Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 3 months ended
31 March 2021

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(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	**m PLN 1 January – 31 March 2021**	**m PLN 1 January – 31 March 2020**	**m EUR 1 January – 31 March 2021**	**m EUR 1 January – 31 March 2020**
Gross written premiums	6,148	6,097	1,345	1,387
Net earned premiums	5,686	5,762	1,244	1,311
Revenue from commissions and fees	1,065	1,019	233	232
Net investment result	2,532	1,856	554	422
Net insurance claims and benefits	(3,926)	(3,281)	(859)	(746)
Profit before tax	1,626	655	356	149
Net profit, including:	1,171	289	256	65
- profit attributable to the equity holders of the parent company	897	116	196	26
- profit attributable to holders of non-controlling interests	274	173	60	39
Basic and diluted weighted average number of common shares	863,343,952	863,331,319	863,343,952	863,331,319
Basic and diluted earnings per common share (in PLN/EUR)	1.04	0.13	0.23	0.03

Data from the consolidated statement of financial position	**m PLN 31 March 2021**	**m PLN 31 December 2020**	**m EUR 31 March 2021**	**m EUR 31 December 2020**
Assets	395,418	378,974	84,848	82,121
Share capital	86	86	18	19
Equity attributable to equity holders of the parent	19,374	18,777	4,157	4,069
Non-controlling interest	24,468	24,626	5,250	5,336
Total equity	43,842	43,403	9,408	9,405
Basic and diluted number of common shares	863,344,036	863,349,616	863,344,036	863,349,616
Book value per common share (in PLN/EUR)	22.44	21.75	4.81	4.71

Data from the consolidated cash flow statement	**m PLN 1 January – 31 March 2021**	**m PLN 1 January – 31 March 2020**	**m EUR 1 January – 31 March 2021**	**m EUR 1 January – 31 March 2020**
Net cash flows from operating activities	6,029	8,000	1,319	1,820
Net cash flows from investing activities	(265)	(1,007)	(58)	(229)
Net cash flows from financing activities	(2,523)	(1,883)	(552)	(428)
Total net cash flows	3,241	5,110	709	1,162

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	**m PLN 31 March 2021**	**m PLN 31 December 2020**	**m EUR 31 March 2021**	**m EUR 31 December 2020**
Assets	46,500	44,665	9,978	9,679
Share capital	86	86	18	19
Total equity	18,310	17,689	3,929	3,833
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	21.20	20.48	4.55	4.44

(in millions of PLN)

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 31 March 2021	m PLN 1 January – 31 March 2020	m EUR 1 January – 31 March 2021	m EUR 1 January – 31 March 2020
Gross written premiums	3,719	3,757	813	855
Technical result of non-life insurance	294	370	64	84
Net investment result [1)]	125	(256)	27	(58)
Net result	228	(110)	50	(25)
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	0.26	(0.13)	0.06	(0.03)

[1)] Including the item "Share of the net profit (loss) of related parties measured by the equity method".

3. Selected standalone financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna (PAS)

Data from the balance sheet	m PLN 31 March 2021	m PLN 31 December 2020	m EUR 31 March 2021	m EUR 31 December 2020
Assets	28,564	28,512	6,129	6,178
Total equity	4,632	4,486	994	972

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 31 March 2021	m PLN 1 January – 31 March 2020	m EUR 1 January – 31 March 2021	m EUR 1 January – 31 March 2020
Gross written premiums	2,254	2,184	493	497
Technical life insurance result	221	444	48	101
Net investment result	114	(299)	25	(68)
Net profit	135	315	30	72

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the 3-month period ended 31 March 2021 was PLN 1,171 million and was 305.2% higher from the net result in the corresponding period of the previous year. Net profit attributable to shareholders of the parent company was PLN 897 million compared to PLN 116 million in 2020 (up PLN 781 million).

ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2021 was 18.8%, up 15.9 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity after the 3-month period ended 31 March 2021, as compared to the corresponding period of the previous year:

- higher gross written premium, especially in unit-linked insurance offered in cooperation with banks, individual protection products in the bancassurance channel and growth of sales in the Baltic companies, including health and property insurance products;
- higher performance on investing activities, including an increased valuation of shares in a logistics company following its IPO;
- better performance of the banking business, last year, there was a one-off effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 516 million) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses;
- higher result on individual insurance due to the expanding portfolio of protection insurance, in both bancassurance and own channels;
- decreased profitability in group and individually continued insurance due to the higher loss ratio on account of deaths of the insured and co-insured in the group protection portfolio and in continued insurance;

- lower profitability in the mass insurance segment – effect of a higher loss ratio in non-motor insurance coupled with a reduction in net earned premium;
- lower operating result in the corporate client segment as the outcome of an increase in the loss ratio in the portfolio of motor own damage, other property claims and aircraft casco insurance, coupled with the concurrent dip in motor insurance sales.

(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premiums	9.1	6,148	6,097
Reinsurers' share in gross written premium		(153)	(156)
Net written premiums		**5,995**	**5,941**
Movement in net provision for unearned premiums		(309)	(179)
Net earned premiums		**5,686**	**5,762**
Revenue from commissions and fees	9.2	1,065	1,019
Interest income calculated using the effective interest rate	9.3	2,360	2,996
Other net investment income	9.4	(32)	-
Result on derecognition of financial instruments and investments	9.5	512	75
Movement in allowances for expected credit losses and impairment losses on financial instruments	9.6	(438)	(660)
Net movement in fair value of assets and liabilities measured at fair value	9.7	130	(555)
Other operating income	9.8	373	320
Claims, benefits and movement in technical provisions		(4,016)	(3,491)
Reinsurers' share in claims, benefits and movement in technical provisions		90	210
Net insurance claims and benefits	9.9	**(3,926)**	**(3,281)**
Fee and commission expenses	9.10	(256)	(235)
Interest expenses	9.11	(126)	(485)
Acquisition expenses	9.12	(798)	(835)
Administrative expenses	9.12	(1,702)	(1,679)
Other operating expenses	9.13	(1,216)	(1,786) [1)]
Operating profit		**1,632**	**656**
Share of the net financial results of entities measured by the equity method		(6)	(1)
Profit before tax		**1,626**	**655**
Income tax	9.14	(455)	(366)
Net profit, including:		**1,171**	**289**
- profit attributable to the equity holders of the parent company		897	116
- profit (loss) attributed to holders of non-controlling interest		274	173
Weighted average basic and diluted number of common shares	9.15	863,343,952	863,331,319
Basic and diluted profit (loss) per common share (in PLN)	9.15	1.04	0.13

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 516 million).

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2021	1 January – 31 March 2020
Net profit		1,171	289
Other comprehensive income	9.14	(731)	64
Subject to subsequent transfer to profit or loss		(780)	112
Valuation of debt instruments		(364)	(403)
Measurement of loan receivables from clients		(4)	(12)
Foreign exchange translation differences		26	87
Cash flow hedging		(438)	440
Not to be transferred to profit or loss in the future		49	(48)
Valuation of equity instruments		49	(48)
Total net comprehensive income		**440**	**353**
- comprehensive income attributable to equity holders of the Parent Company		598	28
- comprehensive income attributable to holders of non-controlling interest		(158)	325

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	31 March 2021	31 December 2020
Goodwill	9.16	2,782	2,776
Intangible assets	9.17	3,203	3,206
Deferred tax assets		2,643	2,511
Other assets	9.18	673	753
Deferred acquisition costs		1,601	1,550
Reinsurers' share in technical provisions	9.31	2,057	2,101
Property, plant and equipment	9.19	4,159	4,188
Investment property		2,520	2,493
Entities measured by the equity method	9.20	102	72
Assets held for sale	9.21	600	590
Loan receivables from clients	9.22	209,667	197,288
Financial derivatives	9.23	5,367	6,339
Investment financial assets	9.24	142,286	140,922
Measured at amortized cost		69,764	66,864
Measured at fair value through other comprehensive income		62,777	64,248
Measured at fair value through profit or loss		9,745	9,810
Receivables	9.25	6,502	6,246
Cash and cash equivalents		11,256	7,939
Total assets		**395,418**	**378,974**

Equity and liabilities	Note	31 March 2021	31 December 2020
Equity			
Equity attributable to equity holders of the parent		19,374	18,777
Share capital	9.29	86	86
Other capital		16,781	17,093
Retained earnings		2,507	1,598
Retained profit or loss		1,610	(314)
Net profit		897	1,912
Non-controlling interest		24,468	24,626
Total equity		**43,842**	**43,403**
Liabilities			
Technical provisions	9.31	48,948	48,471
Subordinated liabilities	9.32	6,492	6,679
Liabilities on the issue of own debt securities	9.33	6,189	7,532
Liabilities to banks	9.34	8,461	9,751
Liabilities to clients under deposits	9.35	261,084	241,975
Financial derivatives	9.23	5,680	6,281
Other liabilities	9.36	12,089	12,434
Provisions	9.37	1,406	1,378
Deferred tax liability		1,121	949
Liabilities related directly to assets classified as held for sale	9.21	106	121
Total liabilities		**351,576**	**335,571**
Total equity and liabilities		**395,418**	**378,974**

(in millions of PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	9.29										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	22	-	-	-	-	22	27	49
Valuation of debt instruments	-	-	-	-	(217)	-	-	-	-	(217)	(147)	(364)
Measurement of loan receivables from clients	-	-	-	-	-	-	-	-	-	-	(4)	(4)
Cash flow hedging	-	-	-	-	(129)	-	-	-	-	(129)	(309)	(438)
Foreign exchange translation differences	-	-	-	-	-	-	25	-	-	25	1	26
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(324)**	**-**	**25**	**-**	**-**	**(299)**	**(432)**	**(731)**
Net profit (loss)	-	-	-	-	-	-	-	-	897	897	274	1,171
Total comprehensive income	**-**	**-**	**-**	**-**	**(324)**	**-**	**25**	**-**	**897**	**598**	**(158)**	**440**
Other changes, including:	**-**	**-**	**(11)**	**-**	**(2)**	**-**	-	**12**	**-**	**(1)**	-	**(1)**
Distribution of financial result	-	-	(12)	-	-	-	-	12	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued properties and other	-	-	2	-	(2)	-	-	-	-	-	-	-
As at 31 March 2021	**86**	**(9)**	**15,837**	**295**	**565**	**3**	**90**	**1,610**	**897**	**19,374**	**24,468**	**43,842**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	9.29										2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	-	1	-	-	-	-	(3)	61	58
Valuation of debt instruments	-	-	-	-	453	-	-	-	-	453	453	906
Measurement of loan receivables from clients	-	-	-	-	3	-	-	-	-	3	14	17
Cash flow hedging	-	-	-	-	146	-	-	-	-	146	376	522
Foreign exchange translation differences	-	-	-	-	-	-	106	-	-	106	(2)	104
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	2	-	-	-	2	(7)	(5)
Total net other comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**-**	**707**	**895**	**1,602**
Net profit (loss)	-	-	-	-	-	-	-	-	1,912	1,912	618	2,530
Total comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**1,912**	**2,619**	**1,513**	**4,132**
Other changes, including:	**-**	**(2)**	**2,739**	**619**	**(6)**	**-**	**-**	**(3,361)**	**-**	**(11)**	**(6)**	**(17)**
Distribution of financial result	-	-	2,741	620	-	-	-	(3,361)	-	-	-	-
Transactions on treasury shares	-	(2)	2	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(10)	-	-	-	-	-	-	(10)	(2)	(12)
Sale of revalued properties and other	-	-	6	(1)	(6)	-	-	-	-	(1)	(4)	(5)
As at 31 December 2020	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**(314)**	**1,912**	**18,777**	**24,626**	**43,403**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
		Other capital						Retained earnings				
					Cumulative other comprehensive income							
	Share capital	Treasury shares	Supplementary capital	Other reserve capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	Total		
Note	9.29										2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	-	(52)	-	-	-	-	(56)	8	(48)
Valuation of debt instruments	-	-	-	-	(219)	-	-	-	-	(219)	(184)	(403)
Measurement of loan receivables from clients	-	-	-	-	(3)	-	-	-	-	(3)	(9)	(12)
Cash flow hedging	-	-	-	-	102	-	-	-	-	102	338	440
Foreign exchange translation differences	-	-	-	-	-	-	88	-	-	88	(1)	87
Total net other comprehensive income	**-**	**-**	**(4)**	**-**	**(172)**	**-**	**88**	**-**	**-**	**(88)**	**152**	**64**
Net profit (loss)	-	-	-	-	-	-	-	-	116	116	173	289
Total comprehensive income	**-**	**-**	**(4)**	**-**	**(172)**	**-**	**88**	**-**	**116**	**28**	**325**	**353**
Other changes, including:	**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**5**	**-**	**2**	**(1)**	**1**
Distribution of financial result	-	-	(5)	-	-	-	-	5	-	-	-	-
Transactions with holders of non-controlling interests	-	-	2	-	-	-	-	-	-	2	(1)	1
As at 31 March 2020	**86**	**(7)**	**13,106**	**(324)**	**122**	**1**	**47**	**3,052**	**116**	**16,199**	**23,443**	**39,642**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 March 2021	1 January – 31 March 2020
Profit before tax		1,626	655
Adjustments		4,403	7,345
Movement in loan receivables from clients		(764)	(4,552)
Movement in liabilities under deposits		4,392	9,917
Movement in the valuation of assets measured at fair value		(130)	555
Interest income and expenses		(685)	(678)
Realized gains/losses from investing activities and impairment losses		(151)	558
Net foreign exchange differences		164	100
Movement in deferred acquisition expenses		(51)	(25)
Amortization of intangible assets and depreciation of property, plant and equipment		326	309
Movement in the reinsurers' share in technical provisions		44	(30)
Movement in technical provisions		477	(149)
Movement in receivables		350	367
Movement in liabilities		(84)	510
Cash flow on investment contracts		3	(2)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		75	27
Income tax paid		(294)	(463)
Subsidy from the Bank Guarantee Fund related to the acquisition of Idea Bank		193	-
Increase in cash related to the acquisition of Idea Bank		1,097	-
Other adjustments		(559)	901
Net cash flows from operating activities		**6,029**	**8,000**
Cash flow from investing activities			
Proceeds		173,165	177,094
- sale of investment property		1	-
- proceeds from investment property		74	63
- sale of intangible assets and property, plant and equipment		11	4
- sale of ownership interests and shares		484	649
- realization of debt securities		96,789	50,180
- closing of buy-sell-back transactions		53,396	75,016
- closing of term deposits with credit institutions		15,527	44,040
- realization of other investments		6,690	6,937
- interest received		184	193
- dividends received		1	1
- increase in cash due to purchase of entities and change in the scope of consolidation		1	-
- other investment proceeds		7	11

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 31 March 2021	1 January – 31 March 2020
Expenditures		(173,430)	(178,101)
- purchase of investment properties		(27)	(13)
- expenditures for the maintenance of investment property		(32)	(46)
- purchase of intangible assets and property, plant and equipment		(188)	(254)
- purchase of ownership interests and shares		(232)	(611)
- purchase of debt securities		(97,220)	(49,160)
- opening of buy-sell-back transactions		(53,209)	(76,293)
- purchase of term deposits with credit institutions		(15,643)	(44,864)
- purchase of other investments		(6,873)	(6,850)
- other expenditures for investments		(6)	(10)
Net cash flows from investing activities		**(265)**	**(1,007)**
Cash flows from financing activities			
Proceeds		19,614	44,633
- proceeds from loans and borrowings	9.38	-	3,075
- proceeds on the issue of own debt securities	9.38	2,884	2,415
- opening of repurchase transactions	9.38	16,730	39,143
Expenditures		(22,137)	(46,516)
- repayment of loans and borrowings	9.38	(186)	(3,308)
- redemption of own debt securities	9.38	(4,417)	(3,826)
- closing of repurchase transactions	9.38	(17,414)	(39,247)
- interest on loans and borrowings	9.38	(31)	(49)
- interest on outstanding debt securities	9.38	(10)	(15)
- expenditures on leases	9.38	(79)	(71)
Net cash flows from financing activities		**(2,523)**	**(1,883)**
Total net cash flows		**3,241**	**5,110**
Cash and cash equivalents at the beginning of the period		7,939	7,788
Movement in cash due to foreign exchange differences		76	151
Cash and cash equivalents at the end of the period, including:		11,256	13,049
- restricted cash		15	50

Supplementary notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

These condensed interim consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("condensed interim consolidated financial statements" and "PZU Group", respectively) have been prepared in line with the requirements of International Accounting Standard 34 "Interim Financial Reporting", as endorsed by the Commission of European Communities, and the requirements set forth in the Regulation on Current and Periodic Information.

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2020.

Parent company's quarterly standalone financial information

Pursuant to § 62 Section 1 of the Regulation on Current and Periodic Information, quarterly standalone financial information of the PZU Group's parent company, i.e. PZU, forms part of these condensed interim consolidated financial statements.

According to Article 45 section 1a of the Accounting Act, the financial statements of issuers of securities admitted to trading on one of the regulated markets of the European Economic Area countries may be prepared in accordance with IFRS.

As the PZU Shareholder Meeting has not made the decision referred to in Article 45 Section 1c of the Accounting Act in the matter of preparation of financial statements pursuant to IFRS, PZU's standalone statements are prepared in accordance with the Polish Accounting Standards (PAS) defined in the Accounting Act and in the executive regulations issued on its basis, among others:

- Finance Minister's Regulation of 12 April 2016 on the special accounting principles for insurance and reinsurance undertakings (Journal of Laws of 2016, Item 562);
- Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments (consolidated text in Journal of Laws of 2017, Item 277).

In matters not regulated by the Accounting Act and the executive acts issued on its basis, Polish Accounting Standards or IFRS are applied accordingly.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2021.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent company.

Functional and presentation currency

PZU's functional and presentation currency is the Polish zloty. Unless noted otherwise, all amounts presented in these consolidated financial statements are stated in millions of Polish zloty.

(in millions of PLN)

The functional currency of the companies domiciled in Lithuania, Latvia and Sweden is the euro, while for the companies domiciled in Ukraine it is the Ukrainian hryvnia, and for the company domiciled in the United Kingdom it is the British pound.

FX rates

Financial data of foreign subsidiaries are converted into Polish zloty as follows:

- assets and liabilities – at the average exchange rate set by the National Bank of Poland at the end of the reporting period;
- items of the profit and loss account and other comprehensive income – at the arithmetic mean of average exchange rates set by the National Bank of Poland as at the dates ending each month of the reporting period.

Currency	1 January – 31 March 2021	1 January – 31 March 2020	31 March 2021	31 December 2020
Euro	4.5721	4.3963	4.6603	4.6148
British pound	5.2605	5.0956	5.4679	5.1327
Ukrainian hryvnia	0.1364	0.1554	0.1427	0.1326

Going concern assumption

These condensed interim consolidated financial statements have been drawn up under the assumption that PZU Group companies remain a going concern in the foreseeable future, i.e. in the period of at least 12 months after the end of the reporting period. As at the date of signing these condensed interim consolidated financial statements, there are no facts or circumstances that would indicate a threat to the ability of the PZU Group to continue its activity in the period of 12 months after the end of the reporting period as a result of an intentional or an induced discontinuation or a material curtailment of its hitherto activity. Making this assumption, in its assessment, the PZU Management Board took into account the impact of factors subject to uncertainty, in particular the COVID-19 pandemic, on the macroeconomic situation, and its own activity.

Discontinued operations

In the 3-month period ended 31 March 2021, the PZU Group companies did not discontinue any type of activity.

Seasonal or cyclical business

The PZU Group's business is neither seasonal nor subject to business cycles to a significant extent.

Glossary

The most important terms, abbreviations and acronyms used in the condensed interim consolidated financial statements are explained below.

Names of companies

Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Alior Bank Group – Alior Bank with its subsidiaries listed in section 2.2.

Pekao Group – Pekao with its subsidiaries listed in section 2.2.

Idea Bank – Idea Bank SA.

LD – Akcinė bendrovė “Lietuvos draudimas”.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

PIM – Pekao Investment Management SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU LT GD – Uždaroji akcinė bendrovė “PZU Lietuva gyvybės draudimas”.

PZU Ukraine – PRJSC IC “PZU Ukraine”.

PZU Ukraine Life – PRJSC IC “PZU Ukraine Life Insurance”.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

RUCH – RUCH Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna.

Tomma – Tomma Diagnostyka Obrazowa Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BFG – Bank Guarantee Fund [Polish: *Bankowy Fundusz Gwarancyjny*].

BGK – Bank Gospodarstwa Krajowego.

CIRS – Cross-currency interest rate swap.

COR – combined operating ratio, calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period; a decrease in the value of this indicator signifies an improvement in efficiency.

FRA – Forward rate agreement.

CODM – chief operating decision maker within the meaning of IFRS 8 – Operating segments.

IBNR – Incurred But Not Reported or 2nd provision – provision for losses and accidents incurred but not reported.

IBOR – Interbank Offered Rate.

IRS – interest rate swap.

PZU’s standalone financial statements for 2020 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2020, prepared in accordance with PAS, signed by the PZU Management Board on 24 March 2021.

KNF – Polish Financial Supervision Authority.

Operating margin in life insurance – profitability of life insurance segments calculated as the ratio of the result on operating activity to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 March 2021.

NBP – National Bank of Poland.

OFE PZU – Otwarty Fundusz Emerytalny PZU “Złota Jesień”.

POCI – Purchased or originated credit-impaired financial assets.

Tax Group – PZU Tax Group – on 22 September 2020 (registration decision of 11 December 2020), a Tax Group agreement was signed, covering 14 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje, PZU Zdrowie SA, Tulare Investments sp. z o.o., PZU CASH SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA, Omicron Bis SA, PZU Projekt 01 SA. The agreement is in effect from 1 January 2021 to 31 December 2023. PZU is the Parent Company and represents the Tax Group. The Tax Group performs settlements with the Tax Office on a monthly basis. PZU pays advances for corporate income tax that are due from all the companies to the Tax Office, while the companies transfer the CIT advances related to their business activities to PZU.

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2021 Item 217) and regulations issued thereunder.

ROE attributable to the parent company – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity, minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency.

Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, Item 757, as amended).

IASB – International Accounting Standards Board.

Capital Requirements Regulation, CRR – Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2020.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

BFG Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated text: Journal of Laws of 2020, Item 842).

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

Act on the Rules for Terminating Employment Relationships – Act of 13 March 2003 on the Special Rules for Terminating Employment Relationships with Employees for Reasons Not Attributable to Employees (consolidated text: Journal of Laws of 2018, Item 1969).

Financial leverage ratio – quotient of debt to the PZU Group's sum total of debt and equity attributed to the equity holders of the parent company, less the balance of goodwill and intangible assets attributed to the equity holders of the parent company. Ratio calculated on the basis of the categories disclosed in the PZU Group's consolidated financial statements net of the banking sector.

Administrative expense ratio – the quotient of administrative expenses and net earned premium (for the non-life insurance sector) or gross premium written (for the life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

Acquisition expense ratio – the quotient of acquisition expenses (net of reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross premium written (for the life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

Loss ratio – the quotient of net insurance claims and benefits and net earned premium (for the non-life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

Cost/Income ratio, C/I ratio (banking sector) – quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments; a decrease in the value of this indicator signifies an improvement in efficiency.

PZU Ordinary Shareholder Meeting – Ordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

(in millions of PLN)

2. Information on PZU and the PZU Group

2.1 Key information on the PZU Group

Key information on the Group	
Name of the reporting entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Change of the name of the reporting entity	The name of the reporting entity has not changed
Legal form	Spółka Akcyjna (joint stock company)
Registered office	Al. Jana Pawła II 24, 00-133 Warsaw
Country of registration	Poland
Registration address of the entity's offices	Al. Jana Pawła II 24, 00-133 Warsaw
Principal place of business	Poland
Core business:	property and casualty insurance (65.12 according to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe).
National Court Register (Krajowy Rejestr Sądowy)	District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, Register of commercial undertakings – number 0000009831
Name of the parent company	no parent company
name of the ultimate parent	no ultimate parent

(in millions of PLN)

2.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2021	31 December 2020	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance.https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB “Lietuvos draudimas”	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS “BALTA”	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PRJSC IC “PZU Ukraine”	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC “PZU Ukraine Life Insurance”	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU “Lietuva gyvybes draudimas”	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% 1)	46.81% 1)	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2021	31 December 2020	
Consolidated companies – Pekao Group – continued						
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	Dom Inwestycyjny Xelion sp. z o.o. [2)]	Warsaw	11.12.2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a procurement platform
30	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
31	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
32	Corsham Sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
33	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
34	Harberton sp. z o.o. in liquidation [3)]	Warsaw	19.02.2020	31.93%	31.93%	Business consulting.
35	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. https://www.radom.pzuzdrowie.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2021	31 December 2020	
Consolidated companies – PZU Zdrowie Group – continued						
43	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
44	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
45	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
46	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
47	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
48	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
49	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
50	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
51	PZU Finance AB (publ.) in likvidation [4)]	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
52	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
53	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
54	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
55	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
56	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
57	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
58	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
59	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2021	31 December 2020	
Consolidated companies – other companies – continued						
60	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
61	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
62	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
63	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
64	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
65	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
66	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
67	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
68	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
69	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
70	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
71	PZU FIZ Sektora Nieruchomości [5)]	Warsaw	01.07.2008	n/a	n/a	as above
72	PZU FIZ Sektora Nieruchomości 2 [5)]	Warsaw	21.11.2011	n/a	n/a	as above
73	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
74	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
75	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
76	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
77	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
78	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
79	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
80	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
81	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2021	31 December 2020	
Consolidated companies – mutual funds – continued						
82	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
83	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
84	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above
85	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
86	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
87	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
88	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
89	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
90	PZU SFIO Ochrony Majątku	Warsaw	12.03.2021	n/a	n/a	as above
Associates						
91	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
92	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
93	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
94	Krajowy Integrator Płatności SA [6)]	Poznań	31.03.2021	7.67%	n/a	Other monetary intermediation. https://tpay.com/

[1)] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.

