the Management Board and Supervisory Board on the reliability and adequacy of the calculations of technical provisions for solvency purposes,
- with respect to ensuring quality of the date used for the calculation of technical provisions for solvency purposes:
  - assessment if the data used to calculate technical provisions for solvency purposes is sufficient and of appropriate quality,
  - supervision of the calculation of technical provisions for solvency purposes when appropriate approximations are used, including an individual approach – in specific circumstances when the Company does not have sufficient data of appropriate quality,
- expressing an opinion on the overall policy of risk underwriting,
- expressing an opinion on the adequacy of reinsurance arrangements,
- calculation of technical provisions for accounting purposes,
- cooperation with the Risk Management Department in the effective implementation of the risk management systems, in particular with respect to:
  - risk modelling underlying the calculations of the Solvency Capital Requirement and Minimum Capital Requirements,
  - Own Risk and Solvency Assessment of the Company.

Determination of the amounts of technical provisions for solvency purposes and coordination of the process is carried out by the Actuarial Department. In order to ensure independence and validation of actuarial calculations, a contract was signed with an external adviser.

With respect to the calculation of technical provisions for solvency purposes, the Actuarial Department is responsible for the calculation the best estimate and development of the underlying documentation of this calculation. The Actuarial Department also makes additional analyses to confirm the received results and cooperates with an external adviser in validation.

On the basis of the validation performed by an external adviser, the Risk Committee recommends future actions and/or additional analyses.

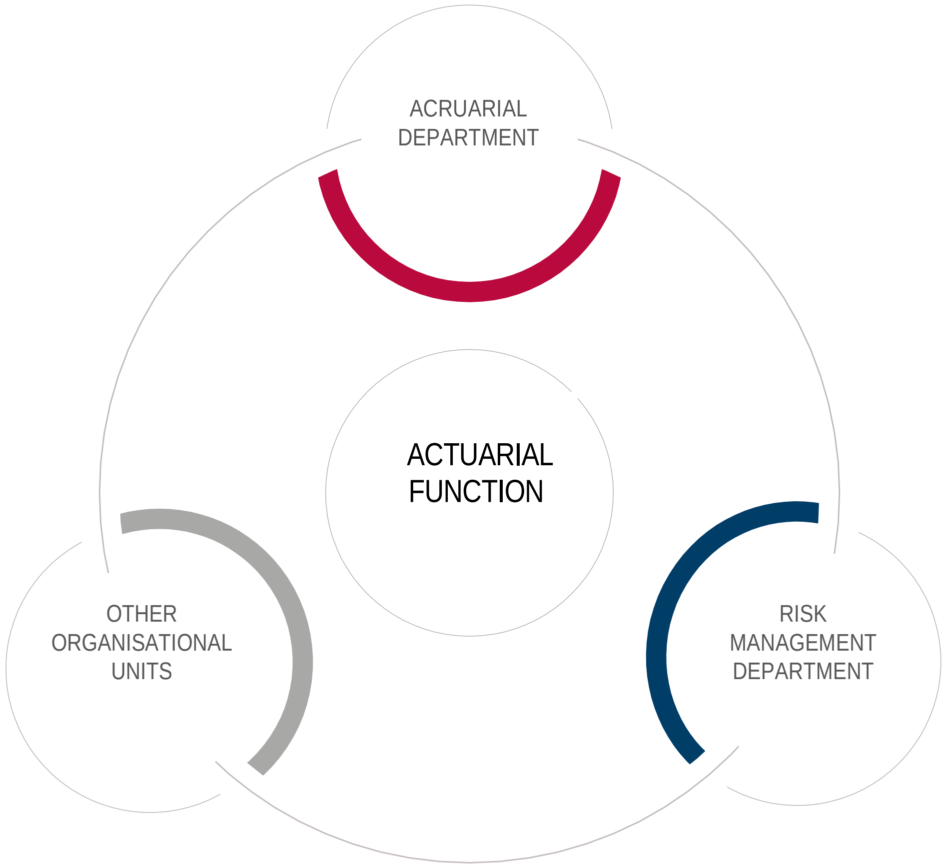

Figure 14.
Actuarial function in the Company's organisational structure

ACTUARIAL DEPARTMENT

- Calculation of technical provisions for solvency purposes,
  - verification of compliance of the applied methods and assumptions in determining the best estimates with legal requirements,
  - assessment of the adequacy of the applied methods and models, principles and assumptions in making the best estimates,
  - calculation of best estimates and verification if they are correct,
  - review of the adequacy of best estimates by a comparison with historic data,
  - maintenance and updates to the documentation concerning best estimates of the provisions,
  - managing the risk covering the process of provision establishment,
- Providing an opinion on the overall underwriting policy,
- Providing an opinion on the adequacy of solutions relating to reinsurance,
- Calculation of technical provisions for accounting purposes.

RISK MANAGEMENT DEPARTMENT

- Determination of risk margin

OTHER ORGANISATIONAL UNITS

- Cooperation in the assessment of data quality

The supervision and coordination process of establishing technical provisions is performed by the Actuary supervising the Actuarial Function who is responsible for correct calculations.

Technical provisions are calculated on the basis of data from the Company's accounting systems and technical systems, data provided directly by organisational units and external data (e.g. GUS, NBP). The data is obtained with reports embedded in the systems, reports from data warehouses and reports made by the department and other organisational units of the Company. The data is subject to control and comparison to eliminate potential errors. Organisational units that are owners of the provided data are responsible for periodic data control and data correctness. The accounting data is subject to an account business control process.

Within the establishment of technical provisions, the best estimate component is determined by the Actuary Department while the risk margin is determined by the Risk Management Department.

The determination of the best estimate value starts with collection of data on insurance contracts that are afterwards using by the tools calculating the provisions. In parallel, assumptions on biometric risks, cancellation levels and costs are developed and input (mainly on the basis of historic data). When the data is input to the tools, cash flows are generated that correspond to the base scenario and shock scenarios (separately gross flows, separately flows related to reinsurers' share). Afterwards, on the basis of zero-coupon rates, published by EIOPA, their present value is calculated. Additionally, the value of the best estimation is increased by the value of embedded options and guarantees that are valued on the basis of stochastic or deterministic methods.

The core tool to generate cash flows is the system used for actuarial modelling – Prophet. Additionally, for a portion of the portfolio models can be applied made in Excel spreadsheet.

Determining the best estimate of provisions, all variables were taken into account that affect the value of cash flows: biometric data, costs, cancellation levels, interest rates, inflation. The assumptions were developed on the basis of historic observations (biometric data, cancellation levels) or quotations/market projections (interest rates, inflation).

The Management Board is directly involved in the establishment process of technical provisions by approving the Regulations on the establishment of technical provisions. The Management Board entrusted the Actuary supervising the Actuarial Function with the detailed specification of the methodology and the establishment mode of individual technical provisions.

The Actuary supervising the Actuarial Function is obliged to provide the Management Board minimum once a year with information on any modifications made to the calculation methods of technical provisions.

With respect to documentation, apart from developing descriptions of the applied methodology, files are archived with calculations of technical provisions.

During the calculations, a protocol is drafted which – for each stage of provision calculations (preparation of data on policies, development of assumptions, calculations, reporting) – responsible persons are defined for performing and verifying each tasks, with details of the location and saving data of the used files.

The Actuarial Department is responsible for reporting the balances and changes to gross technical provisions and related to reinsurers' shares.

Data quality in the calculation process of technical provisions

The Actuary Department, in cooperation with the Company's other organisational units, develops and updates the Verification Procedure of data quality at TUnŻ "Warta" S.A. which specifies: a list of data subject to verification, identification of organisational units of the owners of the information responsible for data quality and the way to comply with the control duty of data quality as well the way to document verification and report errors.

REPORTING OF THE ACTUARIAL FUNCTION

Within the actuarial function, the Actuary supervising the Actuarial Function – at least once a year, after the end of each reporting year – prepares a report for the Management Board on the calculation process of technical provisions.

Presenting its opinion on the overall underwriting policy, the actuarial function takes into account relations between the policy of underwriting and the level of technical provisions.

Presenting its opinion on the adequacy of reinsurance arrangements, the actuarial function takes into account relations between reinsurance arrangements and the level of technical provisions.

Reporting contains information on the completed tasks by the actuarial function and the results thereof with recommendations on elimination of all detected irregularities.

B.7 Outsourcing

The Principles of concluding outsourcing contracts, approved by the Company's Management Board, define the processes and activities that are outsourced and set forth the rules of approval and performance of outsourcing processes.

B.7.1 Outsourcing policy

The outsourcing policy followed in the Company ensures compliance with the guidelines set forth in the Act on Insurance and Reinsurance Activity and the standards of the Talanx Group.

Outsourcing requires approval of the Management Board, two members of the Management Board or the Director of the relevant organisational unit. The final formula is subject to the outsourced services and the effects that may be generated by outsourcing.

PARTICIPANTS IN THE OUTSOURCING PROCESS

The following are involved in the outsourcing process in the Company:

- the organisational unit – apply for approval of outsourcing and if granted – supervise the process on an ongoing basis,
- the Management Board / members of the Management Board – approve / disapprove outsourcing,
- the Risk Management Department – coordinates the definition of outsourcing, evaluates the risk assessment of significant contracts, verifies and collects outsourcing cards and prepares annual reports for the Risk Committee regarding the outsourcing risk,
- the Administration Department – supervises the register of outsourcing contracts; upon proposal of other units and as a result of year review it updates the Principles of concluding outsourcing contracts,
- the Legal Department – provides opinions on contracts, annexes, termination of outsourcing contracts,
- The System Maintenance and Development Department- in the area of IT contracts usig cloud computing,
- Outsourcing Definition Team comprising of the representatives of Administration Department, Legal Department, Security and Support Bureau, Risk Management Department and System Maintenance and Development Department– in the scope of defining and qualifying outsourcing

ELECTION AND ASSESSMENT OF THE EXTERNAL SERVICE PROVIDER

The external entity providing outsourced services and processes is selected in line with the Non-informatic Area Procurement Procedure or the IT Procurement Policy, respectively.

The entities identified after a preliminary market appraisal are invited to proceedings the provider choice carried out by the Administration Department or the Security and Support Bureau during which they are expected to:

- confirm the required financial condition,
- submit the required documents and references,
- file appropriate representations, e.g. that no bankruptcy proceedings are pending against them.

Additionally, the units responsible for the procedure verify the candidates' propriety.

The provider is selected on the basis of selection criteria determined each time, adequately to the business needs and specificity of a given outsourcing, with reference to the subject matter and the assessment of the provider's credibility.

IDENTIFICATION, ASSESSMENT AND MEASURES MITIGATING OUTSOURCING RISK

The Principles of concluding outsourcing contracts set forth the conditions of verifying contracts in terms of their validity.

Outsourcing contracts include so-called material contracts and others. The material contract are that meet at least one of the following criteria:

- failure by the provider, including discontinuation of the performance of the contract or incorrect performance of the contract, would generate major hazards of:
  - failure to accomplish financial or business targets by the Company, in particular adverse impact on the financial profit in excess of PLN 1,5 M,
  - breach of law that may result in penalties imposed on the Company,
- the outsourced activity is a part of a Critical Process within the meaning of the Crisis Management Policy,
- the anticipated annual gross contractual remuneration exceeds PLN 1 M,
- the contract covers the submission of declarations of intent related to claims for damages or other benefits due under insurance contracts, insurance guarantee agreements or inward reinsurance and retrocession,
- the contracts covers the entrusting management system activities,

- the contract covers the outsourcing of the Company's processes commissioned to companies in the Talanx Group.

Each material outsourcing contract requires approval by the Management Board. The other outsourcing contracts concerning services carried out on a continuous basis require approval of two members of the Management Board.

Each outsourced process is subject to initial, ongoing and final risk assessment; assessment of processes classified as material is additionally formalised in the form of Risk Assessment Cards and requires prior to concluding and once a year an assessment of the economic and financial situation of the Supplier. The organisational unit supervising the process completes the documents on the basis of its best knowledge and information received from the Provider. To assess the economic and financial situation, qualitative and quantitative assessment forms, called the Supplier's economic and financial situation assessment model, are used.

The following cards are used in the Company:

- Outsourcing Card – Preliminary Risk Assessment – completed before the contract is signed,
- Outsourcing Card – Periodic Risk Assessment – completed every year,
- Outsourcing Card – Risk Assessment after Contract Expiry – completed when the contract is ended.

The initial, ongoing and final risk assessment is performed by the organizational unit supervising the contract. On the basis of cards' information, completed and submitted by the organisational units, the Risk Management Department gives opinion on the correctness of risk assessment, monitors the level of contract risk and drafts a consolidated report on outsourcing contracts for the Risk Committee.

Notwithstanding the above, the organisational units that are contract owners are responsible for ongoing monitoring of correct contract performance. When major risks are identified that are related to contract performance or the provider, the unit is obliged to:

- immediately inform the supervising member of the Management Board of such risks,
- initiate actions aimed at activating the existing remedial action plan or urgently develop such plan as the case may be, and obtain approval thereof by the supervising member of the Management Board or by the Management Board – in line with the nature of the activities.

IMPACT OF OUTSOURCING ON CAPITAL ADEQUACY

Outsourcing contracts do not materially affect the Company's capital adequacy and risk profile and they do not generate an excessive increase of operational risk. Appropriate provisions of outsourcing contracts, diversification of service providers and control of the entities providing outsourced services safeguard the Company against material risks.

When outsourced services constitute a part of a Critical Process within the meaning of the Crisis Management Policy, the contract is classified as material and the providers must have Business Continuity Plans and Emergency Restoration Plans. The performance of material contracts is monitored and should any material risk arise, immediate action is taken.

REPORTING TO THE SUPERVISORY AUTHORITY

The unit which is the contract owner is obliged to complete the OPFSA survey consisting information about the contract and notify the Corporate Legal Bureau immediately of intent to conclude or change significantly of any contract that needs to be notified to the supervisory authority 30 days before implementation or significant change of outsourcing agreement. The Corporate Legal Bureau, in line with the existing Rules of information disclosure and providing responses to letters of the Office of the Polish Financial Supervision Authority and other institutions and public administration bodies and compliance with reporting duties at TUnŻ "WARTA" S.A., notifies the supervisory authority together with the OPFSA survey.

B.7.2 Key outsourcing agreements

In compliance with the existing Principles of concluding outsourcing contracts, outsourcing contracts may not cover the day to day management of the Company, in particular:

- development of the Company's business strategy and supervision of the implementation thereof,
- supervision of the processes performed in the Company,
- decisions on outsourcing of processes and responsibility for outsourcing contracts,
- supervision over and performance of key functions in the Company.

The Company does not outsource any key functions. Any commissioning of decision authority (supervision) with respect key functions is prohibited. However, subject to approval by the Company's Management Board, it is possible to outsource certain activities performed within key functions subject to the service provider complying with the requirements of competence and propriety as set forth in Solvency 2.

In 2020, the Company outsourced activities related to validation of technical provisions. The service provider is subject to Polish law.

In addition, the Company submits to PFSA contracts classified as basic and valid, i.e. defined by the Company as relating to:

- making declarations of will on claims for damages or other benefits due under insurance contracts and insurance guarantee contracts,
- making declarations of will on claims for damages or other benefits due under active reinsurance contracts and retrocession.

In 2020, valid outsoucing contracts, in the field of basic outsourcing in the Company, were the following agreements:

- assistance of life insurance,
- liquidation of damage due to bancassurance insurance,

Service providers providing services in the above area are subject to the jurisdiction of Polish law.

Apart from the above, the Company does not outsource processes relating to:

- ensuring IT Security,
- administration of information security,
- counteraction fraud, crisis management, including business continuity management.

In view of the above, in the Company's opinion the performance of outsourcing contracts does not materially affect the adequacy of the system of governance.

B.8 Any other information

All material information was presented above.

C Risk Profile

Risk profile describes the scale and structure of risk exposure, taking into account the specifity of the business, in particular, it contains the following information:

- assessment and quantification of core risk modules of the standard formula,
- material risks to which the Company is exposed over a short-term horizon, identified in the periodic assessment process,
- material risks to which the Company is exposed over a long-term horizon, identified in the Business Plan,
- information on other risks that are not covered with the core risk modules of the standard formula,
- other material information that affect the assessment of risks inherent to the Company.

The risk profile, Solvency Capital Requirement and S2 solvency ratio are determined in accordance with the standard formula on the basis of the requirements specified in the Delegated Regulation and the Act on Insurance and Reinsurance Activity. This means that the Company does not apply its own parameters, specific for insurance undertakings.

OWN RISK AND SOLVENCY ASSESSMENT

The risk profile was determined as a result of the Own Risk and Solvency Assessment process.
Own Risk and Solvency Assessment is carried out in line with the existing Own Risk and Solvency Assessment Policy. The detailed description of Own Risk and Solvency Assessment is provided in chapter B.3.3 hereof.

DESCRIPTION OF MATERIAL RISKS

Significant risks to which the Company is exposed include:

- the risks covered by the Solvency Capital Requirement calculated based on the standard formula,
- individual risks identified by the Company,
- other risk areas identified during the Business Plan preparation process.

RISKS COVERED BY THE SOLVENCY CAPITAL REQUIREMENT

The Solvency Capital Requirement is allocated to individual risk modules and sub-modules subject to the diversification effect.

The figure 15 presents the split of the Company's risks as at 31 December 2020 and as at 31 December 2019.

