Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 9 months ended 30 September 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 – 30 September 2021	m PLN 1 January – 30 September 2020	m EUR 1 January – 30 September 2021	m EUR 1 January – 30 September 2020
Gross written premiums	18,250	17,291	4,004	3,893
Net earned premiums	17,372	17,317	3,811	3,898
Revenue from commissions and fees	3,460	3,037	759	684
Net investment result	7,073	6,272	1,552	1,412
Net insurance claims and benefits	(11,964)	(11,352)	(2,625)	(2,556)
Profit before tax	5,242	2,676	1,150	602
Profit attributable to equity holders of the Parent Company	2,430	1,191	533	268
Profit attributable to holders of non-controlling interests	1,464	367	321	83
Basic and diluted weighted average number of common shares	863,341,351	863,326,940	863,341,351	863,326,940
Basic and diluted earnings per common share (in PLN/EUR)	2.81	1.38	0.62	0.31

Data from the consolidated statement of financial position	m PLN 30 September 2021	m PLN 31 December 2020	m EUR 30 September 2021	m EUR 31 December 2020
Assets	396,433	378,974	85,569	82,121
Share capital	86	86	19	19
Equity attributable to equity holders of the Parent	17,440	18,777	3,764	4,069
Non-controlling interest	24,275	24,626	5,240	5,336
Total equity	41,715	43,403	9,004	9,405
Basic and diluted number of common shares	863,342,581	863,349,616	863,342,581	863,349,616
Book value per common share (in PLN/EUR)	20.20	21.75	4.36	4.71

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2021	m PLN 1 January – 30 September 2020	m EUR 1 January – 30 September 2021	m EUR 1 January – 30 September 2020
Net cash flows from operating activities	5,814	28,821	1,275	6,488
Net cash flows from investing activities	(724)	(26,126)	(159)	(5,881)
Net cash flows from financing activities	(2,974)	(1,847)	(652)	(416)
Total net cash flows	2,116	848	464	191

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 30 September 2021	m PLN 31 December 2020	m EUR 30 September 2021	m EUR 31 December 2020
Assets	47,290	44,665	10,207	9,679
Share capital	86	86	19	19
Total equity	16,374	17,689	3,534	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)	18.96	20.48	4.09	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 – 30 September 2021	m PLN 1 January – 30 September 2020	m EUR 1 January – 30 September 2021	m EUR 1 January – 30 September 2020
Gross written premiums	9,604	9,013	2,107	2,029
Technical result of non-life insurance	947	1,044	208	235
Net investment result [1)]	1,916	948	420	213
Net result	2,269	1,430	498	322
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)	2.63	1.66	0.58	0.37

[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 30 September 2021	m PLN 31 December 2020	m EUR 30 September 2021	m EUR 31 December 2020
Assets	29,901	28,512	6,454	6,178
Total equity	3,805	4,486	821	972

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 30 September 2021	m PLN 1 January – 30 September 2020	m EUR 1 January – 30 September 2021	m EUR 1 January – 30 September 2020
Gross written premiums	6,654	6,519	1,460	1,468
Technical life insurance result	816	1,519	179	342
Net investment result	542	756	119	170
Net profit	534	1,185	117	267

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2021 was PLN 3,894 million and was 149.9% higher than the net result in the corresponding period of the previous year. Net profit attributable to the parent company’s shareholders was PLN 2,430 million compared to PLN 1,191 million in 2020 (up PLN 1,239 million).

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2021 was 17.9%, up 8.6 percentage points from the corresponding period of the previous year.

The following factors also affected the PZU Group’s activity in the 9 months ended 30 September 2021, as compared to the corresponding period of the previous year:

- higher gross written premium, especially in non-motor insurance in the mass and corporate client segment, 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 746 million) and Bank Pekao (PLN 555 million) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses;
- 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;
- slightly lower operating result in individual insurance with a growing portfolio of banking investment products and a higher level of insurance activity expenses;
- lower profitability in the mass insurance segment – driven by the lower net earned premium, particularly evident in the motor third party liability insurance portfolio, while the cost of claims remained level;

- higher operating result in the corporate insurance segment as the outcome of a decrease in the loss ratio in the non-motor insurance portfolio, including natural catastrophe insurance, liability insurance and insurance against various financial risks, coupled with the concurrent dip in the profitability of motor insurance.

(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premiums	9.1	5,908	18,250	5,600	17,291
Reinsurers' share in gross written premium		(145)	(591)	(73)	(347)
Net written premiums		**5,763**	**17,659**	**5,527**	**16,944**
Movement in net provision for unearned premiums		92	(287)	338	373
Net earned premiums		**5,855**	**17,372**	**5,865**	**17,317**
Revenue from commissions and fees	9.2	1,234	3,460	1,054	3,037
Interest income calculated using the effective interest rate	9.3	2,398	7,073	2,341	8,011
Other net investment income	9.4	36	290	194	380
Result on derecognition of financial instruments and investments	9.5	(10)	516	212	27
Movement in allowances for expected credit losses and impairment losses on financial instruments	9.6	(422)	(1,305)	(532)	(2,607)
Net movement in fair value of assets and liabilities measured at fair value	9.7	119	499	(92)	461
Other operating income	9.8	373	1,125	351	1,020
Claims, benefits and movement in technical provisions		(4,019)	(12,205)	(4,162)	(11,770)
Reinsurers' share in claims, benefits and movement in technical provisions		125	241	101	418
Net insurance claims and benefits	**9.9**	**(3,894)**	**(11,964)**	**(4,061)**	**(11,352)**
Fee and commission expenses	9.10	(326)	(865)	(275)	(753)
Interest expenses	9.11	(86)	(283)	(197)	(1,003)
Acquisition expenses	9.12	(875)	(2,498)	(819)	(2,466)
Administrative expenses	9.12	(1,685)	(5,141)	(1,595)	(4,930)
Other operating expenses	9.13	(870)	(3,026)	(824)	(4,464) [1)]
Operating profit		**1,847**	**5,253**	**1,622**	**2,678**
Share of the net financial results of entities measured by the equity method		(3)	(11)	(1)	(2)
Profit before tax		**1,844**	**5,242**	**1,621**	**2,676**
Income tax	9.14	(474)	(1,348)	(358)	(1,105)
Net profit on continuing operations		**1,370**	**3,894**	**1,263**	**1,571**
Loss on discontinued operations		-	-	(9)	(13)
Net profit, including:		**1,370**	**3,894**	**1,254**	**1,558**
- profit attributable to the equity holders of the Parent Company		759	2,430	890	1,191
- profit (loss) attributed to holders of non-controlling interest		611	1,464	364	367
Weighted average basic and diluted number of common shares	9.15	863,340,728	863,341,351	863,328,971	863,326,940
Basic and diluted profit (loss) per common share (in PLN)	9.15	0.88	2.81	1.03	1.38

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million) and intangible assets identified during the acquisition of Alior Bank (PLN 161 million).

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Net profit		1,370	3,894	1,254	1,558
Other comprehensive income	9.14	(605)	(1,878)	112	1,314
Subject to subsequent transfer to profit or loss		(550)	(1,921)	189	1,327
Valuation of debt instruments		(196)	(895)	184	629
Measurement of loan receivables from clients		1	(35)	4	6
Foreign exchange translation differences		48	20	14	73
Cash flow hedging		(403)	(1,011)	(13)	619
Not to be transferred to profit or loss in the future		(55)	43	(77)	(13)
Valuation of equity instruments		(55)	43	(77)	(13)
Total net comprehensive income		**765**	**2,016**	**1,366**	**2,872**
- comprehensive income attributable to equity holders of the Parent Company		526	1,691	914	1,721
- comprehensive income attributable to holders of non-controlling interest		239	325	452	1,151

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 September 2021	31 December 2020
Goodwill	9.16	2,782	2,776
Intangible assets	9.17	3,227	3,206
Deferred tax assets		2,844	2,511
Other assets	9.18	606	753
Deferred acquisition costs		1,638	1,550
Reinsurers' share in technical provisions	9.31	2,023	2,101
Property, plant and equipment	9.19	4,111	4,188
Investment property		2,318	2,493
Entities measured by the equity method	9.20	98	72
Assets held for sale	9.21	603	590
Loan receivables from clients	9.22	212,004	197,288
Financial derivatives	9.23	4,808	6,339
Investment financial assets	9.24	142,617	140,922
Measured at amortized cost		82,105	66,864
Measured at fair value through other comprehensive income		50,751	64,248
Measured at fair value through profit or loss		9,761	9,810
Receivables	9.25	6,633	6,246
Cash and cash equivalents		10,121	7,939
Total assets		**396,433**	**378,974**