[2)] In December 2020 Pekao signed a preliminary sale agreement for 100% shares.

[3)] On 1 February 2021 the company was put in liquidation. The opening of the liquidation was registered in KRS on 25 February 2021.

[4)] On 4 May 2021, the Shareholder Meeting decided to commence the company's liquidation procedure. On 20 May 2021, the relevant court of registration in Stockholm announced the launch of the voluntary liquidation process and the liquidator started activities aimed at liquidating the entity.

[5)] The funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conduct their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles the number of which as at 31 March 2021 as well as 31 December 2020 was 18 and 14, respectively.

[6)] Pekao's associate in which it holds a 38.33% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

2.3 Changes in the scope of consolidation and structure of the PZU Group

The detailed accounting policy pertaining to settlement of acquisition transactions is presented in the consolidated financial statements for 2020.

The changes in the scope of consolidation and the structure of the PZU Group that occurred in the 3-month period ended 31 March 2021 are presented in the following sections.

2.3.1. Acquisitions of companies

2.3.1.1. Acquisition of Idea Bank's enterprise

On 30 December 2020, BFG made a decision to apply the resolution instrument to Idea Bank due to satisfaction of the following premises:

- threat of the Idea Bank's bankruptcy,
- lack of premises indicating that possible regulator measures or Idea Bank's efforts will eliminate the threat of bankruptcy in due time,
- initiation of the resolution against Idea Bank was necessary to protect the public interest, understood as stability of the financial sector.

The resolution instrument applied by the Bank Guarantee Fund against Idea Bank involved the take-over as of 3 January 2021 by Pekao, with the effect specified in Article 176 sec. 1 of the BFG Act, of Idea Bank's enterprise, comprising its overall rights and liabilities as at 31 December 2020 ("Transaction"), excluding specific property rights and liabilities specified in the BFG decision, comprising among others:

- property rights and liabilities associated with actual, legal and prohibited acts in connection with:
  - trading in financial instruments and other acts pertaining to:
    - financial instruments issued by GetBack SA and GetBack SA's related parties,
    - investment certificates, in particular investment certificates issued by Lartiq (formerly Trigon) [Profit XXII NS FIZ, Profit XXIII, NS FIZ, Profit XXIV NS FIZ] represented by Lartiq TFI SA (formerly Trigon TFI SA), Universe NS FIZ, Universe 2 NS FIZ and other mutual funds represented by Altus TFI SA,
  - providing insurance cover, performing insurance intermediation activities or distribution of unit-linked life insurance (also life insurance in which the benefit is determined on the basis of specified indices or other underlying values),
  - provision of services as an agent of an investment firm,
  - activity of Idea Bank S.A. which is not covered by Pekao's articles of association,

  and claims arising from such rights and liabilities, including those subject to civil and administrative proceedings, regardless of the date of incurring them;
- shares in Idea Bank's subsidiaries and associates;
- corporate bonds issued by GetBack SA;

hereinafter: "Acquired Business".

Execution of the acquisition of the Acquired Business does not have any material impact on Pekao's financial profile, including in particular its capital and liquidity parameters.

Idea Bank was commercial bank offering banking services provided to individual and institutional clients, such as, among others, acceptance of cash deposits payable on demand or upon maturity and keeping accounts for such deposits, granting loans, granting bank guarantees, issuing securities. Idea Bank's capital adequacy according to the latest available financial statements prepared as at 30 September 2020 was 2.51% (relative to 10.5% required by the law) and was significantly below the regulatory requirements.

The initiation of the resolution process made it possible to reduce the effects of the risk of bankruptcy of Idea Bank and, as a consequence, the resulting negative effects for the banking sector.

The acquisition of Idea Bank did not entail any payment from Pekao. As a result of the Transaction the PZU Group acquired Idea Bank's assets and liabilities whose total estimate fair value was negative.

Considering the foregoing, on 8 January 2021 Pekao received from BFG support in the form of a subsidy of PLN 193 million to cover the difference between the value of the acquired liabilities and the value of the acquired property rights of Idea Bank.

As an inseparable element of the Transaction, Pekao also received from BFG a guarantee to cover the losses resulting from the risk associated with property rights or liabilities of the entity in restructuring referred to in Article 112 sec. 3 item 1 of the BFG Act ("Loss Cover Guarantee") which includes a guarantee to cover losses resulting from credit risk associated with credit assets ("CRM Guarantee") and a guarantee to cover losses (other than losses resulting from credit risk) associated with the Acquired Business ("Other Risk Guarantee").

The acquisition is associated with the takeover of credit assets in the Acquired Business and could result in an increase in the amount of risk-weighted exposures (it is calculated by multiplying the exposure amounts and the risk weight following from the provisions of CRR). An increase in such risk-weighted exposure amounts could impact Pekao's capital requirements.

In connection with the above, the CRM Guarantee will be used by Pekao as "recognized unfunded credit protection" within the meaning of CRR. As regards to credit risk, this will make it possible to assign to the acquired exposures a risk weight appropriate for the entity providing the protection – BFG, classified as a public sector entity in accordance with the KNF opinion referred to in Article 116(4) of CRR. As a consequence of obtaining the opinion referred to in Article 116(4) of CRR and after the CRM Guarantee satisfies the remaining premises for the "recognized unfunded credit protection", the exposures covered by the Loss Cover Guarantee are treated as exposures to central government, resulting in a significant reduction of the capital requirement on account of credit risk on the part of Pekao.

Provisional purchase price allocation

Pekao performed a purchase price allocation for the Transaction by applying the principles set forth in IFRS 3 Business combinations as at the date of obtaining control (i.e. 3 January 2021) on the basis of the data as at 31 December 2020.

Application of IFRS 3 requires, among others, carrying out a process of identification and measurement of the acquired assets and liabilities at fair value as at the date of recognizing and measuring goodwill or a gain from a bargain purchase.

The above process requires collecting and analyzing huge volumes of data and carrying out a number of calculations on their basis, to determine the fair value of individual assets and liabilities in a reliable and trustworthy manner.

Due to the fact that, by the date of conveying this periodic report, this process has not been completed, the PZU Group decided to prepare the provisional purchase price allocation with the following key assumptions:

- the analysis has been performed and measurement of some assets was done in a consistent manner in accordance with the models in operation in the PZU Group;
- a preliminary adjustment of deposits to fair value has been made;
- no additional intangible assets have been identified for recognition (in particular customer relations);
- the analysis of the potential adjustments resulting from fair value measurement of some assets and liabilities has not been completed, in particular with respect to the credit portfolio and property, plant and equipment and intangible assets;
- The CRM Guarantee received from Bank Guarantee Fund has been analyzed and a conclusion has been made that, due to the special nature of the Transaction, it is an integral part of the credit assets that are an element of the Acquired Business.

(in millions of PLN)

List of Idea Bank's assets and liabilities as at 31 December 2020 by carrying amount and initially recognized fair value:

Statement of financial position item	Carrying amount	Adjustment to fair value	Fair value
Intangible assets	144	(104)	40
Other assets	16	(16)	-
Property, plant and equipment	36	(4)	32
Assets held for sale	1	-	1
Loan receivables from clients	12,049	10	12,059
Financial derivatives	9	-	9
Investment financial assets	748	(194)	554
Measured at amortized cost	271	(180)	91
Measured at fair value through other comprehensive income	412	(14)	398
Measured at fair value through profit or loss	65	-	65
Receivables	286	(57)	229
Cash and cash equivalents	1,107	(10)	1,097
Total assets	**14,396**	**(375)**	**14,021**
Liabilities to banks	126	(1)	125
Liabilities to clients under deposits	13,514	62	13,576
Financial derivatives	155	9	164
Other liabilities	342	4	346
Provisions	8	(4)	4
Total liabilities	**14,145**	**70**	**14,215**
Fair value of the purchased net assets			**(194)**
BFG subsidy			193
Goodwill			**(1)**

As a result of the above, following the merger the PZU Group initially recognized goodwill of PLN 1 million.

The provisional purchase price allocation presented above incorporates the best knowledge of the PZU Group as at the date of conveying this periodic report. We would like to note, however, that the PZU Group is still in the process of verifying data concerning the Acquired Business of Idea Bank and conducting the fair value measurement of individual items; Therefore, both the carrying amounts and adjustments of individual items to fair value, and consequently the ultimate goodwill amount may change in the process of final purchase price allocation of the Transaction.

2.3.1.2. Krajowy Integrator Płatności SA

On 31 March 2021, Pekao closed the purchase transaction, as a result of which it became the owner of 210,641 shares representing 38.33% of capital and 38.33% votes at the Shareholder Meeting of Krajowy Integrator Płatności SA, operator of the Tpay.com system. As a result of the transaction, Pekao will offer its business clients a fully comprehensive payment acceptance offer supplemented with products for the quickly growing e-Commerce sector.

2.3.2. Changes to consolidation of mutual funds

On 12 March 2021, PZU SFIO Ochrony Majątku was consolidated after control over the fund was obtained.

(in millions of PLN)

2.3.3. Sales of companies

Pay Po sp. z o.o.

On 7 January 2021 the PZU Group sold all its shares in PayPo sp. z o.o. (on 10 February 2021 the sale was registered in the National Court Register) The transaction has not affected the PZU Group's consolidated statements to any significant extent.

2.4 Non-controlling interest

The table below presents subsidiaries with certain non-controlling interest (at present or in the past):

Name of the entity	31 March 2021	31 December 2020
Pekao [1]	79.98%	79.98%
Alior Bank [2]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
Balta	0.01%	0.01%

[1] As a result, PZU also holds non-controlling interests in Pekao's subsidiaries listed in the table in section 2.2.
[2] As a result, PZU also holds non-controlling interests in Alior Bank's subsidiaries listed in the table in section 2.2.

Carrying amount of non-controlling interests	31 March 2021	31 December 2020
Pekao Group	20,174	20,329
Alior Bank Group	4,293	4,296
Other	1	1
Total	**24,468**	**24,626**

Both Pekao and Alior Bank conduct operations primarily in the territory of Poland. Presented below is condensed financial information for the Pekao Group and the Alior Bank Group included in the consolidated financial statements (without consolidation eliminations). The data of the Pekao Group and the Alior Bank Group incorporate the effect of adjustments resulting from the measurement of assets and liabilities to fair value as at the date control was acquired and their subsequent amortization over time.

Assets	Pekao Group		Alior Bank Group	
	31 March 2021	31 December 2020	31 March 2021	31 December 2020
Goodwill	693	692	-	-
Intangible assets	1,950	1,938	420	424
Deferred tax assets	1,380	1,251	1,203	1,217
Other assets	100	53	71	44
Property, plant and equipment	2,090	2,098	694	702
Entities measured by the equity method	41	-	-	5
Assets held for sale	61	53	-	-
Loan receivables from clients	153,750	141,332	55,713	55,783
Financial derivatives	4,740	5,591	595	717
Investment financial assets	71,810	73,116	17,815	16,037
Measured at amortized cost	31,543	28,569	8,761	8,753
Measured at fair value through other comprehensive income	39,392	43,069	8,957	7,072
Measured at fair value through profit or loss	875	1,478	97	212
Receivables	2,497	2,305	968	1,106
Cash and cash equivalents	8,015	4,727	2,163	2,359
Total assets	**247,127**	**233,156**	**79,642**	**78,394**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 March 2021	31 December 2020	31 March 2021	31 December 2020
Equity				
Equity attributable to equity holders of the parent	25,224	25,417	6,307	6,311
Share capital	262	262	1,306	1,306
Other capital	21,644	22,092	5,655	5,776
Retained earnings	3,318	3,063	(654)	(771)
Non-controlling interest	12	11	-	-
Total equity	**25,236**	**25,428**	**6,307**	**6,311**
Liabilities				
Subordinated liabilities	2,770	2,758	1,605	1,793
Liabilities on the issue of own debt securities	4,919	6,152	1,270	1,380
Liabilities to banks	7,967	9,165	600	619
Liabilities to clients under deposits	194,486	177,006	67,149	65,680
Derivatives	4,991	5,690	385	479
Other liabilities	5,677	5,908	2,014	1,794
Provisions	987	938	311	337
Deferred tax liability	27	28	1	1
Liabilities related directly to assets classified as held for sale	67	83	-	-
Total liabilities	**221,891**	**207,728**	**73,335**	**72,083**
Total equity and liabilities	**247,127**	**233,156**	**79,642**	**78,394**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2021	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	6,148	-	-	32	6,180
Reinsurers' share in gross written premium	(153)	-	-	-	(153)
Net written premiums	**5,995**	**-**	**-**	**32**	**6,027**
Movement in net provision for unearned premiums	(309)	-	-	(3)	(312)
Net earned premiums	**5,686**	**-**	**-**	**29**	**5,715**
Revenue from commissions and fees	1,065	(737)	(305)	41	64
Interest income calculated using the effective interest rate	2,360	(1,379)	(694)	31	318
Other net investment income	(32)	(69)	148	(6)	41
Result on derecognition of financial instruments and investments	512	(12)	7	-	507
Movement in allowances for expected credit losses and impairment losses on financial instruments	(438)	194	232	-	(12)
Net movement in fair value of assets and liabilities measured at fair value	130	(29)	(200)	-	(99)
Other operating income	373	(47)	(52)	16	290
Claims, benefits and movement in technical provisions	(4,016)	-	-	-	(4,016)
Reinsurers' share in claims, benefits and movement in technical provisions	90	-	-	-	90
Net insurance claims and benefits	**(3,926)**	**-**	**-**	**-**	**(3,926)**
Fee and commission expenses	(256)	123	134	(1)	-
Interest expenses	(126)	69	46	(4)	(15)
Acquisition expenses	(798)	-	-	(70)	(868)
Administrative expenses	(1,702)	892	351	(12)	(471)
Other operating expenses	(1,216)	597	151	(24)	(492)
Operating profit (loss)	**1,632**	**(398)**	**(182)**	**-**	**1,052**
Share of the net financial results of entities measured by the equity method	(6)	-	-	-	(6)
Profit (loss) before tax	**1,626**	**(398)**	**(182)**	**-**	**1,046**
Income tax	(455)	155	65	-	(235)
Net profit (loss)	**1,171**	**(243)**	**(117)**	**-**	**811**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2020	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	6,097	-	-	8	6,105
Reinsurers' share in gross written premium	(156)	-	-	-	(156)
Net written premiums	**5,941**	**-**	**-**	**8**	**5,949**
Movement in net provision for unearned premiums	(179)	-	-	(3)	(182)
Net earned premiums	**5,762**	**-**	**-**	**5**	**5,767**
Revenue from commissions and fees	1,019	(710)	(265)	30	74
Interest income calculated using the effective interest rate	2,996	(1,681)	(945)	11	381
Other net investment income	-	(27)	144	2	119
Result on derecognition of financial instruments and investments	75	(48)	(30)	-	(3)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(660)	353	297	-	(10)
Net movement in fair value of assets and liabilities measured at fair value	(555)	(13)	(159)	-	(727)
Other operating income	320	(42)	(50)	14	242
Claims, benefits and movement in technical provisions	(3,491)	-	-	(1)	(3,492)
Reinsurers' share in claims, benefits and movement in technical provisions	210	-	-	-	210
Net insurance claims and benefits	**(3,281)**	**-**	**-**	**(1)**	**(3,282)**
Fee and commission expenses	(235)	108	128	(1)	-
Interest expenses	(485)	287	175	(4)	(27)
Acquisition expenses	(835)	-	-	(23)	(858)
Administrative expenses	(1,679)	840	391	(7)	(455)
Other operating expenses	(1,786)	644	189	490 [1)]	(463)
Operating profit (loss)	**656**	**(289)**	**(125)**	**516**	**758**
Share of the net financial results of entities measured by the equity method	(1)	-	-	-	(1)
Profit (loss) before tax	**655**	**(289)**	**(125)**	**516**	**757**
Income tax	(366)	138	48	-	(180)
Net profit (loss)	**289**	**(151)**	**(77)**	**516**	**577**

1) Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 516 million).

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 31 March 2021	1 January – 31 March 2020	1 January – 31 March 2021	1 January – 31 March 2020
Net profit	243	151	117	77
Other comprehensive income	(436)	197	(122)	(10)
Subject to subsequent transfer to profit or loss	(472)	206	(119)	(33)
Valuation of debt instruments	(193)	(120)	10	(131)
Measurement of loan receivables from clients	(4)	(12)	-	-
Cash flow hedging	(275)	338	(131)	99
Foreign exchange translation differences	-	-	2	(1)
Not to be transferred to profit or loss in the future	36	(9)	(3)	23
Valuation of equity instruments	36	(9)	(3)	23
Total net comprehensive income	**(193)**	**348**	**(5)**	**67**

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 March 2021	1 January – 31 March 2020	1 January – 31 March 2021	1 January – 31 March 2020
Net cash flows from operating activities	3,484	8,606	1,736	(820)
Net cash flows from investing activities	1,878	(1,792)	(1,941)	1,591
Net cash flows from financing activities	(2,170)	(2,215)	(28)	(186)
Total net cash flows	**3,192**	**4,599**	**(233)**	**585**

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 31 March 2021 or from 1 January to 31 March 2020.

3. Shareholder structure

As at the date of conveying this periodic report, PZU's shareholder structure, taking into consideration the shareholders with at least 5% of the votes at the PZU Shareholder Meeting is as follows:

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300	34.1875%
2	Funds managed by Nationale Nederlanden Powszechne Towarzystwo Emerytalne Spółka Akcyjna	44,260,638	5.1256%
3	Other shareholders	524,045,062	60.6869%
Total		**863,523,000**	**100.00%**

3.1 Indication of changes in the ownership structure of significant shareholdings in the issuer

In the period from 1 January 2021 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

3.2 Shares or rights to shares held by persons managing or supervising PZU

As at the date of conveying this periodic report and as at the date of conveying the annual report for 2020 (i.e. 25 March 2021) PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. The other Management Board Members, Supervisory Board Members and Group Directors did not hold any PZU shares or rights to PZU shares as at the date of conveying this periodic report and as at the date of conveying the annual report for 2020.

4. Composition of the Management Board, Supervisory Board and PZU Group Directors

4.1 Composition of the parent company's Management Board

From 1 January 2021 to the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Beata Kozłowska-Chyła – President of the PZU Management Board;
- Ernest Bejda – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Małgorzata Kot – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;

- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board;
- Krzysztof Szypuła – Member of the PZU Management Board.

4.2 Composition of the parent company's Supervisory Board

From 1 January 2021 to the date of conveying this periodic report, the PZU Supervisory Board consisted of the following persons:

- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Robert Śnitko – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- Tomasz Kuczur – Supervisory Board Member;
- Elżbieta Mączyńska-Ziemacka – Supervisory Board Member;
- Krzysztof Opolski – Supervisory Board Member;
- Józef Wierzbowski – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

4.3 PZU Group Directors

From 1 January 2021 to the date of conveying this periodic report, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU).

5. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2020.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2020.

(in millions of PLN)

5.1 Amendments to the applied IFRS

5.1.1. Standards, interpretations and amended standards effective from 1 January 2021

The following changes in standards were applied to the consolidated financial statements.

Standard/interpretation	Approving regulation	Comments
Amendments to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9	2020/2097	The amendment has extended the temporary exemption from the application of IFRS 9 by two years (postponing the expiration date of the exemption from the annual periods beginning on 1 January 2021 to the annual periods beginning on or after 1 January 2023 – in compliance with the effective date of IFRS 17 'Insurance contracts'), while leaving the option of an earlier implementation. The amendment is a consequence of the amendments to IFRS 17 published on 25 June 2020. It did not apply to the PZU Group due to the implementation of IFRS 9 at the beginning of 2018.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Reform of the interest rate benchmarks (IBOR - phase 2)	2021/25	The key amendments stipulate that:
		• settlement of modifications of financial assets, financial liabilities and lease liabilities which will be required as a direct consequence of the reform of the interest rate benchmarks and carried out on the basis of economically equivalent principles through update of the effective interest rate,
		• the reform of the interest rate benchmarks directly does not lead to discontinuation of application of hedge accounting principles. Hedging relationships (and the related documentation) must be amended to reflect the modification of the hedged position, hedging instrument and hedged risk. Amended hedging relationships should satisfy all qualifying criteria for application of hedge accounting, including effectiveness requirements,
		• to enable users to understand the nature and scope of the risks following from the reform of interest rate benchmarks to which the entity is exposed, and how the entity manages such risks, as well as the progress of the entity in transition from the interest rate benchmarks to alternative reference rates and how the entity manages the transition, it is required to disclose:
		  ◦ information about the method of managing the transition from the interest rate benchmarks to alternative reference rates, progress made as at the reporting date and the risks resulting from the transition,
		  ◦ quantitative information on financial assets not being derivatives, financial liabilities not being derivatives, and derivatives which are still subject to interest rate benchmarks subject to the reform, broken down by material interest rate benchmarks,
		  ◦ information on the extent to which the reform of the interest rate benchmarks has caused changes in the entity's risk management strategy, description of such changes and the way in which the entity manages this risk.
		
		The change did not exert a significant influence on the consolidated financial statements.

5.1.2. Standards, interpretations and amended standards not yet effective

- No standards or interpretations approved by the regulation of the European Commission
- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
IFRS 17 – Insurance contracts	18 May 2017 25 June 2020 (amendments to the standard)	1 January 2023	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account. • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions. IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or (if possible) by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. On 25 June 2020, the IASB published amendments to IFRS 17, the most important of which was to defer the implementation of the standard until 1 January 2023. In addition to the detailed clarifications on distinct types of insurance contracts, the amendment also introduced the possibility of modifying actuarial estimates related to the implementation of IFRS 17 in subsequent interim financial statements or in the annual report (requirement of consistent application at the reporting entity's level) and simplified the principles of presenting contracts in the statement of financial position, permitting the aggregation of assets or liabilities at the portfolio level rather than for separate contract groups. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group is working on the following, among other things: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • the selection of a system to support the reporting process in accordance with the requirements of IFRS 17. As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendments to IFRS 3	14 May 2020	1 January 2022	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The amendment will not affect the PZU Group's consolidated financial statements.
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	14 May 2020	1 January 2022	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendment to IAS 37 – Onerous contracts – costs of fulfillment of contractual obligations	14 May 2020	1 January 2022	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor; and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendments to IFRS 2018-2020	14 May 2020	1 January 2022	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent company and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendments to IAS 1 – Presentation of Financial Statements	12 February 2021	1 January 2023	In accordance with the amendments, the entity will be obligated to disclose material accounting policy information rather than significant accounting principles (as previously). The amendment contains examples of identification of material accounting policies and stipulates that an accounting policy may be material due to its nature, even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies may not obscure material accounting policies. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	12 February 2021	1 January 2023	The amendments to IAS 8 comprise: • replacement of the definition of a change in estimates with a definition of estimates. In accordance with the new definition, estimates are "monetary amounts in financial statements that are subject to measurement uncertainty", • explanation that a change in the estimate resulting from new information or new events is not a correction of error. In addition, the effects of a change in input data or measurement technique applied to determine the estimate are changes in estimates, unless they follow from a correction of errors of previous periods, • clarification that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic after 30 June 2021	31 March 2021	1 April 2021	The amendment makes it possible to extend the possibility of treating changes pertaining to lease payments under granted arrangements as if they did not constitute a modification of lease on all payments due on or before 30 June 2022 (currently the arrangement pertains only to payments due by 30 June 2021). The amendment should be applied retrospectively, recognizing the cumulative effect as a correction of the opening balance of retained earnings or other capital component as at the beginning of the annual period in which the amendment was applied. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendment to IAS 12 – Income Taxes	6 May 2021	1 January 2023	According to the amendment, the exemption set forth in IAS 12.15b) for initial recognition of a deferred tax asset or liability will not apply to transactions in which both taxable and deductible temporary differences arise, resulting in the need to recognize a deferred tax asset and liability at the same time (e.g. in the case of a lease transaction). The amendment applies to the transactions occurring on or after the commencement date of the earliest comparative period presented in the financial statements. The amendment will not affect the PZU Group's consolidated statements to any significant extent.

In summary, in the opinion of the PZU Group, the introduction of the above standards and interpretations (except for IFRS 17) will have no material effect on the accounting policies applied by the PZU Group.

5.2 Application of estimates and assumptions

The PZU Group assessed the adopted estimates and assumptions taking into account the impact of the COVID-19 pandemic on individual assets and liabilities. Due to the significant uncertainty regarding the future economic situation, these estimates are subject to change. The most significant impact on the PZU Group's economic standing is exerted by the assumptions applied to calculate expected credit losses and the recoverable amount of non-financial assets. These involve predominantly macroeconomic forecasts of such indicators as GDP, employment rate, interest rates, etc.

5.2.1. Impairment and expected credit losses

5.2.1.1. Loan receivables from clients

The COVID-19 pandemic, due to its adverse impact on the economy, may exacerbate the financial standing of some borrowers. The PZU Group is taking steps to reduce credit risk and support its clients. Such activities include intensified monitoring of the loan portfolio, with particular emphasis on high-risk industries, strengthening the legal collateral established on receivables, granting loans with the use of dedicated guarantee programs, postponing payments of principal and interest installments at the client's request, deferring the application of sanctions resulting from failure to fulfill the contractual clauses, etc.

The PZU Group did not change its approach to identifying significant deteriorations in credit risk, constituting the basis for classifying exposures into basket 2. However, these criteria are applied in a manner commensurate with the current situation, in accordance with the regulatory guidelines in this respect. According to these guidelines, the granting of a loan moratorium period or other mitigation measures for the COVID-19 pandemic does not automatically reclassify exposures to basket 2. However, such reclassification may be triggered by an increase in credit risk arising from problems experienced by a specific debtor.

Information on the movement in impairment losses is presented in section 9.26.

5.2.1.2. Investment financial assets and receivables

In the preparation of its condensed interim financial statements, the PZU Group took into account the economic circumstances (such as market prices, interest rates and foreign exchange rates) existing as at the balance sheet date.