Risk Profile as at 31 December 2020 (external circle) and as at 31 December 2019 (internal circle)

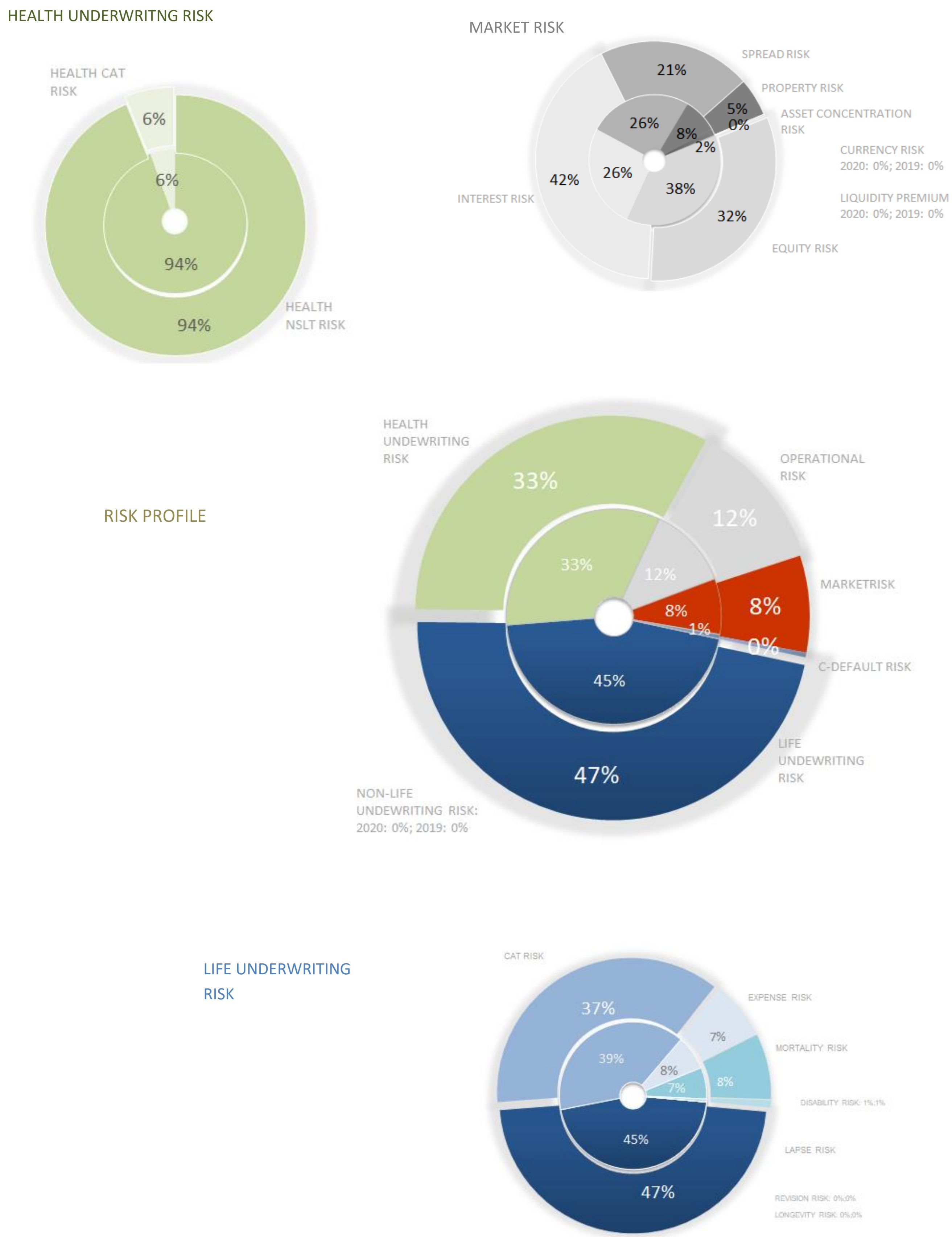

Figure 15.
The Company's risk profile in accordance with the standard formula

Underwriting risk in life insurance risk is the Company's major risk, accounting for 47% of its total Solvency Capital Requirement. It is composed of: lapse risk (accounting for 47% of the value of overall life insurance), catastrophic risk (37%), risk related to the amount of costs incurred risk (7%), mortality risk (8%) and disability-morbidity risk (0,9%).

Underwriting risk in health insurance is the second largest risk, accounting for 33% of the total Solvency Capital Requirement. The largest risks in that risk are as follows: (Not Similar to Life Techniques) health actuarial risk (accounting for 94% of the value of overall underwriting risks in health insurance), and health catastrophic risk (6%).

Operational risk is the third largest risk, accounting for circa 12% of the total Solvency Capital Requirement.

Market risk is the fourth largest risk, accounting for 8% of the total Solvency Capital Requirement. The major risks making up market risk are as follows: spread risk (accounting for 21% of the value of overall market risks), equity risk (32%), interest rate risk (42%), property risk (5%) and currency risk (0.2%).

Changes in the above-mentioned risks are presented on picture 15. The most important changes, compared to 2019, were in the area of underwriting risk in life insurance risk, the increase of which results from the increased share of group and individual protection insurance in the Company's portfolio. New purchases of fixed-rate bonds contributed to the extension of the net position in the interest rate risk. As a result, the share of market risk remained at the last year's level, and also changed its structure by increasing the share of interest rate risk.

In the period considered there were no off-balance sheet items that had an impact on the risk level.

INDIVIDUAL RISKS IDENTIFIED BY THE COMPANY

The material individual risks identified by the Company within the ORSA process conducted in 2020 include:

- risk of unfavorable regulatory changes in the field of investment products,
- risk of lower sales of new policies,
- risk of increased redemption benefits concerning investments products,
- interest rate risk.

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OTHER RISK AREAS IDENTIFIED DURING THE BUSINESS PLAN PREPARATION PROCESS

Other risks areas that supplement the risk profile include:

- the impact of the COVID-19 pandemic, which had a negative impact on the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. The length of the crisis will be decisive for the severity of its consequences, including the decline in sales of new policies,
- a large decline in GDP (8.4% y/y) in the second quarter of 2020 due to the crisis caused by the pandemic COVID-19. Forecasts for further GDP growth vary widely, ranging from -5.2% to -0.5% for 2020 and from 2% to 5.8% for 2021. The macroeconomic shock related to COVID-19 is expected to be limited in 2020-2021, and it may take many years to return to the previous growth path,
- price pressure in group insurance as a result of increasing competition, intensified by the announcement of product intervention, which will force competition on the market of protection insurance with a regular premium,
- an unprecedented reduction in interest rates that remains accommodative in 2021, slight increases in interest rates are possible in the coming years,
- the COVID-19 pandemic may have a further negative impact on business and economy in the form of returning lock-downs, deteriorating financial condition of both the country and the private sector, which may result in recommendations to further strengthen the Company's capital position,
- increasing the social security burden on employers and employees,
- potential adverse changes on the life insurance market, especially in the unit-linked segment (product intervention announced by the PFSA to be introduced in third quarter 2021) and bancassurance resulting in a reduction in new sales.

RISK CONCENTRATION

Risk concentration in the Company occurs in the following areas:

- underwriting risk – the portfolio of group insurance includes a geographical concentration of individual risks as a result of which the Company is exposed to the catastrophic events,
- credit risk – resulting from investment activity (concentration by subject, sector, geography of investments).

The risks are appropriately managed by the Company by reinsurance protection of catastrophic events, diversification, a limit system; they are also included in the calculation of capital requirement.

Moreover, the concentration of operational risk (outsourcing risk) arise when more than one service is outsourced to one service provider, with whom the Company has signed significant outsourcing agreement. The above mentioned risk is mitigated by additional mechanisms described in the rules for the outsourcing agreements' acceptance, that are defined in the Company's internal regulation.

In the period considered, apart from the above-mentioned concentration, there were no risk concentration identified.

RISK SENSITIVITY ANALYSIS

The Company performs stress tests and reverse stress tests. The analysis covers all potential events that in view of the Company's risk profile could result in a decrease of its own funds to the minimum level – 100% coverage of the Solvency Capital Requirement.

Stress tests rely on the following assumptions:

- the events are realistic and based on observations (they are based on historic events that occurred over the previous 10 years (in one-year horizon) for market and credit risk, and on potential fluctuations of the insurance portfolio observed in the past and on potential of disadvantageous events in the portfolio), so the probability that these events occur, is not higher than 10%,
- the events are selected with a view to the Company's risk profile – the existing structure of the insurance portfolio and investment portfolio,
- the review covers solely events that are material for S2 capital position, that is such that may result in a change of own funds calculated in compliance with the valuation methodology of the S2 solvency ratio,
- the analysis provides for the mitigating impact of tax effects that result from appropriate adjustments to deferred income tax provision should a loss occur,
- the analysis applies a loss aggregation mechanism (due to the possible divergence and convergence of the analysed events in time), compliant with the mechanism applied in the standard formula.

As a result of the performed sensitivity analyses, the Company classified the following events/risks as material for which the following assumptions were made:

- Market risk

  - Interest rate risk

  A parallel increase by 150 b.p. in the yield curve was assumed. The event took place at the end of 2008 (the outbreak of the crisis) and in 2013, where yields on long term rates rose by such an amount in seven months, the fell again to the same level in 2014 and 2015.

  - Equity risk

  Share prices plunged by 20% was assumed.

  - Property risk

  Property prices decrease by 20% was assumed.

  - Spread risk

  The risk has been estimated based on the fluctuation of the credit spread for a given rating over the past nine years. It was assumed that the real annual loss due to widening spreads was equal to half of the capital requirement from this title. The extreme events of 2008/2009 have not been taken into account, because the policy of central banks implemented since then should not allow such extreme events.

  - Currency risk

  The increase of foreign currency exchange rates by 12% was assumed (depreciation of PLN in relation to foreign currency given) for the currencies, for which the Company’s currency position is short (the excess of liabilities over assets) and the decrease of foreign currency exchange rates by 12% was assumed (appreciaton of PLN in relation to foreign currency given) for the currencies, for which the Company’s currency position is long (the excess of assets over liabilities).

  - Concentration risk

  The significant positions in the concentration in individual companies were analysed and the default of the largest exposure (but not bank) without rating was assumed. Risk of bank bankruptcy was assumed at a very low level.

- Underwriting risk of life insurance

  The scenario based on economic capital decrease as a result of increased lapses.

- Underwriting risk of health insurance

  The increase in the best estimate in group life insurance was assummed as a result of increased loss ratio. Historically, loss ratio has been characterized by volatility that could lead to a certain reserve jump upwards.

- Operational risk

  The risk scenario assumes law changes affecting Investment products sale.

The table 6 presents the results of the tests held in 2020 (based on the Company’s solvency status at the end of 2019):

TABLE 6. RESULTS OF THE STRESS TESTS

STRESS TESTS	VALUE OF THE SHOCK EFFECT	SHOCK TO OWN FUNDS RATIO
Market risk	31 419	6,2%
Life underwriting risk	11 776	2,3%
Health underwriting risk	10 226	2,0%
Operational risk	12 123	2,4%
Total loss	52 573	10,4%
Solvency Capital Requirement	196 115	
Total loss as a % of Solvency Capital Requirement.	26,8%	

Reverse stress tests consists in testing the volume of an event/risk required so that the solvency ratio at the end of 2019 falls by 30%, i.e. to consume all the capital surplus required by the Company.

The table 7 presents the results of the reverse stress tests for the risks, for which the scenarios described in the stress tests are probable:

TABLE 7. RESULTS OF THE REVERSE STRESS TESTS

REVERSE STRESS TESTS (RESULTING IN A REDUCTION OF CAPITAL OF 30% OF THE SCR) POSSIBLE OCCURRENCE TAKING INTO ACCOUNT THE RISK PROFILE OF THE COMPANY	CONDITIONS OF OCCURRENCE OF THE GIVEN REVERSE STRESS TEST
Interest rate risk	Increase of interest rates by 310 b.p.
Credit spread risk	Increase in credit spreads by 5.2 times higher than in the standard formula.
Concentration risk	Bancrupcy of few issuers, where Company has significant exposure.
Risk of change in group insurance BEL	The increase in the ratio of claims / premium written by 23 pp.

Due to the fact that the above tests were parameterised on the basis of observations of historic evolutions of capital markets and business environment of the Company over the previous 10 years, it was ascertained that the total loss (not higher than 30% of the Solvency Capital Requirement) corresponds to the value at risk with the probability not higher than 10% over one-year horizon.

C.1 Underwriting risk

Underwriting risk is a potential adverse deviation the value of liabilities in the insurance contract portfolio from the anticipated value of this liabilities.

The Company's underwriting risk includes actuarial risk related to life insurance and risk related to health insurance (similar to non-life insurance).

Underwriting risk can be split into the following types:

ACTUARIAL RISK

Health insurance risk

- Premium and reserve risk
- Catastrophe risk
- Lapse risk

Life insurance risk

- Mortality risk
- Catastrophe risk
- Lapse risk
- Expenses risk
- Disability-morbidity risk
- Longevity risk

Fugure 16.
Types of underwriting risk

In 2020 the risk related to life insurance had the largest impact on the Company's risk profile – it accounted for 47% of the Solvency Capital Requirement (compared to 45% in the previous year).

In the period considered there were no off-balance sheet items that had an impact on the actuarial risk level.

HEALTH INSURANCE RISK

Premium and reserve risk

The risk is generated by additional contracts for group insurance covering health and accidents, modelled with actuarial techniques that are used in non-life insurance.

Catastrophic risk

The largest component of catastrophic risk is the mass accidents risk.

Lapse risk

Risk of loss or adverse change in the value of insurance liabilities resulting from changes in level, changes in trend or changes in volatility of contract cancellation rates, policy expiration, redemption and renewal.

LIFE INSURANCE RISK

Mortality risk

Mortality risk is generated by that part of the insurance portfolio where a growth of mortality rates requires an increase of best estimates. In particular, in the Company that is group insurance (main life insurance contract), individual regular premium unit-linked insurance as well as a portfolio of life and contracts.

Disability-morbidity risk

Disability-morbidity risk is generated by that part of the insurance portfolio where a growth of morbidity or injury rates requires an increase of best estimates. In the Company, the risk is mainly generated by insurance related to lifeindividual life insurance contracts where apart from the main life insurance contract there are a number of additional contracts covering accidents and health.

Lapse risk

Lapse risk is generated by the part of the portfolio where a growth or decease of contract cancellation ratios requires an increase of best estimates. A vast majority of lapse risk comes from the portfolio where policyholder is exposed to investment risk and where cancellation of the contract by the insured means loss of potential future profit. Long-term life contracts are the other material risk source.

Expense risk

Expense risk is generated by the part of the portfolio where a growth of the assumed costs requires an increase of best estimates. It is generated mainly by long-term contracts with fixed premium where a change to costs versus the assumed costs affects the product profitability over a long time. The largest part of the contracts held by the Company are those where the policyholder is exposed to the investment risk, long-term life contracts and long-term life and endowment contracts.

Catastrophic risk

Catastrophic risk is generated by the portfolio where life insurance is the main risk. In the Company, the risk is mainly generated by group insurance generating the largest mortality risk sums in the portfolio. Another major risk generator is also insurance on mortgage loans covering the borrowers' death.

Longevity risk

Longevity risk is generated by that part of the insurance portfolio where a decrease of mortality rates requires an increase of best estimates. In particular, in the Company that applies to disbursed annuities; however, the number and the amounts thereof are immaterial.

MEASUREMENT METHODS OF UNDERWRITING RISK

To measure the underwriting risk, the Company applies the following tools:

- calculation of the best estimates, risk margin and capital requirements,
- reserves adequacy tests,
- MCEV calculation and analysis compared to best estimates,
- performs other profitability (IRR, impact on the technical account),
- calculation of limits of sums at risk and the utilisation level thereof,
- determination criteria of re-insurer selection.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The Company applies the following techniques to mitigate underwriting risk:

- setting limits for risk and risk sub-budgets,
- appropriate wording of insurance terms and conditions and tarification,
- reinsurance programs for large sums at risk.

The effectiveness of the risk mitigation techniques is monitored by controlling limits and period reporting to the Risk Committee.

Additionally, calculations of capital requirement on a quarterly basis verify if the capital requirement for main risk categories does not exceed the pre-determined risk sub-budget that is controlled with the approved limits.

During 2020 the actuarial risk measurement methods and risk mitigation techniques did not change.

C.2 Market risk

Market risk is defined as a risk of potential adverse deviation from the anticipated economic value of assets and liabilities resulting from fluctuations of market prices and an imperfect match of assets and liabilities.

Market risk encompasses the following risks:

MARKET RISK

Interest rate risk	Equity risk	Spread risk	Currency risk	Property risk	Asset concentration risk

Figure 17.
Types of market risk

As at 31 December 2020 the market risk accounted for 8% of the Solvency Capital Requirement (compared to 8% in the previous year).

In the period considered there were no off-balance sheet items that had an impact on the market risk level.

Interest rate risk

Interest rate risk is generated by:
- mismatch between the profile of investments covering technical provisions and the profile of the provisions,
- investments of own funds covering capital requirements.

In the case of mathematical provisions, the investment policy strives to achieve the possibly low interest rate mismatch between structure of assets and liabilities, with possibly high portfolio yield. Risk in that part of the portfolio results from:

- long-term guaranteed interest rates, including guaranteed rates for future premiums,
- profit share offered to the insured, resulting from income on investments if rate of return are generated in excess of the guaranteed level.

In case of investments of own equity to cover capital requirements, a larger proportion of the portfolio is invested in debt markets which also generates interest rate risk and thus increases capital requirement on this risk.

Equity risk

Equity risk is generated solely by the share of the Company's own funds in the investments for the benefit of life assurance policyholders who bear the investment risk.

The Company has no intention to invest in stock markets on its own account.

Spread risk

The Company's investment strategy allows for investments in corporate bonds and other instruments exposed to credit spread risk, both domestically and in foreign markets. Investment limits are subject to the type of instruments, issuers and their credit quality as described with their external ratings and an internal analysis of their financial condition.

In the domestic market those are safe instruments like mortgage bonds, bonds of large companies and financial institutions with investment-grade ratings and high-yield bonds of entities without external ratings. In those instances, the Company applies its own assessment procedure of issuers' creditworthiness.