Equity and liabilities	Note	30 September 2021	31 December 2020
Equity			
Equity attributable to equity holders of the Parent		17,440	18,777
Share capital	9.29	86	86
Other capital		15,609	17,093
Retained earnings		1,745	1,598
Retained profit or loss		(685)	(314)
Net profit		2,430	1,912
Non-controlling interest		24,275	24,626
Total equity		**41,715**	**43,403**
Liabilities			
Technical provisions	9.31	49,553	48,471
Subordinated liabilities	9.32	6,423	6,679
Liabilities on the issue of own debt securities	9.33	6,651	7,532
Liabilities to banks	9.34	7,707	9,751
Liabilities to clients under deposits	9.35	260,387	241,975
Financial derivatives	9.23	5,790	6,281
Other liabilities	9.36	15,798	12,434
Provisions	9.37	1,348	1,378
Deferred tax liability		975	949
Liabilities related directly to assets classified as held for sale	9.21	86	121
Total liabilities		**354,718**	**335,571**
Total equity and liabilities		**396,433**	**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	Supplementary 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	-	-	3	-	9	-	-	-	-	12	31	43
Valuation of debt instruments	-	-	-	-	(461)	-	-	-	-	(461)	(434)	(895)
Measurement of loan receivables from clients	-	-	-	-	(7)	-	-	-	-	(7)	(28)	(35)
Cash flow hedging	-	-	-	-	(302)	-	-	-	-	(302)	(709)	(1,011)
Foreign exchange translation differences	-	-	-	-	-	-	19	-	-	19	1	20
Total net other comprehensive income	**-**	**-**	**3**	**-**	**(761)**	**-**	**19**	**-**	**-**	**(739)**	**(1,139)**	**(1,878)**
Net profit (loss)	-	-	-	-	-	-	-	-	2,430	2,430	1,464	3,894
Total comprehensive income	**-**	**-**	**3**	**-**	**(761)**	**-**	**19**	**-**	**2,430**	**1,691**	**325**	**2,016**
Other changes, including:	**-**	**3**	**(1,048)**	**305**	**(5)**	**-**	**-**	**(2,283)**	**-**	**(3,028)**	**(676)**	**(3,704)**
Distribution of financial result	-	-	(1,044)	305	-	-	-	739	-	-	(674)	(674)
PZU dividend	-	-	-	-	-	-	-	(3,022)	-	(3,022)	-	(3,022)
Transactions on treasury shares	-	3	(3)	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(6)	-	-	-	-	-	-	(6)	(2)	(8)
Sale of revalued properties and other	-	-	5	-	(5)	-	-	-	-	-	-	-
As at 30 September 2021	**86**	**(6)**	**14,803**	**600**	**125**	**3**	**84**	**(685)**	**2,430**	**17,440**	**24,275**	**41,715**

(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	Supplementary 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
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary 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					
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)	-	(28)	-	-	-	-	(32)	19	(13)
Valuation of debt instruments	-	-	-	-	309	-	-	-	-	309	320	629
Measurement of loan receivables from clients	-	-	-	-	2	-	-	-	-	2	4	6
Cash flow hedging	-	-	-	-	177	-	-	-	-	177	442	619
Foreign exchange translation differences	-	-	-	-	-	-	74	-	-	74	(1)	73
Total net other comprehensive income	**-**	**-**	**(4)**	**-**	**460**	**-**	**74**	**-**	**-**	**530**	**784**	**1,314**
Net profit (loss)	-	-	-	-	-	-	-	-	1,191	1,191	367	1,558
Total comprehensive income	**-**	**-**	**(4)**	**-**	**460**	**-**	**74**	**-**	**1,191**	**1,721**	**1,151**	**2,872**
Other changes, including:	**-**	**(1)**	**2,747**	**620**	**(6)**	**-**	**-**	**(3,361)**	**-**	**(1)**	**-**	**(1)**
Distribution of financial result	-	-	2,741	620	-	-	-	(3,361)	-	-	-	-
Transactions on treasury shares	-	(1)	1	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued properties and other	-	-	6	-	(6)	-	-	-	-	-	-	-
As at 30 September 2020	**86**	**(8)**	**15,856**	**296**	**748**	**1**	**33**	**(314)**	**1,191**	**17,889**	**24,270**	**42,159**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 September 2021	1 January – 30 September 2020
Profit before tax		5,242	2,676
Adjustments		572	26,145
Movement in loan receivables from clients	9.38	(4,059)	(2,708)
Movement in liabilities under deposits	9.38	3,108	23,677
Movement in the valuation of assets measured at fair value		(499)	(461)
Interest income and expenses		(1,990)	(1,972)
Realized gains/losses from investing activities and impairment losses		673	2,307
Net foreign exchange differences		190	23
Movement in deferred acquisition expenses		(88)	65
Amortization of intangible assets and depreciation of property, plant and equipment		1,003	997
Movement in the reinsurers' share in technical provisions		78	248
Movement in technical provisions		1,082	73
Movement in receivables	9.38	175	672
Movement in liabilities	9.38	318	662
Cash flow on investment contracts		6	1
Acquisitions and redemptions of participation units and investment certificates of mutual funds		155	120
Income tax paid		(1,235)	(1,396)
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		365	3,837
Net cash flows from operating activities		**5,814**	**28,821**
Cash flow from investing activities			
Proceeds		478,318	620,767
- sale of investment property		169	12
- proceeds from investment property		218	187
- sale of intangible assets and property, plant and equipment		94	19
- sale of ownership interests and shares		926	546
- realization of debt securities		260,324	255,858
- closing of buy-sell-back transactions		152,180	200,851
- closing of term deposits with credit institutions		42,875	142,291
- realization of other investments		20,141	19,606
- interest received		1,314	1,228
- dividends received		47	139
- increase in cash due to purchase of entities and change in the scope of consolidation		1	-
- other investment proceeds		29	30

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 30 September 2021	1 January – 30 September 2020
Expenditures		(479,042)	(646,893)
- purchase of investment properties		(171)	(89)
- expenditures for the maintenance of investment property		(100)	(108)
- purchase of intangible assets and property, plant and equipment		(732)	(912)
- purchase of ownership interests and shares		(484)	(474)
- purchase of ownership interests and shares in subsidiaries		(4)	-
- decrease in cash due to the sale of entities and change in the scope of consolidation		(6)	-
- purchase of debt securities		(255,482)	(281,877)
- opening of buy-sell-back transactions		(154,722)	(201,064)
- purchase of term deposits with credit institutions		(45,733)	(142,944)
- purchase of other investments		(21,585)	(19,400)
- other expenditures for investments		(23)	(25)
Net cash flows from investing activities		**(724)**	**(26,126)**
Cash flows from financing activities			
Proceeds		72,608	63,232
- proceeds from loans and borrowings	9.38	751	1,218
- proceeds on the issue of own debt securities	9.38	2,871	5,922
- opening of repurchase transactions	9.38	68,986	56,092
Expenditures		(75,582)	(65,079)
- dividends to owners of non-controlling interests		(674)	-
- repayment of loans and borrowings	9.38	(1,030)	(530)
- redemption of own debt securities	9.38	(4,037)	(8,736)
- closing of repurchase transactions	9.38	(69,519)	(55,431)
- interest on loans and borrowings	9.38	(21)	(105)
- interest on outstanding debt securities	9.38	(80)	(61)
- expenditures on leases	9.38	(221)	(216)
Net cash flows from financing activities		**(2,974)**	**(1,847)**
Total net cash flows		**2,116**	**848**
Cash and cash equivalents at the beginning of the period		7,939	7,788
Movement in cash due to foreign exchange differences		66	101
Cash and cash equivalents at the end of the period, including:		10,121	8,737
- restricted cash		43	29

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 9 months from 1 January to 30 September 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.

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.

(in millions of PLN)

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 – 30 September 2021	1 January – 30 September 2020	30 September 2021	31 December 2020
Euro	4.5585	4.4420	4.6329	4.6148
British pound	5.2795	5.0055	5.3653	5.1327
Ukrainian hryvnia	0.1394	0.1471	0.1500	0.1326

Going concern assumption

These condensed interim consolidated financial statements have been drawn up under the assumption that the PZU Group remains 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 9-month period ended 30 September 2021, the PZU Group companies did not discontinue any significant 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.

PZU, Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU Finance AB – PZU Finance AB (publ.) in likvidation.

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.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Xelion – Dom Inwestycyjny Xelion sp. z o.o.

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 result 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 30 September 2021.

NBP – National Bank of Poland.

POCI – Purchased or originated credit-impaired financial assets.

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.

UOKiK – Office of Competition and Consumer Protection.

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

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated text: Journal of Laws of 2021, Item 1130, as amended).