The value of impairment losses on investment financial assets and receivables stood at PLN 14 million in the 3 months ended 31 March 2021, compared to their decrease by PLN 43 million of allowances recognized in the corresponding period of 2020.

Detailed information on the movement in impairment losses is presented in sections 9.6 and 9.26.

5.2.2. Goodwill

As at 31 March 2021, the PZU Group has not identified any need to recognize impairment losses on goodwill.

5.2.3. Provision for potential refunds of borrowing costs

As at 31 March 2021, the PZU Group revalued its provision for potential refunds of borrowing costs. The revaluation was based on the most recent data on incoming complaints and refund amounts. Detailed information on this matter is presented in section 9.37.

(in millions of PLN)

5.2.4. Provision for legal risk pertaining to FX mortgage loans in Swiss francs

As at 31 March 2021, the PZU Group assessed the probability of the impact of the legal risk related to CHF mortgage loans on its future expected cash flows from its loan exposures and on the probability of cash outflows.

Considering the inconsistent line of rulings and the short period for which historical data are available for court cases, the estimation of the provision requires making expert assumptions and entails a significant degree of uncertainty.

More information on this matter is presented in section 9.37.

6. Information about major events that materially influence the structure of financial statement items

The event, which had the greatest impact on the structure of items of the financial statements was the acquisition of the Idea Bank's enterprise by Pekao as at 3 January 2021. Detailed information on this matter is presented in section 2.3.1.1.

7. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2021, no corrections were made of errors from previous years.

8. Material events after the end of the reporting period

No material events have occurred after the end of the reporting period.

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premiums

Gross written premiums	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premiums in non-life insurance	3,862	3,881
In direct insurance	3,861	3,880
In indirect insurance	1	1
Gross written premiums in life insurance	2,286	2,216
Individual insurance premiums	528	457
Individually continued insurance premiums	514	511
Group insurance premiums	1,244	1,248
Total gross written premiums	**6,148**	**6,097**

(in millions of PLN)

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2021	1 January – 31 March 2020
Accident and sickness insurance (group 1 and 2)	288	237
Motor third party liability insurance (group 10)	1,327	1,390
Other motor insurance (group 3)	976	974
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	26	38
Insurance against fire and other property damage (groups 8 and 9)	790	783
TPL insurance (groups 11, 12, 13)	258	240
Credit and suretyship (groups 14, 15)	12	20
Assistance (group 18)	130	151
Legal protection (group 17)	4	3
Other (group 16)	50	44
Total	**3,861**	**3,880**

9.2 Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2021	1 January – 31 March 2020
Banking activity	911	841
Margin on foreign exchange transactions with clients	176	183
Brokerage fees	60	33
Fiduciary activity	18	14
Payment card and credit card services	236	231
Fees on account of insurance intermediacy activities	9	17
Credits and loans	100	91
Bank account-related services	130	104
Transfers	67	66
Cash operations	21	21
Receivables purchased	16	13
Guarantees, letters of credit, collections, promises	21	19
Commissions on leasing activity	19	16
Other commission	38	33
Revenue and payments received from funds and mutual fund management companies	122	130
Pension insurance	31	47
Other	1	1
Total revenue from commissions and fees	**1,065**	**1,019**

9.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 January – 31 March 2021	1 January – 31 March 2020
Loan receivables from clients	1,705	2,240
Debt securities measured at fair value through other comprehensive income	209	269
Debt securities measured at amortized cost	337	321
Buy-sell-back transactions	-	18
Term deposits with credit institutions	4	19
Loans	21	83
Receivables purchased	83	34
Receivables	-	-
Cash and cash equivalents	1	12
Interest income calculated using the effective interest rate, total	**2,360**	**2,996**

(in millions of PLN)

9.4 Other net investment income

Other net investment income	1 January – 31 March 2021	1 January – 31 March 2020
Hedge derivatives	105	69
Dividend income, including:	1	1
Investment financial assets measured at fair value through profit or loss	1	1
Foreign exchange differences	(163)	(100)
Income on investment property	56	55
Investment property maintenance expenses	(23)	(22)
Investment activity expenses	(13)	(7)
Other	5	4
Other net investment income, total	**(32)**	**-**

9.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 January – 31 March 2021	1 January – 31 March 2020
Investment financial assets	606	69
Debt instruments measured at fair value through other comprehensive income	4	72
Financial instruments measured at fair value through profit or loss	597	(34)
Equity instruments	583 [1)]	(22)
Participation units and investment certificates	6	(50)
Debt instruments	8	38
Instruments measured at amortized cost	5	31
Loan receivables from clients measured at amortized cost	(68)	3
Derivatives	(5)	45
Short sale	2	1
Receivables	(24)	(43)
Investment property	1	-
Result on derecognition of financial instruments and investments, total	**512**	**75**

[1)] Including PLN 472.7 million on account of the IPO of a logistics industry company held in the portfolio of the investment fund managed by TFI PZU.

9.6 Movement in allowances for expected credit losses and impairment losses on financial instruments

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 March 2021	1 January – 31 March 2020
Investment financial assets	(6)	(34)
Debt instruments measured at fair value through other comprehensive income	(1)	(20)
Instruments measured at amortized cost	(5)	(14)
- debt instruments	(5)	(11)
- term deposits with credit institutions	1	-
- loans	(1)	(3)
Loan receivables from clients	(440)	(562)
Measured at amortized cost	(440)	(560)
Measured at fair value through other comprehensive income	-	(2)
Guarantees and sureties given	17	(55)
Receivables	(8)	(9)
Cash and cash equivalents	(1)	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(438)**	**(660)**

(in millions of PLN)

9.7 Net movement in fair value of assets and liabilities measured at fair value

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 March 2021	1 January – 31 March 2020
Investment financial instruments measured at fair value through profit or loss	57	(275)
Equity instruments	(83)	(153)
Debt securities	142	249
Participation units and investment certificates	(2)	(371)
Derivatives	72	(303)
Measurement of liabilities to members of consolidated mutual funds	4	10
Investment contracts for the client's account and risk (unit-linked)	2	30
Investment property	(6)	(20)
Loan receivables from clients	1	3
Net movement in fair value of assets and liabilities measured at fair value, total	**130**	**(555)**

9.8 Other operating income

Other operating income	1 January – 31 March 2021	1 January – 31 March 2020
Revenues on the sales of products, merchandise and services by non-insurance companies	208	169
Revenues from direct claims handling on behalf of other insurance undertakings	42	54
Reversal of provisions	3	-
Reimbursement of the costs of pursuit of claims	7	11
Reinsurance commissions and profit participation	35	14
Indemnity received	1	2
Interest for late payment of amounts due under direct insurance and outward reinsurance	14	19
Other	63	51
Other operating income, total	**373**	**320**

9.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 January – 31 March 2021	1 January – 31 March 2020
Claims, benefits and movement in technical provisions	**4,016**	**3,491**
In non-life insurance	2,189	2,361
- claims and benefits	1,744	1,951
- movement in technical provisions	226	196
- claims handling expenses	219	214
In life insurance	1,827	1,130
- claims and benefits	1,779	1,640
- movement in technical provisions	16	(545)
- claims handling expenses	32	35
Reinsurers' share in claims, benefits and movement in technical provisions	**(90)**	**(210)**
In non-life insurance	(90)	(210)
Total net insurance claims and benefits	**3,926**	**3,281**

(in millions of PLN)

9.10 Fee and commission expenses

Fee and commission expenses	1 January – 31 March 2021	1 January – 31 March 2020
Costs of card and ATM transactions, including card issue costs	165	151
Commissions on acquisition of banking clients	27	24
Fees for the provision of ATMs	8	12
Costs of awards to banking clients	4	5
Costs of bank transfers and remittances	11	11
Additional services attached to banking products	6	6
Brokerage fees	8	4
Costs of administration of bank accounts	1	1
Costs of banknote operations	5	4
Fiduciary activity expenses	6	4
Other commission	15	13
Total fee and commission expenses	**256**	**235**

9.11 Interest expenses

Interest expenses	1 January – 31 March 2021	1 January – 31 March 2020
Term deposits	35	200
Current deposits	16	138
Own debt securities issued	53	102
Hedge derivatives	7	2
Loans	-	2
Repurchase transactions	-	11
Bank loans contracted by PZU Group companies	6	12
Leases	6	10
Other	3	8
Total interest expenses	**126**	**485**

9.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2021	1 January – 31 March 2020
Consumption of materials and energy	44	47
Third party services	374	384
Taxes and charges	35	32
Employee expenses	1,282	1,249
Depreciation of property, plant and equipment	158	153
Amortization of intangible assets	118	93
Other, including:	786	821
- commissions in insurance activities	629	641
- advertising	43	48
- remuneration of group insurance administrators in work establishments	50	51
- other	64	81
Movement in deferred acquisition expenses	(46)	(16)
Administrative, acquisition and claims handling expenses, total	**2,751**	**2,763**

(in millions of PLN)

9.13 Other operating expenses

Other operating expenses	1 January – 31 March 2021	1 January – 31 March 2020
Impairment of goodwill created as a result of the acquisition of Alior Bank	-	516
Levy on financial institutions	317	291
Expenses of the core business of non-insurance and non-banking companies	242	215
Direct claims handling expenses on behalf of other insurance undertakings	48	56
Compulsory payments to insurance market institutions and banking market institutions	62	53
Bank Guarantee Fund	266	339
Insurance Guarantee Fund	16	16
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	14	16
Expenditures for prevention activity	12	14
Establishment of provisions	127	148
Amortization of intangible assets purchased in company acquisition transactions	32	44
Donations	21	26
Costs of pursuit of claims	22	27
Other	37	25
Other operating expenses, total	**1,216**	**1,786**

9.14 Income tax

Total amount of current and deferred tax	1 January – 31 March 2021	1 January – 31 March 2020
Recognized through profit or loss, including:	(455)	(366)
- current tax	(227)	(485)
- deferred tax	(228)	119
Recognized in other comprehensive income (deferred tax)	178	6
Total	**(277)**	**(360)**

Income tax on other comprehensive income items	1 January – 31 March 2021	1 January – 31 March 2020
Gross other comprehensive income	(909)	58
Income tax	178	6
Debt instruments	86	95
Loan receivables from clients	1	3
Cash flow hedging	103	(103)
Equity instruments measured at fair value through other comprehensive income	(12)	11
Net other comprehensive income	**(731)**	**64**

The PZU Group is comprised of units operating in different countries and subject to different tax regulations. Regulations governing value added tax, corporate income tax, personal income tax or contributions to social security undergo frequent changes. The regulations in effect in the countries where the PZU Group operates also contain confusing provisions, which result in differences of opinion concerning their legal interpretation between various state authorities and enterprises. Tax and other settlements (e.g. regarding customs or foreign currencies) may be inspected by authorities (in Poland – for a period of five years), which may levy high fines and any additional liabilities assessed during the inspection bear interest. These phenomena generate tax risk, as a result of which the amounts reported in the consolidated financial statements may change at a later date after the final amounts are determined by tax authorities.

(in millions of PLN)

9.15 Earnings per share

Earnings per share	1 January – 31 March 2021	1 January – 31 March 2020
Net profit attributable to the equity holders of the parent company	897	116
Weighted average basic and diluted number of common shares	863,343,952	863,331,319
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(179,048)	(191,681)
Basic and diluted earnings (losses) per common share (in PLN)	1.04	0.13

In the 3-month periods ended 31 March 2021 and 31 March 2020, respectively, there were no transactions or events resulting in the dilution of earnings per share.

9.16 Goodwill

Goodwill	31 March 2021	31 December 2020
Pekao [1]	1,715	1,714
LD [2]	515	511
Medical companies	284	284
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	42	41
Other	5	5
Total goodwill	**2,782**	**2,776**

[1] Includes goodwill on acquisition of PIM and Idea Bank.

[2] Includes goodwill resulting from the acquisition of the LD branch in Estonia.

9.17 Intangible assets

Intangible assets by type groups	31 March 2021	31 December 2020
Software, licenses and similar assets	1,746	1,548
Trademarks	523	522
- Pekao	340	340
- other	183	182
Client relations	533	565
- Pekao	450	478
- other	83	87
Intangible assets under development	376	548
Other intangible assets	25	23
Total intangible assets	**3,203**	**3,206**

(in millions of PLN)

9.18 Other assets

Other assets	31 March 2021	31 December 2020
Reinsurance settlements	76	282
Estimated salvage and subrogation	174	189
Deferred IT expenses	118	91
Accrued direct claims handling receivables	50	51
Costs settled over time	117	67
Inventories	35	40
Payments for taxes on property, means of transport and land	32	-
Payments for the costs of the allowance to the Company Social Benefit Fund	30	-
Accrued commissions	14	14
Other assets	27	19
Total other assets	**673**	**753**

9.19 Property, plant and equipment

Property, plant and equipment by groups by type	31 March 2021	31 December 2020
Plant and machinery	694	637
Means of transport	199	172
Property, plant and equipment under construction	164	229
Real property	2,765	2,809
Other property, plant and equipment	337	341
Total property, plant and equipment	**4,159**	**4,188**

9.20 Entities measured by the equity method

Associates	31 March 2021	31 December 2020
RUCH	60	65
Krajowy Integrator Płatności SA	41	-
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	-	1
PayPo sp. z o.o.	-	5
Associates, total	**102**	**72**

(in millions of PLN)

9.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	31 March 2021	31 December 2020
Groups held for sale	**425**	**396**
Assets	531	517
Investment property	439	439
Investment financial assets measured at fair value through other comprehensive income	36	28
Intangible assets	2	2
Property, plant and equipment	4	4
Receivables	6	5
Cash and cash equivalents	35	33
Other assets	9	6
Liabilities related directly to assets classified as held for sale	106	121
Liabilities to clients under deposits	55	76
Other liabilities	36	30
Deferred tax liability	14	14
Provisions	1	1
Other assets held for sale	**69**	**73**
Property, plant and equipment	8	10
Investment property	61	63
Assets and groups of assets held for sale	**600**	**590**
Liabilities related directly to assets classified as held for sale	**106**	**121**

The "Investment property" line item and the "Groups held for sale" section presented mainly the properties held by real estate sector mutual funds as held for sale, since the expected investment horizon has been reached.

9.22 Loan receivables from clients

Loan receivables from clients	31 March 2021	31 December 2020
Measured at amortized cost	207,974	195,626
Measured at fair value through other comprehensive income	1,509	1,475
Measured at fair value through profit or loss	184	187
Total loan receivables from clients	**209,667**	**197,288**

(in millions of PLN)

Loan receivables from clients	31 March 2021	31 December 2020
Retail segment	**111,051**	**110,230**
Operating loans	246	244
Consumer finance	26,925	27,286
Consumer finance loans	3,857	3,852
Loan to purchase securities	35	26
Overdrafts in credit card accounts	962	993
Loans for residential real estate	77,962	76,782
Other mortgage loans	763	772
Other receivables	301	275
Business segment	**98,616**	**87,058**
Operating loans	30,757	26,722
Consumer finance	22	-
Car financing loans	5	4
Investment loans	26,666	27,295
Receivables purchased (factoring)	14,174	7,049
Overdrafts in credit card accounts	166	56
Loans for residential real estate	467	233
Other mortgage loans	10,817	10,641
Finance lease	12,733	12,330
Other receivables	2,809	2,728
Total loan receivables from clients	**209,667**	**197,288**

9.23 Financial derivatives

Derivatives	31 March 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**4,236**	**4,673**	**5,453**	**5,212**
Fair value hedging instruments – SWAP transactions	2	140	-	206
Cash flow hedging instruments – SWAP transactions	773	1,125	1,113	729
Instruments held for trading, including:	3,461	3,408	4,340	4,277
- FRA transactions	1	1	1	1
- SWAP transactions	3,448	3,399	4,333	4,274
- call options (purchase)	5	3	5	1
- put options (sale)	7	5	1	1
Foreign exchange derivatives	**868**	**786**	**660**	**877**
Cash flow hedging instruments – SWAP transactions	63	200	5	264
Instruments held for trading, including:	805	586	655	613
- forward contracts	373	284	340	277
- SWAP transactions	331	234	225	257
- call options (purchase)	69	19	67	38
- put options (sale)	32	49	23	41
Equity derivatives – held for trading	**124**	**88**	**93**	**61**
- call options (purchase)	124	88	93	61
Commodity derivatives – held for trading	**139**	**133**	**133**	**131**
- forward contracts	3	2	3	7
- SWAP transactions	109	108	74	72
- call options (purchase)	16	1	19	1
- put options (sale)	11	22	37	51
Total derivatives	**5,367**	**5,680**	**6,339**	**6,281**

(in millions of PLN)

9.24 Investment financial assets

Investment financial assets	31 March 2021				31 December 2020			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	751	1,190	1,941	n/a	605	946	1,551
Participation units and investment certificates	n/a	n/a	5,593	5,593	n/a	n/a	5,298	5,298
Debt securities	61,256	62,026	2,962	126,244	57,871	63,643	3,566	125,080
Government securities	53,526	45,997	2,814	102,337	50,632	48,250	3,443	102,325
Domestic	53,299	43,352	2,637	99,288	50,417	45,577	3,262	99,256
Fixed rate	50,157	34,940	2,127	87,224	47,227	37,420	2,695	87,342
Floating rate	3,142	8,412	510	12,064	3,190	8,157	567	11,914
Foreign	227	2,645	177	3,049	215	2,673	181	3,069
Fixed rate	227	2,645	177	3,049	215	2,673	181	3,069
Other	7,730	16,029	148	23,907	7,239	15,393	123	22,755
Fixed rate	2,694	8,427	59	11,180	2,466	7,671	53	10,190
Floating rate	5,036	7,602	89	12,727	4,773	7,722	70	12,565
Other, including:	8,508	-	-	8,508	8,993	-	-	8,993
Buy-sell-back transactions	4,470	-	-	4,470	4,657	-	-	4,657
Term deposits with credit institutions	1,092	-	-	1,092	952	-	-	952
Loans	2,946	-	-	2,946	3,384	-	-	3,384
Investment financial assets, total	**69,764**	**62,777**	**9,745**	**142,286**	**66,864**	**64,248**	**9,810**	**140,922**

Equity instruments measured at fair value through other comprehensive income	31 March 2021	31 December 2020
Biuro Informacji Kredytowej SA	341 [1)]	240
Grupa Azoty SA	217	198
Polimex-Mostostal SA	66	51
PSP sp. z o.o.	55	59
Astaldi SpA	28	15
Krajowa Izba Rozliczeniowa SA	19	19
Other	25	23
Equity instruments measured at fair value through other comprehensive income, total	**751**	**605**

[1)] Including increase of 85 million resulting from the acquisition of Idea Bank.

(in millions of PLN)

Exposure to debt securities issued by governments other than the Polish government

Carrying amount of debt securities issued by governments other than the Polish government	31 March 2021	31 December 2020
Lithuania	901	910
Romania	238	221
Latvia	159	169
Croatia	155	173
Hungary	146	144
Ukraine	144	132
Indonesia	126	129
Russia	97	100
Bulgaria	90	90
Columbia	83	104
Panama	76	78
Mexico	69	68
Brazil	67	83
Kazakhstan	60	62
Peru	57	58
Republic of South Africa	56	55
Uruguay	54	55
Saudi Arabia	54	57
Dominican Republic	52	53
Other [1)]	365	328
Total	**3,049**	**3,069**

[1)] The line item "Other" includes bonds issued by 41 countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	31 March 2021	31 December 2020
Foreign banks	7,151	7,069
Domestic local governments	5,460	5,859
National Bank of Poland	3,119	2,275
Companies from the WIG-Energy Index	1,665	1,732
Energy and fuel sector companies (including: companies from the WIG-Fuels Index)	1,508	1,324
Financial and insurance services	816	793
Transportation and storage	702	603
Construction and real estate market service (including: WIG – lease of properties and WIG – sale of properties)	571	481
Companies from the WIG-Banks Index	552	555
Manufacturing	490	482
Public utility services	434	382
Arts, entertainment and recreation (including: WIG - hotels and restaurants)	375	365
Information and communication (including: WIG - Telecommunications)	297	307
Mining and quarrying (including companies included in the WIG-Mining index)	248	252
Administrative and support service activities	247	-
Other professional, scientific and technical activity	183	184
Other	89	92
Total	**23,907**	**22,755**

(in millions of PLN)

9.25 Receivables

Receivables – carrying amount	31 March 2021	31 December 2020
Receivables on direct insurance, including:	2,292	2,399
- receivables from policyholders	2,171	2,288
- receivables from insurance intermediaries	91	98
- other receivables	30	13
Reinsurance receivables	80	55
Other receivables	4,130	3,792
- receivables from disposal of securities and margins [1)]	2,210	1,861
- receivables on account of payment card settlements	689	807
- trade receivables	327	303
- receivables from the state budget, other than corporate income tax receivables	142	144
- receivables by virtue of commissions concerning off-balance sheet products	178	175
- prevention settlements	30	38
- receivables from direct claims handling on behalf of other insurance undertakings	18	18
- receivables for acting as an emergency adjuster	10	10
- receivables on account of Corporate Income Tax	131	76
- receivables from security and bid deposits	45	38
- other	350	322
Total receivables	**6,502**	**6,246**

[1)] this line item presents receivables associated with executed but outstanding transactions on financial instruments.

As at 31 March 2021 and 31 December 2020, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

(in millions of PLN)

9.26 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	163,118	28,238	12,329	5,291	208,976	170,284	17,609	10,980	6,054	204,927
Recognition of instruments at the time of acquisition, creation, granting	16,423	-	-	2	16,425	47,445	-	-	1	47,446
Change attributable to modification of cash flows concerning the given instrument	2	(2)	(1)	-	(1)	(7)	(1)	(3)	-	(11)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(17,335)	2,027	(311)	(282)	(15,901)	(39,726)	(694)	(816)	(734)	(41,970)
Assets from the statement of financial position	-	-	(510)	(24)	(534)	-	-	(1,822)	(39)	(1,861)
Reclassification to basket 1	3,582	(3,314)	(268)	-	-	4,833	(4,765)	(68)	-	-
Reclassification to basket 2	(7,568)	7,840	(272)	-	-	(17,442)	17,887	(445)	-	-
Reclassification to basket 3	(384)	(1,148)	1,532	-	-	(2,463)	(1,784)	4,247	-	-
Change in the composition of the Group	11,187	-	-	872	12,059	-	-	-	-	-
Other changes, including foreign exchange differences	(11)	(11)	21	142	141	194	(14)	256	9	445
End of the period	**169,014**	**33,630**	**12,520**	**6,001**	**221,165**	**163,118**	**28,238**	**12,329**	**5,291**	**208,976**
Expected credit losses										
Beginning of the period	(909)	(1,876)	(6,517)	(4,048)	(13,350)	(800)	(1,321)	(5,247)	(4,315)	(11,683)
Establishment of allowances for newly acquired, created, granted instruments	(212)	-	-	(1)	(213)	(657)	-	-	(1)	(658)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	377	(93)	(521)	144	(93)	610	(853)	(2,478)	243	(2,478)
Assets from the statement of financial position	-	-	510	24	534	-	-	1,805	39	1,844
Reclassification to basket 1	(251)	218	33	-	-	(303)	280	23	-	-
Reclassification to basket 2	73	(173)	100	-	-	113	(239)	126	-	-
Reclassification to basket 3	57	299	(356)	-	-	151	323	(474)	-	-
Other changes, including foreign exchange differences	(3)	(151)	136	(51)	(69)	(23)	(66)	(272)	(14)	(375)
End of the period	**(868)**	**(1,776)**	**(6,615)**	**(3,932)**	**(13,191)**	**(909)**	**(1,876)**	**(6,517)**	**(4,048)**	**(13,350)**
Net carrying amount at the end of the period	**168,146**	**31,854**	**5,905**	**2,069**	**207,974**	**162,209**	**26,362**	**5,812**	**1,243**	**195,626**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	720	755	-	-	1,475	772	609	-	-	1,381
Recognition of instruments at the time of acquisition, creation, granting	53	-	-	-	53	100	-	-	-	100
Change in measurement	6	8	-	-	14	43	57	-	-	100
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(20)	(6)	-	-	(26)	(76)	(51)	-	-	(127)
Reclassification to basket 2	-	-	-	-	-	(132)	132	-	-	-
Other changes	(2)	(5)	-	-	(7)	13	8	-	-	21
End of the period	**757**	**752**	**-**	**-**	**1,509**	**720**	**755**	**-**	**-**	**1,475**
Expected credit losses										
Beginning of the period	(4)	(22)	-	-	(26)	(4)	(17)	-	-	(21)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	-	-	-	-	-
Changes attributable to valuation or credit risk level (excluding reclassification)	-	1	-	-	1	(2)	(2)	-	-	(4)
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
Other changes	(1)	1	-	-	-	1	(2)	-	-	(1)
End of the period	**(6)**	**(20)**	**-**	**-**	**(26)**	**(4)**	**(22)**	**-**	**-**	**(26)**

The allowance pertaining to loan receivables from clients measured at fair value through other comprehensive income is recognized in revaluation reserve and it does not lower the carrying amount of assets.