In foreign markets, investments are made in securities of large corporate entities and in sovereign securities, mainly in emerging markets. That part of the portfolio is composed solely of debt instruments with liquid markets and whose issuers have external rating on appropriate level. Additionally, the Company monitors the economic condition of countries and the situation in their markets.

Currency risk

A passive approach to currency risk results in a relatively low capital requirement which is due to the low value of FX position. The risk may result from investments in foreign markets or settlements in foreign currencies related to hedging exposures under derivative instruments and to a lesser extent to settlements with foreign service providers. In compliance with the investment policy, the FX position is always hedged with derivative instruments.

Property risk

The Company substantially holds properties for its own use or intended of sale and it does not invest in investment properties. Therefore, the value of properties and thus the property risk is relatively low (a passive approach to investments in properties). Real estate lease agreements, recognized in line with IFRS16 standard, contribute in large extent to property risk value.

Market risk concentration

Asset concentration and diversification are maintained at safe a level which is achieved inter alia with concentration limits that are subject to the type of instrument, issuer and the issuer group's rating. The Company does not hold any positions generating excessive concentration of the market-risk in the investment portfolio. Insignificant concentration which results in the zero capital requirement with respect to concentration risk is due to credit exposures for PKO BP group. The total exposure value with respect to this group at the end of 2020 was 1.7% of the value of investments which are taken into account in the concentration risk module (3.7% for BNP Paribas in the previous year).

Investment limits concerning concentration levels are verified for each transaction and are aimed at mitigating such risk and the resultant capital requirement.

In case of investment in foreign markets, the Company applies concentration limits that are more restrictive than for the Polish market with respect to individual issuers/capital groups and has approved limits for total exposure in each country. As a result, the portfolio of foreign investments is also diversified geographically.

VALUATION METHODS OF MARKET RISK

To valuate the market risk, the Company applies the following tools:

- VAR calculation to monitor overall market risk,
- BPV calculation and duration to monitor interest rate risk,
- analysis of risk scenarios and stress tests.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 8 presents the market risk mitigation techniques applied by the Company:

TABLE 8. MARKET RISK MITIGATION TECHNIQUES

RISK	RISK MITIGATION TECHNIQUES APPLIED
Interest rate risk	BPV limits restricting the duration level of the asset portfolio and this the capital requirement for the risk, concluding forward interest rate transactions
Equity risk	An absolute limit for stocks, concentration limits for the stock portfolio
Property risk	An absolute limit, low exposure, mainly properties for internal use
Spread risk	A limit for the overall rating structure of the portfolio, a limit for the value of spread risk, the limit for corporate debt securities
Currency risk	Closed FX position policy Hedging of open positions with FX forward transactions on an ongoing basis
Asset concentration risk	Limits for concentration in credit groups subject to rating

The effectiveness of the risk mitigation techniques is monitored with an ongoing limit control in the investment transaction system and in internal tools and with monthly reporting to ALCO.

Additionally, calculations of capital requirement on a quarterly basis verify if the capital requirement for market risk does not exceed the pre-determined risk sub-budget that is controlled with the approved limits.

During 2020 the market risk measurement methods and risk mitigation techniques did not change.

PRUDENT PERSON PRINCIPLE POLICY

Market risk in the Company is managed subject to the Prudent Person Principle Policy.

The Company's overall investment portfolio contains:

- assets to cover life insurance provisions of life assurance policyholders who bear the investment risk,
- assets to cover technical provisions other than life assurance policyholders who bear the investment risk,
- assets to cover capital requirements.

In case of investments for the benefit of life assurance policyholders who bear the investment risk, the market risk of the assets is fully compensated with an appropriate revaluation of the technical provisions.

With respect to assets other than life assurance policyholders who bear the investment risk, the investment policy is generally of passive character, taking into account the liability profile.

With regard to short-term life insurance products of pure protection character appropriate asset profile is also of short-term character or consists of floating-rate debt securities. Therefore, investment income may fluctuate in line with short-term interest rates, however it does not impact on the amounts of the claim payments as those products do not have saving or investment features.

With regard to long-term products the investment assets are aimed to yield rate of return on appropriate level and stable in the long term. Thus the assets are invested mainly in long-term fixed-rate debt securities. The accounting classification of those assets provides stable valuation and maturity profile takes into account, as much as possible, the maturity profile of best estimate insurance liabilities. Significant part of liabilities concerns guaranteed-rate products with profit sharing. In the case of groups of products or insurance policies with significantly different guaranteed-rates the investment portfolios are separated aiming at yielding different rates of return. In particular the policies underwritten in the past with guaranteed rates significantly higher than today yields of government bonds are covered with portfolios of debt securities purchased at the time of underwriting those policies and then those securities' yields were appropriately higher than guaranteed rates. Due to the fixed-rate character and appropriate accounting classification it is possible to yield stable and appropriately high rates of return during whole or most of the time to maturity of liabilities, independently on the current level of market rates. On the other hand, the policies underwritten relatively recently or products offered currently have guaranteed rates on the level lower than currently quoted government bonds' yields. Premiums inflowing from insurance policies are invested with current yields which potentially could lower average rate of return from assets for older policies with higher guaranteed rates. In particular, the rates of return earned could be lower than guaranteed ones. Separation of portfolios for older products with high guaranteed rates and younger ones with lower guaranteed rates allows for protection of higher rates of return in older portfolios, in particular granting profit sharing for policyholders. In the same time current market rates are high enough for granting profit sharing also for younger policies, including currently offered.

Assets covering capital requirements are invested mainly in debt securities. Additionally, a small part of own funds is invested in own share in portfolios of assets covering technical provisions of life assurance policyholders who bear the investment risk. – it aims at operational improvement of the purchase and redemption process of insurance unit-linked funds' units. Also, a limited level of credit risk is allowed.

The Company does not invest in real estate and its investment policy assumes closed FX position, i.e. possible full matching of assets FX structure to that of liabilities, within the permitted limit for FX mismatch.

Within its investment policy, the Company may use derivative instruments to hedge market risk resulting from the asset and liability portfolios, including the risk generated by insurance contracts as well as for effective portfolio management.

C.3 Credit risk

Credit risk means risk of losses or of adverse change in the financial situation due to fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company is exposed.

Credit risk encompasses the following risks:

- spread risk,
- asset concentration risk,
- counterparty default risk,

and it may be identified in various areas of the Company's activity (investment activities, reinsurance activities).

Spread risk and asset concentration risk were described in item C.2.

The counterparty default risk is defined as possible losses due to an unexpected default by counterparties and debtors or deterioration of their creditworthiness.

The Company's counterparty default risk encompasses therefore the following risks:

COUNTERPARTY DEFAULT RISK	
Reinsurance activity risk	Investment risk

Figure 18.
Counterparty default risk

As at 31 December 2020 the counterparty default risk accounted for approx. 0.4% of the Solvency Capital Requirement (compared to 0.7% in the previous year).

In the period considered there were no off-balance sheet items that had an impact on the credit risk level.

Reinsurance activity risk

Risk related to reinsurance activity is identified with quarterly specification of the rating structure of all re-insurers and reviews of the largest exposures related to individual re-insurers.

Investment risk

The counterparty default risk related to investments is mitigated jointly with spread and concentration risk, and in particular it is subject to the same limits.

PRUDENT PERSON PRINCIPLE POLICY

Regarding credit risk related to deposits, prudent person principle policy recognizes it together with market risk. Exposures are adequately assessed and controlled, are subject to the limits dependent on credit risk assessment, which aimed at ensuring adequate safety level. Moreover, these exposures are subject to all other limits and regulations connected with the requirements of the prudent person principle policy, together with market risk such as taking into account the maturity and currency structure (resulting from the structure of the insurance liabilities), level of liquidity, availability or diversification, including geographical diversification. The Company does not use derivatives based on credit risk.

Investments covering long-term insurance liabilities with guaranteed interest rate have safe credit risk profile in order to minimize potential disturbances of rates of return, in particular used for profit sharing calculation. Mostly they are government and government-guaranteed bonds and remaining part consists of municipal bonds or corporate debt securities of high credit quality issuers.

The Company's credit risk concentration is insignificant, the most relevant element is the exposure to PKO BP group, which is mentioned in part C.2 of this report.

MEASUREMENT METHODS OF CREDIT RISK

VAR is the core metric of risk applied in the analysis of overall credit risk. CVAR is used as a support that controls group limits in order to mitigate the risk aggregated at the Talanx Group level.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 9 presents the counterparty default risk mitigation techniques applied by the Company:

TABLE 9. COUNTERPARTY DEFAULT RISK TECHNIQUES

RISK	RISK MITIGATION TECHNIQUES APPLIED
Re-insurer risk	Selection of re-insurers in terms of their financial condition and rating
Investment risk	Limits for the rating structure of investments and concentration for a single issuer

The effectiveness of the risk mitigation techniques is monitored with an ongoing limit control in the investment transaction system and in internal tools and with monthly reporting to ALCO.

Additionally, calculations of capital requirement on a quarterly basis verify if the capital requirement for counterparty default risk does not exceed the pre-determined risk sub-budget that is controlled with the approved limits.

During the reporting period the credit risk measurement methods and risk mitigation techniques did not change.

C.4 Liquidity risk

Liquidity risk is directly related to other types of risk – credit, market and operational risk. The Company holds an appropriate pool of liquid assets to cover daily liquidity needs. Thereby liquidity risk is not identified as material and there is no concentration of this risk. In this regard there were no changes during reporting period.

PRUDENT PERSON PRINCIPLE POLICY

Regarding the fact, that adequate liquidity level is in itself the element of the prudent person rule, in relation to liquidity risk this rule means defining liquidity of individual instruments and monitoring the level of instruments that are deemed to be liquid.

Liquidity is regularly monitored in two ways as follows:

- monthly monitoring of the limit for liquid securities in the portfolio,
- quarterly monitoring of the current liquidity ratio.

Managing its liquidity levels, the Company does not follow a split into instruments listed and not listed in regulated markets; the Company assesses the liquidity of each instruments irrespectively – on the basis of availability of potential counterparties and potential trading volumes. In particular, instruments listed in regulated markets may be characterised with low liquidity while not listed instrument may be easy to sell in the interbank market.

Additionally, the Company performs periodically a liquidity analysis of its cash flows. The results for the reporting period, like in the previous year, show that the volumes of securities with lower liquidity, resulting from the existing limits are at a safe level, without posing any hazards to the Company's liquidity.

A large portfolio of Treasury bonds and access to the interbank market ensures fast access to liquidity should a need arise by a possibility of immediate sale of bonds or with repo transactions.

Monitoring the effectiveness of risk mitigation techniques involves performing the analysis of the adequate reports presented on Asset and Liability Committee meetings.

During the reporting period, the approach to measuring liquidity risk changed. The list of highly liquid instruments was updated and the investment limit limiting the share of illiquid instruments was replaced with a limit for the minimum share of liquid instruments (the so-called Company's liquidity buffer).

In the period considered there were no off-balance sheet items that had an impact on the liquidity risk level.

The expected profit included in future premiums

The expected profit included in future premiums understood as a difference between the best estimates calculated in accordance with the Solvency 2 Directive and best estimates calculated under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

Total value of the expected profit included in future premiums as at 31 December 2020 amounted to PLN 232 770 thousand.

Based on the analyses described in chapter C.4 the Company in 2020 did not identify liquidity risk as material risk.

C.5 Operational risk

Operational risk is understood as potential losses resulting from inadequate or failed internal processes, human actions and due to external events.

OPERATIONAL RISK

Information technology environment security risk	Process risk	Human resource risk	External events risk

Figure 19.
Types of operational risk

As at 31 December 2020 the operational risk accounted for 12% of the Solvency Capital Requirement (12% in the previous year).

Information technology environment security risk

Information technology environment security risk is identified by detecting hazards that may adversely affect the Company's business goals as a result of breach thereof.

Process risk

Process risk is identified by detecting hazards that may adversely affect the Company's business goals as a result of:

- inadequate process organisation,
- improper division of tasks and competences or no such division,
- failure to ensure adequate resources to perform the defined processes.

Human resource risk

Human resource risk that may adversely affect the Company's business goals as a result of:

- inadequate qualifications of employees,
- unintented or deliberate actions by employees to the detriment of the Company (e.g. inappropriate/ineffective organisation of working time and division of tasks, no ethical standards, etc.),
- errors in HR policies (e.g. high staff turnover, inadequate remuneration and incentive systems, no clearly identified duties and responsibilities, etc.).

External events risk

External events risk is identified by detecting external hazards that may have a negative impact on the effective, safe and proper activity of the Company and on the level of its assets as a result of:

- no possibility to pursue operations or disturbances to operations by the Company as a result of extraordinary events (e.g. earthquakes, fires, floods, acts of terrorism), no access to the premises or utilities,
- incorrect performance of outsourced activities and functions by the external entity,
- changes to laws and other external regulations, court verdicts and the risk of incorrect formation of legal relations or disadvantageous rulings by courts or public administration bodies,
- deliberate actions to the detriment of the Company by third parties (e.g. external fraud, theft, circumvention of the law).

OPERATIONAL RISK MANAGEMENT

Quantitative and qualitative expert methods are used to measure/assess all types of operational risk:

- quantitative method based on the data / numeric value of the probability and the impact of risk on the results and capital of the Company; impact assessment takes into account existing control mechanisms
- qualitative method is the expert method of the assessment of the probability and impact of risk on the Company according to the fixed rating scale.

When performing qualitative assessment of the impact of risk the following criteria are taken into account:

- reputation,
- legal and regulatory aspects,
- confidentiality,
- competitive advantage.

The results of operational risk identification and measurement/assessment are monitored and followed and are subject to periodic reporting to the Risk Committee, the Company's Management Board and the Audit Committee.

The supreme objective of operational risk management is to limit the probability of losses by:

- embedding appropriate control mechanisms and measures in business processes to mitigate the risk (internal control system),
- ensuring appropriate organisational solutions (e.g. development and improvement of the risk management systems, appropriate selection of staff, optimisation of internal processes),
- implementation of the Talanx Group solutions/standards and best market practices,
- application of technical solutions to mitigate the risk (e.g. systemic access and rights controls, process automation, implementation of new and better electronic transaction processing methods, protection of the company against cyber-hazards, protection of data against loss, theft, destruction, unlawful modification or falsification),
- collection and analysis of information on operational risk on the basis of:
  - database of operational events,
  - identification of key risk indicators (KRIs) and monitoring thereof,
  - Risk Scan – a structured process to identify in particular material risks that may adversely affect the Company's financial result over the next year, preventing the accomplishment of its approved financial plans,
  - scenario analysis – the Company prepares and analyses scenarios associated with a specific external events; the Company does not perform stress tests with regard to operational risk,
  - analysis of post-audit recommendations,
  - assessment of risk related to the outsourcing of processes and activities,
  - expert know-how,
  - analysis of the Company's environment,
- development of business continuity plans to ensure correct functioning of the Company's key processes in crisis situations.

In 2020, the Company implemented internal regulations regarding the management of the risk of information processing in a public or hybrid computing cloud in accordance with the requirements of the PFSA announcement.

CONCENTRATION OF OPERATIONAL RISK

The Company analyses concentration risk stemming from outsourcing. According to the Rules for concluding outsourcing agreements, when with the given service provider there is at least one significant agreement signed, for each subsequent outsourcing agreement with this service provider there is a Management Board approval needed.

RISK MITIGATION TECHNIQUES AND MONITORING OF THEIR EFFECTIVENESS

The table 10 presents the operational risk mitigation techniques applied by the Company:

TABLE 10. OPERATIONAL RISK MITIGATION TECHNIQUE

RISK	RISK MITIGATION TECHNIQUES APPLIED
	Embedding risk mitigation and control mechanisms in daily operations, e.g.:
Information technology environment security risk	• management of rights to systems in line with the existing internal regulations, • use of security measures for technological infrastructure, • management of IT security incidents, • implementation of a comprehensive awareness program in the sphere of information technology security – e-learning courses and periodic information campaigns, • reinforcement of information technology security mechanisms.
Process risk	• internal rules and regulations and instructions and procedures, • division of authority and responsibilities defined in organisational regulations, • functional controls with respect to process quality and correctness, • adequate HR policies, • process automation.
Human resource risk	• adequate recruitment policy, • clear allocation of determined tasks and objectives to employees, • employee assessment process, • training system, • functional controls with respect to quality and correctness of performed activities.
External events risk	• management of security incidents, • development and testing of business continuity plans and emergency restoration plans, • critical systems security, • determination of provider selection criteria and risk assessment of outsourced activities, • use of anti-insurance fraud mechanisms, • monitoring of legal changed sand court verdicts.

For operational risk, the effectiveness of its mitigation techniques is monitored as follows:

- monitoring of key risk indicators,
- monitoring of the level of identified operational incidents and analysis thereof,
- monitoring of the scope and scale of security incidents,
- tests of the business continuity management system,
- monitoring of the risk related to outsourcing during the term of contracts,

and reporting of the conclusions from using the above mentioned techniques to the Risk Committee.

SUMMARY

In conclusion, in the reporting period the Company did not make any relevant changes in the operational risk management mentioned in this sub-chapter.

C.6 Other material risks

The other risk categories are characterised below:

Strategic risk

Strategic risk is related to taking unfavourable or failed strategic decisions, missing or incorrect implementation of strategy and changes to the external environment and incorrect response to the changes.

Considering the system of governance and risk mitigation by monitoring process of the approved strategy, the Company does not classify the risk as material.

Moreover, in order to mitigate strategic Risk, the Company is using, among others, the following methods:

- effective management information system,
- periodic control of the strategic projects by the Management Board,
- documenting decisions,
- periodic control of the implementation of the strategy by the Supervisory Board.

During 2020 the strategic risk mitigation techniques did not change.

In the period considered there were no off-balance sheet items that had an impact on the strategic risk level.