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

PZU 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
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
				30 September 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 Dec 1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15 Sep 2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20 Nov 2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31 Oct 2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga, Latvia	30 Jun 2014	99.9989%	99.9949%	Property insurance. http://www.balta.lv/
7	PRJSC IC "PZU Ukraine"	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC „PZU Ukraine Life Insurance"	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU "Lietuva gyvybes draudimas"	Vilnius (Lithuania)	26 Apr 2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	7 Jun 2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	7 Jun 2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	7 Jun 2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	7 Jun 2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	7 Jun 2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11 Dec 2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	7 Jun 2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	7 Jun 2017	46.81% 1)	46.81% 1)	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	7 Jun 2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	7 Jun 2017	20.02%	20.02%	Development activity.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	7 Jun 2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	7 Jun 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
				30 September 2021	31 December 2020	
Consolidated companies – Pekao Group – continued						
22	Pekao Investment Management SA	Warsaw	11 Dec 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 Dec 2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
24	PeUF sp. z o.o. [3)]	Warsaw	20 Jul 2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
25	Alior Bank SA	Warsaw	18 Dec 2015	31.94%	31.93%	Banking services. https://www.aliorbank.pl/
26	Alior Services sp. z o.o.	Warsaw	18 Dec 2015	31.94%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
27	Alior Leasing sp. z o.o.	Wroclaw	18 Dec 2015	31.94%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
28	Meritum Services ICB SA	Gdańsk	18 Dec 2015	31.94%	31.93%	IT services.
29	Alior TFI SA	Warsaw	18 Dec 2015	31.94%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
30	Absource sp. z o.o.	Krakow	4 May 2016	31.94%	31.93%	Service activity in the area of IT.
31	AL Finance sp. z o.o. (formerly Serwis Ubezpieczeniowy sp. z o.o.) [4)]	Katowice	30 Jan 2017	31.94%	31.93%	Brokerage activity.
32	Corsham Sp. z o.o.	Warsaw	4 Feb 2019	31.94%	31.93%	Business consulting.
33	RBL_VC sp. z o.o.	Warsaw	7 Nov 2019	31.94%	31.93%	Venture capital fund management activities
34	RBL_VC sp. z o.o. ASI SKA	Warsaw	17 Apr 2020	31.94%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA	Warsaw	2 Sep 2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
36	Centrum Medyczne Medica sp. z o.o.	Płock	9 May 2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
37	Sanatorium Uzdrowiskowe “Krystynka” sp. z o.o.	Ciechocinek	9 May 2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
38	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	1 Dec 2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
39	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	1 Dec 2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
40	Centrum Medyczne Gamma sp. z o.o.	Warsaw	8 Sep 2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
41	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	9 Jan 2018	100.00%	100.00%	Medical services. https://www.czestochowa.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
				30 September 2021	31 December 2020	
Consolidated companies – PZU Zdrowie Group – continued						
42	Starówka sp. z o.o.	Warsaw	3 Jun 2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
43	Tomma Diagnostyka Obrazowa SA	Poznań	9 Dec 2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
44	Bonus-Diagnosta sp. z o.o.	Poznań	9 Dec 2019	100.00%	100.00%	Medical services.
45	NZOZ Grupa Medical sp. z o.o. 5)	Poznań	31 May 2021	100.00%	n/a	Medical services.
Consolidated companies – other companies						
46	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	8 Dec 1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
47	PZU Centrum Operacji SA	Warsaw	30 Nov 2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
48	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30 Apr 1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
49	PZU Pomoc SA	Warsaw	18 Mar 2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
50	PZU Finance AB (publ.) in likvidation 6)	Stockholm (Sweden)	2 Jun 2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
51	PZU Finanse Sp. z o.o.	Warsaw	8 Nov 2013	100.00%	100.00%	Financial and accounting services.
52	Tower Inwestycje Sp. z o.o.	Warsaw	27 Aug 1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
53	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15 Sep 2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
54	Arm Property sp. z o.o.	Krakow	26 Nov 2014	100.00%	100.00%	Purchase and sale of real estate.
55	Ipsilon sp. z o.o.	Warsaw	2 Apr 2009	100.00%	100.00%	Provision of assistance services and medical services.
56	PZU Corporate Member Limited	London (UK)	28 Sep 2017	100.00%	100.00%	Investment activity.
57	PZU LAB SA	Warsaw	13 Sep 2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
58	Omicron BIS SA	Warsaw	28 Aug 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
				30 September 2021	31 December 2020	
Consolidated companies – other companies – continued						
59	LLC SOS Services Ukraine	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Assistance services.
60	PZU CASH SA	Warsaw	15 Sep 2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
61	Tulare Investments sp. z o.o.	Warsaw	15 Sep 2017	100.00%	100.00%	No business conducted.
62	PZU Projekt 01 SA	Warsaw	1 Sep 2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
63	Armatura Kraków SA	Krakow	7 Oct 1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
64	Aquaform SA	Środa Wlkp.	15 Jan 2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
65	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15 Jan 2015	100.00%	100.00%	No business conducted.
66	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15 Jan 2015	100.00%	100.00%	No business conducted.
67	Aquaform Romania SRL	Prejmer (Romania)	15 Jan 2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
68	PZU SFIO Universum	Warsaw	15 Dec 2009	n/a	n/a	Investment of funds collected from fund members.
69	PZU FIZ Sektora Nieruchomości 2 [7)]	Warsaw	21 Nov 2011	n/a	n/a	as above
70	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12 Dec 2012	n/a	n/a	as above
71	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19 Nov 2012	n/a	n/a	as above
72	inPZU Inwestycji Ostrożnych	Warsaw	10 Apr 2018	n/a	n/a	as above
73	inPZU Obligacje Polskie	Warsaw	10 Apr 2018	n/a	n/a	as above
74	inPZU Akcje Polskie	Warsaw	10 May 2018	n/a	n/a	as above
75	inPZU Akcji Rynków Rozwiniętych	Warsaw	10 May 2018	n/a	n/a	as above
76	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10 May 2018	n/a	n/a	as above
77	inPZU Obligacji Rynków Wschodzących	Warsaw	10 May 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
				30 September 2021	31 December 2020	
Consolidated companies – mutual funds – continued						
78	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28 Oct 2019	n/a	n/a	as above
79	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28 Oct 2019	n/a	n/a	as above
80	inPZU Akcje CEE plus	Warsaw	28 Oct 2019	n/a	n/a	as above
81	inPZU Puls Życia 2025	Warsaw	22 Oct 2020	n/a	n/a	as above
82	inPZU Puls Życia 2030	Warsaw	22 Oct 2020	n/a	n/a	as above
83	inPZU Puls Życia 2040	Warsaw	22 Oct 2020	n/a	n/a	as above
84	inPZU Puls Życia 2050	Warsaw	22 Oct 2020	n/a	n/a	as above
85	inPZU Puls Życia 2060	Warsaw	22 Oct 2020	n/a	n/a	as above
86	PZU FIZ Legato	Warsaw	11 Aug 2021	n/a	n/a	as above
Associates						
87	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	8 Jun 1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
88	Sigma BIS SA	Warsaw	3 Oct 2019	34.00%	34.00%	Advertising activity.
89	RUCH SA	Warsaw	23 Dec 2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
90	Krajowy Integrator Płatności SA [8)]	Poznań	31 Mar 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)] The shares in Xelion were sold on 29 October 2021. More information on this matter is presented in section 2.3.3.

[3)] On 20 July 2021, Pekao Leasing sp. z o.o. purchased 100 shares in PeUF sp. z o.o., which represented 100% in the capital and votes in the company.

[4)] On 6 August 2021, a change of the company's name was registered.

[5)] Additional information on the acquisition of NZOZ Grupa Medical sp. z o.o. is presented in section 2.3.1.3. On 2 November 2021, the merger of NZOZ Grupa Medical sp. z o.o. (acquired company) with Bonus Diagnosta sp. z o.o. (acquiring company) was registered, as a result of which NZOZ Grupa Medical sp. z o.o. ceased to exist under its business name. The transaction will not affect the PZU Group's consolidated financial statements.

[6)] On 4 May 2021, the Shareholder Meeting decided to commence the company's liquidation procedure. On 20 May 2021, the competent registry court in Stockholm announced the initiation of the company's voluntary liquidation process and the liquidator commenced activities aimed at the liquidation of the entity.

[7)] PZU FIZ Sektora Nieruchomości 2 conducts its investment activity through 32 (consolidated) subsidiary companies established under commercial law as special-purpose vehicles. Additional information on the merger of PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 is presented in section 2.3.2.

[8)] 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 extent of consolidation and in the PZU Group's structure that occurred in the 9-month period ended 30 September 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(1) of the BFG Act, of Idea Bank's enterprise, comprising its overall rights and liabilities as at the end of the date of initiation of the resolution, i.e. as at 31 December 2020 ("Transaction"), excluding specific property rights and liabilities specified in the BFG's 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, 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. Pekao did not acquire all assets of Idea Bank. In particular, it did not acquire any shares in Idea Bank's subsidiaries or associates.

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 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 foregoing, 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 provisional 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.

In accordance with IFRS 3.45, the final purchase price allocation should be completed within one year of obtaining control. The 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 gain from a bargain purchase. Accordingly, the values of the identifiable acquired assets and assumed liabilities, measured at fair value, as presented below, may change, thereby affecting the calculation of the settlement.

(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	(7)	29
Assets held for sale	1	-	1
Loan receivables from clients	12,049	12	12,061
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	(58)	228
Cash and cash equivalents	1,107	(10)	1,097
Total assets	**14,396**	**(377)**	**14,019**
Liabilities to banks	126	(1)	125
Liabilities to clients under deposits	13,514	62	13,576
Financial derivatives	155	9	164
Other liabilities	342	2	344
Provisions	8	(4)	4
Total liabilities	**14,145**	**68**	**14,213**
Fair value of net assets acquired			**(194)**
Subsidy from the Bank Guarantee Fund			193
Goodwill			**(1)**

As a result of the foregoing, the PZU Group recognized the goodwill created through the merger in the amount of PLN 1 million, calculated as the difference between the net amount of identifiable acquired assets and assumed liabilities (PLN -194 million) and the amount of the subsidy from the Bank Guarantee Fund (PLN 193 million). Goodwill will not be tax deductible.

The determination of the fair value of the acquired assets and liabilities and the identification and recognition of the acquired intangible assets was carried out based on the available information and best estimates as at the date of preparation of the condensed interim financial statements. The distinct assets and liabilities were measured at fair value based on their carrying amounts as at 31 December 2020 obtained by the PZU Group from the Bank Guarantee Fund on 3 January 2021.

Cash and cash equivalents, receivables

The balance of these items has been adjusted to reflect all economic events pertaining to 31 December 2020 which, for operational reasons, were not included in the trial balance obtained by the PZU Group on 3 January 2021.

Moreover, in the area of receivables from banks, a loan was measured at fair value (using the fair value methodology similar to that presented in respect of loan receivables from clients).

Loan receivables from clients

Loan receivables from clients have been measured at fair value in accordance with the requirements of IFRS 3 and IFRS 13.

As regards outstanding loans, including acquired receivables, investment loans and operating loans, their fair value has been estimated using the income method in which future expected principal and interest flows from the portfolio are discounted, with prepayments taken into account.

Furthermore, the PZU Group has decided that the CRM guarantee obtained from the Bank Guarantee Fund should be treated as an integral part of the acquired loan portfolio covered by the guarantee, meaning that the measurement of loan receivables from clients at fair value reflects the effect of the guarantee by limiting the expected credit losses (due to applying reduced risk weights to the cost of capital mark-up).