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	57,850	73	34	-	57,957	35,614	368	34	-	36,016
Recognition of instruments at the time of acquisition, creation, granting	5,787	94	-	-	5,881	31,790	-	-	-	31,790
Change in measurement	175	-	-	-	175	820	-	-	-	820
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(2,813)	-	-	-	(2,813)	(10,834)	(33)	-	-	(10,867)
Assets from the statement of financial position	-	-	(1)	-	(1)	-	-	-	-	-
Reclassification to basket 1 [1)]	-	-	-	-	-	299	(299)	-	-	-
Reclassification to basket 2	-	-	-	-	-	(38)	38	-	-	-
Change in the composition of the Group	15	-	-	40	55	-	-	-	-	-
Other changes, including foreign exchange differences	93	1	1	(2)	93	199	(1)	-	-	198
End of the period	**61,107**	**168**	**34**	**38**	**61,347**	**57,850**	**73**	**34**	**-**	**57,957**
Expected credit losses										
Beginning of the period	(50)	(2)	(34)	-	(86)	(33)	(19)	(34)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(4)	(2)	-	-	(6)	(20)	-	-	-	(20)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	-	-	-	-	9	-	-	-	9
Changes attributable to sale, exclusion or expiration of the instrument	1	-	-	-	1	11	1	-	-	12
Assets from the statement of financial position	-	-	1	-	1	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	(16)	16	-	-	-
Reclassification to basket 2	-	-	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	-	-	(1)	-	(1)	(1)	-	-	-	(1)
End of the period	**(53)**	**(4)**	**(34)**	**-**	**(91)**	**(50)**	**(2)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**61,054**	**164**	**-**	**38**	**61,256**	**57,800**	**71**	**-**	**-**	**57,871**

[1)] As a result of the issuer's improved individual score, local government bonds were reclassified to basket 1.

The value of allowances for expected credit losses on buy-sell-back transactions is zero.

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	63,387	256	-	-	63,643	54,537	156	-	-	54,693
Recognition of instruments at the time of acquisition, creation, granting	92,770	-	-	-	92,770	405,843	-	-	-	405,843
Change in measurement	50	-	-	-	50	1,054	(1)	-	-	1,053
Change attributable to modification of cash flows concerning the given instrument	(6)	-	-	-	(6)	(12)	-	-	-	(12)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(94,872)	(28)	-	-	(94,900)	(398,632)	(49)	-	-	(398,681)
Reclassification to basket 1	-	-	-	-	-	13	(13)	-	-	-
Reclassification to basket 2	-	-	-	-	-	(163)	163	-	-	-
Change in the composition of the Group	313	-	-	-	313	-	-	-	-	-
Other changes, including foreign exchange differences	156	-	-	-	156	747	-	-	-	747
End of the period	**61,798**	**228**	**-**	**-**	**62,026**	**63,387**	**256**	**-**	**-**	**63,643**
Expected credit losses										
Beginning of the period	(68)	(13)	-	-	(81)	(41)	(2)	-	-	(43)
Establishment of allowances for newly acquired, created, granted instruments	(12)	-	-	-	(12)	(35)	-	-	-	(35)
Changes attributable to valuation or credit risk level (excluding reclassification)	9	-	-	-	9	(5)	(10)	-	-	(15)
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	11	1	-	-	12
Reclassification to basket 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to basket 2	-	-	-	-	-	3	(3)	-	-	-
End of the period	**(69)**	**(13)**	**-**	**-**	**(82)**	**(68)**	**(13)**	**-**	**-**	**(81)**

The allowance pertaining to debt investment financial assets measured at fair value through other comprehensive income is recognized in revaluation reserve and it does not lower the carrying amount of assets.

(in millions of PLN)

Term deposits with credit institutions	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	953	-	-	-	953	1,455	1	-	-	1,456
Recognition of instruments at the time of acquisition, creation, granting	9,995	-	-	-	9,995	110,971	-	-	-	110,971
Change in measurement	2	-	-	-	2	26	-	-	-	26
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(10,039)	-	-	-	(10,039)	(111,481)	-	-	-	(111,481)
Change in the composition of the Group	161	-	-	-	161	-	-	-	-	-
Other changes, including foreign exchange differences	21	-	-	-	21	(18)	(1)	-	-	(19)
End of the period	**1,093**	**-**	**-**	**-**	**1,093**	**953**	**-**	**-**	**-**	**953**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Establishment of allowances for newly acquired, created, granted instruments	1	-	-	-	1	-	-	-	-	-
Changes attributable to variations in measurement of instruments or credit risk level (excluding reclassification)	-	-	-	-	-	-	-	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	(1)	-	-	-	(1)	1	-	-	-	1
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**1,092**	**-**	**-**	**-**	**1,092**	**952**	**-**	**-**	**-**	**952**

(in millions of PLN)

Loans	1 January – 31 March 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	3,318	79	-	-	3,397	4,517	-	-	-	4,517
Recognition of instruments at the time of acquisition, creation, granting	49	-	-	-	49	1,173	-	-	-	1,173
Change in measurement	3	1	-	-	4	56	-	-	-	56
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(490)	-	-	-	(490)	(2,349)	-	-	-	(2,349)
Reclassification to basket 2	-	-	-	-	-	(79)	79	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
End of the period	**2,880**	**80**	**-**	**-**	**2,960**	**3,318**	**79**	**-**	**-**	**3,397**
Expected credit losses										
Beginning of the period	(7)	(6)	-	-	(13)	(27)	-	-	-	(27)
Establishment of allowances for newly acquired, created, granted instruments	-	-	-	-	-	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excluding reclassification)	(1)	-	-	-	(1)	3	-	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	16	-	-	-	16
Reclassification to basket 2	-	-	-	-	-	6	(6)	-	-	-
End of the period	**(8)**	**(6)**	**-**	**-**	**(14)**	**(7)**	**(6)**	**-**	**-**	**(13)**
Net carrying amount at the end of the period	**2,872**	**74**	**-**	**-**	**2,946**	**3,311**	**73**	**-**	**-**	**3,384**

Receivables	1 January – 31 March 2021	1 January – 31 December 2020
Gross carrying amount		
Beginning of the period	7,333	6,825
Changes in the period	330	508
End of the period	**7,663**	**7,333**
Expected credit losses		
Beginning of the period	(1,087)	(1,088)
Changes in the period	(74)	1
End of the period	**(1,161)**	**(1,087)**
Net carrying amount at the end of the period	**6,502**	**6,246**

9.27 Fair value

9.27.1. Description of valuation techniques

9.27.1.1. Debt securities and loans

Fair values of debt securities are determined on the basis of quotations publicly available on an active market or valuations published by an authorized information service, and if there are no such quotations – using valuation models containing references to published price quotations of the underlying financial instruments, interest rates and stock exchange indices.

The PZU Group conducts an internal review of the valuations published by the authorized information service comparing them to the valuations available from other sources based on data which can be observed on the market.

The fair value of loans and debt securities for which an active market does not exist is measured using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds adjusted by the credit spread. It is calculated as at the newest issue date based on the issue price and leads to parallel shifting of the yield curve for government bonds by a fixed amount along its whole length or as the difference between the yield of quoted debt securities of issuers with a similar rating operating in similar industries and the yield of government bonds (German government bonds for bonds denominated in EUR) multiplied by a ratio determined as at the issue date, taking into account issuer-specific risk in the discount curve.

9.27.1.2. Equity-based financial assets

Fair values of equity-based financial assets are determined on the basis of quotations publicly available on an active market or, if they are unavailable, based on the present value of future forecasted profit or loss of companies or measurement models based on available market data.

9.27.1.3. Participation units and investment certificates of mutual funds

Fair values of participation units and investment certificates of mutual funds are measured using the value of the participation units and investment certificates published by the mutual fund management companies. Such valuation reflects the PZU Group's share in net assets of these funds.

9.27.1.4. Derivatives

For derivatives quoted on an active market, the fair value is considered to be the closing price as at the balance sheet date.

The fair value of derivatives not quoted on an active market, including forward contracts and interest rate swaps (IRSs) is measured using the discounted future cash flow method. The rates from OIS curves (overnight indexed swaps), taking into account the currency of the margin provided for the instrument, are used to discount cash flows.

The fair value of options is measured using the Black-Scholes model (plain vanilla options) or as the expected value of the option payoff function discounted as at the valuation date (Asian or basket options). The expected value of the payoff function is calculated using the Monte Carlo modeling method.

9.27.1.5. Loan receivables from clients

In order to determine a change in the fair value of loan receivables from clients (excluding current account overdraft), the margins earned on newly granted loans (in the month preceding the date as at which the consolidated financial statements are prepared) are compared with the margins in the whole loan portfolio. If the margins earned on newly granted loans are higher than the margins in the existing portfolio the fair value of the loan portfolio is lower than its carrying amount.

Loan receivables from clients are classified in full to level 3 of the fair value hierarchy due to the use of a valuation model with significant non-observable input data, i.e. current margins generated on newly granted loans.

9.27.1.6. Properties measured at fair value

Depending on the nature of the real property, its fair value is measured using the comparative method, the income method or the residual method.

The comparative method is used for measuring free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.). The comparative method assumes the determination of the fair value by reference to observable market prices, taking into account weighting coefficients. Weighting coefficients include, for instance, factors such as the passage of time and the trend of changes in market prices, the location, exposure, intended use in the zoning plan, accessibility for transportation purposes and access roads, surface, neighborhood (including the proximity to attractive objects), investment opportunities, physical conditions, form of exercising control, etc.

The income method assumes estimation of the fair value of the real property based on the discounted value of cash flows. The calculation takes into account such variables as the capitalization rate, the level of rents, the level of operating expenses, the provision for vacancy, losses resulting from rent free periods, rent arrears, etc. The values of the variables described above vary depending on the nature and the intended use of the measured real property (office space, retail space, logistics and warehousing space), its modernity and location (access roads, distance from an urban center, accessibility, exposure, etc.) as well as parameters specific to the relevant local market (such as capitalization rates, the level of rents, operating expenses, etc.).

The residual method is used to measure the market value if the real property is to be subjected to construction works. The fair value of such a real property is calculated as the difference in the value of the property after the construction works and the average value of the cost of these works, taking into account any gains earned in the market on similar properties.

Properties measured at fair value are appraised by licensed appraisers. The acceptance of each such measurement is additionally preceded by a review conducted by PZU Group companies' employees in order to eliminate any potential errors or inconsistencies. Any emerging doubts are clarified on an ongoing basis.

Investment property is measured in accordance with the following rules:

- real properties held by mutual funds controlled by PZU – measured every 6 months – on days ending each financial half-year and financial year;
- investment properties held by PZU Group companies – the most valuable items are measured in the event of ascertainment of a possible significant change in the value (usually on an annual basis). Regardless of the value, each investment property is measured not less frequently than once every 5 years;
- real properties held for sale – measured before the commencement of their active exposure to the market in accordance with the requirements of IFRS 5.

9.27.1.7. Liabilities on the issue of own debt securities and subordinated liabilities

The fair value of liabilities on the issue of own debt securities, including subordinated liabilities, is calculated as the present value of expected payments based on the current interest rate curves and the historical credit spread from the issue date.

9.27.1.8. Liabilities under deposits

Due to the fact that deposits are accepted under current operations on a daily basis, hence their terms are similar to the current market terms for identical transactions, and the time to maturity for such loans is short, it is deemed that for liabilities to clients with maturities up to 1 year the fair value does not significantly deviate from the carrying amount. For deposits over 1 year, fair value is calculated as the amount of future expected cash flows discounted as at the respective balance sheet date using the risk-free market rate plus a margin.

9.27.1.9. Other liabilities

Liabilities under investment contracts for the client's account and risk

Liabilities under investment contracts for the client's account and risk are measured at the fair value of assets covering the liabilities of the unit-linked fund associated with the relevant investment contract.

Liabilities to members of consolidated mutual funds

Liabilities to members in the consolidated mutual funds are measured at the fair value of assets of the relevant mutual fund (according to the share in the mutual fund's net assets).

Liabilities on borrowed securities

Liabilities on securities borrowed to make a short sale are measured at the fair value of borrowed securities.

9.27.2. Fair value hierarchy

On the basis of the input data for fair value measurement, the individual assets and liabilities for which fair value has been presented have been classified to the following levels:

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale).
- Level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, including free land free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.

- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method;
  - loan receivables from clients and liabilities to clients under deposits;
  - options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

In a situation in which the measurement of an asset or liability is based on input data classified in different levels of the fair value hierarchy, the measured asset is assigned to the lowest level from which the input data are taken, provided that they have a significant impact on the overall measurement.

The value of the measurement of components of assets or liabilities qualified in level III is affected to significant extent by unobservable input data.

Measured assets	Unobservable data	Description	Impact on measurement
Loan receivables from clients	Liquidity margin and current margin from the sale of the product group	Fair values are estimated using valuation techniques, with an assumption that when the loan is granted, the fair value is equal to the carrying amount. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date less expected credit loss. The cash flow discounting rate is the appropriate risk-free market rate plus the liquidity margin and current sales margin for the loan's product group. The margin is determined by product group and by maturity. For the purpose of estimating the fair value of foreign currency loans, the liquidity margin for PLN loans is used, adjusted by quotations of FX swap and basis-swap transactions. The fair value of loans with recognized impairment is equal to the sum of future expected salvage discounted using the effective interest rate, since the average expected recoveries fully reflect the credit risk component. For loans that do not have a repayment schedule (current account loans, overdrafts and credit cards), the fair value is assumed to be equal to the carrying amount.	Negative correlation.
Liabilities to clients under deposits	Sales margin	Fair values are estimated using valuation techniques, with an assumption that when the deposit is accepted, the fair value is equal to the carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows discounted at the balance sheet date. The cash flow discounting rate is the appropriate risk-free market rate plus the current sales margin. The margin is determined on the basis of deposits accepted in the last quarter, by product group and by maturity. For short-term deposits (current deposits, overnight deposits and savings accounts), the carrying amount is taken as fair value.	Negative correlation.
Options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.	Model parameters	Embedded instruments are plain vanilla options and exotic options for individual shares, indices, commodities and other market multiples, including interest rate indices and exchange rates and their baskets. All separated options are offset on an ongoing basis on the interbank market. Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.
Investment property and property designated for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
	Monthly rental rate per 1 m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

9.27.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2021				31 December 2020			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	28,581	22,114	12,082	62,777	27,673	24,797	11,778	64,248
Equity instruments	296	1	454	751	257	1	347	605
Debt securities	28,285	22,113	11,628	62,026	27,416	24,796	11,431	63,643
Investment financial assets measured at fair value through profit or loss	3,185	6,199	361	9,745	3,616	5,709	485	9,810
Equity instruments	589	361	240	1,190	575	1	370	946
Participation units and investment certificates	144	5,426	23	5,593	134	5,143	21	5,298
Debt securities	2,452	412	98	2,962	2,907	565	94	3,566
Loan receivables from clients	-	-	1,693	1,693	-	-	1,662	1,662
Measured at fair value through other comprehensive income	-	-	1,509	1,509	-	-	1,475	1,475
Measured at fair value through profit or loss	-	-	184	184	-	-	187	187
Financial derivatives	-	5,263	104	5,367	-	6,246	93	6,339
Investment property	-	192	2,328	2,520	-	186	2,307	2,493
Liabilities								
Derivatives	-	5,616	64	5,680	-	6,221	60	6,281
Liabilities to members of consolidated mutual funds	-	353	-	353	-	265	-	265
Investment contracts for the client's account and risk *(unit-linked)*	-	268	-	268	-	268	-	268
Liabilities on borrowed securities (short sale)	451	-	-	451	851	-	-	851

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 31 March 2021	**Investment financial assets measured at fair value through other comprehensive income**		**Investment financial assets measured at fair value through profit or loss**			**Derivatives – assets**	**Derivatives – liabilities**	**Loan receivables from clients measured at fair value**		**Investment property**
	Equity	**Debt**	**Equity**	**Investment certificates**	**Debt**			**through other comprehen-sive income**	**through profit or loss**	
Beginning of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**
Purchase/opening of the position/granting	-	540	-	-	869	1	1	53	-	26
Reclassification from Level II [1)]	-	479	-	-	12	-	-	-	-	-
Profit or loss recognized in the profit and loss account:	-	23	(142)	-	(3)	9	3	8	1	(5)
- interest income calculated using the effective interest rate	-	28	-	-	-	4	1	8	1	-
- result on derecognition of financial instruments and investments	-	1	(135)	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(6)	(7)	-	(3)	5	2	-	-	(5)
Profits or losses recognized in other comprehensive income	22	(20)	-	-	-	-	-	(6)	-	-
Sales/settlements/repayments	-	(436)	-	-	(856)	-	(1)	(21)	(4)	-
Reclassification to Level II	-	(389)	-	-	(18)	-	-	-	-	-
Change in the composition of the Group	85	-	-	-	-	1	1	-	-	-
Foreign exchange differences	-	-	12	2	-	-	-	-	-	-
End of the period	**454**	**11,628**	**240**	**23**	**98**	**104**	**64**	**1,509**	**184**	**2,328**

[1)] Information on the restatements is presented in section 9.27.6.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 2020	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehen-sive income	through profit or loss	
Beginning of the period	**246**	**6,815**	**226**	**19**	**41**	**118**	**68**	**1,381**	**243**	**1,828**
Purchase/opening of the position/granting	24	16,974	28	2	4,070	6	6	99	-	198
Reclassification from Level II [1]	-	43	4	-	30	-	-	-	-	-
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	296
Profit or loss recognized in the profit and loss account:	-	181	113	-	1	25	19	30	-	229
- interest income calculated using the effective interest rate	-	172	-	-	-	-	-	30	-	-
- result on derecognition of financial instruments and investments	-	9	-	-	2	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	113	-	(1)	25	19	-	-	229
Profits or losses recognized in other comprehensive income	77	13	-	-	-	-	-	15	-	-
Sales/settlements/repayments	-	(12,536)	-	-	(4,048)	(56)	(33)	(50)	(56)	(1)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(257)
Reclassification to Level II	-	(59)	-	-	-	-	-	-	-	-
Amendments to lease contracts	-	-	-	-	-	-	-	-	-	14
Foreign exchange differences	-	-	(1)	-	-	-	-	-	-	-
End of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**

[1] Information on the restatements is presented in section 9.27.6.

(in millions of PLN)

9.27.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2021					31 December 2020				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	206,000	206,000	207,974	-	-	193,609	193,609	195,637
Investment financial assets measured at amortized cost	43,215	9,776	21,807	74,798	69,764	42,591	7,450	22,845	72,886	66,864
Debt securities	43,215	8,233	14,700	66,148	61,256	42,591	6,168	15,045	63,804	57,871
Buy-sell-back transactions	-	977	3,494	4,471	4,470	-	1,000	3,657	4,657	4,657
Term deposits with credit institutions	-	566	607	1,173	1,092	-	282	670	952	952
Loans	-	-	3,006	3,006	2,946	-	-	3,473	3,473	3,384
Liabilities										
Liabilities to banks	-	1,416	6,904	8,320	8,461	-	2,504	7,140	9,644	9,751
Liabilities to clients under deposits	-	-	260,821	260,821	261,084	-	-	241,171	241,171	241,975
Liabilities on the issue of own debt securities [1)]	-	5,133	1,084	6,217	6,189	-	6,423	1,130	7,553	7,532
Subordinated liabilities [1)]	-	2,772	3,891	6,663	6,492	-	2,761	4,038	6,799	6,679
Liabilities on account of repurchase transactions	-	4	466	470	470	-	744	410	1,154	1,154

[1)] The liabilities classified to level II are those whose measurement was not affected by unobservable parameters. They are primarily liabilities on account of bonds issued by Pekao.

9.27.5. Change in the fair value measurement methodology for financial instruments measured at fair value

In the period of 3 months ended on 31 March 2021 and in 2020, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

9.27.6. Reclassification between fair value hierarchy levels

If the method of measurement of assets or liabilities changes because of e.g. losing (or obtaining) access to quotations observed on an active market, such assets or liabilities are reclassified between Levels I and II.

Assets or liabilities are reclassified between Levels II and III (or accordingly between Levels III and II) when:

- there is a change in the measurement model resulting from the application of new unobservable factors (or accordingly observable ones); or
- previously used factors that had a significant impact on the measurement are no longer observable (or accordingly become observable) on the active market.

Reclassifications between different levels of the fair value hierarchy are effected on the date ending each quarter according to the value as at that date.

In the 3-month period ended 31 March 2021, the following reclassifications of assets between fair value levels was made:

- reclassification from Level III to Level II was applied to corporate bonds measured using market information about the prices of comparable financial instruments, corporate bonds for which the estimated credit parameters had no significant impact on their measurement;
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was material;
- reclassification from Level I to Level II was applied to government bonds measured using information on the prices of comparable financial instruments and participation units in mutual funds for which measurement based on market quotations was discontinued due to a decline in market activity.

In 2020, the following transfers of assets between fair value levels were made:

- reclassification from Level III to Level II was applied to corporate bonds measured using market information about the prices of comparable financial instruments, corporate and municipal bonds for which the estimated credit parameters had no significant impact on their measurement and capital market derivatives for which the estimated parameter (correlation) had no significant impact on their measurement;
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was material, treasury bonds for which the impact of the estimated spread to the reference bond had significant impact on the measurement, and capital market derivatives for which the estimated parameter (correlation) exerted a significant impact on the measurement;
- reclassification from Level II to Level I was applied to treasury bonds measured using quotations from an active market;
- reclassification from Level I to Level II was applied to government bonds measured using information on the prices of comparable financial instruments and participation units in mutual funds for which measurement based on market quotations was discontinued due to a decline in market activity.

(in millions of PLN)

9.28 Changes in classification of financial assets resulting from the change of purpose or use of such assets

In the 3-month period ended 31 March 2021, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

9.29 Share capital

Share capital is recognized at the amount stated in the parent company's articles of association and registered in the National Court Register

All the Shares have been fully paid for.

As at 31 March 2021 and 31 December 2020

Series/ issue	Type of shares	Type of preference	Type of limitation on rights to shares	Number of shares	Value of series/issue at par value (PLN)	Capital coverage	Date of registration	Right to dividends (from a date)
A	bearer	none	none	604,463,200	60,446,320	cash	23.01.1997	27.12.1991
B	bearer	none	none	259,059,800	25,905,980	in-kind contribution	31.03.1999	01.01.1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

9.30 Distribution of the parent company's profit

Information on the distribution of the parent company's profit is presented in section 21.

(in millions of PLN)

9.31 Technical provisions

Technical provisions	31 March 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**25,736**	**(2,056)**	**23,680**	**25,276**	**(2,100)**	**23,176**
Provision for unearned premiums	8,876	(822)	8,054	8,645	(924)	7,721
Provision for unexpired risk	33	-	33	32	-	32
Provision for outstanding claims and benefits	10,528	(950)	9,578	10,371	(903)	9,468
- for reported claims	3,730	(835)	2,895	3,590	(738)	2,852
- for claims not reported (IBNR)	4,557	(96)	4,461	4,573	(146)	4,427
- for claims handling expenses	2,241	(19)	2,222	2,208	(19)	2,189
Provision for the capitalized value of annuities	6,294	(284)	6,010	6,226	(273)	5,953
Provisions for bonuses and discounts for insureds	5	-	5	2	-	2
Technical provisions in life insurance	**23,212**	**(1)**	**23,211**	**23,195**	**(1)**	**23,194**
Provision for unearned premiums	107	(1)	106	106	(1)	105
Provision for unexpired risk	40	-	40	51	-	51
Life insurance provision	16,294	-	16,294	16,309	-	16,309
Provision for outstanding claims and benefits	604	-	604	613	-	613
- for reported claims	171	-	171	175	-	175
- for claims not reported (IBNR)	428	-	428	433	-	433
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	7	-	7	6	-	6
Other technical provisions	184	-	184	190	-	190
Unit-linked provision	5,976	-	5,976	5,920	-	5,920
Total technical provisions	**48,948**	**(2,057)**	**46,891**	**48,471**	**(2,101)**	**46,370**

9.32 Subordinated liabilities

	Par value (in millions)	Curren-cy	Interest rate	Issue date/Maturity date	Carrying amount 31 March 2021 (in PLN m)	Carrying amount 31 December 2020 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,253	2,265
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,259	1,254
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	555	552
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	202	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	352	350
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	403	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	222	224
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 / 31 March 2021	-	195
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 / 6 December 2021	148	147
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	608	604
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 / 29 April 2021	69	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	47	47
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 / 16 May 2022	152	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	151	150
Subordinated liabilities					**6,492**	**6,679**

The lower carrying amount of subordinated liabilities compared to the nominal value ensues from some of the bonds issued by Alior Bank were subscribed for by consolidated mutual funds.