The Company did not identify significant concentration with regard to strategic risk. The above mentioned risk is not subject to stress tests or sensitivity analysis.

Business risk

Business risk is defined by the company as failure to accomplish the approved economic targets due to failure in market competition. Business risk covers competition risk. The objective of business risk management is to maintain at an acceptable level the adverse financial consequences that may result from disadvantageous changes to the business environment.

Business risk management consists in identification, analysis and monitoring of factors that may materially affect the Company's financial condition by changing the Company's revenues or expenses.

Business risk is monitored by an analysis of reasons of deviations from the planned assumptions of selected profit and loss account items.

The Company mitigates business risk by performing analysis of the business environment, including activities of the competition.

During 2020 the business risk mitigation techniques did not change.

In the period considered there were no off-balance sheet items that had an impact on the business risk level.

The Company did not identify significant concentration with regard to business risk. The above mentioned risk is not subject to stress tests or sensitivity analysis.

Reputational risk

Reputational risk is related to a negative perception of the Company's image by customers, counterparties, investors, shareholders, supervisors, regulators and the public at large. The objective of reputational risk management is to protect the Company's limit and mitigate the probability of occurrence and potential reputational losses.

The Company mitigates reputational risk by the protection of the Company's brand and reputation, which covers in particular the following actions:

- prevention – to restrict the occurrence of events causing loss of reputation by systemic embedding of appropriate mechanisms and procedures in the Company's processes. The rules are set forth in appropriate internal regulations,
- mitigating or minimising adverse impact of negative effects of reputational incidents by:
  - performance of communication protection measures,
  - monitoring of the media: TV, radio, press, Internet to identify the effects of any image-related incidents and distribution of the related information,
  - analysis and assessment of effects of image-related incidents,
  - taking actions to minimise adverse effects of image-related incidents in cooperation with an external PR agency.

During 2020 the reputational risk mitigation techniques did not change.

Additionally, within business continuity management critical processes have been identified that – when interrupted – may generate material financial and image-related consequences. In order to mitigate the risk of reputation loss, for those purposes, a Business Continuity Plan has been developed to continue critical processes in the operating crisis. In 2020, due to the pandemic situation, stationary processes were additionally identified, which, despite the possibility of remote work, must be carried out at the Company's headquarters in order to control the continuity of their operation.
Reputational risk is difficult to measure and it is subject to qualitative assessment. The Company does not identify an increased exposure to the risk.

In the period considered there were no off-balance sheet items that had an impact on the reputational risk level.

The Company did not identify significant concentration with regard to reputational risk.

The above mentioned risk is not subject to stress tests or sensitivity analysis.

The Company further identifies model risk, competition risk, compliance risk (described in point B.4.2)

Material risks not included in the standard formula

The major risks not included in the standard formula are as follows: credit risk of Treasury bonds – a risk resulting from sensitivity of Treasury bonds to changes in credit spreads with reference to the structure of term interest rates of risk-free securities or changes to their volatility increased by a potential loss resulting from default by the State Treasury. The risk is material for the Company due to the fact that Treasury bonds constitute the largest proportion in the Company's assets.

The Company accepts the current level of credit risk of Treasury bonds.

In the period considered there were no off-balance sheet items that had an impact on the credit risk level of Treasury bonds.

The Company did not identify significant concentration with regard to credit risk of Treasury bonds .

Material emerging risks

The Company analyses material emerging risks. The most important are:

- risk of changes to political and legal conditions,
- risk of changes in financial markets, including global financial risk.

SUMMARY

In conclusion, in the reporting period the Company did not make any relevant changes in the management of the risk categories mentioned in this sub-chapter.

With regard to other material risks related to investment activity, the Company does not identify significant concentration other than described in the part C.2 and C.3

C.7 Any other information

The SARS-CoV-2 pandemic has significantly changed the macroeconomic environment and the outlook for the economy and the insurance market on a global and local scale. In order to reduce the negative economic effects of the pandemic, the Monetary Policy Council cut interest rates three times in the first half of 2020 - as a result of which the reference rate is now an unprecedented 0.1%.

The impact of the situation related to COVID-19 on the Company should be analyzed in terms of two perspectives: short-term and short- and long-term.

- Short-term impact

The company observes the following main sources of influence on the financial result and solvency in the short term – both positive and negative):

- positive:
  - reduction in interest rates, positively affecting the valuation of debt instruments,
  - suspended payment of dividends from the profit for 2019, as a consequence of the letter of the Chairman of the PFSA of 26 March 2020.

- negative:
  - higher COVID-19 claims (significantly higher number of death benefits) partially balanced with a positive impact on the loss ratio of lower customer mobility and lower serious illness benefits,
  - lower level of written premium from insurance,
  - lowering technical rates in products with a guaranteed rate of return as a consequence of lowering market interest rates,
  - potential downgrades in the rating of issuers of corporate securities in the portfolio,
  - risk of deterioration in debt collection at the end of 2020 and at the beginning of 2021.

The Company is expected to significantly reduce the direct impact of the COVID-19 pandemic by the third quarter 2021. The timing of the crisis will be decisive in determining the severity of its consequences. Information on the results of work on the vaccine against COVID-19 and plans to carry out mass vaccinations in the first half of 2021 can be a sign of improvement.

- Short- and Long-term impact

In the medium and long term, the Company's situation will be affected by the following risk factors resulting from the COVID-19 pandemic:

- increased credit risk – resulting from the slow U-shaped recovery that will begin in 2021, however, the business and economic impact of COVID-19 in 2021 and beyond may be more significant than expected; increase in unemployment and bankruptcy of companies, which translates into worse collection of receivables, as well as the risk of an increase in early cancellation of policies,
- low interest rate environment – slow economic recovery and an increase in debt on a global scale will have an effect on the extension of the period of low interest rates, which in turn will result in lower investment profitability, and may also put pressure on further lowering of technical rates,
- further development of digital service and contact channels with the client.

Moreover, the Company estimates that the process changes introduced as a result of the pandemic did not increase the operational risk.

D Valuation for Solvency Purposes

This chapter covers the valuation of the Company's assets and liabilities. The chapters that follow describe the valuation methods of assets and liabilities in compliance with the requirements of Solvency 2 with a comparison to the principles applied for the statutory report. In case of differences, explanation is provided what elements result in different valuation and recognition of items for Solvency 2 purposes and the statutory report.

The information on the valuation methods of assets and liabilities was split into the following categories: assets, technical provisions, other liabilities. Unless specified otherwise, the data disclosed in this Report is valued in compliance with Art. 223 and Art. 225 of the Act on Insurance and Reinsurance Activity:

- Assets are valued with an economic market approach relying on risk assessment. This means that assets are valued at fair value which is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction,
- Technical provisions are valued in amounts being the sum of best estimates and risk margin,
- Liabilities other than technical provisions are valued at fair value being the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction. After initial recognition there are no subsequent adjustments to the value of liabilities resulting from changes in the Company's credit standing.

These valuation principles for Solvency 2 have been approved according to the requirements, which are described by:

- Act on Insurance and Reinsurance Activity,
- Delegated Regulation,
- Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council (as amended),
- Guidelines on the valuation of technical provisions (EIOPA-BoS-14/166 PL), published on 2 February 2015 and PFSA's guidelines concerning the establishment of technical provisions,
- Guidelines on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113 PL), published on 14 September 2015.

The valuation principles of assets and liabilities for the statutory report are compliant with provisions set forth in the Accounting Act and the secondary legislation issued on its basis, e.g.:

- Regulation of the Minister of Finance on specific accounting principles for insurance undertakings and reinsurance undertakings,
- Regulation of the Minister of Finance laying down the detailed rules of recognition, valuation methods, scope of disclosure and presentation methods of financial instruments.

HIERARCHY VALUATION METHODS

Assets are valued in a hierarchical manner as follows:

- at quoted market prices in active markets for the same assets/liabilities,
- where the use of quoted market prices in active markets for the same assets is not possible, quoted market prices in active markets for similar assets/liabilities are used with adjustments reflecting the differences,
- if the same or similar assets/liabilities are not listed in active markets, alternative valuation methods are used (unless specific provisions provide otherwise); maximum use is made of market information required for the valuation, thus minimising the use of inputs specific for the Company.

The Company reviews the valuation methods that may be applied to specific assets while allowing for the specific market and nature of the valued assets/liabilities.

CRITERIA FOR THE EVALUATION OF THE ACTIVE MARKET

An active market is a market where transactions concerning financial asset or financial liability are carried out with sufficient frequency and have sufficient volume to provide up-to-date information on prices (e.g. Bondspot, WSE, foreign markets), whereby:

- instruments traded on the market are homogeneous,
- interested buyers and sellers are usually present at any time,
- prices are made public.

In the event that a given investment component is traded on more than one active market, the Company selects the main market based on the type of asset being analyzed, frequency and trading volume on a given investment component and minimum quota criteria.

CHANGES OF VALUATION METHODS DURING THE YEAR

In 2020 there were no significant changes in the valuation principles.

D.1 Assets

Assets are valued with an economic market approach relying on risk assessment, in compliance with Art. 223 of the Act on Insurance and Reinsurance Activity that is at fair value which is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

TABLE 11. ASSETS STRUCTURE AS OF 31 DECEMBER 2020

ASSETS	Statutory value*	VALUES CORRECTION TO S2 DUE: Reclassification**	Valuation	Solvency 2 value
Goodwill	0	0	0	
Deferred acquisition costs	68 234	0	-68 234	
Intangible assets	38 006	0	-38 006	0
Deferred tax assets	0	0	0	0
Pension benefit surplus	0	0	0	0
Property, plant & equipment held for own use	10 071	0	16 997	27 068
linked and unit-linked contracts)	792 524	0	43 671	836 195
Property (other than for own use)	0	0	0	0
participations	0	0	0	0
Equities	449	0	0	449
Bonds	764 598	0	43 670	808 268
Collective Investments Undertakings	6 855	0	0	6 855
Derivatives	17	0	0	17
Deposits other than cash equivalents	20 605	0	1	20 606
Other investments	0	0	0	0
Assets held for index-linked and unit-linked contracts	901 768	0	1	901 769
Loans and mortgages	0	0	0	0
Reinsurance recoverables	4 972	-5 530	-10 002	-10 560
Deposits to cedants	0	0	0	0
Insurance and intermediaries receivables	9 345	-4 779	0	4 566
Reinsurance receivables	767	-767	0	0
Receivables (trade, not insurance)	13 097	0	-180	12 917
Cash and cash equivalents	13 116	0	-499	12 617
Any other assets, not elsewhere shown	942	1 301	-942	1 301
Total assets	1 852 842	-9 775	-57 194	1 785 873

* Statutory value are presented in compliance with the presentation rules in force in the economic balance sheet.
** The "Reclassifications" column presents adjustments of insurance and reinsurance receivables recognized as undue and recognized in the balance sheet in the calculation of technical provisions and in other assets (not shown in other items).
*** Full template form S.02.01 in accordance with the EC Regulation 2015/2452 (as amended) constitutes Appendix 1 to this Report.

Further below this chapter contains descriptions of valuation methods of material assets in the economic balance sheet. Items considered by the Company as immaterial were not described, however its omission does not influence the decision-making or the judgement of the users of this Report. The subsection D.1.1 also identifies differences in assets valuation and recognition methods for the purposes of the statutory report and Solvency 2.

D.1.1 Valuation of assets

DEFERRED ACQUISITION COSTS

In the statutory balance sheet, the deferred acquisition costs include direct acquisition costs incurred in the reporting period and certain indirect acquisition costs allocated to future reporting periods.

The deferred acquisition costs are not recognised in the economic balance sheet for Solvency 2 which results in a difference between the statutory balance sheet and the economic balance sheet.

INTANGIBLE ASSETS

Intangible assets include (with the exception of intangible assets classified as investments and goodwill) economically useful property rights acquired by the Company, with an expected useful life longer than one year, classified as fixed assets and intended for use by the Company, in particular as follows: copyrights, related rights, licences, concessions, rights to inventions, patents, trademarks, utility models and decorative designs, know-how. Intangible assets also include the costs of completed R&D works.

For statutory purposes, intangible assets are valued according to the purchase price or manufacturing costs less depreciation.

Intangible assets for Solvency 2 are recognised and valued at the amount other than zero only when they can be sold separately and if an active market exists for the same or similar intangible assets. The Company has not identified intangible assets meeting the above criteria so in the economic balance sheet for Solvency 2 purposes such intangible assets are measured at zero.

PROPERTY, PLANT & EQUIPMENT HELD FOR OWN USE

Property, plant & equipment (tangible assets) held for own use include assets with the expected economic useful life longer than one year, complete, fit for use and intended for the Company's needs. Tangible assets are recognised as assets only when it is probable that future economic benefits related to the asset will be received by the company and the purchase price or manufacturing cost of the asset can be reliably estimated.

For the Solvency 2 purposes in this category the Company recognizes also right-of-use assets from property lease contracts defined in accordance with IFRS 16.

With regard to the classification of leasing contracts as operating leases for statutory purposes, this type of assets are not included in the balance sheet under Accounting Act, what results in differences to the economic balance sheet.

As at 31 December 2020 the Company did not own any property for own use (other than right-of-use assets from property lease contracts). Therefore, only tangible assets (other than properties) and right-of-use assets arising from property lease contracts under definition of IFRS 16, are described here below.

For statutory purposes tangible assets are valued at purchase price or manufacturing costs or revaluated price, less depreciation and impairment allowances.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, right-of-use assets from property lease contracts and tangible fixed assets other than properties are classified to asset category using alternative valuation methods.

The description of the valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

BONDS

The item of bonds of the economic balance sheet includes:

- government bonds (item C0010 / R0140 in Appendix 1 of this Report),
- corporate bonds (item C0010 / R0150 in Appendix 1 of this Report).

The item of government bonds of the economic balance sheet includes government, municipal bonds and supra-national bonds bonds that are fully, unconditionally and irrevocably guaranteed by central government denominated and funded in the domestic currency of that central government, not listed and listed on regulated or alternative markets and the item of corporate bonds includes listed and unlisted corporate debt securities.

For the purposes of the statutory report, government and corporate bonds are valued at fair value or at amortized cost determined with the effective interest rate and including impairment losses. For Solvency 2, adjustments are made to government bonds and corporate bonds in the economic balance sheet to value them at fair value.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2, listed government and corporate bonds are classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such bonds were traded or if the trading volume was not extremely low.

In this situation, the fair value of listed government bonds is valued at the closing prices of the active market (e.g. WSE, BondSpot) or best bid from Treasury BondSpot of the last working day of the reporting period or of the last day they were traded on the relevant market while the fair value of listed corporate bonds is valued at the closing prices of the active market (e.g. WSE, BondSpot) of the last working day of the reporting period or of the last day they were traded on the relevant market.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 listed government bonds (if before the balance sheet date, such listed government bonds were not traded or if the trading volume was extremely low), listed corporate bonds (if before of the balance sheet date such listed corporate bonds were not traded or if the trading volume was extremely low) and unlisted municipal bonds and unlisted corporate bonds are classified as assets valued with alternative valuation methods using relevant market input.

The description of the bonds valuation method is presented in chapter D.4 hereof.

COLLECTIVE INVESTMENTS UNDERTAKINGS

The item of collective investments undertakings includes unlisted investment units in investment funds and participation titles in listed investment funds.

For the purposes of statutory reporting, collective investments undertakings are valued at fair value. In this connection, it is not necessary to make any additional adjustments for Solvency 2.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 participation titles in listed funds were classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such participation titles were traded or if the trading volume was not extremely low.

The fair value of participation titles in listed investment funds is valued at the closing prices of the active market of the last working day of the reporting period or of the last day they were traded on the relevant market.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 participation titles in listed funds are classified as assets valued with alternative valuation methods using relevant market input, if before the balance sheet date, such participation titles were not traded or if the trading volume was extremely low. Unlisted investment units in investment funds are classified as assets valued with alternative valuation methods using relevant market input.

The description of the valuation method of participation titles and unlisted investment units in investment funds is presented in chapter D.4 hereof.

DEPOSITS OTHER THAN CASH EQUIVALENTS

The item deposits other than cash equivalents of the economic balance sheet includes deposits other than cash equivalents that cannot be used to make payments until before a specific maturity date and that are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty.

For the purposes of statutory reporting, deposits other than cash equivalents are valued at amortized cost determined with the effective interest rate including impairment losses, at nominal value or at amount payable, understood as the nominal value increased by interest accruing on a straight line basis.

For Solvency 2, additional adjustments are made to deposits other than cash equivalents in the economic balance sheet to value them at fair value.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 deposits other than cash equivalents are classified as assets valued with alternative valuation methods using relevant market input.

The description of the deposit valuation method is presented in chapter D.4 hereof.

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS

The item assets held for index-linked and unit-linked contracts of the economic balance sheet, includes, government bonds, corporate bonds, collective investments undertakings, deposits other than cash equivalents, cash and cash equivalents, receivables and liabilities.

The fair value valuation methods for statutory reporting and Solvency 2 of the categories mentioned above are presented in the section related to investments, receivables and liabilities, and in the part related to alternative valuation methods of the relevant assets.

Additionally, apart from the assets listed above, the assets held for index-linked and unit-linked contracts, include also equities listed, derivatives (futures, fx swaps and equity swaps) and debts owed to credit institutions (Sell-Buy-Back instruments).

For the purposes of statutory reporting, Sell-Buy-Back instruments are valued at amortized cost determined with the effective interest rate including impairment losses. For Solvency 2, additional adjustments are made to Sell-Buy-Back instruments in the economic balance sheet to value them at fair value, but in accordance with specific transaction parameters, fair value as of 31 December 2020 is equal statutory value.

For the purposes of statutory reporting, such equities – listed and derivatives (futures) are valued at fair value. In this connection, it is not necessary to make any additional adjustments for Solvency 2.