Future cash flows calculated in this manner have been discounted with a rate taking into account the following components: the risk-free rate estimated in accordance with the IRS contract quotations based on WIBOR 1M, the cost of equity mark-up and a component representing the calibration margin.

After the CRM guarantee is recognized as unfunded protection, reduced risk weights for the cost of capital mark-up have been applied in the valuation of the loan portfolio.

Investment securities

The fair value adjustment of investment securities is a consequence of revaluation of the following items:

- value of corporate bonds, using the same rules as those described for loan receivables from clients, and
- value of shares of a financial entity, estimated using the discounted dividend model.

Intangible assets

The fair value adjustment of intangible assets is predominantly a consequence of adopting the perspective of an average market participant for the measurement and taking into account the entity's plans for the continuation and further use of the intangible assets in question.

No grounds have arisen from the conducted analyses for the recognition of relationships with clients holding core deposit intangibles (CDIs) or relationships on credit products, chiefly due to the absence of a significant difference between the average level of interest on the acquired accounts and the opportunity cost of funding for the PZU Group as well as the banking sector's significant excess liquidity. In respect of credit products, no significant relationships have been identified due to the low level of net interest income and commission income in relation to the corresponding significant costs of risk and administrative expenses.

Property, plant and equipment

The fair value adjustment of property, plant and equipment is predominantly a consequence of the perspective of an average market participant adopted for measurement. As regards lease agreements, the shutdown of the acquired facilities has been assumed. This approach is based on an analysis of the market, assessment of how attractive the locations of the branches are and a comparison of the pricing terms with the currently executed contracts of a similar size in similar locations.

Receivables

The fair value adjustment of receivables is chiefly a consequence of the revaluation of significant receivables from corporate clients based on the same approach as that applied to the measurement of credit exposures.

Liabilities to clients under deposits

In respect of current accounts, the assumption has been made that due to their nature (including the possibility of the withdrawal funds on demand, their renewability providing an opportunity to amend the contractual terms upon renewal, and the absence of maturity), their fair value does not differ from the carrying amount.

The fair value adjustment of term deposits has been estimated by discounting future values of term deposits, consisting of the repayments of nominal values and interest accrued until the date of repayment.

Provisions

The fair value adjustment of provisions is predominantly a consequence of the impairment loss on the restructuring provision.

Other liabilities

The fair value adjustment of other liabilities is a consequence of the revaluated provision for future liabilities. The value of liabilities has been estimated based on the expected future cash outflows and taking into account the discount factors resulting from the current market conditions.

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. The purchase price was PLN 42 million. 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.

2.3.1.3. NZOZ Grupa Medical sp. z o.o.

On 31 May 2021, Bonus-Diagnosta sp. z o.o. acquired for PLN 4 million a 100% stake in NZOZ Grupa Medical sp. z o.o., which has been subject to consolidation since that date.

2.3.1.4. PeUF sp. z o.o.

On 20 July 2021, Pekao Leasing sp. z o.o. purchased 100 shares in PeUF sp. z o.o., which represented 100% in the capital and votes in the company for the total price of pln 5 thousand. PeUF sp. z o.o. has been consolidated since 20 July 2021.

2.3.2. Changes to consolidation of mutual funds

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

On 8 June 2021, PZU FIZ AN Sektor Nieruchomości (the acquired fund) was deleted from the register of mutual funds as a result of its merger with PZU FIZ AN Sektor Nieruchomości 2 (the acquiring fund). The transaction had no effect on the interim condensed consolidated financial statements.

On 11 August 2021, the newly-established PZU FIZ Legato was consolidated.

On 29 September 2021, PZU FIZ Dynamiczny in liquidation was removed from the register of mutual funds.

On 30 September 2021, in connection with the loss of control, PZU FIO Ochrony Majątku and PZU Globalny Obligacji Korporacyjnych were deconsolidated.

(in millions of PLN)

2.3.3. Sales of companies

PayPo 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.

Xelion

On 29 October 2021, Pekao signed the final share purchase agreement for 100% of shares in Xelion, as a result of which it sold to Quercus TFI SA (through the intermediation of a special-purpose vehicle Quercus Agent Transferowy sp. z o.o.) 120,100 shares representing a 100% stake in capital and 100% votes at the Shareholder Meeting of Xelion. The final purchase agreement of Xelion's shares was signed after the conditions precedent for the transaction included in the preliminary share purchase agreement signed in December 2020 were satisfied, i.e. after the relevant regulatory approvals have been obtained and after Xelion's cash has been paid out to Pekao.

On 29 October 2021, the title to Xelion shares was transferred to Quercus Agent Transferowy sp. z o.o. In the condensed interim consolidated financial statements, Xelion's assets and liabilities were presented as held for sale, because the shares were sold after the balance sheet date.

2.3.4. Transactions under joint control

In the 9-month period ended 30 September 2021, the following business combinations were registered:

- 31 May 2021 – the merger of PZU Zdrowie SA (acquiring company) with Polmedic Sp. z o.o. (target company);
- 1 July 2021 – the merger of AL. Finance sp. z o.o. (acquiring company) with NewCommerce Services sp. z o.o. (target company).

The transactions had no effect on the interim condensed consolidated financial statements.

2.3.5. Completion of liquidation of Harberton sp. z o.o.

On 29 September 2021, Harberton sp. z o.o. w likwidacji was removed from the National Court Register.

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	30 September 2021	31 December 2020
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.06%	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	0.0011%	0.0051%

[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.

(in millions of PLN)

Carrying amount of non-controlling interests	30 September 2021	31 December 2020
Pekao Group	19,932	20,329
Alior Bank Group	4,342	4,296
Other	1	1
Total	**24,275**	**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	
	30 September 2021	31 December 2020	30 September 2021	31 December 2020
Goodwill	693	692	-	-
Intangible assets	1,973	1,938	422	424
Deferred tax assets	1,557	1,251	1,228	1,217
Other assets	70	53	39	44
Property, plant and equipment	1,979	2,098	734	702
Entities measured by the equity method	43	-	-	5
Assets held for sale	60	53	2	-
Loan receivables from clients	154,088	141,332	57,560	55,783
Financial derivatives	4,394	5,591	381	717
Investment financial assets	72,343	73,116	15,050	16,037
Measured at amortized cost	42,057	28,569	7,541	8,753
Measured at fair value through other comprehensive income	29,435	43,069	7,384	7,072
Measured at fair value through profit or loss	851	1,478	125	212
Receivables	2,444	2,305	1,144	1,106
Cash and cash equivalents	7,652	4,727	1,421	2,359
Total assets	**247,296**	**233,156**	**77,981**	**78,394**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2021	31 December 2020	30 September 2021	31 December 2020
Equity				
Equity attributable to equity holders of the Parent	24,921	25,417	6,380	6,311
Share capital	262	262	1,306	1,306
Other capital	21,233	22,092	5,440	5,776
Retained earnings	3,426	3,063	(366)	(771)
Non-controlling interest	12	11	-	-
Total equity	**24,933**	**25,428**	**6,380**	**6,311**
Liabilities				
Subordinated liabilities	2,771	2,758	1,536	1,793
Liabilities on the issue of own debt securities	5,902	6,152	749	1,380
Liabilities to banks	7,232	9,165	507	619
Liabilities to clients under deposits	195,252	177,006	65,843	65,680
Derivatives	5,081	5,690	389	479
Other liabilities	5,166	5,908	2,291	1,794
Provisions	863	938	285	337
Deferred tax liability	26	28	1	1
Liabilities related directly to assets classified as held for sale	70	83	-	-
Total liabilities	**222,363**	**207,728**	**71,601**	**72,083**
Total equity and liabilities	**247,296**	**233,156**	**77,981**	**78,394**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 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	18,250	-	-	24	18,274
Reinsurers' share in gross written premium	(591)	-	-	-	(591)
Net written premiums	**17,659**	**-**	**-**	**24**	**17,683**
Movement in net provision for unearned premiums	(287)	-	-	(2)	(289)
Net earned premiums	**17,372**	**-**	**-**	**22**	**17,394**
Revenue from commissions and fees	3,460	(2,380)	(1,009)	119	190
Interest income calculated using the effective interest rate	7,073	(4,098)	(2,083)	94	986
Other net investment income	290	(295)	144	(4)	135
Result on derecognition of financial instruments and investments	516	(38)	8	-	486
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,305)	566	745	-	6
Net movement in fair value of assets and liabilities measured at fair value	499	(67)	(329)	1	104
Other operating income	1,125	(175)	(140)	50	860
Claims, benefits and movement in technical provisions	(12,205)	-	-	(4)	(12,209)
Reinsurers' share in claims, benefits and movement in technical provisions	241	-	-	-	241
Net insurance claims and benefits	**(11,964)**	**-**	**-**	**(4)**	**(11,968)**
Fee and commission expenses	(865)	396	474	(6)	(1)
Interest expenses	(283)	136	113	(12)	(46)
Acquisition expenses	(2,498)	-	-	(230)	(2,728)
Administrative expenses	(5,141)	2,725	1,085	(37)	(1,368)
Other operating expenses	(3,026)	1,185	385	7	(1,449)
Operating profit (loss)	**5,253**	**(2,045)**	**(607)**	**-**	**2,601**
Share of the net financial results of entities measured by the equity method	(11)	(1)	-	-	(12)
Profit (loss) before tax	**5,242**	**(2,046)**	**(607)**	**-**	**2,589**
Income tax	(1,348)	564	198	-	(586)
Net profit (loss)	**3,894**	**(1,482)**	**(409)**	**-**	**2,003**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 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	17,291	-	-	15	17,306
Reinsurers' share in gross written premium	(347)	-	-	-	(347)
Net written premiums	**16,944**	**-**	**-**	**15**	**16,959**
Movement in net provision for unearned premiums	373	-	-	3	376
Net earned premiums	**17,317**	**-**	**-**	**18**	**17,335**
Revenue from commissions and fees	3,037	(2,091)	(844)	72	174
Interest income calculated using the effective interest rate	8,011	(4,507)	(2,514)	54	1,044
Other net investment income	380	(178)	(22)	4	184
Result on derecognition of financial instruments and investments	27	(98)	(37)	-	(108)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,607)	1,108	1,502	(1)	2
Net movement in fair value of assets and liabilities measured at fair value	461	(63)	(91)	-	307
Other operating income	1,020	(131)	(131)	42	800
Claims, benefits and movement in technical provisions	(11,770)	-	-	(8)	(11,778)
Reinsurers' share in claims, benefits and movement in technical provisions	418	-	-	-	418
Net insurance claims and benefits	**(11,352)**	**-**	**-**	**(8)**	**(11,360)**
Fee and commission expenses	(753)	341	415	(4)	(1)
Interest expenses	(1,003)	568	378	(13)	(70)
Acquisition expenses	(2,466)	-	-	(91)	(2,557)
Administrative expenses	(4,930)	2,464	1,150	(26)	(1,342)
Other operating expenses	(4,464)	1,256	676 [1)]	1,254 [2)]	(1,278)
Operating profit (loss)	**2,678**	**(1,331)**	**482**	**1,301**	**3,130**
Share of the net financial results of entities measured by the equity method	(2)	-	-	-	(2)
Profit (loss) before tax	**2,676**	**(1,331)**	**482**	**1,301**	**3,128**
Income tax	(1,105)	444	6	-	(655)
Net profit on continuing operations	**1,571**	**(887)**	**488**	**1,301**	**2,473**
Loss on discontinued operations	(13)	-	13	-	-
Net profit (loss)	**1,558**	**(887)**	**501**	**1,301**	**2,473**