9.33 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	**31 March 2021**	**31 December 2020**
Bonds	3,787	4,597
Certificates of deposit	1,197	1,611
Covered bonds	1,205	1,324
Total liabilities on the issue of own debt securities	**6,189**	**7,532**

(in millions of PLN)

9.34 Liabilities to banks

Liabilities to banks	31 March 2021	31 December 2020
Current deposits	835	914
One-day deposits	203	1,826
Term deposits	843	123
Loans received	6,280	6,439
Other liabilities	300	449
Liabilities to banks, total	**8,461**	**9,751**

9.35 Liabilities to clients under deposits

Liabilities to clients under deposits	31 March 2021	31 December 2020
Current deposits	230,530	210,212
Term deposits	29,606	30,849
Other liabilities	948	914
Liabilities to clients under deposits, total	**261,084**	**241,975**

(in millions of PLN)

9.36 Other liabilities

Other liabilities	31 March 2021	31 December 2020
Liabilities measured at fair value	**1,072**	**1,389**
Liabilities on borrowed securities (short sale)	451	851
Investment contracts for the client's account and risk (unit-linked)	268	268
Liabilities to members of consolidated mutual funds	353	265
Liability on the settlement of the acquisition of Tomma shares	-	5
Accrued expenses	**1,668**	**1,963**
Accrued expenses of agency commissions	348	359
Accrued payroll expenses	692	609
Accrued reinsurance expenses	294	731
Other	334	264
Deferred revenue	**416**	**395**
Other liabilities	**8,933**	**8,687**
Liabilities on account of repurchase transactions	470	1,154
Lease liabilities	1,077	1,064
Liabilities due under transactions on financial instruments	1,244	1,044
Liabilities to banks for payment documents cleared in interbank clearing systems	1,691	1,140
Liabilities on direct insurance	949	915
Liabilities on account of payment card settlements	359	354
Regulatory settlements	215	223
Liabilities for contributions to the Bank Guarantee Fund	741	514
Reinsurance liabilities	282	223
Estimated non-insurance liabilities	94	143
Liabilities to employees	57	42
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	27	30
Trade liabilities	426	611
Current income tax liabilities	343	355
Liabilities on account of employee leaves	184	156
Liabilities to the state budget other than for income tax	133	116
Liabilities on account of donations	17	21
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	43	21
Insurance Guarantee Fund	13	14
Liability for the refund of loan costs	91	88
Liabilities for direct claims handling	35	31
Other	442	428
Other liabilities, total	**12,089**	**12,434**

(in millions of PLN)

9.37 Provisions

Movement in provisions in the period ended 31 March 2021	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	555	137	-	(154)	3	541
Provision for retirement severance pays	323	7	(10)	-	-	320
Provision for disputed claims and potential liabilities	80	1	(7)	-	3	77
Provision of potential refunds of borrowing costs	128	-	(30)	-	-	98
Provision for legal risk pertaining to mortgage loans in Swiss francs	91	-	-	(2)	-	89
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	93	120	(44)	-	-	169
Provision for post-mortem benefits	32	-	-	-	-	32
Other	37	6	-	(1)	(1)	41
Total provisions	**1,378**	**271**	**(91)**	**(157)**	**5**	**1,406**

Movement in provisions in the period ended 31 December 2020	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	358	512	-	(318)	3	555
Provision for retirement severance pays	319	42	(31)	(16)	9	323
Provision for disputed claims and potential liabilities	80	27	(18)	(4)	(5)	80
Provision of potential refunds of borrowing costs	254	144	(270)	-	-	128
Provision for tax risk	-	4	-	(89)	85	-
Provision for legal risk pertaining to mortgage loans in Swiss francs	22	77	-	(8)	-	91
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	11	-	(57)	-	39
Provision for restructuring costs	34	144	(85)	-	-	93
Provision for post-mortem benefits	25	5	-	-	2	32
Other	34	21	(7)	(11)	-	37
Total provisions	**1,211**	**987**	**(411)**	**(503)**	**94**	**1,378**

Provision for potential refunds of borrowing costs

On 11 September 2019, the CJEU judgment in case C-383/18 was published. In its ruling, the CJEU stated that Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC should be interpreted as meaning that the consumer’s right to reduce the total cost of credit in the event of an early repayment includes all costs that have been imposed on the consumer.

Based on the legal interpretations in its possession, for the settlement of credit costs with borrowers the PZU Group applied the linear formula whereby a pro rata approach is adopted based on the period between the actual loan repayment date and the repayment date specified in the loan agreement and requires that any non-recurring cost be broken down on a pro rata basis across all payment periods.

In the case of early repayments of consumer and mortgage loans made before the date of the CJEU judgment, the PZU Group estimates the amount of expected disbursements pursuant to IAS 37 and recognizes a provision for this purpose which is charged to other operating expenses.

In the 3-month period ended 31 March 2021, PLN 30 million of the provision was utilized and its amount as at 31 March 2021 was PLN 98 million (PLN 128 million as at 31 December 2020). Its amount corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. The estimation of the provision has required adoption of a number of expert assumptions and entails a significant uncertainty following from, among others, the difficult to estimate volatility of the observed trends pertaining to the number and amounts of lodged complaints. For this reason the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

Provision for legal risk pertaining to FX mortgage loans in Swiss francs

On 3 October 2019, CJEU issued a ruling regarding the effects of possible abusiveness of the provisions of an individual agreement on a CHF-indexed loan granted by one of the banks. CJEU interpreted the provisions of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts in the context of the Swiss franc-indexed loan agreement. CJEU specified the effects of declaring the possible abusiveness of the conversion clauses by the national court, without analyzing at all the possible abusiveness of the contractual provisions. CJEU did not rule that if the national court deems a clause abusive, then it should automatically declare the entire agreement invalid. An assessment in this respect is up to the national court, however CJEU did not rule out the possibility of supplementing the gap resulting from the abusiveness of the conversion clauses using national supplementary provisions.

The CJEU ruling provides general guidance for Polish ordinary courts. The ultimate resolutions made by Polish courts will be based on EU regulations interpreted in accordance with the CJEU judgment, taking into consideration the national laws and analysis of the individual circumstances of each case. At the same time, there is still no established line of rulings in cases involving mortgage loans in Swiss francs, an observation that is often corroborated by mutually exclusive judgments issued by ordinary courts and requests for a preliminary ruling sent by ordinary courts to the CJEU and the Supreme Court to resolve their legal doubts. One should highlight the application submitted on 29 January 2021 by the First President of the Supreme Court to the full composition of the Supreme Court’s Civil Chamber regarding the question of resolution of the legal issues associated with CHF mortgage loans regarding, in particular, the following aspects:

- can abusive provisions regarding the method of determining the exchange rate of the currency in a indexed or denominated loan agreement be replaced by the provisions of civil or common law;
- if it is impossible to determine a binding exchange rate of a foreign currency in a denominated loan agreement, can the agreement bind the parties to the remaining extent;
- if it is impossible to determine a binding exchange rate of a foreign currency in a loan agreement, can the agreement bind the parties to the remaining extent;
- if a loan agreement is invalidated will the theory of balance or the theory of two condictions apply;
- what is the moment determining the start of the statute of limitations period if the bank makes a claim against the borrower for refund of the disbursed loan;
- is it possible for banks and borrowers to receive remuneration for the use of funds.

In the opinion of the PZU Group, the Supreme Court ruling in the above issues may have significant impact on the further line of court rulings in this respect. At the same time, discussions are waged in Poland regarding implementation of possible systemic solutions pertaining to FX mortgage loans in Swiss francs. In accordance with the proposal of the KNF Chairman of 8 December 2020, clients would have the possibility of converting their FX mortgage loan into a PLN loan (as if the borrower had, from the beginning, a PLN loan with interest based on WIBOR 3M with a margin adequate to historical levels (depending on when the loan was granted).

As at 31 March 2021, there were 797 individual course cases pending against the PZU Group pertaining to FX mortgage loans in Swiss francs which were granted in previous years with the total disputed amount of PLN 219 million (as at 31 December 2020 there were 592 cases pending with the value of PLN 160 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid. In Q1 2021, the PZU Group received 9 unfavorable court judgments in cases filed by borrowers, including 1 final judgments declaring the loan agreement invalid, and 2 favorable non-final court judgments, including 1 judgment, by which the court discontinued the claim for declaring the loan agreement invalid and dismissed the claim for payment (in 2020: 36 unfavorable court judgments in cases filed by borrowers, including 3 final judgments declaring the loan agreement invalid, and 13 favorable court judgments, including 2 final judgments dismissing the claim for declaring the loan agreement invalid and a claim for payment in connection with the invalidity of the loan agreement.

(in millions of PLN)

As at 31 March 2021, the level of the provision for legal risk associated with FX mortgage loans in Swiss franc was PLN 436 million (PLN 436 million as at 31 December 2020).

The above amount comprises a provision for individual court cases in which the PZU Group is a party and a portfolio provision for the remaining FX mortgage loans in Swiss franc which are exposed to legal risk associated with the nature of these agreements.

The rules for estimating these provisions as at 31 March 2021 were consistent with those applied as at 31 December 2020 and are described in detail in the consolidated financial statements for 2020.

Considering the short history of the data on the scale of the statements of claim (in particular on final verdicts), the significant complexity of the different legal aspects which may occur with regard to such loan agreements and the resulting undeveloped direction of possible court resolutions, the estimates regarding the above provision required that the PZU Group make a number of expert assumptions on the basis of its professional judgment.

New rulings and mainly the expected, even though currently postponed, resolution of the full composition of the Supreme Court’s Civil Chamber and the possible sectoral solutions which will appear in the Polish market for CHF mortgage loans may have impact on the amount of the provision established by the PZU Group and necessitate a change of individual assumptions adopted in the calculations. In connection with this uncertainty it is possible that the provision amount will change in the future.

The PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and the provision amount is the difference between the expected cash flows from the given exposure and the contractual cash flows within the meaning of IFRS 9.

In connection with the above, for the FX exposures of CHF mortgage loans outstanding as at 31 March 2021, it has been assumed that the provision amount (comprising the existing and possible future statements of claim) is recognized in the “Impairment losses for loan receivables from clients” (in correspondence with the item “Movement in allowances for expected credit losses and impairment losses on financial instruments”) up to the amount of the credit exposure. The PZU Group recognizes that with regard to the CHF loan portfolio there was a significant increase in credit risk from the date of initial recognition and classifies these loans into Basket 2.

In the case of part of the provision pertaining to repaid CHF mortgage loans (comprising existing and possible future statements of claim) or if the provision amount exceeds the net carrying amount of the credit exposure, the provision amount is recognized as “Provisions” (in correspondence with “Other operating expenses”).

A summary of the recognition of the provision for legal risk pertaining to CHF mortgage loans in the statement of financial position and profit and loss account is presented in the tables below.

Consolidated statement of financial position line items	31 March 2021	31 December 2020
Impairment losses for loan receivables from clients	347	345
individual provision	85	65
portfolio provision	262	280
Other provisions	89	91
individual provision	14	11
portfolio provision	75	80
Total	**436**	**436**

Consolidated profit and loss account line items	1 January – 31 March 2021	1 January – 31 March 2020
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1)	(2)
Other operating expenses	1	2
Total	-	-

(in millions of PLN)

Provisions for guarantees and sureties given

This item includes provisions recognized by banks for the potential loss of economic benefits resulting from off-balance sheet exposures (e.g. granted guarantees or credit exposures).

Provision for penalties imposed by the Office of Competition and Consumer Protection

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case, the PZU Group maintains a provision to cover this risk.

The amount of PLN 11 million pertains to the penalty imposed by the President of the Office of Competition and Consumer Protection as a result of the decision in which he deemed that the clause used by Pekao in annexes to agreements on the rules for setting foreign exchange rates is an impermissible contractual clause. Pekao intends to submit an appeal to the court against the decision made by the President of UOKiK.

Provision for restructuring costs

The Pekao Management Board reported that on 3 March 2021, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

The Pekao Management Board intended to terminate employment contracts with a maximum of 1,110 employees and modify employment conditions with a maximum of 1,250 employees in the period from 24 March 2021 to 30 June 2021.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs has been estimated at PLN 120 million and the restructuring provision in this amount has been established for this purpose.

9.38 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 31 March 2021	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	6,439	(193)	-	24	10	6,280
Debt securities liabilities	7,532	(1,354)	11	2	(2)	6,189
Bonds	4,597	(818)	9	-	(1)	3,787
Certificates of deposit	1,611	(417)	2	-	1	1,197
Covered bonds	1,324	(119)	-	2	(2)	1,205
Subordinated liabilities	6,679	(213)	26	-	-	6,492
Liabilities on account of repurchase transactions	1,154	(684)	-	-	-	470
Lease liabilities	1,064	(79)	10	-	82	1,077
Total	**22,868**	**(2,523)**	**47**	**26**	**90**	**20,508**

(in millions of PLN)

Movement in liabilities attributable to financial activities in the period ended 31 December 2020	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,427	716	-	296	-	6,439
Debt securities liabilities	9,273	(1,816)	67	19	(11)	7,532
Bonds	3,976	583	40	(1)	(1)	4,597
Certificates of deposit	3,940	(2,355)	27	1	(2)	1,611
Covered bonds	1,357	(44)	-	19	(8)	1,324
Subordinated liabilities	6,700	(162)	138	3	-	6,679
Liabilities on account of repurchase transactions	599	556	5	-	(6)	1,154
Lease liabilities	1,066	(275)	37	-	236	1,064
Total	**23,065**	**(981)**	**247**	**318**	**219**	**22,868**

10. Assets securing receivables, liabilities and contingent liabilities

The table presents the carrying amount of the collateral, by type of secured liability.

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2021	31 December 2020
Carrying amount of financial assets pledged as collateral for liabilities	9,302	11,671
Repurchase transactions	468	1,154
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	893	980
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	233	216
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	392	391
Lombard and technical credit	5,835	5,852
Other loans	490	699
Issue of covered bonds	534	1,838
Coverage of the Settlement Guarantee Fund for the Central Securities Depository of Poland	51	43
Derivative transactions	365	456
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	41	42
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**9,302**	**11,671**

(in millions of PLN)

11. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2021	31 December 2020
Contingent assets, including:	6	7
- guarantees and sureties received	6	7
Contingent liabilities	65,491	65,785
- for renewable limits in settlement accounts and credit cards	5,076	4,830
- for loans in tranches	42,966	39,733
- guarantees and sureties given	6,093	9,826
- disputed insurance claims	770	771
- other disputed claims	216	222
- other, including:	10,370	10,403
- guaranteeing securities issues	4,003	4,339
- factoring	4,393	4,136
- intra-day limit	415	425
- letters of credit and commitment letters	1,309	1,231
- other	250	272

Granting of sureties or guarantees for loans or borrowings by PZU or its subsidiaries

In the period of 3 months ended on 31 March 2021 and in 2020, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant, with the exception of the issue described below.

On 2 November 2020 PZU entered into Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time with Alior Bank. In addition, PZU entered into Annex no. 1 to the Master Agreement to Provide Counter Guarantees from Time to Time. Detailed information on this matter is presented in the consolidated financial statements for 2020.

12. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2021, gross written premium was PLN 6,148 million compared to PLN 6,097 million in the corresponding period of the previous year (+0.8%). The increase in sales applied above all to the following:

- unit-linked and protection products offered in collaboration with banks and endowment and term products offered in its own channels;
- portfolio of group health products concluded in a group or continued form;
- in the Baltic health insurance and property insurance companies;
- insurance against fire and other damage to property in the corporate insurance segment as the offshoot of signing several high-value agreements, including a renewal of the long-term agreement (18 months) with a power sector entity;

The increases were partially offset by lower premiums in:

- motor insurance in both segments of the insurance activity in Poland, mainly as a result of the increasing price competition;
- natural catastrophe insurance and insurance for other physical claims in the mass client segment – lower sales of crop insurance and farm building insurance.

Investment income including interest expenses in Q1 2021 and Q1 2020 was PLN 2,406 million and PLN 1,371 million, respectively. An increase in investment income was posted in banking activity and net of banking activity. In banking activity, the increase in profit was triggered, in particular, by the lower costs of risk due to the recognition of additional loan provisions for expected credit losses. At the same time interest income of both banks fell y/y as a result of a decrease in interest rates.

Investment income excluding banking activity[1], was higher than in Q1 2020, mainly due to an increased valuation of shares in a logistics company following its IPO. Higher investment income was recorded also in the portfolio of assets to cover investment products, but it does not affect the PZU Group's overall net result.

Net claims and benefits (including the movement in technical provisions) reached PLN 3,926 million and were 19.7% higher than in the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- in life insurance an increase in benefits for the insureds' and co-insureds' death in Q1 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- higher investment result on most unit-linked product portfolios compared to the results generated last year, and business growth in protection products.

In Q1 2021 acquisition expenses fell PLN 37 million compared to the corresponding period of the previous year. This decline was mainly due to the shift in the mix of products and sales channels.

PZU Group's administrative expenses in Q1 2021 totaled PLN 1,702 million compared to PLN 1,679 million in the corresponding period of 2020, or they were PLN 23 million higher than in the previous year.

Administrative expenses in the banking activity segment (net of adjustments on account of the valuation of assets and liabilities to fair value) increased by PLN 12 million (1.0%). The increase was caused mainly by higher personnel costs in Bank Pekao. At the same time, the administrative expenses of the insurance segments in Poland were PLN 11 million higher compared to the previous year. Their movement was driven predominantly by higher personnel costs in connection with wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic) and an increase in the costs of maintenance of properties due to the indexation of lease prices and utilities and IT costs (higher costs of amortization of systems).

In Q1 2021, the balance of other net operating income and expenses was negative and amounted to PLN 843 million compared with the balance for 2020, which was also negative, at PLN 1,466 million. The following contributed to this result:

- in the corresponding period last year, a non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million;
- decrease in BFG charges from PLN 339 million in Q1 2020 to PLN 266 million in 2021;
- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in Q1 2021 was PLN 317 million compared to PLN 291 million in the corresponding period of the previous year. The higher burden was attributable in particular to banking activity and resulted from the increase in value of assets forming the taxable base (the rate of the levy did not change).

In Q1 2021 operating profit hit PLN 1,632 million, up by PLN 976 million (+148.8%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- better performance in the banking segment (PLN +633 million); in Q1 2020 there was a one-off effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 516 million) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses;
- higher performance on investing activities due to an increased valuation of shares in a logistics company following its IPO;
- higher result on individual insurance (PLN +7 million) with an expanding insurance portfolio (mainly protection products in both bancassurance and own channels);
- lower profitability in group and individually continued insurance (PLN -218 million) on account of the increased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- lower profitability in the mass insurance segment (PLN -95 million) – effect of a higher loss ratio in non-motor insurance coupled with a reduction in net earned premium;

[1] Banking activity: data of Pekao and Alior Bank

- lower operating result in the corporate client segment (-PLN 45 million) as the outcome of an increase in the loss ratio in the portfolio of motor own damage, other property claims and aircraft casco insurance, coupled with the concurrent dip in motor insurance sales.

The net profit grew in comparison to Q1 2020 by PLN 882 million (+305.2%) to PLN 1,171 million. Net profit attributable to shareholders of the parent company was PLN 897 million compared to PLN 116 million in 2020 (up 673.3%).

As at 31 March 2021, consolidated equity according to IFRS was PLN 43,842 million compared to PLN 39,642 million as at 31 March 2020. Growth pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2021 to 31 March 2021 was 18.8%, up 15.9 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2020, equity increased by PLN 439 million. The value of non-controlling interests decreased compared to the end of the previous year by PLN 158 million to PLN 24,468 million, its movement driven by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the profit attributable to non-controlling owners of PLN 274 million (generated by Alior Bank and Bank Pekao). Equity attributable to the parent company's shareholders rose by PLN 597 million compared to the end of the previous year, driven predominantly by the net result attributable to the parent company generated in Q1 2021 totaling PLN 897 million, partially offset by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income.

Total equity and liabilities as at 31 March 2021 increased compared to 31 December 2020 by PLN 16,444 to PLN 395,418 million. This growth pertained mainly to liabilities to clients in the form of deposits (+PLN 19,109 million).

The investment portfolio (investment financial assets, investment properties and financial derivatives) as at 31 March 2021 totaled PLN 150,173 million and was up PLN 419 million versus the end of last year. The increase in the value of investments affected the business excluding banks and resulted from investment performance and the inflow of premiums driven by business growth. In the banking activity, the investment portfolio fell in connection with a lower level of the portfolio of treasury debt securities in Bank Pekao. Loan receivables as at 31 March 2021 were PLN 209,667 million compared to PLN 197,288 million as at 31 December 2020.

Liabilities to clients in the form of deposits were the largest component of liabilities as at 31 March 2021. The increase in the amount thereof by PLN 19,109 million to PLN 261,084 pertained to clients' current deposits. At the same time, a drop in term deposits was recorded.

The value of technical provisions at the end of Q1 2021 was PLN 48,948 million and accounted for 12.4% of total equity and liabilities. Compared to 31 December 2020, provisions rose by PLN 477 million. The change was driven mainly by the increase in provisions for unearned premiums and provisions for outstanding claims and benefits in non-life insurance.

13. Equity management

On 25 March 2021 the PZU Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2021-2024 ("Policy").

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the PZU Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through organic growth and acquisitions;
- ensure sufficient financial means to cover the PZU Group's liabilities to its clients.

[2] Annualized ratio, used as an Alternative Performance Measure (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415).

The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- PZU will not issue any new shares for the duration of this Policy.

It is assumed that certain temporary deviations in the actual solvency ratio above or below the target level may occasionally occur.

The PZU and PZU Group's dividend policy rests on the following principles:

- The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for PZU's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- the dividend amount proposed by the PZU Management Board paid for the financial year is determined on the basis of the PZU Group's consolidated financial result attributable to equity holders of the parent company, where:
  - no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
  - no less than 50% is subject to payment as an annual dividend;
  - the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions

subject to the items below:

- according to the PZU Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of the parent company and the PZU Group following the declaration of payment or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the capital policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

External capital requirements

According to the Insurance Activity Act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. Assets, liabilities and as a consequence own funds covering the capital requirement are measured at fair value. The capital requirement is calculated in accordance with the standard formula at the level of the entire PZU Group.

Pursuant to Article 412 sec. 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2020 report published on 12 May 2021 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to Article 290 sec. 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

Irrespective of the foregoing, some PZU Group companies are required to comply with their own capital requirements imposed by the relevant legal regulations.

The PZU Group's solvency ratio as at 31 December 2020 published in the PZU Group's 2020 solvency and financial condition report was 236%.

The maintained levels of solvency ratio comply with those assumed in the capital policy and dividend policy of the PZU Group.

14. Segment reporting

14.1 Reportable segments

14.1.1. Key classification criterion

Operating segments are components of an entity for which separate financial information is available and is subject to regular assessment by CODM (in practice this is the PZU Management Board), related to allocating resources and assessing operating results.

The main dividing line between segments in the PZU Group is based on the criteria of the nature of business, product groups, client groups and the regulatory environment. The characteristics of individual segments is provided in the table below.

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by LD and its branch in Estonia, Balta and PZU LT GD.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.

Segment	Accounting standards	Segment description	Aggregation criteria
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

14.1.2. Information relating to geographical areas

The PZU Group applies additional segmentation by geographic location, according to which the following geographic areas were identified:

- Poland;
- Baltic states;
- Ukraine.

14.2 Inter-segment settlements

The net result of investments (the difference between realized and unrealized revenues and costs) carried in corporate insurance (non-life), mass insurance (non-life), group and individually continued insurance (life), individual insurance (life) is determined on the basis of transfer prices using interest rates from the yield curves for treasuries. For unit-linked insurance products, guaranteed rate products and structured products the net result of investments covering the technical provisions corresponding to them is carried directly.

14.3 Segment's measure of profit

The PZU Group's fundamental measure of a segment's profit is as follows:

- in the case of corporate, mass, group, individually continued and individual insurance segments – insurance result, which is the financial result before tax and other operating income and expenses (including financial costs), however including investment income (corresponding to the value of technical provisions) determined using the risk-free rate. The insurance result is a measure approximately equivalent to the technical result defined in PAS, taking into account the difference in the recognition of the net result on investments as described in the previous sentence;
- in the case of the investment segment – the investment result of PZU Group companies minus the result allocated to insurance segments and adjusted for dividends received from subsidiaries and valuation of these entities using the equity method (carried out in accordance with PAS);
- in the case of investment contracts – the operating result, calculated in the manner approximately equivalent to the technical result in accordance with PAS;
- in the case of banking activity and foreign insurance activity – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax.

14.4 Accounting policies applied according to PAS

14.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2020.

PZU's 2020 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

14.4.2. PZU Życie

The accounting standards according to PAS applicable to PZU Życie are convergent with the PAS applicable to PZU.

What is unique to PZU Życie is the rules of accounting for insurance contracts and investment contracts according to IFRS.

The fundamental difference between PAS and IFRS in respect of accounting for insurance contracts and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance contracts. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 "Insurance contracts" on the classification of products as insurance contracts (subject to IFRS 4) or investment contracts (measured according to IAS 9 "Financial instruments"). In the case of the latter the written premium is not recognized.

14.5 Simplifications in the segmental note

The segmental note has applied certain simplifications permitted by IFRS 8 "Operating segments":

- withdrawing from presenting data related to the allocation of all assets and liabilities to various segments – resulting from not preparing and not presenting such tables to the PZU Management Board. The main information delivered to the PZU Management Board consists of data regarding the results of given segments and managerial decisions are made on this basis, including decisions on resource allocation. The analysis of the segmental allocation of assets and liabilities is limited to a large extent to monitoring the fulfillment of the regulatory requirements;
- presenting the net result on investments as a single amount as the difference between the realized and unrealized revenues and the costs of investments – stemming from the internal assessment of the segmental results based on such a combined measure of investment results;
- not allocating other revenues and costs to the segment called „investments" besides realized and unrealized revenues and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation.

(in millions of PLN)

14.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	667	666
Gross written premium – cross-segment	9	7
Gross written premiums	**676**	**673**
Movement in provision for unearned premiums and gross provision for unexpired risks	97	101
Gross earned premium	**773**	**774**
Reinsurers' share in gross written premium	(86)	(124)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(112)	(49)
Net earned premiums	**575**	**601**
Investment income, including:	24	43
external operations	24	43
intersegment operations	-	-
Other net technical income	9	23
Income	**608**	**667**
Net insurance claims and benefits	(372)	(386)
Acquisition expenses	(128)	(129)
Administrative expenses	(37)	(36)
Reinsurance commissions and profit participation	15	10
Other	(25)	(20)
Insurance result	**61**	**106**

Mass insurance (non-life insurance)	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	2,707	2,755
Gross written premium – cross-segment	15	7
Gross written premiums	**2,722**	**2,762**
Movement in provision for unearned premiums and gross provision for unexpired risks	(266)	(220)
Gross earned premium	**2,456**	**2,542**
Reinsurers' share in gross written premium	(43)	(9)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	(13)
Net earned premiums	**2,413**	**2,520**
Investment income, including:	101	170
external operations	101	170
intersegment operations	-	-
Other net technical income	31	34
Income	**2,545**	**2,724**
Net insurance claims and benefits	(1,489)	(1,529)
Acquisition expenses	(503)	(492)
Administrative expenses	(170)	(166)
Reinsurance commissions and profit participation	23	(1)
Other	(80)	(115)
Insurance result	**326**	**421**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	1,757	1,759
Gross written premium – cross-segment	-	-
Gross written premiums	**1,757**	**1,759**
Movement in the provision for unearned premiums	12	(1)
Gross earned premium	**1,769**	**1,758**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premiums	**1,769**	**1,758**
Investment income, including:	132	25
external operations	132	25
intersegment operations	-	-
Other net technical income	-	1
Income	**1,901**	**1,784**
Net insurance claims and benefits and movement in other net technical provisions	(1,466)	(1,121)
Acquisition expenses	(88)	(97)
Administrative expenses	(162)	(158)
Other	(5)	(10)
Insurance result	**180**	**398**

Individual insurance (life insurance)	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	487	416
Gross written premium – cross-segment	-	-
Gross written premiums	**487**	**416**
Movement in the provision for unearned premiums	1	2
Gross earned premium	**488**	**418**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premiums	**488**	**418**
Investment income, including:	15	(267)
external operations	15	(267)
intersegment operations	-	-
Other net technical income	-	1
Income	**503**	**152**
Net insurance claims and benefits and movement in other net technical provisions	(351)	(22)
Acquisition expenses	(52)	(39)
Administrative expenses	(22)	(20)
Other	(1)	(1)
Insurance result	**77**	**70**

Investments	1 January – 31 March 2021	1 January – 31 March 2020
Investment income, including:	501	(142)
- external operations	488	(161)
- intersegment operations	13	19
Operating result	**501**	**(142)**

(in millions of PLN)

Banking activity	1 January – 31 March 2021	1 January – 31 March 2020
Revenue from commissions and fees	1,042	975
- external operations	1,004	946
- intersegment operations	38	29
Investment income	1,765	2,111
- external operations	1,765	2,111
- intersegment operations	-	-
Income	**2,807**	**3,086**
Fee and commission expenses	(257)	(235)
Interest expenses	(117)	(463)
Administrative expenses	(1,239)	(1,227)
Other	(622)	(1,222) [1)]
Operating result	**572**	**(61)**

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million.