As a result of the review referred to in the introduction to the chapter D., for the purposes of Solvency 2 equities – listed are classified as assets valued using quoted market prices in active markets for the same assets, if before the balance sheet date, such equities were traded or if the trading volume was not extremely low. Futures contracts are classified as assets (liabilities) valued using quoted market prices in active markets for the same assets.

The fair value of equities - listed was determined on the basis of the closing prices in active markets (e.g. WSE, NewConnect) from the last working day of the reporting period or the last day such equities - listed were traded on such market. Fair value of futures contracts is valued at the closing prices of the active market (WSE) of the last working day of the reporting period or of the last day they were traded on the relevant market.

As a result of the review referred to in the introduction to the chapter D., for the purposes of Solvency 2 equities –listed are classified as assets valued with alternative valuation methods using relevant market input, if before the balance sheet date, such equities were not traded or if the trading volume was extremely low. Derivatives other than futures contracts and debts owed to credit institutions (Sell-Buy-Back instruments) are classified as assets (liabilities) valued with alternative valuation methods using relevant market input.

The description of the value methods of equities – listed, derivatives and debts owed to credit institutions (Sell-Buy-Back instruments) is presented in chapter D.4 hereof.

The difference in the valuation presented in table 11 is due to a different fair value valuation methodology of assets held for index-linked and unit-linked contracts, for the purposes of statutory reporting (amortized cost determined with the effective interest rate and including impairment losses) and for the purposes of Solvency 2 (discounted cash flow method) with respect to deposits other than cash equivalents.

REINSURANCE RECOVERABLES

Reinsurance recoverables in the economic balance sheet are determined on the basis of future cash flows resulting from outward insurance. The flows cover in particular:

- future settlements under shares of re-insurers in claims to be disbursed by the insurer in the future,
- future reinsurance commissions,
- future due premiums under outward reinsurance,
- current settlements from outward reinsurance (excluding receivables relating to the settled insurance claims).

The description of how the reinsurance recoverables are determined, was presented in the chapter devoted to the technical provisions (point D.2.2).

The difference of reinsurance recoverables in the economic balance sheet versus the statutory balance sheet results from the recognition in the economic balance sheet of future flows under outward reinsurance that are additionally discounted with a risk-free rate, if the impact of the discount is material.

INSURANCE AND INTERMEDIARIES RECEIVABLES

Insurance and intermediaries receivables include past-due receivables from policyholders, other insurers and insurance intermediaries as well as other receivables related to insurance activity that are not included in cash inflows under technical provisions. The due date used as a basis to the classification of receivables to settlements in the balance sheet or to cash flows used for calculation of technical provisions, is the payment date specified in the contract with the entity from which the Company has receivables.

For statutory purposes, insurance, intermediaries and reinsurance receivables include undue and overdue receivables valued at the amount of due payment adjusted with revaluation write-offs.

As a result of the review referred to in the introduction to chapter D, for the purposes of Solvency 2 insurance and intermediaries receivables due to their low value and lack of active market, the Company uses simplification based on the statutory valuation. Due to the low value of that group of assets the simplification has negligible impact on the Company’s own funds.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

OTHER RECEIVABLES (TRADE, NON INSURANCE)

Other receivables (trade, non insurance) include receivables from employees or other counterparties not related to insurance, including public entities and deposits securing future contracts.

For statutory purposes, the receivables are valued at the amount due adjusted by impairment allowances.

Deposits securing future contracts are valued at nominal value that is the best reflection of the fair value for the purposes of the economic balance.

As a result of the review referred to in the introduction to the chapter D, for the purposes of Solvency 2 above receivables due to their low value and lack of active market, the Company uses simplification based on the statutory valuation. Due to the low value of these groups of assets the simplification has negligible impact on the Company’s own funds.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

CASH AND CASH EQUIVALENTS

The item of cash and cash equivalents in the economic balance sheet includes notes and coins in circulation that are commonly used to make payments, and deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction.

For the purposes of statutory reporting and for Solvency 2, cash and cash equivalents are each time valued at nominal value which is the best reflection of fair value.

As of 31 December 2020 the difference to the statutory report in valuation of the described item presented in table 11 results from exclusion, for the Solvecny 2 purposes, the funds related to the Company social benefits fund from the economic balance sheet.

As a result of the review referred to in the introduction to chapter D, for the purposes of Solvency 2 cash and cash equivalents are classified as assets valued with alternative valuation methods using relevant market input.

The description of the cash and cash equivalents valuation method is presented in chapter D.4. hereof.

ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

Other assets include all assets not shown in other balance sheet items. The item in particular contains current receivables from outward reinsurance and retrocession relating to the settled insurance claims (settled gross).

The Company does not identify accruals which could be disposed or transferred to the third party, therefore in the economic balance, for Solvency 2 purposes, accruals assumed zero.

As a result of the review referred to in the introduction to chapter D, for the purposes of Solvency 2 any other assets are classified as assets valued with alternative valuation methods. The description of the cash and cash equivalents valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 11.

Due to the immaterial impact of change in time value of money on fair value of receivables disclosed in that item, discount effect was not included in valuation to the economic balance sheet.

D.1.2 Leasing

Leasing is described in chapter A.4.2 hereof.

D.2 Technical provisions

The amount of technical provisions for solvency purposes is equal to the sum of best estimate and risk margin. Best estimate correspond to the expected present value of future cash flows while risk margin is equivalent to an amount ensuring that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.

In table 12 there are presented the values of provision for solvency purposes and the values of technical provisions calculated according to statutory report rules.

Reinsurance recoverables are presented in chapter D.1.1 of this Report.

TABLE 12. TECHNICAL PROVISIONS AS AT 31 DECEMBER 2020

TECHNICAL PROVISION (TP)	Statutory value*	VALUES CORRECTION TO S2 DUE:		Solvency 2 value
		Reclassification**	Valuation	
TP – health (similar to non-life)	103 208	26 701	-52 099	77 810
Best Estimate		26 701	-57 586	72 323
Risk Margin		0	5 487	5 487
TP –life (excluding index-linked and unit-linked)	271 244	35 289	-118 169	188 364
Best Estimate		35 289	-155 059	151 474
Risk Margin		0	36 890	36 890
TP –life index-linked and unit-linked	927 606	5 157	-121 522	811 241
Best Estimate		5 157	-137 816	794 947
Risk Margin		0	16 294	16 294
Other TP	0	0	0	
Total Technical Provision	1 302 058	67 147	-291 790	1 077 415

* Statutory value are presented in compliance with the presentation rules in force in the economic balance sheet.
** The "Reclassifications" column presents adjustments of insurance and reinsurance receivables recognized as undue and recognized in the balance sheet in the calculation of technical provisions and in other assets (not shown in other items).
*** Full template form S.02.01 in accordance with the EC Regulation 2015/2452 (as amended) constitutes Appendix 1 to this Report.

Best estimate which is basic component of technical provisions for solvency purposes includes best estimate of claims provisions, others technical provisions gross and takes into account not overdue (current) insurance payables and receivables.

MATERIAL DIFFERENCES IN THE VALUATION OF TECHNICAL PROVISIONS BETWEEN THE APPLIED METHODS FOR SOLVENCY 2 AND IN STATUTORY REPORTING

Technical provisions for solvency purposes include:

- best estimates equal to the expected present value of future cash flows (discounted using proper term structure of risk free rates provided by EIOPA)
- risk margin.

For economic balance sheet purposes a full cash flow model were used containing recognition of the lapse effect, current assumptions about mortalities levels, claim ratios and cost. Whereas for statutory balance sheet not all technical provisions are calculated using cash flow model (for instance fund provisions are determined on the basis of the number of units and unit price) and statutory provisions calculated using cash flow model (for example mathematical provisions) doesn't allow for recognition of the lapse effect and is based on assumptions about mortalities levels, claim ratios and cost from policy start date. What's more, for discounting of cash flows market risk free rates provided by EIOPA were used (in statutory reporting, a technical rate is applied to valuate the life insurance provisions).

Risk margin as a component of technical provisions calculated according to Solvency 2 rules doesn't occur in statutory reporting.

In table below the amount of gross technical provisions broken down into lines of business is provided:

TABLE 13. TECHNICAL PROVISIONS AS AT 31 DECEMBER 2020 SPLIT INTO LINES OF BUSINESS

Lines of business	Solvency 2 value			Statutory value
	TP FOR SOLVENCY 2 PURPOSES	THEREIN: BEST ESTIMATE	THEREIN: RISK MARGIN	
Income protection insurance	77 810	72 323	5 487	103 208
Insurance with profit participation	144 353	140 496	3 857	178 386
Index-linked and unit-linked insurance	811 241	794 947	16 294	927 606
Other life insurance	44 011	10 978	33 033	92 858
Total	1 077 415	1 018 744	58 671	1 302 058

D.2.1 Best estimate valuation principles for life insurance obligations and health insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance

METHODS APPLIED IN THE CALCULATION OF TECHNICAL PROVISIONS

For the purposes of Solvency 2, the Company measures provisions at fair value being the amount for which they could be transferred or settled between willing and informed parties. As a result, the provisions are calculated as the sum of two values:

- the best estimate value equal to the sum of discounted probability-weighted cash flows related to insurance contracts,
- risk margin determined in an amount ensuring the same value of technical provisions that insurance undertakings and reinsurance undertakings would require to take over insurance and reinsurance liabilities and for compliance therewith.

Cash flow projections applied to calculate the best estimates provide for all inflows and outflows required to settle insurance and reinsurance liabilities throughout the term thereof.

The risk margin is calculated as the acquisition cost of acceptable own funds corresponding to the Solvency Capital Requirement required to cover the risk resulting from the assumed insurance and reinsurance liabilities throughout the term thereof.

The calculations are made on the basis of current and reliable information and realistic assumptions.

APPLIED ACTUARIAL METHODS

The core actuarial method applied in determining the best estimate value for all business lines is the method to weigh cash flows with probability, covering:

- future premiums under existing contracts and actual renewals,
- costs to be incurred in connection with handling liabilities under existing insurance and reinsurance contracts, including commission costs,
- the anticipated increase of insurance costs and claims,
- payments to policy holders, insured or beneficiaries under insurance contracts and cedants under reinsurance contracts, including under future discretionary bonus.

In order to determine the cash flows, it is necessary to develop assumptions as follows:

- anticipated mortality – determined on the basis of an analysis of the Company’s historic data for specified product groups,
- resignations – determined on the basis of an analysis of the Company’s historic data for specified product groups,
- materialisation of benefits under additional sickness and accident risks – determined on the basis of an analysis of the Company’s historic data for specified product groups,
- the anticipated effectiveness level in group insurance – determined on the basis of an effectiveness analysis in the current year subject to effectiveness for the previous loss years,
- cost allocation to specific product groups – determined on the basis of a cost analysis of the processes in the Company performed by employees, managers of departments as well as on the basis of expert assessment,
- anticipated cost increase – determined on the basis of the consumer price index (CPI).

The amount of the provisions is calculated by discounting the determined nominal value of the cash flows. For discounting purposes, the Company applies risk-free rates published by EIOPA.

In comparison to the previous reporting period, there were no significant changes in the assumptions adopted in the calculation of technical provisions except for the change in the loss ratio in group insurance and changes in the loss ratios used to calculate the best estimate of the claims provisions for unreported benefits due to projected impact of COVID-19 pandemic in 2021.

CONTRACT BOUNDARIES

The insurance contract boundaries applied in the best estimate valuation are compliant with the provisions of the Delegated Regulation. This means that:

- insurance liabilities begin when the Company is bound with an insurance contract or exposed to insurance risk,
- insurance liabilities end when:
  - the Company has a unilateral right to terminate the contract,
  - the Company has a unilateral right to reject premiums payable under the contract,
  - the Company has a unilateral right to amend the premiums or the benefits payable under the contract.

In view of the end of the contract defined as above, renewals in group insurance aren't modelled (the Company has a right to amend the premiums or the benefits payable under the contracts). Additionally, the definition of a shortened boundary applies to unit-linked contracts with regular premiums where the actuarial (insurance) risk has no discernible effect on the economics of the contract.

D.2.2 Reinsurance recoverables in the best estimates

The value of best estimates of reinsurance recoverables is calculated on the basis of the re-insurers' share in line with the specific reinsurance contracts.

Calculations of best estimates of amounts due under reinsurance contracts are made on the basis of modelled future cash flows under outward reinsurance.

D.2.3 Uncertainties related to the value of technical provisions

The core uncertainty factors in the valuation of provisions for life insurance business lines are as follows: mortality rates, riders rates, resignations levels, cost volumes and levels of economic parameters (rates of return, inflation). The uncertainty is assessed to be low since the biometric parameters are not subject to major fluctuations while economic parameters – although subject to major fluctuations – are mean reverting .
The core source of uncertainties in provisions for business lines other than life insurance is the assumed profitability level for each product group. If in fact it proves to be lower than assumed, the provisions will be insufficient (and conversely: if it proves to be higher – they will be too high). Another source of uncertainties is the level of assumed costs since when costs are underestimated, the provisions may be underestimated. The uncertainty is assessed to be low since the business line is diversified and contains short-term policies (mainly for one year).

D.2.4 Simplifications applied to TP calculation

SIMPLIFICATIONS APPLIED TO BEST ESTIMATE CALCULATION

In order to calculate the best estimate, the Company first uses the method of projection of discounted cash flows. The simplified approach of approximating the best estimate with provisions for accounting purposes was applied to non-modeled products, balance of non-overdue receivables and provisions for inactive policies or persons (in case of group insurance policies) as at the balance sheet date.

In case of unit-linked and index-linked products non-contributory insurance conversions are included by the Company in deriving assumptions regarding the level of resignation from insurance contracts.

In the flows of unit-linked and index-linked products , the Company assumes a fixed investment strategy and a proportion of the contribution allocation. In savings products, due to the lack of materiality, the relationship between the rates of resignation from contracts and the rate of return from investment is not taken into account.

The modeling of the value of options and guarantees for the portfolio of traditional products with profit sharing is based on the projection of reserves, in which the lack of profit participation mechanism was assumed. In fact, the share in profits is converted into the sum insured, thus increasing the reserve. In addition, the share of profit is paid at the time the benefit is paid instead at the time of its creation, as assumed by the Company's approach. Due to the level of the time value of options and guarantees, the simplification is immaterial.

SIMPLIFICATIONS APPLIED TO RISK MARGIN CALCULATION

The risk margin is calculated for the entire Company jointly and allocated to business lines with the key of the size of the capital solvency requirement in individual lines. The capital cost rate used in calculating the risk margin is 6%, in accordance with Art. 39 of the Delegated Regulation.

The Solvency Capital Requirement expiry profile in future years is calculated accurately in the Prophet system.

Subsequently, subrisks are grouped into the final capital solvency requirement by correlation matrices.

D.2.5 Description of the applied interest rate curve

For the purposes related to Solvency 2 the Company applies a risk-free term interest rate published by EIOPA.

D.2.6 Matching adjustments and transitional valuates

The matching adjustments and those related to volatility to the appropriate term structure of risk-free interest rates as well as transitional valuates concerning risk-free interest rates and technical provisions do not apply to the determination of technical provisions at TUnŻ "WARTA" S.A.

D.2.7 Material lines of business

General principles for valuation of best estimates are presented in Chapter D 2.1 of this Report. While in the table below comments to specific basis, methods and assumptions of best estimate valuation for each line of business are presented:

TABLE 14. VALUATION METHODS OF TECHNICAL PROVISION SPLIT INTO LINES OF BUSINESS – DIFFERENCES BETWEEN SOLVENCY 2 AND STATUTORY REPORTING

	Income protection insurance	Insurance with profit participation	Index-linked and Unit-linked insurance	Other life insurance
Valuation methods Solvency 2	Discounted cash flows from future premiums, benefits for morbidity and accident risks and costs. The benefit level results from loss ratios. Claims provisions are established at expected payments after discounting.	Discounted cash flows from future premiums, benefits (death, endowment, lapses, riders) and costs. The benefit level results from mortalities tables. Claims provisions are established at expected payments after discounting.	Discounted cash flows from future premiums, benefits (death, endowment, lapses, riders), costs and kick-backs. The benefit level results from mortalities tables and fund development. Claims provisions are established at expected payments after discounting.	Discounted cash flows from future premiums, benefits (death, endowment, lapses, riders) and costs. The benefit level results from mortalities tables. Claims provisions are established at expected payments after discounting.
Valuation methods statutory reporting	The core part of provisions in this business line is composed of premium provisions and benefit provisions. The premium provision is established as premium written attributable to future reporting periods, pro rata to the period for which the premium was written or pro rata to the risk anticipated in future reporting periods.	Apart from the premium provisions and RBNP/IBNR provisions, life insurance provisions constitute a major part of provisions in this business line. They are established by applying the prospective actuarial method. The establishment method is similar to the methods applied under Solvency 2 – it also relies on discounted flows from premiums, benefits and costs.	Apart from the premium provisions, RBNP/IBNR provisions and life insurance provisions, life insurance provisions with the investment risk borne by the policy holder constitute a major part of provisions in this business line. They are established in the value of the investment, made in compliance with the concluded life insurance contract – this means that its value is not affected by the type or date of the benefit but by the current value of the participation units.	Apart from the premium provisions and RBNP/IBNR provisions, life insurance provisions constitute a major part of provisions in this business line. They are established by applying the prospective actuarial method. The establishment method is similar to the methods applied under Solvency 2 – it also relies on discounted flows from premiums, benefits and costs.
Main assumptions Solvency 2	The main assumptions are related to loss ratios and unit costs of policies (with allocations to riders).	The main assumptions are related to mortalities tables and unit costs of policies.	The main assumptions are related to lapses rates, management fees, kick-backs and unit costs of policies.	The main assumptions are related to mortalities tables and unit costs of policies.
Main assumptions statutory reporting	The establishment of the book premium provision relies on a linear loss distribution during the coverage period. For IBNR provision, percentages of the premium written are determined.	Apart from assumptions similar to those in the business line: "Income protection insurance",	Apart from assumptions similar to those in the business line: "Insurance with profit participation", an assumption is made that the policy value is equal to the value of the participation units on the insured's account.	Apart from assumptions similar to those in the business line: "Income protection insurance ",

D.3 Other liabilities

Liabilities other than technical provisions are valued at fair value being the amount for which they could be transferred or settled between knowledgeable willing parties in an arm's length transaction. After initial recognition there are no subsequent adjustments to the value of liabilities resulting from changes in the Company's credit standing.