[1)] Including impairment losses on intangible assets identified during the acquisition of Alior Bank (PLN 161 million).

[2)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million).

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 September 2021	1 January – 30 September 2020	1 January – 30 September 2021	1 January – 30 September 2020
Net profit	1,482	887	409	(501)
Other comprehensive income	(1,135)	844	(341)	160
Subject to subsequent transfer to profit or loss	(1,177)	841	(337)	136
Valuation of debt instruments	(529)	403	(17)	(5)
Measurement of loan receivables from clients	(35)	6	-	-
Cash flow hedging	(613)	432	(321)	142
Foreign exchange translation differences	-	-	1	(1)
Not to be transferred to profit or loss in the future	42	3	(4)	24
Valuation of equity instruments	42	3	(4)	24
Total net comprehensive income	**347**	**1,731**	**68**	**(341)**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 September 2021	1 January – 30 September 2020	1 January – 30 September 2021	1 January – 30 September 2020
Net cash flows from operating activities	4,421	26,726	(1,012)	471
Net cash flows from investing activities	663	(24,629)	694	13
Net cash flows from financing activities	(2,176)	(1,517)	(662)	(186)
Total net cash flows	**2,908**	**580**	**(980)**	**298**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2021	1 January – 30 September 2020	1 January – 30 September 2021	1 January – 30 September 2020
Date of ratifying the dividend	11 June 2021	-	-	-
Record date	10 September 2021	-	-	-
Dividend payment date	29 September 2021	-	-	-
Dividend per share (PLN)	3.21	-	-	-
Dividend due to the PZU Group	169	-	-	-
Dividend due to non-controlling shareholders	674	-	-	-

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 [1)]	45,167,000	5.2305%
3	Other shareholders	523,138,700	60.5820%
Total		**863,523,000**	**100.00%**

[1)] Number of shares held by funds at the Extraordinary Shareholder Meeting of PZU held on 12 October 2021.

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

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

On 7 June 2021, Marcin Eckert submitted his resignation from serving in the capacity of a PZU Management Board Member, effective as of the time of its submission to the Company.

On 20 July 2021, the PZU Supervisory Board appointed Krzysztof Kozłowski to the PZU Management Board and entrusted him with discharging the function of a PZU Management Board Member starting 4 August 2021 for a joint term of office encompassing three full financial years 2020-2022.

From 4 August 2021 to the date of signing the condensed interim consolidated financial statements, 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;
- Małgorzata Kot – Member of the PZU Management Board;
- Krzysztof Kozłowski – 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, 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.

On 7 June 2021, Maciej Łopiński submitted his resignation from serving in the capacity of Chairman of the PZU Supervisory Board, effective as of the time of its submission to the Company.

On 16 June 2021, the Ordinary Shareholder Meeting of PZU appointed Paweł Mucha to serve as a PZU Supervisory Board Member. On the same day, the PZU Supervisory Board appointed Paweł Mucha as the Supervisory Board Chairman.

On 11 October 2021, Mr. Tomasz Kuczur tendered his resignation from serving in the capacity of a PZU SA Supervisory Board Member, effective as of 11 October 2021.

On 12 October 2021, the Extraordinary Shareholder Meeting of PZU appointed Radosław Sierpiński as Member of the PZU Supervisory Board.

From 12 October 2021 to the date of signing the condensed interim consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

- Paweł Mucha – 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;
- Elżbieta Mączyńska-Ziemacka – Supervisory Board Member;
- Krzysztof Opolski – Supervisory Board Member;
- Radosław Sierpiński – Supervisory Board Member;
- Józef Wierzbowski – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

4.3 PZU Group Directors

From 1 January 2021, the following persons were PZU Group Directors:

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

(in millions of PLN)

On 4 August 2021, the PZU Życie Management Board appointed Krzysztof Kozłowski to the position of Group Director at PZU Życie.

Effective as of 24 August 2021, Mr. Ernest Bejda was dismissed as the PZU Group Director in PZU Życie.

From 25 August 2021 to the date of signing the condensed interim consolidated financial statements, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Krzysztof Kozłowski (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.

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.

(in millions of PLN)

Standard/interpretation	Approving regulation	Comments

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (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.

Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic after 30 June 2021	2021/1421	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 has not affected the PZU Group's consolidated statements to any significant extent.

(in millions of PLN)

5.1.2. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	1 January 2022	2021/1080	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	1 January 2022	2021/1080	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 3	1 January 2022	2021/1080	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.
Amendments to IFRS 2018-2020	1 January 2022	2021/1080	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent 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)

- 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 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

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			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 exert a material influence on the PZU Group's consolidated financial statements.
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.

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
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 IAS 12 – Income Taxes	7 May 2021	1 January 2023	According to the amendment, the exemption specified in IAS 12.15(b) for the 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 lease transactions). 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 relatively low level of vaccination in Poland contributes to the rising numbers of COVID-19 infections, which supports the numerous uncertainties regarding the macroeconomic situation, such as: the risk of restrictions imposed on the activity in some sectors of the economy that are likely to suffer from the pandemic, the risk of epidemic spreading, including the rise of new mutations and the potential ineffectiveness of the current vaccines. The PZU Group reflects these factors in its approach to credit risk management and to the calculation of expected credit losses. The PZU Group is also 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.

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 derecognized impairment losses on investment financial assets and receivables stood at PLN 4 million in the 9 months ended 30 September 2021, compared to their PLN 37 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 30 June 2021, the PZU Group has analyzed the grounds for impairment, including changes in the discount rate, financial plans and the market value of shares, and has not identified any need for impairment tests. In the period of 9 months ended 30 September 2021, the PZU Group has not recognized impairment losses on goodwill.

(in millions of PLN)

5.2.3. Provision for potential refunds of borrowing costs

On an ongoing basis, the PZU Group monitors the value of estimated prepayments of consumer loans and takes into account the most recent data on incoming complaints and reimbursement amounts when calculating the value of the provision for potential reimbursements of loan costs. Detailed information on this matter is presented in section 9.37.

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

As at 30 September 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 enterprise of Idea Bank 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 9-month period from 1 January to 30 September 2021, no corrections of errors from previous years were made.

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 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premiums in non-life insurance	3,671	11,487	3,338	10,677
In direct insurance	3,668	11,478	3,333	10,667
In indirect insurance	3	9	5	10
Gross written premiums in life insurance	2,237	6,763	2,262	6,614
Individual insurance premiums	479	1,494	516	1,354
Individually continued insurance premiums	514	1,542	510	1,534
Group insurance premiums	1,244	3,727	1,236	3,726
Total gross written premiums	**5,908**	**18,250**	**5,600**	**17,291**

(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 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Accident and sickness insurance (group 1 and 2)	285	839	220	672
Motor third party liability insurance (group 10)	1,329	3,977	1,311	4,010
Other motor insurance (group 3)	953	2,887	874	2,698
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	22	80	16	78
Insurance against fire and other property damage (groups 8 and 9)	654	2,356	558	2,036
TPL insurance (groups 11, 12, 13)	173	656	151	590
Credit and suretyship (groups 14, 15)	13	46	22	62
Assistance (group 18)	156	423	134	387
Legal protection (group 17)	3	10	3	9
Other (group 16)	80	204	44	125
Total	**3,668**	**11,478**	**3,333**	**10,667**