Pension insurance	1 January – 31 March 2021	1 January – 31 March 2020
Investment income, including:	1	1
external operations	1	1
intersegment operations	-	-
Other income	31	47
Income	**32**	**48**
Administrative expenses	(14)	(9)
Other	(1)	(1)
Operating result	**17**	**38**

Insurance - Baltic States	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	462	423
Gross written premium – cross-segment	-	-
Gross written premiums	**462**	**423**
Movement in provision for unearned premiums and gross provision for unexpired risks	(33)	9
Gross earned premium	**429**	**432**
Reinsurers' share in gross written premium	(33)	(33)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	17	19
Net earned premiums	**413**	**418**
Investment income, including:	11	(27)
external operations	11	(27)
intersegment operations	-	-
Income	**424**	**391**
Net insurance claims and benefits	(258)	(234)
Acquisition expenses	(83)	(86)
Administrative expenses	(34)	(35)
Other	1	1
Insurance result	**50**	**37**

(in millions of PLN)

Insurance – Ukraine	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium – external	67	79
Gross written premium – cross-segment	-	-
Gross written premiums	**67**	**79**
Movement in provision for unearned premiums and gross provision for unexpired risks	(2)	6
Gross earned premium	**65**	**85**
Reinsurers' share in gross written premium	(20)	(27)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	2	-
Net earned premiums	**47**	**58**
Investment income, including:	6	16
external operations	6	16
intersegment operations	-	-
Income	**53**	**74**
Net insurance claims and benefits	(20)	(26)
Acquisition expenses	(24)	(31)
Administrative expenses	(9)	(8)
Other	6	9
Insurance result	**6**	**18**

Investment contracts	1 January – 31 March 2021	1 January – 31 March 2020
Gross written premium	9	9
Movement in the provision for unearned premiums	-	-
Gross earned premium	**9**	**9**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premiums	**9**	**9**
Investment income, including:	(1)	(29)
external operations	(1)	(29)
intersegment operations	-	-
Other income	-	-
Income	**8**	**(20)**
Net insurance claims and benefits and movement in other net technical provisions	(6)	22
Acquisition expenses	-	-
Administrative expenses	(1)	(1)
Operating result	**1**	**1**

Other segments	1 January – 31 March 2021	1 January – 31 March 2020
Investment income, including:	1	1
- external operations	1	1
- intersegment operations	-	-
Other income	368	312
Income	**369**	**313**
Expenses	(378)	(331)
Other	4	5
Operating result	**(5)**	**(13)**

(in millions of PLN)

Reconciliations 1 January 2021 - 31 March 2021	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administra-tive expenses	Operating result
Corporate insurance	575	24	(372)	(128)	(37)	61
Mass insurance	2,413	101	(1,489)	(503)	(170)	326
Group and individually continued insurance	1,769	132	(1,466)	(88)	(162)	180
Individual insurance	488	15	(351)	(52)	(22)	77
Investments	-	501	-	-	-	501
Banking activity	-	1,765	-	-	(1,239)	572
Pension insurance	-	1	-	(1)	(14)	17
Insurance - Baltic States	413	11	(258)	(83)	(34)	50
Insurance – Ukraine	47	6	(20)	(24)	(9)	6
Investment contracts	9	(1)	(6)	-	(1)	1
Other segments	-	1	-	-	-	(5)
Total segments	**5,714**	**2,556**	**(3,962)**	**(879)**	**(1,688)**	**1,786**
Presentation of investment contracts	(9)	2	6	-	-	-
Estimated salvage and subrogation	-	-	2	-	-	2
Valuation of equity instruments	-	-	-	-	-	-
Valuation of properties	-	(1)	-	-	-	(1)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(12)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(19)	(25)	28	81	(4)	(133)
Consolidated data	**5,686**	**2,532** [2]	**(3,926)**	**(798)**	**(1,702)**	**1,632**

[1] Consolidation adjustments ensue chiefly from the dividends paid between the various segments and the various accounting standards in which the specific reporting segments are reported (PAS and IFRS) and consolidated data (IFRS).

[2] The sum of the following line items in the consolidated profit and loss account: “Interest income calculated using the effective interest rate”, “Other net investment income”, “Result on derecognition of financial instruments and investments”, “Movement in allowances for expected credit losses and impairment losses on financial instruments” and “Net movement in fair value of assets and liabilities measured at fair value”.

(in millions of PLN)

Reconciliations 1 January 2020 - 31 March 2020	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	601	43	(386)	(129)	(36)	106
Mass insurance	2,520	170	(1,529)	(492)	(166)	421
Group and individually continued insurance	1,758	25	(1,121)	(97)	(158)	398
Individual insurance	418	(267)	(22)	(39)	(20)	70
Investments	-	(142)	-	-	-	(142)
Banking activity	-	2,111	-	-	(1,227)	(61) [1]
Pension insurance	-	1	-	(1)	(9)	38
Insurance - Baltic States	418	(27)	(234)	(86)	(35)	37
Insurance – Ukraine	58	16	(26)	(31)	(8)	18
Investment contracts	9	(29)	22	-	(1)	1
Other segments	-	1	-	-	-	(13)
Total segments	**5,782**	**1,902**	**(3,296)**	**(875)**	**(1,660)**	**873**
Presentation of investment contracts	(9)	30	(22)	-	-	-
Estimated salvage and subrogation	-	-	(2)	-	-	(2)
Valuation of equity instruments	-	(4)	-	-	-	(4)
Valuation of properties	-	-	-	-	-	2
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(5)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [2]	(11)	(72)	39	40	(9)	(198)
Consolidated data	**5,762**	**1,856** [3]	**(3,281)**	**(835)**	**(1,679)**	**656**

[1] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 516 million).
[2] Consolidation adjustments ensue chiefly from the dividends paid between the various segments and the various accounting standards in which the specific reporting segments are reported (PAS and IFRS) and consolidated data (IFRS).
[3] The sum of the following line items in the consolidated profit and loss account: "Interest income calculated using the effective interest rate", "Other net investment income", "Result on derecognition of financial instruments and investments", "Movement in allowances for expected credit losses and impairment losses on financial instruments" and "Net movement in fair value of assets and liabilities measured at fair value".

Geographic breakdown	1 January – 31 March 2021					1 January – 31 March 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value
Gross written premium – external	5,619	462	67	-	6,148	5,595	423	79	-	6,097
Gross written premium – cross-segment	(8)	-	-	8	-	6	-	-	(6)	-
Revenue from commissions and fees	1,065	-	-	-	1,065	1,019	-	-	-	1,019
Investment income [1]	2,515	11	6	-	2,532	1,867	(27)	16	-	1,856

[1] The sum of the following line items in the consolidated profit and loss account: "Interest income calculated using the effective interest rate", "Other net investment income", "Result on derecognition of financial instruments and investments", "Movement in allowances for expected credit losses and impairment losses on financial instruments" and "Net movement in fair value of assets and liabilities measured at fair value".

Geographic breakdown	31 March 2021					31 December 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value
Non-current assets, other than financial assets [1]	7,081	275	6	-	7,362	7,116	272	6	-	7,394
Deferred tax assets	2,640	-	3	-	2,643	2,509	-	2	-	2,511
Assets	392,623	3,571	601	(1,377)	395,418	376,435	3,406	535	(1,402)	378,974

[1] Applies to intangible assets and property, plant and equipment.

(in millions of PLN)

14.7 Information on key customers

Due to the nature of operations undertaken by PZU Group companies, there are no customers that would provide 10% or more of total revenues of the PZU Group (defined as gross written premium).

15. Commentary to segment reporting and investing activity

15.1 Corporate insurance – non-life insurance

In Q1 2021 gross written premium in the corporate insurance segment increased from Q1 2020 by PLN 3 million (0.4% y/y). The following factors were recorded concerning premiums:

- premium increase in insurance against fire and other damage to property as the offshoot of signing several high-value agreements, including a renewal of the long-term agreement (18 months) with a power sector entity;
- higher premium in the third party liability portfolio (+14.4% y/y);
- lower premium on motor insurance (-7.2% y/y) as a result of an increased activity among the competition, which drives price pressure;
- lower gross written premium in the assistance insurance portfolio under strategic partnerships in TUW PZUW and lower premium from insurance bonds.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	676	673	0.4%
Net earned premiums	575	601	(4.3)%
Investment income	24	43	(44.2)%
Net insurance claims and benefits	(372)	(386)	(3.6)%
Acquisition expenses	(128)	(129)	(0.8)%
Administrative expenses	(37)	(36)	2.8%
Reinsurance commissions and profit-sharing	15	10	50.0%
Other	(16)	3	x
Insurance result	**61**	**106**	**(42.5)%**
acquisition expenses ratio (including reinsurance commission)[1)]	19.7%	19.8%	(0.1) p.p.
administrative expense ratio [1)]	6.4%	6.0%	0.4 p.p.
loss ratio [1)]	64.7%	64.2%	0.5 p.p.
combined ratio (COR) [1)]	90.8%	90.0%	0.8 p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

Net insurance claims and benefits slipped 3.6% while net earned premium edged down by 4.3%, translating into deterioration in the loss ratio by 0.5 percentage point. The higher loss ratio in the segment was driven by:

- higher loss ratio in the portfolio of aircraft casco insurance and marine navigation insurance caused by large claims;
- higher loss ratio in the motor insurance group, following a reduction of the loss ratio in TPL insurance offset by a significantly worse loss ratio in motor own damage insurance. The increased loss ratio resulted mainly from the higher average payout and depreciation of the Polish zloty vs. the euro in foreign currency claims, which was partially offset by a lower frequency of reported claims.

The lower income from investments allocated according to transfer prices to the corporate insurance segment was caused mainly by a less pronounced appreciation of the euro against the Polish zloty.

Acquisition expenses (including reinsurance commissions) were PLN 113 million, down by PLN 6 million (-5.0%) from the corresponding period last year, which, considering the decrease in the net earned premium by 4.3%, represented a 0.1 p.p.

(in millions of PLN)

improvement in the acquisition expense ratio. The factor driving the change in the level of acquisition expenses was a change in the mix of products and sales channels.

The increase in administrative expenses y/y of 2.8% (PLN 1 million) was driven predominantly by the growing personnel costs as a result of wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the continuing pandemic) and an increase in the costs of maintenance of properties as a result of an indexation of lease and utility prices.

In Q1 2021, the corporate insurance segment generated an operating result of PLN 61 million, signifying a 42.5% decline compared to the corresponding period of the previous year. The lower result is an outcome of the higher loss ratio in the portfolio of motor own damage insurance, other property claims and aircraft casco insurance, coupled with the concurrent dip in motor insurance sales.

15.2 Mass insurance – non-life insurance

In Q1 2021 gross written premium in the mass insurance segment fell PLN 40 million (-1.4% y/y) compared to the corresponding period of 2020. This change resulted primarily from the following:

- lower gross written premium in natural catastrophe insurance and insurance for other physical claims (-8.5% y/y) driven mainly by lower sales of crop insurance and farm building insurance;
- decrease in gross written premium in motor insurance by 1.9% y/y as the outcome of a lower number of insurance and mounting price pressures;
- higher premium in ADD and other insurance (+13.9% y/y), chiefly as a result of the growing sales of insurance offered in cooperation with the Group's banks for cash loans. This effect was partly offset among others by lower sales of travel insurance;

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	2,722	2,762	(1.4)%
Net earned premiums	2,413	2,520	(4.2)%
Investment income	101	170	(40.6)%
Net insurance claims and benefits	(1,489)	(1,529)	(2.6)%
Acquisition expenses	(503)	(492)	2.2%
Administrative expenses	(170)	(166)	2.4%
Reinsurance commissions and profit-sharing	23	(1)	x
Other	(49)	(81)	(39.5)%
Insurance result	**326**	**421**	**(22.6)%**
acquisition expenses ratio (including reinsurance commission)[1)]	19.9%	19.6%	0.3 p.p.
administrative expense ratio [1)]	7.0%	6.6%	0.5 p.p.
loss ratio [1)]	61.7%	60.7%	1.0 p.p.
combined ratio (COR) [1)]	88.6%	86.8%	1.8 p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

Net insurance claims and benefits slipped 2.6% while net earned premium edged down by 4.2%, translating into deterioration in the loss ratio by 1.0 percentage point.

This change was driven mainly by:

- lower loss ratio in the motor insurance class as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with the continuing COVID-19 pandemic and rising loss inflation;

(in millions of PLN)

- deterioration of the loss ratio in non-motor insurance, including insurance against fire and other damage to property, chiefly due to an increase in losses in agricultural and housing insurance.

The lower income from investments allocated according to transfer prices to the mass insurance segment was caused mainly by a less pronounced appreciation of the euro against the Polish zloty.

After the first 3 months of 2021, acquisition expenses (including reinsurance commission) were PLN 480 million, down PLN 13 million (-2.6%) from the corresponding period last year, which considering the decrease in net earned premium by 4.2%, represented a 0.3 p.p. deterioration in the acquisition expense ratio. The driver of this change in the level of acquisition expenses was the shift in the mix of products and sales channels, including a lower rate of growth in sales of motor TPL insurance characterized by lower commission rates.

The PLN 4 million increase in administrative expenses (+2.4% y/y) was driven mainly by the growing personnel costs as a result of wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the continuing pandemic) and an increase in the costs of maintenance of properties as a result of an indexation of lease and utility prices.

The PLN 95 million decrease in the operating result of the mass insurance segment (-22.6%) compared to Q1 2020 was caused by a higher loss ratio in non-motor insurance coupled with a reduction in net earned premium.

15.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 2 million (0.1%) lower than in the corresponding period last, which resulted primarily from:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of March 2021, PZU Życie had nearly 2.3 million in force contracts of this type.
- active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements.

At the same time, revenues from group protection products remained under pressure posed by higher attrition of the insureds in groups (work establishments), and the limited pressure on the growth rate of the average premium helped control the loss ratio in group protection products.

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	1,757	1,759	(0.1)%
Group insurance (periodic premium)	1,243	1,248	(0.4)%
Individually continued insurance (periodic premium)	514	511	0.6%
Net earned premiums	1,769	1,758	0.6%
Investment income	132	25	428.0%
Net insurance claims and benefits and movement in other net technical provisions	(1,466)	(1,121)	30.8%
Acquisition expenses	(88)	(97)	(9.3)%
Administrative expenses	(162)	(158)	2.5%
Other	(5)	(9)	(44.4)%
Insurance result	**180**	**398**	**(54.8)%**
acquisition expense ratio [1)]	5.0%	5.5%	(0.5) p.p.
administrative expense ratio [1)]	9.2%	9.0%	0.2 p.p.
insurance margin [1)]	10.2%	22.6%	(12.4) p.p.

[1)] Ratios calculated using gross written premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

The investment result consists of income allocated using transfer prices in protection products and income on investment products. In the group and individually continued insurance segment, investment income rose mainly due to an increase in results on unit-linked investment products, especially Employee Pension Schemes, due to better conditions on financial markets. At the same time income from investments linked to investment products does not affect the result of the group and individually continued insurance segment because it is offset by changes in insurance liabilities.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 1,466 million, which signifies a y/y increase of PLN 345 million, or 30.8%. This change was driven by the following factor in particular:

- an increase in benefits for the insureds' and co-insureds' death in Q1 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- an increase in technical provisions in Employee Pension Schemes (EPS, a third pillar retirement security product), where this was caused by higher investment results of unit-linked insurance accounts this year;
- higher benefits paid in Employee Pension Schemes (EPS, a third pillar pension security product) on account of reaching the retirement age and the higher amount of transfer payments;
- higher level of medical benefits under health products due to the growth of this contract portfolio,
- higher disbursements of benefits in the portfolio of bank protection products as a result of an increase in individual benefits;

The foregoing effects were partially offset by the following:

- higher than last year reversal of mathematical provisions in individually continued insurance, which was caused by higher payments on account of deaths of the insured,
- declining value of benefits for childbirth, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS),
- lower nominal level of benefit disbursements for critical illness and hospital treatment, as well as disbursements associated with permanent impairment of health due to reduced activity of the insured (an effect of lockdown) as well as postponement of medical treatments resulting from reduced access to health care during the COVID-19 pandemic,
- the higher pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, in 2021 PLN 4.7 million of provisions was released, some PLN 1 million more than in the corresponding period of 2020;

Acquisition expenses in the group and individually continued insurance segment during Q1 2021 were PLN 88 million, falling by PLN 9 million (9.3%) compared to last year.

The increase in administrative expenses y/y of 2.5% (PLN 4 million) was driven mainly by the growing personnel costs as a result of wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic) and higher IT costs (higher costs of amortization of systems).

Operating profit in the group and individually continued insurance segment after Q1 2021 declined compared to the corresponding period of 2020 by PLN 218 million (54.8%) to PLN 180 million. The operating profit, net of the effect of converting long-term contracts into renewable contracts in type P group insurance was down y/y by PLN 219 million (55.6%). The increased loss ratio had a negative effect on the performance, mainly on account of deaths of the insured and co-insured in the group protection portfolio and in continued insurance.

15.4 Individual insurance - life insurance

The increase in gross written premium by PLN 71 million (17.1%) to PLN 487 million compared to Q1 2020 was driven by the following favorable factors:

- higher contributions to the unit-linked insurance accounts offered jointly with banks;
- growth of the portfolio of insureds in protection products in the bancassurance channel, driven mainly by the implementation of an insurance product in cooperation with Alior Bank in mid-year last year;
- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation under the contracts in the portfolio exceeds the value of lapses;
- at the same time, negative deviations were recorded in payments for unit-linked products offered in the own network.

(in millions of PLN)

Data from the profit and loss account – individual insurance	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	487	416	17.1%
Net earned premiums	488	418	16.7%
Investment income	15	(267)	x
Net insurance claims and benefits and movement in other net technical provisions	(351)	(22)	1495.5%
Acquisition expenses	(52)	(39)	33.3%
Administrative expenses	(22)	(20)	10.0%
Other	(1)	-	x
Insurance result	**77**	**70**	**10.0%**
acquisition expense ratio [1)]	10.7%	9.4%	1.3 p.p.
administrative expense ratio [1)]	4.5%	4.8%	(0.3) p.p.
insurance margin [1)]	15.8%	16.8%	(1.0) p.p.

[1)] Ratios calculated using gross written premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

The increase in investment income in the individual insurance segment, which consists of income allocated according to transfer pricing in protection products and income from investment products, was mainly due to an increase in performance in investment products as a result of better economic conditions in the financial markets compared with the same period last year. At the same time income from investments linked to investment products does not affect the result of the individual insurance segment because it is offset by changes in insurance liabilities.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 351 million, reflecting an increase in this item by PLN 329 million compared to the corresponding period of 2020. The change in the result generated on funds in investment products made a major contribution to this increase. From the operational point of view, this factor was rather insignificant as it was offset by other relevant items of the profit and loss account. Another growth driver was business growth in protection insurance and the accompanying increase in the level of mathematical provisions. The positive change in this item was affected, on the other hand, by lower claims and benefits in investment bancassurance products, in which much less requests for surrender payments were recorded versus last year.

In Q1 2021, acquisition expenses in the individual insurance segment increased 33.3% to PLN 52 million. The higher costs ensued chiefly from the higher sales of protection insurance in the banking channel and the associated increase in the fees for intermediaries.

The increase in administrative expenses y/y of 10% (PLN 2 million) was driven mainly by the growing personnel costs as a result of wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic).

The segment’s operating result rose in comparison to last year by PLN 7 million to PLN 77 million. It was mainly due to the expanding portfolio of protection insurance, in both bancassurance and own channels; The above effects were partially offset by lower income from allocated investments as an effect of lower interest rates and an increase in acquisition and administrative expenses.

15.5 Bank segment

The banking activity segment consists of the following groups: Pekao and Alior Bank.

Banking activity (m PLN)	1 January – 31 March 2021	1 January – 31 March 2020	% change
Revenues and expenses on account of fees and commissions	785	740	6.1%
Investment income	1,765	2,111	(16.4)%
Interest expenses	(117)	(463)	(74.7)%
Administrative expenses	(1,239)	(1,227)	1.0%
Other	(622)	(1,222)	(49.1)%
Total	**572**	**(61)**	**x**

In Q1 2021, the banking activity segment generated PLN 572 million in operating profit (without amortization of intangible assets acquired as part of the acquisition transactions of the banks), which represented an increase of PLN 633 million compared to the corresponding period in 2020. The Q1 2020 result without the impairment of Alior Bank's goodwill increased by PLN 117 million year on year. The higher result resulted mainly from an increase in fee and commission income and lower regulatory fees.

In Q1 2021, Bank Pekao contributed PLN 401 million to the operating profit (without amortization of intangible assets acquired as part of an acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 171 million.

Investment income, which decreased to PLN 1,765 million y/y in 2021 (down 16.4% y/y) is the key component of the segment's revenue. Investment income consists of interest income, dividend revenue, the trading result and the result on impairment losses. The lower income was fully offset by lower interest expenses.

As at the end of Q1 2021, the portfolio of loan receivables in both banks increased by a total of 5.3% compared to the corresponding period of 2020, whereas the y/y decline in income from deposits was primarily due to lower interest rates (by 140 bps in H1 2020). In Q1, the cost of allowances for expected credit losses and impairment losses on financial instruments in totaled PLN 176 million in Bank Pekao and PLN 232 million in Alior Bank, and was lower y/y by PLN 155 million and PLN 65 million, respectively. At the same time, in Q1 2021, the increased scale of ongoing commission refunds (CJEU judgment concerning a refund of a portion of commissions in consumer loans) caused by consolidation of loans of Alior Bank's clients had a negative effect on the bank's net interest income.

The profitability of the banks in the PZU Group in Q1 2021 measured by the net interest margin was 2.29% in Bank Pekao and 3.67% in Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks posted a decline in their interest margins due to the interest rate cuts that took place in March, April and May 2020.

The net fee and commission income in the banking activity segment amounted to PLN 785 million and was 6.1% higher than in the corresponding period of last year. The main reason driving up the commission income was the increasing commission on the handling of accounts and cards and on the granted loans and leases.

The segment's administrative expenses totaled PLN 1,239 million and consisted of Bank Pekao's expenses of PLN 888 million and Alior Bank's expenses of PLN 351 million. The increase in costs by 1.0% y/y was caused mainly by higher personnel costs in Bank Pekao.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 266 million) and the levy on other financial institutions (PLN 234 million). As a result, the Cost/Income[3] ratio stood at 46% for both banks. This ratio was 48% for Bank Pekao and 40% for Alior Bank, respectively.

15.6 Investments

In the first quarter of 2021, the net investment result, after factoring in interest expenses, net of data from Bank Pekao and Alior Bank, was higher than in the corresponding period of last year, chiefly due to the following factors:

- an increased valuation of shares in a logistics company following its IPO;
- higher investment income in the portfolio of assets to cover investment products, even though it does not affect the PZU Group's overall net result because it is offset by changes in insurance liabilities;
- a positive impact of the temporary effect related to the recognition of valuation of FX derivatives securing investment property due to a weaker appreciation of the EUR to PLN exchange rate given the semi-annual valuation of properties on the basis of valuation appraisals.

Operating income of the investment segment (based exclusively on external transactions) were higher than in the corresponding period of last year, primarily due to the appreciation of shares in a logistics industry company.

[3] Ratio used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415).

(in millions of PLN)

15.7 Pension insurance

Pension insurance	1 January – 31 March 2021	1 January – 31 March 2020	% change
Investment income	1	1	0.0%
Other income	31	47	(34.0)%
Income	**32**	**48**	**(33.3)%**
Administrative expenses	(14)	(9)	55.6%
Other	(1)	(1)	0.0%
Operating result	**17**	**38**	**(55.3)%**

Revenue on core business in the pension insurance segment in Q1 2021 and Q1 2020 was PLN 32 million and PLN 48 million, respectively. The PLN 16 million decrease in revenues was caused mainly by the Insurance Guarantee Fund overpayment in the National Depository of Securities in Q1 2020 associated with a decrease in net assets.

Administrative expenses of PTE PZU rose PLN 5 million y/y (55.3%). The main contributing factor was the surcharge to the Insurance Guarantee Fund in Q1 2021 (PLN 4.1 million) due to the rapid growth of net asset value.

At the end of Q1 2021, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 157.5 billion, up 6.0% from the end of 2020. The increase in assets was driven by positive results of the funds, which reached an average rate of return of 6.5% after Q1 2021. In the same period, OFE PZU's assets grew 6.8% to PLN 21.8 billion. In the period from January to March 2021 OFE PZU's rate of return was +7.7%, which resulted from better conditions on the domestic stock market.