TABLE 15. OTHER LIABILITIES STRUCTURE AS OF 31 DECEMBER 2020

OTHER LIABILITIES	Statutory value*	VALUES CORRECTION TO S2 DUE:		Solvency 2 value
		Reclassification**	Valuation	
Contingent liabilities	0	0	0	0
Provisions other than technical provisions	14 020	0	0	14 020
Pension benefit obligations	576	0	0	576
Deposits from reinsurers	0	0	0	0
Deferred tax liabilities	12 722	0	41 519	54 241
Derivatives	692	0	0	692
Debts owed to credit institutions	14	0	0	14
Financial liabilities other than debts owed to credit institutions	0	0	16 805	16 805
Insurance & intermediaries payables	81 401	-71 926	0	9 475
Reinsurance payables	4 996	-4 996	0	0
Payables (trade, not insurance)	10 248	0	0	10 248
Any other liabilities, not elsewhere shown	728	0	-728	0
Total other liabilities	125 397	-76 922	57 596	106 071

*Statutory value are presented in compliance with the presentation rules in force in the economic balance sheet.
** The "Reclassifications" column presents adjustments of insurance and reinsurance laibilities recognized as undue and recognized in the balance sheet in the calculation of technical provisions and in other assets (not shown in other items).
*** Full template form S.02.01 in accordance with the EC Regulation 2015/2452 (as amended) constitutes Appendix 1 to this Report.

Further below this chapter contains descriptions of valuation methods of material liabilities in the economic balance sheet. Items considered by the Company as immaterial were not described, however its omission does not influence the decision-making or the judgement of the users of this Report. The subsection D.3.1 also identifies differences in liabilities valuation and recognition methods for the purposes of the statutory report and Solvency 2.

D.3.1 Valuation of other liabilities

PROVISIONS OTHER THAN TECHNICAL PROVISIONS

Provisions other than technical provisions, includes liabilities of uncertain amount or timing and are recognized when the Company has a present obligation (legal or constructive) a result of past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In particular, other provisions include provisions for unused holidays, provisions for salaries and provisions for losses under pending litigation and third party claims.

The Company does not identify differences in the valuation of other provisions between the statutory balance sheet and the economic balance sheet.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, provisions other than technical provisions are classified to liabilities category using alternative valuation methods.

The description of other provisions and valuation thereof is provided in chapter D.4 hereof.

The value and decomposition of other provisions as at 31 December 2020 is presented in table 16.

TABLE 16. PROVISIONS OTHER THAN TECHNICAL PROVISIONS STRUCTURE

PROVISION OTHER THAN TECHNICAL PROVISION	31 Dec 2020
Provision for unused holidays	2 402
Provisions for salaries	6 832
Provisions for non-insurance litigations	2 261
Other	2 525
Provisions other than technical provisions, total	14 020

DTL/DTA

For Solvency 2 purposes, DTL/DTA are determined based on temporary differences between the value of assets and liabilities determined for the needs of the economic balance and their tax value. Amount of DTA/DTL is determined taking into account income tax rates applicable in the year when the tax obligation arose.

The Company creates liabilities and establishes deferred tax assets in connection with temporary differences between the value of assets and liabilities shown in the accounting books and their tax value as well as the tax loss possible to be deducted in the future. According to the adopted financial plan, the Company assumes making a profit in the next years, which will allow for the utilisation of the entire tax asset.

Deferred tax liabilities and assets, both in the statutory balance sheet and the economic balance sheet, are compensated and presented depending on the result in assets or liabilities (as net value). DTA/DTL are not a subject to discounting.

The values and sources of the deferred tax liability are presented in table 17.

TABLE 17. COMPENSATED VALUE OF DTA/DTL

DTA/DTL – COMPENSATED VALUE	31 DECEMBER 2020	Age structure of Deferred tax			
		UP TO 1 YEAR	FROM 1 TO 5 YEAR	OVER 5 YEARS	UNDEFINED
Statutory financial statement	12 722	-2 290	7 439	9 507	-1 934
Financial instruments	6 888	599	1 900	6 323	-1 934
Deffered aquisition costs	12 964	4 241	5 539	3 184	0
Receivables write-downs	-1 362	-1 362	0	0	0
Provisions and prepayments	-2 596	-2 596	0	0	0
Other	-3 172	-3 172	0	0	0
Impact of Solvency 2 valuation	41 519	13 776	5 437	22 306	0
Deferred aquisition costs	-12 964	-4 241	-5 539	-3 184	0
Intangible assets	-7 221	-3 136	-3 338	-747	0
Financial Instruments	8 202	1 482	1 158	5 562	0
Prepayments	-179	-179	0	0	0
Plant and equipment (for own use)	167	103	66	-2	0
Technical provisions	53 540	19 671	13 192	20 677	0
Other	-26	76	-102	0	0
DTL Solvency 2	54 241	11 486	12 876	31 813	-1 934
Amount of unused tax credits and losses from previous years for which no assets were recognized	0				

The differences regarding the compensated value of DTL between the statutory balance sheet and the economic balance sheet arise from using different asset and liabilities valuation methodologies and obligations for statutory and Solvency 2 purposes (as described in particular items of assets and liabilities).

The Company assumes the utilisation of the entire DTA recognized as of December 31, 2020. DTA results mainly from financial instruments.

When analysing predictable utilisation of DTA and DTL, an excess of DTL over DTA is observed in all defined periods. There is an excess of DTA over DTL only in the undefined period for temporary differences reversal. However, according to the adopted financial plan, the Company assumes making a profit in the next years, which will allow for the utilisation of the entire DTA.

FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

Financial liabilities other than debts owed to credit institutions include payables arising from leasing contracts under definition of IFRS 16 *Leasing*. The item includes expected future payments from leasing agreements to lessors other than credit institutions.

For the statutory purposes the Company classifies leasing contracts as operating leasing agreements. According to the Accounting Act, the Company does not recognize liabilities from leasing contracts (described in IFRS 16 *Leasing*) in the statutory balance sheet resulting in a difference to the economic balance sheet presented in table 15.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes financial liabilities other than debts owed to credit institutions are classified to liabilities category using alternative valuation methods. The description of liabilities valuation method is presented in chapter D.4 in section "IFRS 16 *LEASING*".

INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables include amounts due to policyholders, insurance undertakings and other entities relating to insurance activity (e.g. brokers) that are not included in technical provisions.

The due date used as a basis to the classification of liabilities to settlements in the balance sheet or to cash flows included in calculation of technical provisions, is the payment date specified in the contract with the entity to which the Company has an obligation.

For statutory purposes, insurance and intermediaries payables include current and overdue payables that are valued at amounts payable.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, insurance and intermediaries payables are classified to liabilities category using alternative valuation methods.

The description of liabilities valuation method is presented in chapter D.4 hereof.

The difference in valuation of the described item as of 31 December 2020 is presented in table 15.

Due to the immaterial impact of change in time value of money on fair value of those liabilities, the value of liabilities for Solvency 2 purposes is equal to the amount disclosed in the statutory balance sheet.

OTHER PAYABLES (TRADE, NON INSURANCE)

Other payables (trade, non insurance) include in particular current liabilities to tax authorities, liabilities under advances received to be settled with deliveries of goods, services or fixed assets, as well as the amounts due to employees and other counterparties.

Trade liabilities are valued at amounts payable. Current tax liabilities are valued at amounts payable to tax authorities using tax rates (and tax laws) prevailing as at the balance sheet date.

As a result of the review referred to in the introduction to chapter D, for Solvency 2 purposes, trade payables are classified to liabilities category using alternative valuation methods.

The description of liabilities valuation method is presented in chapter D.4 hereof.

Due to the immaterial impact of change in time value of money on fair value of those liabilities, the value of liabilities for Solvency 2 purposes is equal to the amount presented in the statutory balance sheet.

D.3.2 Leasing

Leasing is described in chapter A.4.2 hereof.

D.4 Alternative methods for valuation

For the purposes of Solvency 2, all assets and liabilities are presented at fair value. In compliance with the Delegated Regulation, the Company follows a valuation hierarchy in measuring its assets and liabilities. If market prices of the same or similar assets or liabilities, listed in active markets, cannot be applied, then alternative valuation methods are used.

This chapter is devoted to alternative valuation methods of assets and other liabilities of the company that were defined as valuation methods in compliance with Art. 223 of the Act on Insurance and Reinsurance Activity, other than those that provide solely for the application of market prices of the same or similar listed assets or liabilities.

The determination of fair value of assets and other liabilities which have to be valued with alternative methods, requires the Company to make estimates and certain assumptions.

Such estimates and assumptions used for the valuation are based on experience resulting from an analysis of historic data, observable market data and a number of other factors that seem reasonable under the circumstances to the best of the knowledge of the Company's management. Such estimates and assumptions are subject to periodic verification and may be modified as a result of future events resulting from changes to the environment.

Estimates and assumptions made as at the balance sheet date provide for risk parameters and levels as at that date. However, changes to the economic environment create uncertainties as to the valuations which means that the actual values of assets and other liabilities may differ from the values determined as at the balance sheet date.

IFRS 16 *LEASING*

In accordance with the IFRS 16, the Company as a lessee recognizes right-of-use assets and financial liabilities arising from leasing contracts.

Due to no active market for right-of-use assets and liabilities arising from leasing contracts which fulfil criteria of IFRS 16 in place, the valuation at fair value is made with alternative valuation methods.

Valuation at fair value of right-of-use assets and lease liabilities is determined on the basis of discounted future cash flows arising from the leasing agreements. For determination the fair value of the right-of-use assets the Company uses a risk free rate increased by a factor reflecting risk of properties' price changes. Fair value of lease liabilities is determined using risk free rate. For the calculation the Company uses interest rates published by EIOPA.

The uncertainties of the valuation of right-of-use assets and lease liabilities are related to the assumptions made by the Company as at the balance sheet date relating to the expected cash flows as well as properties' price changes risk, currency risk and interest rate risk.

As at 31 December 2020 all the Company right-of-use assets and lease liabilities were valued with the alternative valuation methods.

PLANT & EQUIPMENT (FIXED ASSETS) HELD FOR OWN USE

Due to no active market for this type of assets, the valuation thereof at fair value is made with alternative valuation methods.

Vehicles and IT hardware are valued at fair value as at the end of the financial year. The Company applies a cost approach as valuation at fair value which reflects the amount that would be required to recreate the assets. This requires relying on the costs incurred to purchase or construct replacement assets with similar performance, adjusted for loss of usability (that is physical ageing as well as functional and economic obsolescence). The other fixed assets are subject to an analysis to verify if indications exist that may indicate material deviations between the anticipated fair value and the net book value of the assets as disclosed in the statutory balance sheet. When such indications are identified, the Company establishes the fair value of the other fixed assets.

When the fair value of such fixed assets determined as specified above is not materially different from the fair value disclosed in the statutory balance sheet, the Company may apply a simplification of lack of revaluation of such assets for the economic balance sheet purposes. This simplification may apply only to fixed assets different than vehicles and different than IT hardware. Due to low value of this group of assets, impact for the Company's own funds is immaterial.

Due to changes in the environment that require the Company to adapt to new conditions, an uncertainty exists as to the valuation of assets with respect to price variability and assessment of the wear and tear and impairment.

As at 31 December 2020 all items disclosed as plant & equipment held for own use were valued with alternative valuation methods.

BONDS

Listed government bonds and listed corporate bonds are valued at fair value with alternative valuation methods if until the balance sheets date no transactions have been concluded in such listed government and listed corporate bonds on an active market or if the trading volume was very low. Unlisted municipal bonds and unlisted corporate bonds are valued at fair value with alternative valuation methods as there is no active market for such instruments.

In case of central government bond, local authorities bonds and supra-national bonds, the fair value is determined at bid prices from Bloomberg (BGN) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market or further – on the basis of historic transactional prices, best bid prices from BondSpot or bid prices from Bloomberg.

In case of listed central government bonds and local authorities bonds, if no fair value can be determined in that way, the value is determined on the basis of last bid price from the market with the most current trading, and in case of trading on more than one market, the market with the highest volume trading is applicable. In case of lack of trading mentioned above, the fair value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

In case of supra-national bonds, if no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of bonds that are fully, unconditionally and irrevocably guaranteed by central government denominated and funded in the domestic currency of that central government is determined at historic transactional prices. If no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of listed corporate bonds is determined at bid prices from Bloomberg (BGN) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market (in case of securities denominated in foreign currencies) or further – on the basis of historic transactional prices or bid prices from Bloomberg. If no fair value of corporate bonds denominated in foreign currencies can be determined in that way, the value is determined on the basis of at bid prices from Bloomberg Valuation Service (BVAL) of the last working day of the reporting period or of the last day in which the bonds were quoted on the market or further – on the basis of analogical historic prices.

If no fair value can be determined in that way, the value is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of Treasury bonds adjusted by the credit spread, relying on data from information agency.

The fair value of unlisted corporate bonds and unlisted municipal bonds is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of government bonds adjusted by the credit spread, relying on data from information agency.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of government bonds

and corporate bonds with respect to the variability of interest rates, ratings and FX exchange rates.

As at 31 December 2020, the government bonds and corporate bonds that meet the above criteria, held by the Company were valued with alternative valuation methods.

COLLECTIVE INVESTMENTS UNDERTAKINGS

Participation titles in listed investment funds are valued at fair value with alternative valuation methods if before the balance sheet date, such participation titles were not traded or if the trading volume was extremely low. Unlisted investement units in investment funds are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The fair value of participation titles in listed investment funds is determined on the basis historic closing prices from the active market or is determined at the net asset value per investment unit published by the fund.

The fair value of unlisted investment units in investment funds is determined on the basis of the last net asset value per investment unit published by the fund for the last working day of the reporting period or on the last day trading was performed.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of collective investment undertakings with respect to the variability of FX exchange rates.

As at 31 December 2020, the collective investment undertakings that meet the above criteria and are held by the Company, were valued with alternative valuation methods.

DEPOSITS OTHER THAN CASH EQUIVALENTS

Deposits other than cash equivalents are valued at fair value with alternative valuation methods as there is no active market for such instruments.

Due to the short maturity of ON deposits, a simplification is applied consisting in determining the fair value of such assets at nominal value or amount payable, understood as the nominal value increased by interest accruing with a straight line method.

The value of the other deposits other than cash equivalents is determined on the basis of the discounted cash flow method. Discount rates are determined on the basis of the yield curve of government bonds adjusted by the credit spread, relying on data from information agency.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of deposits other than cash equivalents with respect to the variability of interest rates, ratings and FX exchange rates.

As at 31 December 2020, the deposits other than cash equivalents, held by the Company were valued with alternative valuation methods.

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS

Equities – listed are valued at fair value with alternative valuation methods if before the balance sheet date, such equities were not traded or if the trading volume was extremely low. Derivatives and debts owed to credit institutions (Sell-Buy-Back instruments) are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The fair value of equities - listed is determined on the basis of the models relying on the change of stock exchange indices or historic prices from the active market or is determined at historic closing price from the active market, including impairment losses or is determined at historic closing price from the market with the most current trading.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of equities - listed with respect to the variability of stock exchange indices and counterparty credit risk.

The fair value of swap contracts (FX swap and liability part of equity swap) is valued in accordance with the discounted cash flow model. The discount curves applied to value derivative instruments are determined on the basis of quoted deposits and IRS contracts, published by an information agency.

The fair value of the option part of equity swaps is determined on the basis of valuation provided by option writers with a verification of the valuation by the Company with its own valuation methods – with Monte Carlo simulations.

Due to the short maturity of Sell-Buy-Back instruments, the fair value of such assets is determined at amount payable, understood as the nominal value increased by interest accruing with a straight line method.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of equities - listed with respect to the variability of stock exchange indices and counterparty credit risk.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of derivative instruments with respect to the variability of interest rates, ratings and FX exchange rates.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of debts owed to credit institutions with respect to the variability of interest rates and counterparty credit risk.

As at 31 December 2020, the assets held for index-linked and unit-linked contracts that meet the above criteria and are held by the Company, were valued with alternative valuation methods.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at fair value with alternative valuation methods as there is no active market for such instruments.

The fair value of cash and cash equivalents is determined at nominal value.

In view of the variability of the economic environment, an uncertainty exists as to the valuation of cash and cash equivalents with respect to the variability of FX exchange rates.

As at 31 December 2020, cash and cash equivalents, held by the Company were valued with alternative valuation methods.

ANY OTHER ASSETS, NOT ELSEWHERE SHOWN

Current receivables from ceded reinsurance relating to the settled insurance claims

Due to no active market for receivables disclosed in that item, the Company uses alternative valuation methods for the purpose of fair value measurement. Receivables are valued at the amount due adjusted by value that take into account the probability of payment and the counterparty's credit condition. Additionally, receivables with an expected payment date over 12 months are discounted with a risk-free rate, if the impact of the discount is material. The Company uses interest rates published by EIOPA for the discounting of receivables.

The uncertainties of the valuation of described receivables is related to the assumptions made by the Company as at the balance sheet date relating to the assessment of payment probability as well as counterparty credit risk, currency risk and interest risk. Such uncertainties means that in case of a change in the market environment and credit position of counterparties, the values of receivables determined as at the balance sheet date may be different than the actual amount for which such receivables could be exchanged between knowledgeable willing parties in an arm's length transaction.