9.2 Revenue from commissions and fees

Revenue from commissions and fees	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Banking activity	1,076	2,990	903	2,570
Margin on foreign exchange transactions with clients	233	603	201	557
Brokerage fees	52	164	41	113
Fiduciary activity	20	57	17	47
Payment card and credit card services	298	803	257	703
Fees on account of insurance intermediacy activities	8	26	17	53
Credits and loans	126	352	101	290
Bank account-related services	137	402	101	316
Transfers	73	210	66	194
Cash operations	29	75	24	63
Receivables purchased	16	48	13	38
Guarantees, letters of credit, collections, promises	24	68	20	58
Commissions on leasing activity	22	63	15	44
Other commission	38	119	30	94
Revenue and payments received from funds and mutual fund management companies	122	362	122	363
Pension insurance	36	105	28	101
Other	-	3	1	3
Total revenue from commissions and fees	**1,234**	**3,460**	**1,054**	**3,037**

(in millions of PLN)

9.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Loan receivables from clients	1,766	5,199	1,712	5,941
Debt securities measured at fair value through other comprehensive income	166	555	233	766
Debt securities measured at amortized cost	373	1,075	324	971
Buy-sell-back transactions	-	1	-	24
Term deposits with credit institutions	4	12	3	33
Loans	42	90	45	177
Receivables purchased	46	138	23	81
Receivables	-	-	-	1
Cash and cash equivalents	1	3	1	17
Interest income calculated using the effective interest rate, total	**2,398**	**7,073**	**2,341**	**8,011**

9.4 Other net investment income

Other net investment income	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Hedge derivatives	119	334	96	257
Dividend income, including:	14	49	6	49
Investment financial assets measured at fair value through profit or loss	14	23	6	22
Investment financial assets measured at fair value through other comprehensive income	-	26	-	27
Foreign exchange differences	(136)	(190)	58	(23)
Income on investment property	61	178	56	167
Investment property maintenance expenses	(23)	(74)	(22)	(67)
Investment activity expenses	(7)	(26)	(6)	(19)
Other	8	19	6	16
Other net investment income, total	**36**	**290**	**194**	**380**

9.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment financial assets	24	659	87	120
Debt instruments measured at fair value through other comprehensive income	2	28	13	107
Financial instruments measured at fair value through profit or loss	15	619	68	(27)
Equity instruments	(4)	583	8	(46)
Participation units and investment certificates	13	26	30	(44)
Debt instruments	6	10	30	63
Instruments measured at amortized cost	7	12	6	40
Loan receivables from clients measured at amortized cost	(1)	(10)	(1)	1
Derivatives	(9)	(58)	155	(5)
Short sale	-	2	(1)	5
Receivables	(24)	(83)	(29)	(97)
Investment property	-	6	1	3
Result on derecognition of financial instruments and investments, total	**(10)**	**516**	**212**	**27**

(in millions of PLN)

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 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment financial assets	(34)	(1)	(10)	(36)
Debt instruments measured at fair value through other comprehensive income	(17)	5	(6)	(34)
Instruments measured at amortized cost	(17)	(6)	(4)	(2)
- debt instruments	(20)	(11)	(8)	(2)
- term deposits with credit institutions	-	-	(1)	(1)
- loans	3	5	5	1
Loan receivables from clients	(396)	(1,363)	(557)	(2,351)
Measured at amortized cost	(396)	(1,385)	(557)	(2,346)
Measured at fair value through other comprehensive income	-	22	-	(5)
Guarantees and sureties given	-	54	6	(219)
Receivables	7	5	29	(1)
Cash and cash equivalents	1	-	-	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(422)**	**(1,305)**	**(532)**	**(2,607)**

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 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment financial instruments measured at fair value through profit or loss	129	337	81	343
Equity instruments	(19)	51	29	28
Debt securities	130	132	(15)	191
Participation units and investment certificates	18	154	67	124
Derivatives	4	248	(168)	(61)
Measurement of liabilities to members of consolidated mutual funds	-	(7)	(2)	(1)
Investment contracts for the client’s account and risk (unit-linked)	-	(7)	(3)	8
Investment property	(15)	(74)	(2)	172
Loan receivables from clients	1	2	2	-
Net movement in fair value of assets and liabilities measured at fair value, total	**119**	**499**	**(92)**	**461**

(in millions of PLN)

9.8 Other operating income

Other operating income	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Revenues on the sales of products, merchandise and services by non-insurance companies	226	651	198	520
Revenues from direct claims handling on behalf of other insurance undertakings	42	123	45	135
Reversal of provisions	1	21	15	76 [1)]
Reimbursement of the costs of pursuit of claims	8	24	9	31
Reinsurance commissions and profit participation	21	77	16	48
Interest for late payment of amounts due under direct insurance and outward reinsurance	12	36	13	46
Gain from sale of property, plant and equipment and property, plant and equipment under construction	8	18	-	-
Other	55	175	55	164
Other operating income, total	**373**	**1,125**	**351**	**1,020**

[1)] Including PLN 57 million of the derecognized provision for UOKiK.

9.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Claims, benefits and movement in technical provisions	**4,019**	**12,205**	**4,162**	**11,770**
In non-life insurance	2,487	6,808	2,453	7,037
- claims and benefits	2,053	5,450	2,027	5,688
- movement in technical provisions	209	701	225	752
- claims handling expenses	225	657	201	597
In life insurance	1,532	5,397	1,709	4,733
- claims and benefits	1,475	5,033	1,552	4,596
- movement in technical provisions	26	272	128	38
- claims handling expenses	31	92	29	99
Reinsurers' share in claims, benefits and movement in technical provisions	**(125)**	**(241)**	**(101)**	**(418)**
In non-life insurance	(125)	(241)	(101)	(418)
Total net insurance claims and benefits	**3,894**	**11,964**	**4,061**	**11,352**

(in millions of PLN)

9.10 Fee and commission expenses

Fee and commission expenses	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Costs of card and ATM transactions, including card issue costs	231	585	180	486
Commissions on acquisition of banking clients	30	85	25	80
Fees for the provision of ATMs	12	33	13	35
Costs of awards to banking clients	4	12	5	13
Costs of bank transfers and remittances	11	31	10	29
Additional services attached to banking products	6	17	4	15
Brokerage fees	4	20	6	17
Costs of administration of bank accounts	2	4	1	3
Costs of banknote operations	5	17	9	15
Fiduciary activity expenses	7	21	5	15
Other commission	14	40	17	45
Total fee and commission expenses	**326**	**865**	**275**	**753**

9.11 Interest expenses

Interest expenses	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Term deposits	7	33	71	398
Current deposits	8	32	31	250
Own debt securities issued	49	151	73	265
Hedge derivatives	6	21	4	8
Loans	(1)	(1)	-	3
Repurchase transactions	-	-	-	12
Bank loans contracted by PZU Group companies	7	19	7	28
Leases	6	17	7	22
Other	4	11	4	17
Total interest expenses	**86**	**283**	**197**	**1,003**

9.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Consumption of materials and energy	34	117	34	117
Third party services	397	1,201	414	1,184
Taxes and charges	35	107	28	95
Employee expenses	1,219	3,778	1,111	3,568
Depreciation of property, plant and equipment	174	474	140	451
Amortization of intangible assets	126	366	153	346
Other, including:	836	2,434	724	2,259
- commissions in insurance activities	646	1,906	569	1,767
- advertising	74	178	42	139
- remuneration of group insurance administrators in work establishments	50	152	51	154
- other	66	198	62	199
Movement in deferred acquisition expenses	(5)	(89)	40	72
Administrative, acquisition and claims handling expenses, total	**2,816**	**8,388**	**2,644**	**8,092**

(in millions of PLN)

9.13 Other operating expenses

Other operating expenses	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Impairment of goodwill created as a result of the acquisition of Alior Bank	-	-	-	746
Impairment of goodwill created as a result of the acquisition of Pekao	-	-	-	555
Levy on financial institutions	323	960	305	901
Expenses of the core business of non-insurance and non-banking companies	245	723	227	627
Direct claims handling expenses on behalf of other insurance undertakings	44	129	48	143
Compulsory payments to insurance market institutions and banking market institutions	28	117	26	103
Bank Guarantee Fund	41	351	67	473
Insurance Guarantee Fund	15	46	16	47
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	1	17	3	20
Expenditures for prevention activity	9	33	9	38
Establishment of provisions	45	283	33	304
Amortization of intangible assets purchased in company acquisition transactions	33	96	41	131
Recognition of impairment losses for non-financial assets	1	4	7	177 [1)]
Donations	-	22	1	29
Late interest, penalties, indemnities	2	4	3	12
Costs of pursuit of claims	25	71	18	63
Loss from the sale of property, plant and equipment and property, plant and equipment under construction	2	13	-	1
Other	56	157	20	94
Other operating expenses, total	**870**	**3,026**	**824**	**4,464**

[1)] Including impairment losses on intangible assets identified during the acquisition of Alior Bank (PLN 161 million).

9.14 Income tax

Total amount of current and deferred tax	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Recognized through profit or loss, including:	(474)	(1,348)	(358)	(1,105)
- current tax	(539)	(1,204)	(430)	(1,414)
- deferred tax	65	(144)	72	309
Recognized in other comprehensive income (deferred tax)	155	448	(21)	(290)
Total	**(319)**	**(900)**	**(379)**	**(1,395)**

Income tax on other comprehensive income items	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross other comprehensive income	(760)	(2,326)	133	1,604
Income tax	155	448	(21)	(290)
Debt instruments	46	210	(42)	(147)
Loan receivables from clients	(1)	8	-	(1)
Cash flow hedging	94	237	3	(145)
Equity instruments measured at fair value through other comprehensive income	16	(7)	18	3
Net other comprehensive income	**(605)**	**(1,878)**	**112**	**1,314**

(in millions of PLN)

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.

9.15 Earnings per share

Earnings per share	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Net profit attributable to the equity holders of the parent company	759	2,430	890	1,191
Weighted average basic and diluted number of common shares	863,340,728	863,341,351	863,328,971	863,326,940
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(182,272)	(181,649)	(194,029)	(196,060)
Basic and diluted earnings (losses) per common share (in PLN)	0.88	2.81	1.03	1.38

In the 9-month periods ended 30 September 2021 and 30 September 2020, there were no transactions or events resulting in the dilution of earnings per share.