15.8 Baltic States

Data from the profit and loss account – Baltic States segment	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	462	423	9.2%
Net earned premiums	413	418	(1.2)%
Investment income	11	(27)	x
Net insurance claims and benefits	(258)	(234)	10.3%
Acquisition expenses	(83)	(86)	(3.5)%
Administrative expenses	(34)	(35)	(2.9)%
Other	1	1	0.0%
Insurance result	**50**	**37**	**35.1%**
EUR exchange rate in PLN	4.5721	4.3963	4.0%
acquisition expense ratio [1)]	20.1%	20.6%	(0.5) p.p.
administrative expense ratio [1)]	8.2%	8.4%	(0.2) p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

As part of its Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is provided by: LD – leader of the Lithuanian market, Balta in Latvia and the LD branch in Estonia. Life insurance is sold by UAB PZU LT GD in Lithuania.

The Lithuanian non-life insurance market share at the end of Q1 2021 was 28.7%, while the life insurance market share was 6.4%. The market share in the Estonian market was 15.0%. In turn, as at the end of 2020, the market share in the Latvian market was 28.2%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q1 2021 an insurance result of PLN 50 million compared to PLN 37 million at the end of March last year.

This result was driven by the following factors:

- an increase in gross written premium. It totaled PLN 462 million, up PLN 39 million (i.e. 9.2%) compared to the corresponding period of the previous year. Sales were up PLN 37 million and were generated in non-life insurance, chiefly as a result of a considerable growth in sales of health insurance and property insurance. In the motor insurance area, the sales declined in the region. In life insurance, sales climbed PLN 2 million;

(in millions of PLN)

- lower net earned premium. It was PLN 413 million and, as a result of a decrease in sales in 2020 it was PLN 5 million (or 1.2%) lower than the amount at the end of Q1 last year;
- higher investment income. At the end of Q1 2021, the investment result was up PLN 38 million in comparison with the corresponding period of the past year due to the lower valuation of investment assets;
- an increase in net claims and benefits. They amounted to PLN 258 million and were 10.3% higher than in the first quarter of the previous year. The loss ratio in non-life insurance stood at 59.9%, down 0.5 p.p. from March of 2020. In life insurance the value of benefits was PLN 12 million, down PLN 4 million higher from the corresponding period of the previous year;
- lower acquisition expenses. The segment's expenditures for this purpose were PLN 83 million, down 3.5% from the corresponding period of the previous year. The acquisition expense ratio calculated based on net earned premium declined 0.5 p.p. compared to the end of Q1 of the previous year;
- lower administrative expenses. They were PLN 34 million, down 2.9% from the comparable period last year (the decrease was equal to 12.5% in the functional currency). The administrative expense ratio was 8.2%, down 0.2 p.p. relative to the corresponding period of the previous year.

15.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	67	79	(15.2)%
Net earned premiums	47	58	(19.0)%
Investment income	6	16	(62.5)%
Net insurance claims and benefits	(20)	(26)	(23.1)%
Acquisition expenses	(24)	(31)	(22.6)%
Administrative expenses	(9)	(8)	12.5%
Other	6	9	(33.3)%
Insurance result	**6**	**18**	**(66.7)%**
exchange rate UAH/PLN	0.1364	0.1554	(12.2)%
acquisition expense ratio [1)]	51.1%	53.4%	(2.3) p.p.
administrative expense ratio [1)]	19.1%	13.8%	5.3 p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1.

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

The Ukrainian non-life insurance market share at the end of 2020 was 3.7%, while the life insurance market share was 10.7%.

The Ukraine Segment closed Q1 2021 with an operating profit of PLN 6 million, compared to PLN 18 million at the end of Q1 of the previous year.

The change in the result generated by the segment was caused by the following factors:

- decline in gross written premium. It totaled PLN 67 million, down 15.2% (i.e. PLN 12 million) compared to the first quarter of the previous year. In the functional currency, the decrease was 3.3%. Sales of non-life insurance were down PLN 9 million from the first quarter of last year, mostly as a result of the fall in travel insurance and other TPL insurance required when applying for a visa to Poland as well as in green card insurance due to the limitation of transborder traffic. Sales growth of PLN 3 million was recorded in life insurance;
- lower net earned premium. It was PLN 47 million and, as a result of a decrease in sales in 2020 it was PLN 11 million (or 19.0%) lower than the amount at the end of Q1 last year; In the functional currency, the recorded decrease was 8.1%;
- lower investment income. It totaled PLN 6 million and, as a result of the lower interest rate of deposits, it was PLN 10 million lower higher than in the corresponding period of the previous year;

(in millions of PLN)

- lower amount of net claims and benefits paid – they amounted to PLN 20 million. Claims paid in non-life insurance fell PLN 4 million while life insurance benefits decreased PLN 2 million. The loss ratio in non-life insurance stood at 42.9%, down 0.4 p.p. from the end of March of 2020;
- lower acquisition expenses. They stood at PLN 24 million compared to PLN 31 million at the end of Q1 of the previous year. The drop in non-life insurance was equal to PLN 4 million, while in life insurance it was PLN 3 million;
- increase in administrative expenses. They stood at PLN 9 million. For comparison: they were PLN 8 million in the corresponding period of the previous year. The segment's administrative expense ratio edged up 5.3 p.p. to 19.1%.

15.10 Investment contracts

In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IFRS 9.

The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

Gross written premium generated on investment contracts after Q1 2021 remained at the previous year level and amounted to PLN 9 million.

Data from the profit and loss account – investment contracts	1 January – 31 March 2021	1 January – 31 March 2020	% change
Gross written premiums	9	9	-
Group insurance	-	-	x
Individual insurance	9	9	-
Net earned premiums	9	9	-
Investment income	(1)	(29)	(96.6)%
Net insurance claims and benefits and movement in other net technical provisions	(6)	22	x
Acquisition expenses	-	-	x
Administrative expenses	(1)	(1)	-
Other	-	-	x
Operating result	**1**	**1**	**-**
operating profit margin	11.1%	11.1%	-

The investment result in the segment of investment contracts increased compared to the previous year, chiefly due to the higher rate of return on IRSAs due to better business conditions on financial markets. Additionally, investment income does not affect the result of the investment contracts segment because it is offset by changes in insurance liabilities.

The cost of insurance claims and benefits together with the movement in other net technical provisions increased PLN 28 million y/y to PLN 6 million, mostly due to the difference in investment income in unit-linked products described above. In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses totaled PLN 1 million, signifying no change versus the previous year. The segment's operating result was PLN 1 million and did not change due to minor changes in the contract portfolio in this segment.

16. Impact of non-recurring events on operating results

In Q1 2021, a higher investment result was posted on account of the IPO of a logistics industry company held in the portfolio of the investment fund managed by TFI PZU. An increase in income on this account amounted to PLN 472.7 million in Q1 2021.

Additionally in Q1 2020 a non-recurring impairment loss was recognized on goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million.

17. Information on the changes in the economic situation and business conditions exerting a material effect on the fair value of financial assets and liabilities.

17.1 Macroeconomic environment

Gross domestic product

In the last quarter of 2020, GDP fell in real terms by 2.7% y/y (following a 1.7% y/y decrease in Q3). The lower GDP growth in Q4 was associated with the successive wave of the pandemic, which caused restrictions on business activity – also as a result of the introduced anti-pandemic regulations. The largest contributors to GDP decrease in Q4 vs. the corresponding period of the previous year included: limitation of investments in fixed assets (which deducted 3.9 p.p from the GDP dynamics in real terms) and consumption in the household segment (which reduced the GDP growth in Q4 by 1.7 p.p.). The following had a positive contribution to GDP in the period: public consumption (+1.5 p.p.), an increase in tangible current assets (+1.3 p.p.) and net exports (+0.1 p.p.).

However, because the economy managed to attune to operating in the conditions of a pandemic and the disruption in supply chains, so frequent in the early stages of the pandemic, no longer hindered the strong recovery in industrial production, the decline in GDP in Q4 proved to be relatively small (-0.5% vs. Q3 adjusted for seasonality) and much lower than in the Spring (-8.9% in Q2 vs. the previous quarter adjusted for seasonality).

The data on economic activity in Q1 this year indicate that the impact of the third wave of the pandemic on the economy was lower than in the Fall. Industrial production sold grew quickly, benefiting from the strong improvement of global demand for industrial goods. In Q1 2021, industrial production sold was 7.9% higher than one year before. Retail sales in fixed prices also rose: in Q1 this year it was 1.2% higher than it was in the corresponding period last year. At the same time, given the adverse weather conditions, especially in February, in Q1 this year construction production fell. In the entire Q1 2021, it was 13.2% lower than one year before (data from Statistics Poland).

According to quick estimates of Statistics Poland (GUS), in Q1 this year GDP was 1.2% lower in real terms compared to the same quarter last year.

Labor market and consumption

The COVID-19 pandemic caused a deterioration of the situation in the labor market in 2020, albeit to a much lesser extent than could be predicted. Through the government assistance programs and determination of the businesses in keeping the employment in view of the prospects for returning to regular business activity, in the second half of the previous year, a gradual recovery of employment was observed, reduction of the registered unemployment rate adjusted for seasonality and a slight increase of salary growth. These trends were continued in Q1 2021 although, in connection with the more pronounced pandemic threat and the return to more severe anti-pandemic restrictions, the recovery of employment in businesses slowed down. The registered unemployment rate increased in line with the seasonal pattern to 6.4% in March 2021 from 6.2% in December 2020. However, when adjusted for seasonality, at the end of Q1 2021 the registered unemployment rate was 0.1 p.p. lower than in December 2020 (data from Statistics Poland).

In the first quarter of the current year, the nominal rate of growth of the average monthly gross salary in the corporate segment was 5.7% y/y, compared to 5.4% y/y in Q4 2020, which also contributed to the slight increase in the real-terms growth of salaries in companies to 2.9% y/y in Q1 vs. 2.6% y/y in Q4 2020 (data from Statistics Poland).

Retail sales figures for Q1 of this year indicate that, despite the tougher pandemic restrictions, the consumption of households could be slightly higher than one year before. At present households have record-high savings, which were accumulated last year (according to Statistics Poland, gross savings of households amounted to PLN 145.1 billion in 2020, compared to PLN 39.7 billion in 2019). At the end of Q1 2021, cash resources of households held on current accounts were 30% higher than in the corresponding period last year (NBP data). In subsequent quarters, as the pandemic dies down and the related restrictions are lifted, this should contribute to a release of the postponed consumer demand.

Inflation, monetary policy, interest rates

Inflation, as measured by the Consumer Price Index (CPI), decreased in Q1 2021 to 2.7% y/y compared to 2.8% y/y in the previous quarter. However in March of this year, the price increase index accelerated visibly up to 3.2% y/y, among others due to a significant increase in fuel prices. Other inflationary factors in Q1 included also the increases in electricity prices introduced at the beginning of the year, as well as an increase in fees, e.g. for trash pickup. According to Statistics Poland, inflation in April rose to 4.3% y/y and continued to be affected by the increasing fuel prices and increases in food prices.

In 2020, the reference rate of the National Bank of Poland was cut three times and currently stands at 0.10%. The Monetary Policy Council also made a decision to lower the reserve requirement rate for banks from 3.5% to 0.5%. Moreover, the NBP also conducted operations to provide banks with liquidity through repo transactions and implemented large-scale purchases on the secondary market for treasury bonds and treasury-guaranteed bonds (including bonds issued by the Polish Development Fund and Bank Gospodarstwa Krajowego), supporting liquidity on that market. It also introduced a promissory note credit for banks, to be used to refinance new loans granted to businesses. These measures were to counteract the adverse economic effects of the COVID-19 pandemic. The Council also assessed that, in the longer term, they will foster recovery of the domestic economic activity in the longer term and will enable inflation to stabilize at the level conforming to the NBP's medium-term inflation target. After May 2020, the NBP did not cut interest rates further, but continued to actively pursue the purchase of domestic assets and offered a promissory note credit to counteract the negative economic effects of the COVID-19 pandemic. The press release issued after the Council meeting in May 2021 stated among others that, in the coming months, the annual inflation rate index may exceed the upper limit of deviation from the inflation target. However it is expected to drop next year after the factors, which temporarily augment price growth expire. Moreover, the press release no longer contained a phrase emphasizing that the monetary policy stabilizes inflation at the level conforming to the NBP inflation target in the medium term.

Public finance

The deficit in the government and local government sector in 2020 was 7% of GDP, versus 0.7% of GDP in 2019 (Statistics Poland). The sector's higher deficit was caused by an increase in the sector's expenditures in relation to GDP by 6.9 p.p. (including subsidies for manufacturers, which rose 3.3 p.p. in relation to GDP up to 3.8%, reaching the nominal growth rate of 744% year-on-year), while income rose by 0.6 p.p. (APK: Convergence Program – the 2021 Update). The sector's debt rose in 2020 to 57.5% of GDP, versus 45.7% of GDP in 2019 (Statistics Poland). According to the updated Convergence Program (APK) adopted in April 2021, the deficit in the government and local government sector will be reduced slightly to 6.9% of GDP in 2021. It will continue to fall in subsequent years (down to 2.5% GDP in 2024). The debt of this sector will increase to 60% of GDP in 2021 and fall gradually to 57.9% at the end of 2024 (APK). The elevated level of the deficit of the general government sector in 2021 is associated with the continuation of additional governmental support in connection with the assistance activities targeted at counteracting the negative effects of the pandemic.

After March of this year, the state budget deficit amounted to PLN 4.3 billion. This result is better than one year ago when in the corresponding period the budget had a deficit of PLN 9.4 billion (Statistics Poland). The lower deficit is a result of higher tax revenues (in March 2021 tax receipts increased by 19.7% year on year, while one year earlier they had already fallen due to the beginning of the pandemic) and a slower than last year growth in expenditures (expenditures rose 6% y/y, while income increased 14.1% y/y), among others as a result of a much smaller scale of subsidies to FUS as compared to the end of March the year before. The financing of credit needs for 2021 after Q1 (according to the budget act with the payment of the NBP profit) has reached nearly 68%.

Situation on the financial markets

In Q1 2021, the yields of 1-year and 2-year Polish treasury bonds fell slightly and the yields of 5-year and 10-year bonds grew. As a result, the yield curve steepened. The yields on Polish 1-year treasury bonds fell from 0.05% at the end of 2020 to 0.038% at the end of Q1 and on 2-year bonds fell from 0.10% to 0.085% (Refinitiv). The yields on Polish 5-year treasury bonds increased from 0.47% at the end of 2020 to 0.84% at the end of Q1, while the yields on 10-year treasury bonds rose from 1.25% to 1.575%. The spread versus 10-year German bonds that at the beginning of the previous quarter was 183 basis points, increased to 186 basis points at the end of Q1 (Refinitiv). The yield increase at the "longer end" of the yield curve was caused by the impending prospect of economic recovery, growing inflation expectations and an increase of market expectations for interest rate increases in Poland in the coming years. The increase in yields at the "longer end" was also fostered by increases in yields on core markets. In Q1, the yields on 10-year US treasury bonds rose from 0.91 to 1.75% and on German bonds from -0.575% to -0.29% (Refinitiv). The relative stabilization of yields at the "shorter end" of the Polish yield curve was supported by the growing liquidity in the domestic financial system as a result of the purchase of domestic assets by the NBP and the communication from the Monetary Policy Council, emphasizing the temporary nature of the elevated inflation level and pointing to the extended period of keeping the current level of interest rates.

The euro to PLN exchange rate increased from 4.61 at the end of 2020 to 4.66 at the end of Q1 2021 (NBP). During the first two months of the year, the Polish zloty appreciated, while the euro to PLN exchange rate in February fell temporarily even below 4.50 (NBP). In March, however, the EUR/PLN exchange rate rose again, exceeding the level of 4.60 in the second half of the month and ultimately closed Q1 higher than it started. The weakening of the Polish zloty in March was driven by the worsening of the pandemic and re-establishment of anti-pandemic restrictions, as well as the loose monetary policy of the NBP. The euro to USD exchange rate fell from 1.23 at the end of 2020 to 1.17 at the end of Q1 2021 (the EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). The strengthening of the dollar was driven mainly by the relatively faster growth of long-term interest rates in the US than in the Euro zone in connection with the fact that the US is recovering from the "pandemic" recession faster than the Euro zone. The attractiveness of the dollar on global markets also translated to its exchange rate to PLN. The USD to PLN exchange rate increased from 3.76 to 3.97 at the end of Q1 (NBP). In Q1 the Swiss franc exchange rate fell from 4.26 to 4.21 (NBP). The weakening of the Swiss franc vis-a-vis the Polish zloty was driven mainly by the improved investment sentiments in the Euro zone, which translated into a reduced pressure on the strengthening of the Swiss franc (which is the "safe haven" European currency).

In Q1 2021, we observed significant gains on global equity markets, caused mainly by growing expectations for economic growth (prospects of the end of the pandemic and the progress in COVID-19 vaccinations) and inflation (loose monetary and fiscal policy globally). The rising yields have not (for now, at the least) hindered the growth of stock exchange indices. Certain indications of the stock exchange indices slowing down could only be observed in China, where the Shanghai Composite exchange index started to drop in early March. That was caused by the growing fear on the markets regarding the effect of the gradual phasing out of the intensive economic stimulation programs, previously implemented in that country in connection with the COVID-19 pandemic. In the first quarter of 2021, the American S&P500 stock index shot up 5.77% (S&P) while the German DAX index climbed 8.3% (Deutsche Boerse). The Chinese index, Shanghai Composite, grew from the beginning of the year to the end of February, however as a result of the declines in March, it ultimately closed the quarter with a 0.9% drop (Shanghai Stock Exchange). In Poland, despite the difficult epidemic situation in March, in Q1 only the WIG20 index fell (by 2.27%), while the WIG index rose by 1.85%, the mWIG40 rose by 9.66% while the sWIG80 surged upward 15.3% (WSE).

17.2 Risk factors which may affect the financial results in the subsequent quarters

The key risk factors are correlated to the possible prolonging of the COVID-19 pandemic and the scale of constraints affecting economic activity as a result of upholding the necessary restrictions in Poland and with its trading partners. In this context, the main risk is the possible emergence of new SARS-CoV-2 variants, which are resistant to the existing vaccines, as well as an insufficient pace of vaccinations. The "third wave of the pandemic" is dying down and the schedule presented by the government for lifting restrictions on economic activities in May will be probably implemented. Additionally, the seasonal factors will likely keep the average infection figures at a lower level in the coming months. Forecasts clearly predict a strong economic recovery starting in the second quarter of 2021; assuming that the pandemic's impact on the economy is gradually neutralized as the vaccination program progresses (which protects mainly those who are most vulnerable to the severe course of COVID-19) and we come closer to achieving the "herd immunity". However, the risk of the pandemic taking a turn to the worse may return at the end of the summer and, in the negative scenario, may again adversely affect the economic activity. Disruptions associated with the pandemic pose the strongest hit to the service sector, transport, trade, restaurant and hotel services and the broadly construed cultural and entertainment sector.

In particular, apart from chance events (such as floods, cyclones, drought), the main factors that may affect the PZU Group's standing in the following quarters – especially if the pandemic picks up again – include the following:

- slower than expected GDP growth in Poland, and consequently:
  - limitation in household and corporate spending, including on purchases of motor insurance policies (for instance, due to softer sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for life insurance products, in particular as a result of a smaller pool of benefits offered by companies;
  - poorer financial standing of companies exacerbating credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
  - a slump in the rate of growth in new mortgage loans and a slower pace of growth in consumer loans;
- greater difficulties with retaining the portfolio of insureds in group life insurance in connection with the suspension / winding up of the businesses of companies operating in industries at risk; the temporary decline in sales, especially in unit-linked insurance on account of financial risk and the less extensive accessibility to bank branches;
- large degree of uncertainty concerning the future development of paramedical benefits in connection with the COVID-19 pandemic;
- unfavorable situation on the capital markets resulting in the following: declining value of the investment portfolio, assets under management (TFI PZU, OFE) and lower attractiveness of products, especially unit-linked products;
- reduction of interest rates, which contributes to a lower level of investment income, which makes it harder for insurers to reach their guaranteed rates of return;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro (impact on the mass and corporate insurance segments);
- coming into force of further regulations or financial burdens on insurance undertakings;
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and rivalry to attract clients (with an impact exerted on the mass and corporate insurance segments);
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and the quality of the product offering as well as fostering entry and exit obstacles for clients to overcome with independent intermediaries (with an impact being exerted in particular on the group and individually continued insurance segment);
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- availability of medical personnel in public health care centers (affecting health products);
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- preparation of pension fund companies for potential organizational and legal changes arising from the transformation of open-end pension funds into mutual funds and of pension fund companies into mutual fund companies (impact on the pension segment);
- introduction of a new pension security system (Employee Capital Schemes) and its impact on the third pension pillar products functioning thus far (the level of clients' contributions to the EPS programs and IRA contracts currently held in the PZU Group's portfolio and on the level of results generated in these lines of business for the PZU Group);
- the additional risk factor is the potential necessity of establishing additional provisions to cover customer claims in litigations related to Swiss franc loans. After the CJEU confirmed that domestic courts have the ultimate power for identifying unfair clauses in FX loan agreements, the judgments of the Polish Supreme Court will be of key importance in this matter. The judgments of the Supreme Court will determine the domestic line of judgments in the matter of Swiss franc loans and consequently the scale of provisioning required from domestic banks to cover the claims of CHF clients for the use of unfair contractual clauses in FX mortgage loan agreements;

- The economic and tax/regulatory environment, in particular the policy of the Monetary Policy Council regarding interest rates and the reserve requirement, are of critical importance for the banking sector. A very low interest-rate environment has a negative effect on the sector's performance (by affecting the banks' net interest income) and the impact of this effect will continue to be felt in 2021. Even though some burdens have been slightly reduced in connection with the pandemic – for example in 2021 the mandatory payments of banks to the BFG will be 30% lower – the sector's tax and regulatory environment remains restrictive, which may affect the capacity of the individual institutions to develop lending activity and their financial results.

18. Management Board's position on previously published result forecasts

PZU did not publish any standalone or consolidated result forecasts.

19. Issues, redemptions and repayments of debt securities and equity securities

On 31 March 2021, Alior Bank redeemed on time G series bonds with a nominal value of PLN 193 million.

20. Default or breach of material provisions of loan agreements

During the 3-month period ended 31 March 2021, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

21. Dividends

Only the profit captured in the standalone financial statements of the parent company prepared in accordance with PAS is subject to distribution.

On 11 May 2021, the PZU Management Board decided to submit a motion to PZU's Ordinary Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2020 in the amount of PLN 1,919 million, increased by PLN 2,064 million moved from supplementary capital created from the net profit for the year ended 31 December 2019, i.e. in total PLN 3,983 million, as follows:

- designate PLN 3,022 million (i.e. PLN 3.50 per share) as a dividend payout;
- designate PLN 954 million for supplementary capital;
- designate PLN 7 million for the Company Social Benefit Fund.

On 12 May 2021, the PZU Supervisory Board issued a favorable opinion on the PZU Management Board's motion.

Moreover, the PZU Management Board has decided to submit a motion to the Ordinary Shareholder Meeting to set the dividend record date at 15 September 2021 and set the dividend payment date at 6 October 2021.

The proposed distribution of profit is consistent with the PZU Group's Capital and Dividend Policy for 2021-2024, as adopted on 24 March 2021, and takes into account the recommendations contained in the Polish Financial Supervision Authority's (KNF) stance on the dividend policy in 2021 issued on 16 December 2020.

The final decision on the distribution of PZU's net profit for the financial year 2020 will be made by the Ordinary Shareholder Meeting of PZU.

22. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance contracts, disputes concerning labor relationships and disputes relating to contractual obligations. Typical administrative proceedings involving the PZU Group companies include proceedings related to the possession of real properties. Such proceedings and litigation are of a typical and repetitive nature and usually no particular case is of material importance to the PZU Group.

The majority of disputes involving the PZU Group companies concerned four companies: PZU, PZU Życie, Pekao and Alior Bank.

Estimates of the provision amounts for individual cases take into account all information available on the date of publishing this periodic report; however, this figure may change in the future. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 31 March 2021, the total value of dispute in all 254,333 cases (as at 31 December 2020: 282,352) pending before courts, arbitration bodies or public administration authorities in PZU Group entities, was PLN 9,056 million (as at 31 December 2020: PLN 8,825 million). This amount included PLN 4,445 million (as at 31 December 2020: PLN 4,408 million) of liabilities and PLN 4,611 million (as at 31 December 2020: PLN 4,417 million) of accounts receivable of PZU Group companies.

During the 3-month period ended 31 March 2021 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

22.1 Resolutions of the Ordinary Shareholder Meeting of PZU to distribute the profit earned in the financial year 2006

On 30 July 2007, an action was brought by Manchester Securities Corporation ("MSC") with its registered office in New York against PZU to repeal Resolution No. 8/2007 adopted by the Company's Ordinary Shareholder Meeting on 30 June 2007 to distribute PZU's profit for the financial year 2006 as contradicting good practices and aimed at harming the plaintiff as a shareholder of PZU.

The challenged resolution of the Ordinary Shareholder Meeting of PZU distributed the 2006 net profit of PLN 3,281 million as follows:

- PLN 3,261 million was transferred to supplementary capital;
- PLN 20 million was transferred to the Company Social Benefit Fund.

In its judgment of 22 January 2010, the Regional Court in Warsaw repealed the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting in its entirety. PZU has used all the available appeal measures, including a cassation appeal to the Supreme Court which, on 27 March 2013, dismissed the cassation appeal. The judgment is final and non-appealable.

PZU believes that repealing the aforementioned resolution of the PZU's Ordinary Shareholder Meeting will not give rise to shareholders' claim for a dividend payout by PZU.

As the judgment repealing Resolution No. 8/2007 became final, on 30 May 2012, Ordinary Shareholder Meeting of PZU adopted a resolution to distribute the profit for the financial year 2006 in a manner that reflects the distribution of profit in the repealed Resolution No. 8/2007. MSC filed an objection against the resolution of 30 May 2012 and the objection was recorded in the minutes.