As at 31 December 2020 all other assets were valued with alternative valuation methods.

OTHER PROVISIONS (OTHER THAN TECHNICAL PROVISIONS)

As there is no active market for other provisions, in order to value them at fair value alternative valuation methods are used.

The provisions are established applying the most reliable estimation necessary to fulfil the obligations at the end of the reporting period subject to the risks and uncertainties accompanying the events and circumstances required to comply with the obligation.

In particular, other provisions include provisions for unused holidays, provisions for salaries and provisions for losses under pending litigation and third party claims.

Provision for unused holidays

Provision for unused holidays is aimed at covering existing and unfulfilled obligations of the Company to employees as a result of their right to annual holidays. The provision for each employee is set as the multiplication of the equivalent for 1 day off (understood as monthly average salary divided by the average number of working days in a month for the relevant calendar year) and the number of unused annual holidays data recorded in the HR system.

The uncertainty of the valuation of the provision for unused holidays is related to the assumption made by the Company as at the balance sheet date: the salary level of each employee which may be changed in the future.

Provisions for salaries

The Company recognises provisions for salaries including in particular the following: provision for discretionary bonuses for employees who are subject to annual periodic assessment, provision for bonuses (in this for annual bonus for Members of the Management Board). The detailed principles of defining specific provisions are based on the bonus rules existing in the Company.

In accordance with the best knowledge of the Company's management, the provisions for salaries set as at 31 December 2020 are close to their fair value. Since there is no information on the materialisation of specific parameters providing for the basis of the bonuses, an uncertainty exists as to the valuation of the provisions for salaries.

Provisions for non-insurance litigations

The Company performs an analysis of potential risks related to non-insurance litigations and on that basis of that takes decisions on the need to recognise the effects of such litigation in its accounting books. The Company bases its estimates of the provisions on legal opinions concerning particular non-insurance litigations.

The detailed principles of setting such provisions largely set-off the uncertainties relating to the valuation of provisions for non-insurance litigations.

As at 31 December 2020 all other provisions were valued with alternative valuation methods.

INSURANCE AND INTERMEDIARIES PAYABLES, PAYABLES (TRADE, NON- INSURANCE)

As there is no active market for such liabilities, alternative valuation methods are used to value them at fair value.

The payables are valued to fair value in amount of due payment. In case of liabilities with the expected payment date within 12 months, the fair value is equivalent to the amounts payable, while in the case of liabilities with the expected payment date over 12 months – the present value of the amounts payable if the discount is material. Adjustments to provide for change in time value of money are applied by using risk-free interest rates. The Company uses interest rates published by EIOPA for discounting of liabilities.

Uncertainties as to the valuation of individual types of liabilities are related to currency risk and interest rate risk. Changes to the economic environment result in a situation whereby the value of liabilities determined as at the balance sheet date – subject to possible change of such factors – may be different than the actual value at which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

As at 31 December 2020 all the above liabilities were valued at fair value with alternative valuation methods.

D.5 Any other information

All material information was presented above.

E Capital Management

The Capital Management Policy of TUnŻ "WARTA" S.A., approved by the Company's Supervisory Board and the Capital Management Procedure of TUnŻ "WARTA" S.A., approved by the Company's Management Board are two main documents regulating the management of the Company's capital.

The main objective of capital management is to ensure the Company's solvency subject to capital requirements resulting from the applicable laws while ensuring the accomplishment of the dividend ratio anticipated by the Shareholder.

In compliance with the Capital Management Policy, capital management shall be understood as a variety of activities undertaken at operational, tactical and strategic levels.

Activities at the strategic level are executed by the management and supervising bodies of the Company while actions at the tactical and operational levels are exercised by the organisational units and committees respectively authorized by the Company's Management Board.

The capital position, capital requirements and solvency constitute an integral part of the Business Plan approved by the Company's Supervisory Board upon a proposal of the Company's Management Board.

Assessing its capital adequacy ratio, the Company uses the Solvency 2 ratio which is monitored quarterly by the Company's Management Board and the organisational units and committees respectively authorised by the Company's Management Board. The prospective level (in the Plan) of the ratio is submitted on a regular basis to the Supervisory Board by the Company's Management Board.

The level of the Solvency 2 ratio approved by the Company were presented in chapter B.3.2 hereof.

In compliance with its Capital Management Policy, the Company takes additional actions if the ratio level falls below the "watch" level and when such drop to the "watch" level is permanent/material.

When the financial condition is suddenly deteriorated or when such deterioration is imminent next year, the Company may suspend dividend payment.

E.1 Own funds

MEDIUM-TERM CAPITAL MANAGEMENT PLAN

In compliance with the Capital Management Procedure, the Company develops a medium-term capital management plan covering 3 years, covering:

- capital projection, including planned share issues,
- a projection of own funds subject to changes of individual items under each category that may result from maturity, redemption or repayment dates of those elements of capital,
- information on the results of projections made under its Own Risk and Solvency Assessment,
- information on the impact of issues, redemption or repayment of items of own funds on issues related to the application of limits to the categories listed below,
- information on the impact of the rules of profit distribution on own funds.

CLASSIFICATION OF OWN FUNDS

The Company classifies its own funds, including to specific categories, in compliance with the Act on Insurance and Reinsurance Activity.

SIGNIFICANT CHANGES IN THE REPORTING PERIOD

The rules of classification as well as management of the Company's own funds have not changed during the reporting year.

OWN FUNDS AT THE END OF THE REPORTING AND COMPARATIVE PERIOD

The table 18 presents the change in the Company's own funds during the reporting period.

TABLE 18. CHANGE IN THE COMPANY'S OWN FUNDS DURING REPORTING PERIOD

Lp.	Basic own funds	31 Dec 2019	Changes	31 Dec 2020
1.	Ordinary share capital (gross of own shares)	291 693	0	291 693
2.	Share premium account related to ordinary share capital		0	
3.	Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings		0	
4.	Subordinated mutual member accounts		0	
5.	Surplus funds		0	
6.	Preference shares	19 900	0	19 900
7.	Share premium account related to preference shares		0	
8.	Reconciliation reserve	193 998	43 667	237 664
9.	Subordinated liabilities		0	
10.	An amount equal to the value of net deferred tax assets		0	
11.	Other own fund items approved by the supervisory authority as basic own funds not specified above		0	
12.	Total	505 591	43 667	549 257
	therein: Tier 1: unrestricted	485 691	43 667	529 357
	therein: Tier 1: restricted	19 900	0	19 900

The main reason for the increase of own funds was sal fo new, profitable products, of which expected profit had influence on higher the Company's own funds and expected pay out of the dividend from the net financial result of 2020.

ASSESSMENT OF THE QUALITY OF THE COMPANY'S OWN FUNDS

Whole the Company's own funds constitute the basic own funds and are classified into Tier 1, i.e. the highest quality measures for accessibility in case of covering potential losses. The duration of all Company's own funds is unlimited. An important component of the Company's own funds is the reconciliation reserve consisting of:

- differences in valuation between the statutory balance sheet and the economic balance, sheet as described in more detail in part D of this Report,
- other than the share and spare capital components of equity (e.g. revaluation reserve, current year result),
- and elements reducing the value of economic capitals:
  - expected dividend for 2020,
  - value of tax on assets to be paid in the next 12 months.

MATERIAL CHANGES OF THE COMPANY' OWN FUNDS IN 2020

In 2020, according to PFSA guidelines, the Company did not pay out the dividend from the net financial result of 2019.

The Company did not issue or redeem own funds in 2020.

The average amount of own funds in 2020 was PLN 527 424 thousand.

The Company has no own funds subject to transitionary regulations.

The Company has no supplementary own funds.

OWN FUNDS APPLICABLE TO COVER CAPITAL REQUIREMENTS

The table 19 presents amounts applicable to cover capital requirements.

TABLE 19. ELIGIBLE OWN FUNDS AS OF 31 DECEMBER 2020

MEET THE CAPITAL REQUIREMENTS	TOTAL	INCL.: TIER 1 - UNRESTRICTED	INCL.: TIER 1 - RESTRICTED
Own funds	549 257	529 357	19 900
Total eligible own funds to meet the SCR	549 257	529 357	19 900
Total eligible own funds to meet the MCR	549 257	529 357	19 900

RECONCILIATION THE EQUITY (STATUTORY) AND THE COMPANY'S OWN FUNDS

The figure 20 presents material differences between the equity compliant with the statutory report and the Company's own funds compliant with Solvency 2 as of 31 December 2020.

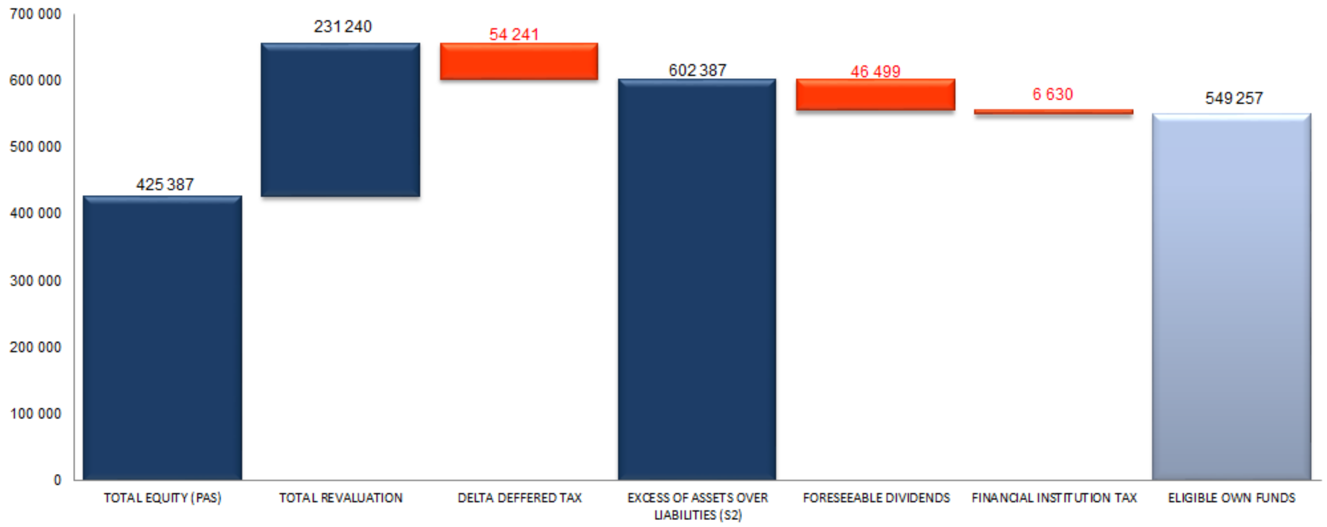

Figure 20.
The equity (statutory) and the Company's own funds

The total difference between equity (statutory) and Company's own funds as at 31 December 2020 results from:

- differences in the valuation methodology between the statutory report and the economic balance sheet (details described in chapter D.1, D.2 and D.3 of this Report), including elimination of items unrecognized in Solvency 2 balance sheet amounting in total to PLN 231 240 thousand,
- deferred tax impact due to differences mentioned above PLN (54 241) thousand,
- planned dividend payable to the Company's Shareholder in the amount of PLN (46 499) thousand, i.e. 92% of PLN 32 036 thouand (the financial result of the Company for 2019) and 50% of PLN 34 052 thousand (the financial result of the Company for 2020); the deduction was made in accordance with Guideline No. 2 of the Guidelines on Classification of Own Funds (EIOPA-BoS-14/168),
- tax on the Company's assets to be paid within the next 12 months, counting from the balance sheet date, in the amount of PLN (-6 630) thousand; the deduction was made in accordance with the Supervision Authority's status of 7 April 2016 (DNU/606/259/1/2016/AM).

RESTRICTIONS APPLICABLE TO OWN FUNDS

The Company's own funds in 2020 were not subject to any restrictions on their availability.

As at 31 December 2020 no deductions were made from the Company's own funds.

DEFERRED TAX INFORMATION

All required information on deferred income taxes is presented in chapter D.3 of this Report.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

The figure 21 presents information on the Company's Solvency Capital Requirement at the end of the reporting and comparative period:

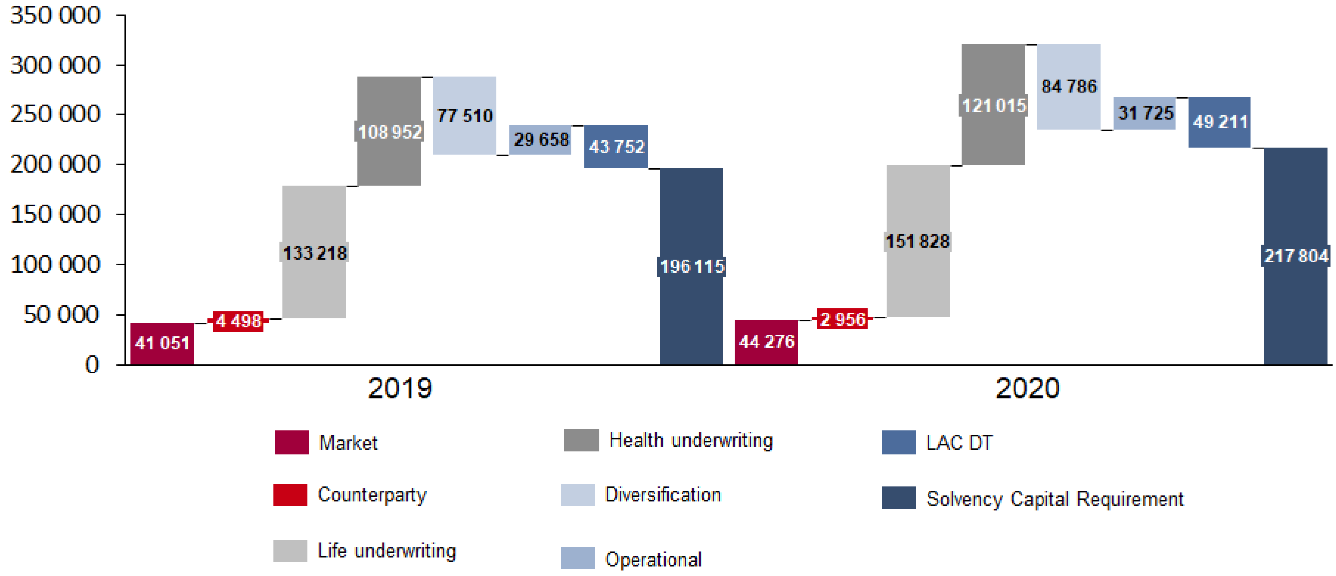

Figure 21.
The Company's Solvency Capital Requirement

The assumptions underlying the calculation of Solvency Capital Requirement are compliant with the Delegated Regulation.

Market risk in the managerial pool was calculated as much as possible – the pool was split into individual asset classes in order to reflect market risk and its components better.

The managerial pool is understood as the so-called book pool as well as the surplus of index-linked and unit-linked insurance assets on the best estimates.

The index-linked and unit-linked insurance reserves as well as assets in the size of these reserves were excluded from the calculation of the Solvency Capital Requirement, which is a conservative simplification used by the Company.

The calculation of the Solvency Capital Requirement does not include so-called transitionary measures – replacement of fundamental own funds in a transitory period.

The structure of the Solvency Capital Requirement is described in part C of this Report.

MATERIAL CHANGES TO THE SOLVENCY CAPITAL REQUIREMENT AND REASONS OF THE CHANGES

The most significant changes in the Solvency Capital Requirement were as follows:

- increase in the requirement for the lapse risk in life actuarial risk as a result of new sales of individual life insurance,
- increased requirement for mortality and catastrophic risk in life actuarial risk and health actuarial as a result of new sales of individual life insurance.

THE LOSS ABSORBING CAPACITY OF DEFFERED TAXES

The adjustment for deferred taxes in the Solvency Capital Requirement (hereinafter SCR) amounted to PLN 49 211 thousand and constituted 19% of the amount of the gross part of the SCR (before the adjustment) identified as constituting a tax loss. The tax loss in the SCR requirement was divided into the current year's tax loss and the tax loss that occurs in the following years as shown in Table 20.

TABLE 20. TAX ALLOCATION OF THE GROSS SCR LOSS

TAX LOSS		NON-TAX LOSS
259 221		7 794
CURRENT YEAR LOSS	NEXT YEARS LOSS	
138 183	121 038	

The loss of the current year is settled together with the sum of tax profits in the next five years resulting from:

- tax profits of the financial plan modified after the so-called a critical scenario,
- tax profits / losses from the implementation of DTA / DTL from the statutory scenario not included in the plan,
- tax profits / losses from the implementation of DTA / DTL resulting from the Solvency 2 valuation not included in the plan,
- tax profits / losses resulting from the loss of SCR occurring in future years,

the sum of which constitutes the taxable settlement of the Company's loss.

The Company recognizes in the settlement capacity only those DTA and DTL elements that are no longer included in the projected tax result of the financial plan, in order to avoid double recognition.

The final amount of the adjustment of the requirement for the deferred tax capacity to settle the loss is the lower of:

- part of the gross SCR identified as tax loss,
- tax settlement capacity of the Company's loss.

TABLE 21. TAX CAPACITY TO SET OFF THE COMPANY'S LOSS

SOURCES OF TAX PROFIT	REALIZATION OF TAX PROFIT OVER TIME				
	UP TO 1 YEAR	FROM 1 TO 5 YEAR	OVER 5 YEARS	UNDEFINED	TOTAL UP TO 5 YEARS
Business Plan after realisation of critical scenario	2 487	120 090	0	0	122 577
Statutory DTA/DTL not included in Plan	0	75 795	-8 065	0	75 795
DTA / DTL resulting from differences from the Solvency 2 valuation not included in Plan	0	44 394	0	0	44 394
Tax profit/loss resulting from the future years SCR loss	0	-44 968	-76 070	0	-44 968
TOTAL	2 487	195 311	-84 135	0	197 798

The basis for determining the future tax result is the tax income from the Company's Business Plan adjusted for the critical scenario occurence.