9.16 Goodwill

Goodwill	30 September 2021	31 December 2020
Pekao [1]	1,715	1,714
LD [2]	512	511
Medical companies	288	284
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	41	41
Other	5	5
Total goodwill	**2,782**	**2,776**

[1] Includes goodwill on the acquisition of Pekao Investment Management SA and the acquisition of Idea Bank.
[2] Includes goodwill on the acquisition of the LD branch in Estonia.

9.17 Intangible assets

Intangible assets by type groups	30 September 2021	31 December 2020
Software, licenses and similar assets	1,652	1,548
Trademarks	522	522
- Pekao	340	340
- other	182	182
Customer relationships	469	565
- Pekao	394	478
- other	75	87
Intangible assets under development	561	548
Other intangible assets	23	23
Total intangible assets	**3,227**	**3,206**

(in millions of PLN)

9.18 Other assets

Other assets	30 September 2021	31 December 2020
Reinsurance settlements	80	282
Estimated salvage and subrogation	178	189
Deferred IT expenses	97	91
Accrued direct claims handling receivables	51	51
Costs settled over time	95	67
Inventories	37	40
Payments for taxes on property, means of transport and land	7	-
Payments for the costs of the allowance to the Company Social Benefit Fund	10	-
Accrued commissions	15	14
Other assets	36	19
Total other assets	**606**	**753**

9.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 September 2021	31 December 2020
Plant and machinery	665	637
Means of transport	226	172
Property, plant and equipment under construction	181	229
Real property	2,702	2,809
Other property, plant and equipment	337	341
Total property, plant and equipment	**4,111**	**4,188**

9.20 Entities measured by the equity method

Associates	30 September 2021	31 December 2020
RUCH SA	54	65
Krajowy Integrator Płatności SA	43	-
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	-	1
PayPo sp. z o.o.	-	5
Associates, total	**98**	**72**

(in millions of PLN)

9.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	30 September 2021	31 December 2020
Groups held for sale	**235**	**396**
Assets	321	517
Investment property	246	439
Investment financial assets measured at fair value through other comprehensive income	36	28
Intangible assets	1	2
Property, plant and equipment	3	4
Receivables	5	5
Cash and cash equivalents	23	33
Other assets	7	6
Liabilities related directly to assets classified as held for sale	86	121
Liabilities to clients under deposits	59	76
Other liabilities	22	30
Deferred tax liability	4	14
Provisions	1	1
Other assets held for sale	**282**	**73**
Property, plant and equipment	10	10
Investment property	272	63
Assets and groups of assets held for sale	**603**	**590**
Liabilities related directly to assets classified as held for sale	**86**	**121**

The “Investment property” line item and the “Groups held for sale” section presented mainly the properties held for sale by the real estate mutual fund, as well as Xelion’s assets and liabilities in connection with the sale of shares in that company (more on this topic in item 2.3.3).

9.22 Loan receivables from clients

Loan receivables from clients	30 September 2021	31 December 2020
Measured at amortized cost	211,567	195,626
Measured at fair value through other comprehensive income	264	1,475
Measured at fair value through profit or loss	173	187
Total loan receivables from clients	**212,004**	**197,288**

(in millions of PLN)

Loan receivables from clients	30 September 2021	31 December 2020
Retail segment	**115,028**	**110,230**
Operating loans	223	244
Consumer finance	27,319	27,286
Consumer finance loans	3,753	3,852
Loan to purchase securities	23	26
Overdrafts in credit card accounts	1,028	993
Loans for residential real estate	81,696	76,782
Other mortgage loans	741	772
Other receivables	245	275
Business segment	**96,976**	**87,058**
Operating loans	33,851	26,722
Consumer finance	16	-
Car financing loans	3	4
Investment loans	27,448	27,295
Receivables purchased (factoring)	11,955	7,049
Overdrafts in credit card accounts	161	56
Loans for residential real estate	388	233
Other mortgage loans	9,311	10,641
Finance lease	10,896	12,330
Other receivables	2,947	2,728
Total loan receivables from clients	**212,004**	**197,288**

9.23 Financial derivatives

Derivatives	30 September 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**3,482**	**4,532**	**5,453**	**5,212**
Fair value hedging instruments – SWAP transactions	5	116	-	206
Cash flow hedging instruments – SWAP transactions	423	1,401	1,113	729
Instruments held for trading, including:	3,054	3,015	4,340	4,277
- FRA transactions	1	2	1	1
- SWAP transactions	3,037	3,003	4,333	4,274
- call options (purchase)	8	4	5	1
- put options (sale)	8	6	1	1
Foreign exchange derivatives	**794**	**767**	**660**	**877**
Cash flow hedging instruments – SWAP transactions	35	112	5	264
Instruments held for trading, including:	759	655	655	613
- forward contracts	312	378	340	277
- SWAP transactions	371	217	225	257
- call options (purchase)	70	25	67	38
- put options (sale)	6	35	23	41
Equity derivatives – held for trading	**79**	**43**	**93**	**61**
- call options (purchase)	79	43	93	61
Commodity derivatives – held for trading	**453**	**448**	**133**	**131**
- forward contracts	4	5	3	7
- SWAP transactions	431	426	74	72
- call options (purchase)	17	12	19	1
- put options (sale)	1	5	37	51
Total derivatives	**4,808**	**5,790**	**6,339**	**6,281**

(in millions of PLN)

9.24 Investment financial assets

Investment financial assets	30 September 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	737	1,157	1,894	n/a	605	946	1,551
Participation units and investment certificates	n/a	n/a	5,891	5,891	n/a	n/a	5,298	5,298
Debt securities	66,920	50,014	2,713	119,647	57,871	63,643	3,566	125,080
Government securities	58,810	37,988	2,494	99,292	50,632	48,250	3,443	102,325
Domestic	58,544	35,231	2,303	96,078	50,417	45,577	3,262	99,256
Fixed rate	53,984	27,552	1,898	83,434	47,227	37,420	2,695	87,342
Floating rate	4,560	7,679	405	12,644	3,190	8,157	567	11,914
Foreign	266	2,757	191	3,214	215	2,673	181	3,069
Fixed rate	266	2,757	188	3,211	215	2,673	181	3,069
Floating rate	-	-	3	3	-	-	-	-
Other	8,110	12,026	219	20,355	7,239	15,393	123	22,755
Fixed rate	2,858	6,627	49	9,534	2,466	7,671	53	10,190
Floating rate	5,252	5,399	170	10,821	4,773	7,722	70	12,565
Other, including:	15,185	-	-	15,185	8,993	-	-	8,993
Buy-sell-back transactions	7,900	-	-	7,900	4,657	-	-	4,657
Term deposits with credit institutions	3,815	-	-	3,815	952	-	-	952
Loans	3,470	-	-	3,470	3,384	-	-	3,384
Investment financial assets, total	**82,105**	**50,751**	**9,761**	**142,617**	**66,864**	**64,248**	**9,810**	**140,922**

Equity instruments measured at fair value through other comprehensive income	30 September 2021	31 December 2020
Biuro Informacji Kredytowej SA	347[1)]	240
Grupa Azoty SA	202	198
Polimex-Mostostal SA	54	51
PSP sp. z o.o.	54	59
Webuild SpA	16	15
Astaldi SFP	18	-
Krajowa Izba Rozliczeniowa SA	20	19
Other	26	23
Equity instruments measured at fair value through other comprehensive income, total	**737**	**605**

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

(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	30 September 2021	31 December 2020
Lithuania	855	910
Romania	233	221
Ukraine	164	132
Latvia	157	169
Hungary	156	144
Croatia	151	173
Indonesia	129	129
Russia	98	100
Italy	95	2
Bulgaria	88	90
Mexico	87	68
Columbia	79	104
Panama	75	78
Peru	73	58
Brazil	67	83
Kazakhstan	60	62
South Africa	58	55
Saudi Arabia	57	57
Philippines	55	48
Uruguay	54	55
Dominican Republic	51	53
Other	372 1)	278 2)
Total	**3,214**	**3,069**

1) The line item "Other" includes bonds issued by 51 countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million.
2) The line item "Other" includes bonds issued by 39 countries.