On 20 August 2012, a copy of a statement of claim filed by MSC with the Regional Court in Warsaw was delivered to PZU. In the statement of claim, the Manchester Securities Corporation demanded that the resolution on the distribution of profit for the financial year 2006 adopted on 30 May 2012 by the PZU Ordinary Shareholder Meeting be repealed. According to the plaintiff, the value of the litigation is PLN 5 million. PZU then submitted a statement of defense requesting to dismiss the statement of claim in its entirety.

On 17 December 2013, the Regional Court passed a judgment in which it accepted the claim in its entirety and awarded the costs of proceedings from PZU to MSC. On 4 March 2014, PZU filed an appeal against the above judgment, contesting it in its entirety. On 11 February 2015, the Appellate Court in Warsaw handed down a judgment that changed the judgment of the Regional Court of 17 December 2013 in its entirety, dismissed MSC's claim and charged MSC with the court expenses. The Appellate Court's judgment is final and non-appealable. MSC challenged the Appellate Court's judgment in its entirety in a cassation appeal of 9 June 2015. PZU filed its reply to the cassation appeal. By decision of 19 April 2016, the Supreme Court refused to review MSC's cassation appeal. According to the provisions of the Code of Civil Procedure, the Supreme Court's ruling is final non-appealable and ends the proceedings in the case.

In the meantime on 16 December 2014, MSC summoned PZU to pay PLN 265 million as compensation in connection with repealing Resolution No. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on 30 June 2007 to distribute PZU's profit for the financial year 2006. PZU refused to effect the performance on account of its groundlessness.

On 23 September 2015, a copy of the statement of claim with attachments was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with the adoption of Resolution No. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU's attorney submitted a statement of defense, requesting that the claim be dismissed it in its entirety. On 1 April 2016, MSC filed a pleading in which it responded to PZU's assertions, allegations and petitions and raised new arguments in the case. On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In its decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, evidentiary hearings have taken place.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2021, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

Other demands for payment pertaining to the distribution of PZU's profit for the 2006 financial year

On 13 November 2018 the Regional Court in Warsaw served a copy of the statement of claim lodged by Wspólna Reprezentacja SA in restructuring, which pertained to a claim against PZU for payment of PLN 34 million with statutory interest from 1 October 2015 to the payment date with court expenses. The claim comprises a claim for payment of damages for depriving the shareholders of their share of profits for the 2006 financial year. The plaintiff claims that the claims for damages were transferred by the shareholders to the plaintiff based on mandate agreements together with a fiduciary transfer of receivables and the claim pursued by the statement of claim is the total damage caused to the shareholders. PZU does not accept the claims as unjustified and submitted its statement of defense, requesting the claim to be dismissed it in its entirety. PZU did not consent to mediation. In subsequent court sessions, evidentiary hearings have taken place.

22.2 Notification of PZU's claim to the bankruptcy estate of companies of the PBG Group

PZU is a creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both companies with registered offices in Wysogotowo near Poznań, on account of insurance guarantees (contractual guarantees) issued and paid out.

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012, PZU joined the proceedings by notifying its claims to the bankruptcy estate of the two companies.

PBG and Hydrobudowa belong to the same group in which PBG is the parent company. The two companies provided sureties for each other's liabilities. As a consequence, all claims submitted against the bankruptcy estate of Hydrobudowa in the amount of PLN 101 million were concurrently submitted against the bankruptcy estate of PBG.

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. This decision is legally binding. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 March 2021 was PLN 1 million (PLN 1 million as at 31 December 2020). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 31 March 2021 and 31 December 2020.

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million. Accordingly, the total value of claims pursued by PZU on this account was PLN 32 million. In respect of claims for the amount of over PLN 66 million, on 24 October 2018 PZU filed an objection to the judge commissioner against the refusal to accept the submitted claim. With the decision of 23 January 2020 the Court accepted PZU's objection and increased PZU's claim on the fourth supplementary list of claims to PLN 83 million. The final list of claims submitted against the bankruptcy estate of Hydrobudowa has not been determined yet. Bankruptcy proceedings against Hydrobudowa are pending and the determination of the final list of claims is merely an initial step in these proceedings that precedes the drafting of the distribution plan (after the liquidation of the bankruptcy estate).

22.3 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 31 March 2021, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

22.4 KNF's proceedings to impose a fine on Alior Bank

On 6 August 2019, KNF issued a decision pursuant to Article 167 sec. 2 item 1 in conjunction with Article 167(1)(1) of the Act on Trading in Financial Instruments imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and its Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (at Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw. On 17 June 2020, the Voivodship Administrative Court in Warsaw issued a judgment repealing the 3 December 2019 decision of the Polish Financial Supervision Authority, which upheld the earlier 6 August 2019 decision of the Polish Financial Supervision Authority, and discontinued the proceedings conducted by the KNF in the case. KNF lodged a cassation appeal to the Supreme Court of Administration. By the date of conveying this periodic report, the Supreme Court of Administration has not yet reviewed the appeal.

23. Evaluation of the PZU Group companies' standing by rating agencies

Issuer rating

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency S&P Global Ratings (S&P). Rating assigned to PZU and PZU Życie results from an analysis of financial data, competitive position, management and corporate strategy as well as the sovereign rating. The rating also includes an outlook, which is an assessment of the future position of the Company in the event of the occurrence of specific circumstances.

(in millions of PLN)

Current rating

PZU and PZU Życie hold an S&P rating of A- with a stable outlook. This rating was affirmed on 6 April 2020 when the agency changed the ratings outlook for the Company from positive to stable.

The rating outlook has changed as a result of the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. According to the agency's analysts, this may affect the PZU Group's business; in particular, it may lead to a lower contribution from banking activity. At the same time, S&P issued a forecast that the PZU Group's position will remain stable. The viewpoint of the agency's analysts is that the PZU Group will maintain its leading business position in Poland, a strong capital position and a stable result on insurance activity, whereby it will be capable of withstanding any further potential deterioration in the business environment.

The table below depicts the most recent changes to the S&P rating for PZU and PZU Życie.

Company name	Rating and outlook	Date of award/update	Previous rating and outlook	Date of award/update
PZU				
Financial strength rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
PZU Życie				
Financial strength rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019

Poland's credit rating

On 2 October 2020, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable. S&P pointed to the diversified economy, qualified workforce, manageable levels of public and private debt, the robust position of the external balance sheet, the cautiously pursued monetary policy with a stable banking system and the relatively deep domestic capital market as the bases for retaining its rating.

On 2 April 2021, S&P conducted a half-year review of Poland's rating. The rating remained unchanged.

24. Related party transactions

24.1 Related party transactions concluded by PZU or subsidiaries on non-arm's length conditions

In the 3-month period ended 31 March 2021, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on non-arm's length basis.

(in millions of PLN)

24.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2021 and as at 31 March 2021		1 January – 31 December 2020 and as at 31 December 2020		1 January – 31 March 2020 and as at 31 March 2020	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	1	-	3	-	1
in non-life insurance	-	1	-	3	-	1
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Expenses	-	2	-	7	-	-
Investment financial assets	-	3	-	3	-	-
Loan receivables from clients	1	-	-	-	-	-
Receivables	-	-	-	-	-	-
Liabilities under deposits	1	-	1	-	1	-
Other liabilities		1	-	6	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] Associates measured by the equity method.

At the stage of acquisition of the shares in Alior Bank and Pekao, respectively, PZU filed with KNF the Representations on Liabilities referred to in Article 25h(3) of the Banking Law, according to which, acting as a strategic investor, it should ensure, without limitation, that:

- The Banks will be managed in such a way as to maintain at all times liquidity, own funds and solvency ratios on a stable level as required by the law, guaranteeing the Banks' ability to satisfy their liabilities;
- appropriate capital support without undue delay in the event of a decline or threat of decline of capital adequacy ratios or liquidity of the Banks below the level required by the law and regulations and recommendations of Polish banking regulatory authorities. Each support for the Banks, however, requires PZU's analysis aimed to maintain the trust to PZU, through maintaining, even in a crisis situation, a high level of solvency of PZU and the PZU Group as a whole;
- as part of the powers vested in PZU as a shareholder, all decisions pertaining to dividend payout and reinvestment of the Banks' profits will take into account the Banks' development needs and stability and safety of the funds deposited in the Banks by their clients. In particular, in a situation when the Banks' liquidity or capital position required by law or recommendations of competent banking regulatory authorities for the banking sector in Poland are at threat, no dividend will be paid out, and retained earnings will be allocated for increasing the Banks' own funds.

25. Other information

25.1 Inspections by the KNF Office at PZU

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 7 January 2021, PZU received a recommendation to refrain from breaching the interests of parties entitled to indemnification under motor TPL insurance, consisting in applying in the calculation of the indemnification using the cost estimate method out-of-date, unreliable data on the man-hour rates in the car repair market that do not match the actual repair costs from the place of residence, seat or the injured party or the place of repair of the vehicle. On 19 February 2021, PZU informed KNF about implementing the recommendations and, on 19 March 2021 provided KNF, on its request, with additional documents and explanations pertaining to the implementation of the recommendation. On 19 April 2021, KNF summoned PZU to present additional documents and explanations, deciding that the evidence presented earlier had not allowed it to consider the recommendation satisfied. On 30 April 2021, PZU provided additional explanations and documents.

25.2 Cases involving Alior Leasing sp. z o.o.

In December 2020 Alior Bank and Alior Leasing sp. z o.o. received from the former members of the Alior Leasing sp. z o.o. management board summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw on account of the management plan. As at the date of conveying this periodic report, Alior Bank and Alior Leasing sp. z o.o. have not received a statement of claim under the above arbitration proceedings. In the opinion of Alior Bank and Alior Leasing sp. z o.o., the likelihood of obtaining an effective ruling obligating the defendants to pay compensation to the plaintiffs on account of the management plan is low. Accordingly, these circumstances justify the decision not to include relevant provision in the consolidated financial statements.

Alior Leasing sp. z o.o. has identified the risk of possible claims against Alior Leasing sp. z o.o. filed by third parties, which may result from actions of some employees and associates of Alior Leasing sp. z o.o. As at the date of conveying this periodic report, no claims have been filed on this account. The PZU Group believes that there are no circumstances justifying recognition of a provision on this account.

The PZU Group will not disclose any further information regarding the possible third party claims mentioned above, to avoid the weakening of its status and position in the potential proceedings.

(in thousands of PLN)

PZU's quarterly standalone financial information (in compliance with PAS)

1. Interim balance sheet

ASSETS	31 March 2021	31 December 2020	31 March 2020
I. Intangible assets, including:	293,528	305,666	304,872
- goodwill	-	-	-
II. Investments	41,313,302	40,207,051	37,303,574
1. Real property	306,993	310,722	330,775
2. Investments in related parties, including:	16,263,992	16,160,447	16,581,832
- investments in related parties measured by the equity method	15,579,893	15,457,719	16,063,268
3. Other financial investments	24,742,317	23,735,882	20,390,967
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,045,743	1,688,726	2,455,500
1. Receivables on direct insurance	1,427,260	1,388,275	1,724,106
1.1. From related parties	25,215	1,991	2,391
1.2. From other entities	1,402,045	1,386,284	1,721,715
2. Reinsurance receivables	246,167	146,099	281,088
2.1. From related parties	196,359	119,069	236,845
2.2. From other entities	49,808	27,030	44,243
3. Other receivables	372,316	154,352	450,306
3.1. Receivables from the state budget	35,485	2,523	32,574
3.2. Other receivables	336,831	151,829	417,732
a) from related parties	20,138	21,034	133,603
b) from other entities	316,693	130,795	284,129
V. Other assets	302,826	243,012	316,790
1. Property, plant and equipment	115,008	118,555	116,992
2. Cash	187,818	124,457	199,798
3. Other assets	-	-	-
VI. Prepayments and accruals	2,544,632	2,220,620	2,517,259
1. Deferred tax assets	-	-	-
2. Deferred acquisition costs	1,568,221	1,373,662	1,504,236
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	976,411	846,958	1,013,023
VII. Unpaid share capital	-	-	-
VIII. Treasury shares	-	-	-
Total assets	**46,500,031**	**44,665,075**	**42,897,995**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	31 March 2021	31 December 2020	31 March 2020
I. Equity	18,310,288	17,688,602	15,157,272
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	8,458,170	8,458,089	5,814,253
3. Revaluation reserve	7,618,749	7,225,381	6,715,828
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	1,918,780	-	2,651,012
6. Net profit (loss)	228,237	1,918,780	(110,173)
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,253,366	2,265,385	2,258,706
III. Technical provisions	24,286,257	23,439,515	23,818,017
IV. Reinsurers' share in technical provisions (negative figure)	(1,694,797)	(1,732,313)	(1,573,882)
V. Estimated salvage and subrogation (negative figure)	(81,979)	(98,213)	(92,828)
1. Gross estimated salvage and subrogation	(84,091)	(101,024)	(95,755)
2. Reinsurers' share in estimated salvage and subrogation	2,112	2,811	2,927
VI. Other provisions	813,752	637,045	602,815
1. Provisions for pension benefits and other compulsory employee benefits	69,051	53,830	57,083
2. Deferred tax liability	715,207	553,867	468,621
3. Other provisions	29,494	29,348	77,111
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,577,355	1,185,583	1,790,276
1. Liabilities on direct insurance	423,089	413,989	459,794
1.1. To related parties	5,282	8,037	5,599
1.2. To other entities	417,807	405,952	454,195
2. Reinsurance liabilities	197,943	115,677	502,945
2.1. To related parties	29,135	8,920	19,021
2.2. To other entities	168,808	106,757	483,924
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-
4. Liabilities to credit institutions	12	12	12
5. Other liabilities	860,143	557,838	710,750
5.1. Liabilities to the state budget	50,359	63,860	115,999
5.2. Other liabilities	809,784	493,978	594,751
a) to related parties	258,628	235,082	144,715
b) to other entities	551,156	258,896	450,036
6. Special-purpose funds	96,168	98,067	116,775
IX. Prepayments and accruals	1,035,789	1,279,471	937,619
1. Accrued expenses	947,222	1,208,398	856,802
2. Negative goodwill	-	-	-
3. Deferred income	88,567	71,073	80,817
Total equity and liabilities	**46,500,031**	**44,665,075**	**42,897,995**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2021	31 December 2020	31 March 2020
Carrying amount	18,310,288	17,688,602	15,157,272
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	21.20	20.48	17.55
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	21.20	20.48	17.55

2. Interim statement of off-balance sheet line items

Off-balance sheet items	31 March 2021	31 December 2020	31 March 2020
1. Contingent receivables, including:	3,816,091	3,975,736	4,164,407
1.1. Guarantees and sureties received	2,700	2,700	2,766
1.2. Other [1)]	3,813,391	3,973,036	4,161,641
2. Contingent liabilities, including:	1,066,732	1,201,063	936,862
2.1. Guarantees and sureties given	93,263	92,890	5,343
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party assets not recognized in assets	113,996	112,171	121,842
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**4,996,819**	**5,288,970**	**5,223,111**

[1)] This item includes chiefly: security received in the form of a transfer of the debtor's assets, a mortgage on the debtor's assets, other contingent receivables, etc.

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Technical account of non-life insurance	1 January – 31 March 2021	1 January – 31 March 2020
I. Premium income (1-2-3+4)	2,855,525	3,007,807
1. Gross written premium	3,718,571	3,757,285
2. Reinsurers' share in gross written premium	110,399	113,880
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	667,752	591,900
4. Reinsurers' share in the movement in provision for unearned premiums	(84,895)	(43,698)
II. Net investment income (including costs) transferred from the general profit and loss account	52,039	65,441
III. Other net technical income	37,554	53,193
IV. Claims and benefits (1+2)	1,788,695	1,848,098
1. Net claims and benefits paid	1,642,796	1,797,756
1.1. Gross claims and benefits paid	1,668,731	1,901,214
1.2. Reinsurers' share in claims and benefits paid	25,935	103,458
2. Movement in provision for outstanding claims and benefits, net of reinsurance	145,899	50,342
2.1. Movement in provision for outstanding claims and benefits, gross	193,683	127,053
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	47,784	76,711
V. Movement in other technical provisions, net of reinsurance	-	-
1. Movement in other technical provisions, gross	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts with the movement in provisions	2,050	216
VII. Insurance activity expenses	767,686	784,694
1. Acquisition expenses, including:	611,305	609,137
- movement in deferred acquisition costs	(194,559)	(159,666)
2. Administrative expenses	184,588	181,841
3. Reinsurance commissions and profit participation	28,207	6,284
VIII. Other net technical charges	92,794	123,672
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**293,893**	**369,761**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2021	1 January – 31 March 2020
I. Technical result of non-life insurance or life insurance	293,893	369,761
II. Investment income	148,400	166,968
1. Investment income on real estate	1,683	1,473
2. Investment income from related parties	3,615	4,346
2.1. On ownership interests or shares	-	-
2.2. On borrowings and debt securities	3,462	3,993
2.3. On other investments	153	353
3. Other financial investment income	133,068	152,992
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	404	3,948
3.2. On debt securities and other fixed income securities	116,972	105,946
3.3. On term deposits with credit institutions	-	3,556
3.4. On other investments	15,692	39,542
4. Gain on revaluation of investments	-	-
5. Gain on realization of investments	10,034	8,157
III. Unrealized investment gains	154,912	249,121
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	47,480	442,399
1. Real estate maintenance expenses	697	937
2. Other investment activity expenses	8,095	12,069
3. Loss on revaluation of investments	-	420,158 [1)]
4. Loss on realization of investments	38,688	9,235
VI. Unrealized investment losses	139,652	258,173
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	52,039	65,441
VIII. Other operating income	55,100	67,990
IX. Other operating expenses	124,903	146,512
X. Operating profit (loss)	288,231	(58,685)
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	8,843	28,530
XIV. Profit (loss) before tax	297,074	(30,155)
XV. Income tax	68,837	80,018
a) current part	(29,004)	4,978
b) deferred part	97,841	75,040
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**228,237**	**(110,173)**

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 420,158 thousand).

(in thousands of PLN)

	1 January – 31 March 2021	1 January – 31 March 2020
Net profit (loss) (annualized)[1)]	925,628	(443,113)
Weighted average number of common shares	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [1)]	0.26	(0.13)
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [1]	0.26	(0.13)

[1)] Calculation based on the number of calendar days in the period.

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2021	1 January – 31 December 2020	1 January – 31 March 2020
I. Equity at the beginning of the period (Opening Balance)	17,688,602	14,956,862	14,956,862
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	17,688,602	14,956,862	14,956,862
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	8,458,089	5,814,241	5,814,241
2.1. Change in supplementary capital	81	2,643,848	12
a) additions (by virtue of):	81	2,643,848	12
- distribution of profit (above the statutorily required amount)	-	2,643,739	-
- from revaluation reserve – by sale and liquidation of fixed assets	81	109	12
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	8,458,170	8,458,089	5,814,253
3. Revaluation reserve at the beginning of the period	7,225,381	6,405,257	6,405,257
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	7,225,381	6,405,257	6,405,257
3.1. Change in the revaluation reserve	393,368	820,124	310,571
a) additions (by virtue of):	752,459	1,172,538	674,962
- valuation of financial investments	752,395	1,000,444	643,323
- additions by virtue of disposal of available for sale instruments	64	28,198	6,702
- additions by virtue of hedge accounting	-	143,896	24,937
b) reductions (by virtue of)	359,091	352,414	364,391
- valuation of financial investments	325,750	330,598	335,327 [1)]
- reductions by virtue of the disposal of instruments available for sale	1,117	21,707	7,719
- sale of fixed assets	81	109	12
- reductions by virtue of hedge accounting	32,143	-	21,333
3.2. Revaluation reserve at the end of the period	7,618,749	7,225,381	6,715,828

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2021	1 January – 31 December 2020	1 January – 31 March 2020
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	1,918,780	2,651,012	2,651,012
5.1. Retained earnings at the beginning of the period	1,918,780	2,651,012	2,651,012
a) changes in the accepted accounting policies	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	1,918,780	2,651,012	2,651,012
a) increases	-	-	-
b) decreases	-	2,651,012	-
- transfers to supplementary capital	-	2,643,739	-
- disbursement of dividends	-	-	-
- transfers/charges to the Company Social Benefit Fund	-	7,273	-
5.3. Retained earnings at the end of the period	1,918,780	-	2,651,012
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	1,918,780	-	2,651,012
6. Net result	228,237	1,918,780	(110,173)
a) net profit	228,237	1,918,780	-
b) net loss	-	-	110,173
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	18,310,288	17,688,602	15,157,272

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (in the amount of PLN 34,842 thousand).

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2021	1 January – 31 December 2020	1 January – 31 March 2020
A. Cash flows from operating activities			
I. Proceeds	3,900,200	14,680,725	4,094,899
1. Proceeds on direct activity and inward reinsurance	3,653,161	13,335,849	3,751,617
1.1. Proceeds on gross premiums	3,598,315	12,943,042	3,624,429
1.2. Proceeds on subrogation, salvage and claim refunds	46,552	355,253	117,865
1.3. Other proceeds on direct activity	8,294	37,554	9,323
2. Proceeds from outward reinsurance	55,473	353,053	132,417
2.1. Payments received from reinsurers for their share of claims paid	17,545	271,983	114,021
2.2. Proceeds on reinsurance commissions and profit participation	37,927	77,525	17,945
2.3. Other proceeds from outward reinsurance	1	3,545	451
3. Proceeds from other operating activity	191,566	991,823	210,865
3.1. Proceeds for acting as an emergency adjuster	118,256	506,274	92,629
3.2. Disposal of intangible assets and property, plant and equipment other than investments	399	1,471	1,145
3.3. Other proceeds	72,911	484,078	117,091
II. Expenditures	3,373,014	13,226,521	3,388,005
1. Expenditures on direct activity and inward reinsurance	2,662,258	10,757,353	2,845,954
1.1. Gross premium refunds	67,092	192,954	77,367
1.2. Gross claims and benefits paid	1,525,172	6,631,019	1,692,308
1.3. Acquisition expenditures	501,364	1,793,022	495,066
1.4. Administrative expenditures	377,052	1,489,123	386,786
1.5. Expenditures for claims handling and pursuit of subrogation	74,314	285,884	81,310
1.6. Commissions paid and profit-sharing on inward reinsurance	83,009	226,421	78,325
1.7. Other expenditures on direct activity and inward reinsurance	34,255	138,930	34,792
2. Expenditures on outward reinsurance	418,526	741,687	142,737
2.1. Premiums paid for reinsurance	418,479	741,399	142,659
2.2. Other expenditures on outward reinsurance	47	288	78
3. Expenditures on other operating activity	292,230	1,727,481	399,314
3.1. Expenditures for acting as an emergency adjuster	57,375	338,507	43,759
3.2. Purchase of intangible assets and property, plant and equipment other than investments	25,297	76,393	21,431
3.3. Other operating expenditures	209,558	1,312,581	334,124
III. Net cash flows from operating activities (I-II)	**527,186**	**1,454,204**	**706,894**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2021	1 January – 31 December 2020	1 January – 31 March 2020
B. Cash flow on investing activity			
I. Proceeds	14,691,482	110,463,723	30,317,317
1. Sale of real estate	889	11,526	154
2. Sale of ownership interests and shares in related parties	-	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	3,753	50,745	-
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	7,500	-
5. Realization of debt securities issued by other entities	478,216	1,666,883	157,810
6. Liquidation of term deposits with credit institutions	1,116,788	39,683,504	10,944,011
7. Realization of other investments	13,022,416	67,166,315	19,144,951
8. Proceeds from real estate	1,981	7,245	1,990
9. Interest received	67,422	481,701	65,428
10. Dividends received	-	1,376,928	188
11. Other investment proceeds	17	11,376	2,785
II. Expenditures	15,135,319	111,841,827	30,920,303
1. Purchase of real estate	100	2,287	536
2. Purchase of ownership interests and shares in related parties	27	67,174	4,200
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	220,944	77,145	12,250
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	67,395	-
5. Purchase of debt securities issued by other entities	792,039	4,569,661	423,264
6. Purchase of term deposits with credit institutions	1,062,888	39,659,091	10,980,702
7. Purchase of other investments	13,040,189	67,320,059	19,476,499
8. Expenditures to maintain real estate	13,027	48,092	13,495
9. Other expenditures for investments	6,105	30,923	9,357
III. Net cash flows from investing activities (I-II)	**(443,837)**	**(1,378,104)**	**(602,986)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2021	1 January – 31 December 2020	1 January – 31 March 2020
C. Cash flows from financing activities			
I. Proceeds	23,489	234,888	146,665
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	23,489	234,888	146,665
3. Other financial proceeds	-	-	-
II. Expenditures	47,082	316,044	187,543
1. Dividends	-	153	153
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury shares	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	23,489	234,895	146,671
5. Interest on loans and borrowings and issued debt securities	23,593	80,996	40,719
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(23,593)**	**(81,156)**	**(40,878)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**59,756**	**(5,056)**	**63,030**
E. Balance sheet change in cash, including:	63,361	(1,684)	73,657
- movement in cash due to foreign exchange differences	3,605	3,372	10,627
F. Cash at the beginning of the period	124,457	126,141	126,141
G. Cash at the end of the period (F+/-E), including:	187,818	124,457	199,798
- restricted cash	41,081	34,186	52,643

7. Introduction

This quarterly standalone financial information on PZU has been prepared in accordance with PAS for the reasons described in the Introduction and supplemented with the definition of PAS.

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2020.

9. Changes in accounting policies

In the 3-month period ended 31 March 2021, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

Name	Position	
Beata Kozłowska-Chyła	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Ernest Bejda	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Małgorzata Kot	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)
Krzysztof Szypuła	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

Katarzyna Łubkowska	Director of the Accounting Department	.... (signature)

Warsaw, 26 May 2021