The modifications to the Business Plan consist of:

- checking the Company's ability to continue as a going concern after the occurrence of a critical scenario,
- adjustment of the result in the period exceeding the Company's planning horizon, consisting in not taking into account new business in this period,
- taking into account the effects in the insurance portfolio and investment projects resulting from the critical scenario,
- changing the profile of the paid dividend,
- adjustment of the investment income resulting from a different level of interest rates and credit spreads,
- other effects, in particular possible actions related to increasing own funds provided for in the Capital Management Policy and the Capital Management Procedure.

E.2.2 Minimum Capital Requirement

The tables below present information on the Company's Minimum Capital Requirement as at 31 December 2020.

TABLE 22. LINEAR FORMULA FOR NON-LIFE INSURANCE

NON-LIFE INSURANCE	31 Dec 2019	31 Dec 2020
Medical expense insurance and proportional reinsurance	0	0
Income protection insurance and proportional reinsurance	35 124	39 751
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	0	0
Other motor insurance and proportional reinsurance	0	0
Marine, aviation and transport insurance and proportional reinsurance	0	0
Fire and other damage to property insurance and proportional reinsurance	0	0
General liability insurance and proportional reinsurance	0	0
Credit and suretyship insurance and proportional reinsurance	0	0
Legal expenses insurance and proportional reinsurance	0	0
Assistance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	0	0
Non-proportional health reinsurance	0	0
Non-proportional marine, aviation and transport reinsurance	0	0
Non-proportional property reinsurance	0	0
Non-proportional casualty reinsurance	0	0
Linear formula component for non-life insurance and reinsurance obligations	35 124	39 751

TABLE 23. LINEAR FORMULA FOR LIFE INSURANCE

LIFE INSURANCE	31 Dec 2019	31 Dec 2020
Obligations with profit participation- guaranteed benefits	4 590	5 026
Obligations with profit participation - future discretionary benefits	-318	-288
Index-linked and unit-linked insurance obligations	6 423	5 606
Other life (re)insurance and health (re)insurance obligations	0	288
Capital at risk for all life (re)insurance obligations	59 453	66 900
Linear formula component for life insurance and reinsurance obligations	70 149	77 531

TABLE 24. CALCULATION OF MINIMUM CAPITAL REQUIREMENT WITH THE STANDARD FORMULA

	31 Dec 2019	31 Dec 2020
Linear MCR	105 273	117 282
SCR	196 115	217 804
MCR cap	88 252	98 012
MCR floor	49 029	54 451
Combined MCR	88 252	98 012
Absolute floor of the MCR	15 768	17 090
Minimum Capital Requirement	88 252	98 012

The largest part of the Minimum Capital Requirement is the sum of the risk (PLN 59 453 thousand) mainly from group insurance. Other important components include reserves related to the index-linked and unit-linked and health insurance.

Such a calculated the Minimum Capital Requirement amounting to PLN 117 282 thousand is then reduced to PLN 98 012 thousand due to upper limit (i.e. MCR ≤45% SCR).

SIGNIFICANT CHANGES OF MINIMUM CAPITAL REQUIREMENT AND REASONS FOR THESE CHANGES

The increase in the minimum capital requirement resulted from the increase in the upper threshold of the SCR, which, both now and a year ago, determined the final size of the MCR. Also the MCR resulting from the linear formula increased, mainly due to the increase in the sum of the risk and the amount of premium in health insurance, which took place as a result of the dynamic growth of group insurance

E.3 Use of duration-based equityrisk sub-module in the calculation of the Solvency Capital Requirement

The Company does not apply the calculation method of capital requirement for stocks relying on the duration of technical provisions.

E.4 Differences between the standard formula and any internal model use

The Company does not apply any internal model to calculate Solvency Capital Requirement.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

E.5.1 Non-compliance with the Minimum Solvency Requirement

The Company covers the Minimum Solvency Requirement as at 31 December 2020 and foresees no problems with coverage over the planned period.

E.5.2 Non-compliance with the Solvency Capital Requirement

The Company covers the Solvency Capital Requirement as at 31 December 2020 and foresees no problems with coverage over the planned period.

E.6 Any other information

The Company estimates that the changes entered into force in 2020 are not significant from the point of view of the Capital Solvency Requirement and therefore do not require disclosure in this Report.

APPENDICES

APPENDIX 1. BALANCE SHEET ITEMS (S.02.01.02)

		Solvency II value
Assets		C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	27 068
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	836 195
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	449
Equities – listed	R0110	449
Equities – unlisted	R0120	0
Bonds	R0130	808 268
Government Bonds	R0140	727 908
Corporate Bonds	R0150	80 360
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	6 855
Derivatives	R0190	17
Deposits other than cash equivalents	R0200	20 606
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	901 769
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	-10 560
Non-life and health similar to non-life	R0280	-1 127
Non-life excluding health	R0290	0
Health similar to non-life	R0300	-1 127
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	-3 584
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	-3 584
Life index-linked and unit-linked	R0340	-5 849
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	4 566
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	12 917
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	12 617
Any other assets, not elsewhere shown	R0420	1 301
Total assets	R0500	1 785 873

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	77 810
Technical provisions – non-life (excluding health)	R0520	0
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	0
Risk margin	R0550	0
Technical provisions – health (similar to non-life)	R0560	77 810
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	72 323
Risk margin	R0590	5 487
Technical provisions – life (excluding index-linked and unit-linked)	R0600	188 364
Technical provisions – health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	188 364
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	151 474
Risk margin	R0680	36 890
Technical provisions – index-linked and unit-linked	R0690	811 241
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	794 947
Risk margin	R0720	16 294
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	14 020
Pension benefit obligations	R0760	576
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	54 241
Derivatives	R0790	692
Debts owed to credit institutions	R0800	14
Financial liabilities other than debts owed to credit institutions	R0810	16 805
Insurance & intermediaries payables	R0820	9 475
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	10 248
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	R0900	1 183 486
Excess of assets over liabilities	R1000	602 387

APPENDIX 2. PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS (S.05.01.02)

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)

		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Premiums written										
Gross – Direct Business	R0110	0	355 445	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0130									
Reinsurers' share	R0140	0	990	0	0	0	0	0	0	0
Net	R0200	0	354 455	0	0	0	0	0	0	0
Premiums earned										
Gross – Direct Business	R0210	0	355 185	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0230									
Reinsurers' share	R0240	0	990	0	0	0	0	0	0	0
Net	R0300	0	354 195	0	0	0	0	0	0	0

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional

		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
Claims incurred										
Gross – Direct Business	R0310	0	184 643	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0330									
Reinsurers' share	R0340	0	314	0	0	0	0	0	0	0
Net	R0400	0	184 329	0	0	0	0	0	0	0
Changes in other technical provisions										
Gross – Direct Business	R0410	0	0	0	0	0	0	0	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0430									
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0	0
Expenses incurred	R0550	0	111 588	0	0	0	0	0	0	0
Other expenses	R1200									
Total expenses	R1300									

		Line of Business for: non-life			Line of business for: accepted non-proportional				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross – Direct Business	R0110	0	0	0					355 445
Gross – Proportional reinsurance accepted	R0120	0	0	0					0
Gross – Non-proportional reinsurance accepted	R0130				0	0	0	0	0
Reinsurers' share	R0140	0	0	0	0	0	0	0	990
Net	R0200	0	0	0	0	0	0	0	354 455
Premiums earned									
Gross – Direct Business	R0210	0	0	0					355 185
Gross – Proportional reinsurance accepted	R0220	0	0	0					0
Gross – Non-proportional reinsurance accepted	R0230				0	0	0	0	0
Reinsurers' share	R0240	0	0	0	0	0	0	0	990
Net	R0300	0	0	0	0	0	0	0	354 195

		Line of Business for: non-life			Line of business for: accepted non-proportional				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Claims incurred									
Gross – Direct Business	R0310	0	0	0					184 643
Gross – Proportional reinsurance accepted	R0320	0	0	0					0
Gross – Non-proportional reinsurance accepted	R0330				0	0	0	0	0
Reinsurers' share	R0340	0	0	0	0	0	0	0	314
Net	R0400	0	0	0	0	0	0	0	184 329
Changes in other technical provisions									
Gross – Direct Business	R0410	0	0	0					0
Gross – Proportional reinsurance accepted	R0420	0	0	0					0
Gross – Non-proportional reinsurance accepted	R0430				0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0	0
Expenses incurred	R0550	0	0	0	0	0	0	0	111 588
Other expenses	R1200								1 341
Total expenses	R1300								112 929

		Line of Business for: life insurance obligations						Life reinsurance		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	0	33 452	163 613	430 863	0	0	0	0	627 928
Reinsurers' share	R1420	0	420	1 347	4 883	0	0	0	0	6 650
Net	R1500	0	33 032	162 266	425 980	0	0	0	0	621 278
Premiums earned										
Gross	R1510	0	33 280	163 585	428 993	0	0	0	0	625 858
Reinsurers' share	R1520	0	412	1 334	4 553	0	0	0	0	6 299
Net	R1600	0	32 868	162 251	424 440	0	0	0	0	619 559
Claims incurred										
Gross	R1610	0	23 370	295 990	288 533	0	0	0	0	607 893
Reinsurers' share	R1620	0	15	-20	749	0	0	0	0	744
Net	R1700	0	23 355	296 010	287 784	0	0	0	0	607 149
Changes in other technical provisions										
Gross	R1710	0	-4 494	107 833	-6 529	0	0	0	0	96 810
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	0	-4 494	107 833	-6 529	0	0	0	0	96 810
Expenses incurred	R1900	0	9 486	24 476	161 237	0	0	0	0	195 199
Other expenses	R2500									5 006
Total expenses	R2600									200 205

APPENDIX 3. PREMIUMS, CLAIMS AND EXPENSES BY COUNTRY (S.05.02.01)

Gross written premiums for the country of residence represent more than 90% of the total gross premiums written, therefore, the form S.05.02.01 is not required.

APPENDIX 4. LIFE AND HEALTH SLT TECHNICAL PROVISIONS (S.12.01.02)

		Insurance with profit participation	Index-linked and unit-linked insurance	Contracts without options and guarantees	Contracts with options or guarantees	Other life insurance	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010	0	0			0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	0	0			0			0	0	0
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030	140 496		0	794 947		10 978	0	0	0	946 421
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-868		0	-5 849		-2 716	0	0	0	-9 433
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	141 364		0	800 796		13 694	0	0	0	955 854
Risk Margin	R0100	3 857	16 294			33 033			0	0	53 184
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110	0	0			0			0	0	0
Best estimate	R0120	0		0	0		0	0	0	0	0
Risk margin	R0130	0	0			0			0	0	0
Technical provisions – total	R0200	144 353	811 241			44 011			0	0	999 605

		Health insurance (direct business)	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	0			0	0	0
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	R0030		0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090		0	0	0	0	0
Risk Margin	R0100	0			0	0	0
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110	0			0	0	0
Best estimate	R0120		0	0	0	0	0
Risk margin	R0130	0			0	0	0
Technical provisions – total	R0200	0			0	0	0

APPENDIX 5. NON-LIFE TECHNICAL PROVISIONS (S.17.01.02)

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross	R0060	0	-15 027	0	0	0	0	0	0	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	-1 195	0	0	0	0	0	0	0
Net Best Estimate of Premium Provisions	R0150	0	-13 832	0	0	0	0	0	0	0
Claims provisions										
Gross	R0160	0	87 350	0	0	0	0	0	0	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	68	0	0	0	0	0	0	0
Net Best Estimate of Claims Provisions	R0250	0	87 282	0	0	0	0	0	0	0
Total Best estimate – gross	R0260	0	72 323	0	0	0	0	0	0	0
Total Best estimate – net	R0270	0	73 450	0	0	0	0	0	0	0

		Direct business and accepted proportional reinsurance								
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Risk margin	R0280	0	5 487	0	0	0	0	0	0	0
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0	0
Technical provisions – total										
Technical provisions – total	R0320	0	77 810	0	0	0	0	0	0	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	0	-1 127	0	0	0	0	0	0	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	0	78 937	0	0	0	0	0	0	0

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	R0060	0	0	0	0	0	0	0	-15 027
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	0	0	0	0	0	0	0	-1 195
Net Best Estimate of Premium Provisions	R0150	0	0	0	0	0	0	0	-13 832
Claims provisions									
Gross	R0160	0	0	0	0	0	0	0	87 350
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	0	0	0	0	0	0	68
Net Best Estimate of Claims Provisions	R0250	0	0	0	0	0	0	0	87 282
Total Best estimate – gross	R0260	0	0	0	0	0	0	0	72 323
Total Best estimate – net	R0270	0	0	0	0	0	0	0	73 450

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Risk margin	R0280	0	0	0	0	0	0	0	5 487
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0
Technical provisions – total									
Technical provisions – total	R0320	0	0	0	0	0	0	0	77 810
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	0	0	0	0	0	0	0	-1 127
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	0	0	0	0	0	0	0	78 937

APPENDIX 6. NON-LIFE INSURANCE CLAIMS (S.19.01.21)

Total Non-Life Business

Accident year / Underwriting year

Z0020 1 - Accident year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Wcześ-niejsze lata	R0100											0	R0100	0	0
N-9	R0160	0	0	0	0	0	0	0	0	0	0		R0160	0	0
N-8	R0170	0	0	0	0	0	0	0	0	0			R0170	0	0
N-7	R0180	0	0	0	0	0	0	0	0				R0180	0	0
N-6	R0190	55 461	17 081	1 632	453	117	16	22					R0190	22	74 782
N-5	R0200	78 664	21 435	2 054	605	86	47						R0200	47	102 891
N-4	R0210	91 672	24 706	2 423	1 015	74							R0210	74	119 890
N-3	R0220	102 262	28 623	3 203	1 141								R0220	1 141	135 229
N-2	R0230	112 479	35 850	3 703									R0230	3 703	152 032
N-1	R0240	127 776	39 317										R0240	39 317	167 093
N	R0250	126 806											R0250	126 806	126 806
													R0260	171 110	878 723

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year												Year end (discounted data)
	Year	0	1	2	3	4	5	6	7	8	9	10 & +		
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Wcześniejsze lata	R0100											0	R0100	0
N-9	R0160	0	0	0	0	0	0	0	0	0	0		R0160	0
N-8	R0170	0	0	0	0	0	0	0	0	0			R0170	0
N-7	R0180	0	0	0	0	0	0	0	0				R0180	0
N-6	R0190	0	0	581	113	40	0	0					R0190	0
N-5	R0200	0	1 956	1 271	142	45	0						R0200	0
N-4	R0210	46 696	4 834	1 624	245	49							R0210	49
N-3	R0220	44 101	6 118	1 945	290								R0220	288
N-2	R0230	54 107	9 490	2 302									R0230	2 302
N-1	R0240	62 353	11 477										R0240	11 493
N	R0250	73 181											R0250	73 218
													R0260	87 350

APPENDIX 7. IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES (S.22.01.21)

The Company does not use long term guarantees or transitional measures, therefore, the form S.22.01.21 is not required.

APPENDIX 8. OWN FUNDS (S.23.01.01)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	291 693	291 693		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	19 900		19 900	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	237 665	237 665			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	549 258	529 358	19 900	0	0

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	549 258	529 358	19 900	0	0
Total available own funds to meet the MCR	R0510	549 258	529 358	19 900	0	
Total eligible own funds to meet the SCR	R0540	549 258	529 358	19 900	0	0
Total eligible own funds to meet the MCR	R0550	549 258	529 358	19 900	0	
SCR	R0580	217 803				
MCR	R0600	98 012				
Ratio of Eligible own funds to SCR	R0620	252,18%				
Ratio of Eligible own funds to MCR	R0640	560,40%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	602 387	
Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720	53 129	
Other basic own fund items	R0730	311 593	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	237 665	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770	191 042	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	41 728	
Total Expected profits included in future premiums (EPIFP)	R0790	232 770	

APPENDIX 9. SOLVENCY CAPITAL REQUIREMENT – FOR ENTITIES USING THE STANDARD FORMULA (S.25.01.21)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	44 276		none
Counterparty default risk	R0020	2 956		
Life underwriting risk	R0030	151 828	none	none
Health underwriting risk	R0040	121 015	none	none
Non-life underwriting risk	R0050	0	none	none
Diversification	R0060	-84 786		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	235 289		

Calculation of Solvency Capital Requirement		C0120
Operational risk	R0130	31 725
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	-49 211
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	217 803
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	217 803
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Approach to tax rate		Yes/No
		C0109
Approach based on average tax rate	R0590	1 – Yes

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
LAC DT	R0640	-49 211
LAC DT justified by reversion of deferred tax liabilities	R0650	-49 211
LAC DT justified by reference to probable future taxable economic profit	R0660	0
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	0
Maximum LAC DT	R0690	-50 733

APPENDIX 10. MINIMUM CAPITAL REQUIREMENT – ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY (S.28.01.01)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Wynik	R0010	39 751

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	73 450	354 455
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	0	0
General liability insurance and proportional reinsurance	R0090	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	0
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	77 531

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	135 826	
Obligations with profit participation – future discretionary benefits	R0220	5 538	
Index-linked and unit-linked insurance obligations	R0230	800 796	
Other life (re)insurance and health (re)insurance obligations	R0240	13 694	
Total capital at risk for all life (re)insurance obligations	R0250		95 571 730

Overall MCR calculation

		C0070
Linear MCR	R0300	117 282
SCR	R0310	217 803
MCR cap	R0320	98 012
MCR floor	R0330	54 451
Combined MCR	R0340	98 012
Absolute floor of the MCR	R0350	17 090
		C0070
Minimum Capital Requirement	R0400	98 012