(in millions of PLN)

Exposure to debt securities issued by corporations, local government units and the National Bank of Poland

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	30 September 2021	31 December 2020
K. Financial and insurance activities, of which:	7,637	10,699
- foreign banks	4,831	7,069
- National Bank of Poland	1,019	2,275
- companies from the WIG-Banks Index	561	555
O. Public administration and defense, compulsory social security, of which:	5,054	5,872
- domestic local governments	5,045	5,859
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	2,309	2,409
- companies from the WIG-Energy Index	1,602	1,732
C. Manufacturing, of which:	1,607	1,144
- production and processing of crude oil refining products (including WIG-Fuels)	751	647
N. Administrative and support service activities	959	-
H. Transportation and storage	800	603
E. Water supply; sewerage, waste management and remediation activities	406	382
I.R. Accommodation and food service activities (including: WIG - hotels and restaurants), and arts, entertainment and recreation activities	338	365
L. Real estate activities	276	235
F. Construction	260	246
B. Mining and quarrying	238	252
J. Information and communication	234	307
M. Professional, scientific and technical activity	197	184
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	40	57
Total	**20,355**	**22,755**

9.25 Receivables

Receivables – carrying amount	30 September 2021	31 December 2020
Receivables on direct insurance, including:	2,246	2,399
- receivables from policyholders	2,142	2,288
- receivables from insurance intermediaries	92	98
- other receivables	12	13
Reinsurance receivables	71	55
Other receivables	4,316	3,792
- receivables from disposal of securities and margins [1)]	2,466	1,861
- receivables on account of payment card settlements	652	807
- trade receivables	342	303
- receivables from the state budget, other than corporate income tax receivables	184	144
- receivables by virtue of commissions concerning off-balance sheet products	184	175
- prevention settlements	26	38
- receivables from direct claims handling on behalf of other insurance undertakings	16	18
- receivables for acting as an emergency adjuster	8	10
- receivables on account of Corporate Income Tax	9	76
- receivables from security and bid deposits	43	38
- interbank and interbranch receivables	10	4
- other	376	318
Total receivables	**6,633**	**6,246**

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

As at 30 September 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 – 30 September 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	45,293	-	-	5	45,298	47,445	-	-	1	47,446
Change attributable to modification of cash flows concerning the given instrument	(2)	(1)	-	-	(3)	(7)	(1)	(3)	-	(11)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(37,302)	(282)	(1,258)	(781)	(39,623)	(39,726)	(694)	(816)	(734)	(41,970)
Assets from the statement of financial position	-	-	(1,321)	(29)	(1,350)	-	-	(1,822)	(39)	(1,861)
Reclassification to basket 1	8,066	(7,752)	(314)	-	-	4,833	(4,765)	(68)	-	-
Reclassification to basket 2	(12,785)	13,185	(400)	-	-	(17,442)	17,887	(445)	-	-
Reclassification to basket 3	(1,143)	(1,907)	3,050	-	-	(2,463)	(1,784)	4,247	-	-
Change in the composition of the Group	11,189	-	-	872	12,061	-	-	-	-	-
Other changes, including foreign exchange differences	(470)	(90)	85	46	(429)	194	(14)	256	9	445
End of the period	**175,964**	**31,391**	**12,171**	**5,404**	**224,930**	**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	(512)	-	-	(2)	(514)	(657)	-	-	(1)	(658)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	708	16	(1,549)	315	(510)	610	(853)	(2,478)	243	(2,478)
Assets from the statement of financial position	-	-	1,321	29	1,350	-	-	1,805	39	1,844
Reclassification to basket 1	(460)	311	149	-	-	(303)	280	23	-	-
Reclassification to basket 2	78	(251)	173	-	-	113	(239)	126	-	-
Reclassification to basket 3	85	333	(418)	-	-	151	323	(474)	-	-
Other changes, including foreign exchange differences	(10)	(341)	181	(169)	(339)	(23)	(66)	(272)	(14)	(375)
End of the period	**(1,020)**	**(1,808)**	**(6,660)**	**(3,875)**	**(13,363)**	**(909)**	**(1,876)**	**(6,517)**	**(4,048)**	**(13,350)**
Net carrying amount at the end of the period	**174,944**	**29,583**	**5,511**	**1,529**	**211,567**	**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 – 30 September 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	-	-	-	-	-	100	-	-	-	100
Change in measurement	(1)	1	-	-	-	43	57	-	-	100
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(589)	(620)	-	-	(1 209)	(76)	(51)	-	-	(127)
Reclassification to basket 2	-	-	-	-	-	(132)	132	-	-	-
Other changes	1	(3)	-	-	(2)	13	8	-	-	21
End of the period	**131**	**133**	**-**	**-**	**264**	**720**	**755**	**-**	**-**	**1,475**
Expected credit losses										
Beginning of the period	(4)	(22)	-	-	(26)	(4)	(17)	-	-	(21)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	(1)	-	-	(1)	(2)	(2)	-	-	(4)
Changes attributable to sale, exclusion or expiration of the instrument	4	19	-	-	23	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
Other changes	(1)	1	-	-	-	1	(2)	-	-	(1)
End of the period	**(1)**	**(3)**	**-**	**-**	**(4)**	**(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 – 30 September 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	16,030	-	-	-	16,030	31,790	-	-	-	31,790
Change in measurement	535	-	1	-	536	820	-	-	-	820
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(7,855)	-	-	-	(7,855)	(10,834)	(33)	-	-	(10,867)
Assets from the statement of financial position	-	-	(1)	-	(1)	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	299 [1)]	(299) [1)]	-	-	-
Reclassification to basket 2	(206)	206	-	-	-	(38)	38	-	-	-
Change in the composition of the Group	15	-	-	40	55	-	-	-	-	-
Other changes, including foreign exchange differences	312	1	-	(1)	312	199	(1)	-	-	198
End of the period	**66,681**	**280**	**34**	**39**	**67,034**	**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	(24)	-	-	-	(24)	(20)	-	-	-	(20)
Changes attributable to valuation or credit risk level (excluding reclassification)	10	1	(1)	-	10	9	-	-	-	9
Changes attributable to sale, exclusion or expiration of the instrument	3	-	-	-	3	11	1	-	-	12
Assets from the statement of financial position	-	-	1	-	1	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	(16) [1)]	16 [1)]	-	-	-
Reclassification to basket 2	5	(5)	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	-	-	-	(18)	(18)	(1)	-	-	-	(1)
End of the period	**(56)**	**(6)**	**(34)**	**(18)**	**(114)**	**(50)**	**(2)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**66,625**	**274**	**-**	**21**	**66,920**	**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 – 30 September 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	239,453	-	-	-	239,453	405,843	-	-	-	405,843
Change in measurement	(386)	(7)	-	-	(393)	1,054	(1)	-	-	1,053
Change attributable to modification of cash flows concerning the given instrument	-	-	-	-	-	(12)	-	-	-	(12)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(253,361)	(50)	-	-	(253,411)	(398,632)	(49)	-	-	(398,681)
Reclassification to basket 1	-	-	-	-	-	13	(13)	-	-	-
Reclassification to basket 2	(75)	75	-	-	-	(163)	163	-	-	-
Change in the composition of the Group	313	-	-	-	313	-	-	-	-	-
Other changes, including foreign exchange differences	408	1	-	-	409	747	-	-	-	747
End of the period	**49,739**	**275**	**-**	**-**	**50,014**	**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	(19)	-	-	-	(19)	(35)	-	-	-	(35)
Changes attributable to valuation or credit risk level (excluding reclassification)	14	(8)	-	-	6	(5)	(10)	-	-	(15)
Changes attributable to sale, exclusion or expiration of the instrument	18	-	-	-	18	11	1	-	-	12
Reclassification to basket 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	3	(3)	-	-	-
End of the period	**(54)**	**(22)**	**-**	**-**	**(76)**	**(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 – 30 September 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	29,466	-	-	-	29,466	110,971	-	-	-	110,971
Change in measurement	1	-	-	-	1	26	-	-	-	26
Change attributable to modification of cash flows concerning the given instrument	(355)	-	-	-	(355)	-	-	-	-	-
Changes attributable to the sale, exclusion or expiration of the instrument (excl. reclassification)	(26,402)	-	-	-	(26,402)	(111,481)	-	-	-	(111,481)
Change in the composition of the Group	161	-	-	-	161	-	-	-	-	-
Other changes, including foreign exchange differences	(8)	-	-	-	(8)	(18)	(1)	-	-	(19)
End of the period	**3,816**	**-**	**-**	**-**	**3,816**	**953**	**-**	**-**	**-**	**953**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Changes in the period	-	-	-	-	-	1	-	-	-	1
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**3,815**	**-**	**-**	**-**	**3,815**	**952**	**-**	**-**	**-**	**952**

Loans	1 January – 30 September 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	1,401	-	-	-	1,401	1,173	-	-	-	1,173
Change in measurement	1	1	-	-	2	56	-	-	-	56
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(1,319)	(3)	-	-	(1,322)	(2,349)	-	-	-	(2,349)
Reclassification to basket 2	-	-	-	-	-	(79)	79	-	-	-
End of the period	**3,401**	**77**	**-**	**-**	**3,478**	**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	(1)	-	-	-	(1)	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excl. reclassification)	2	2	-	-	4	3	-	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	16	-	-	-	16
Reclassification to basket 2	-	-	-	-	-	6	(6)	-	-	-
End of the period	**(4)**	**(4)**	**-**	**-**	**(8)**	**(7)**	**(6)**	**-**	**-**	**(13)**
Net carrying amount at the end of the period	**3,397**	**73**	**-**	**-**	**3,470**	**3,311**	**73**	**-**	**-**	**3,384**

(in millions of PLN)

Receivables	1 January – 30 September 2021	1 January – 31 December 2020
Gross carrying amount		
Beginning of the period	7,333	6,825
Changes in the period	354	508
End of the period	**7,687**	**7,333**
Expected credit losses		
Beginning of the period	(1,087)	(1,088)
Changes in the period	33	1
End of the period	**(1,054)**	**(1,087)**
Net carrying amount at the end of the period	**6,633**	**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

Measured assets	Unobservable data	Description	Impact on measurement
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
	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.	

(in millions of PLN)

9.27.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 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	25,220	16,068	9,463	50,751	27,673	24,797	11,778	64,248
Equity instruments	269	-	468	737	257	1	347	605
Debt securities	24,951	16,068	8,995	50,014	27,416	24,796	11,431	63,643
Investment financial assets measured at fair value through profit or loss	3,202	6,104	455	9,761	3,616	5,709	485	9,810
Equity instruments	902	-	255	1,157	575	1	370	946
Participation units and investment certificates	140	5,729	22	5,891	134	5,143	21	5,298
Debt securities	2,160	375	178	2,713	2,907	565	94	3,566
Loan receivables from clients	-	-	437	437	-	-	1,662	1,662
Measured at fair value through other comprehensive income	-	-	264	264	-	-	1,475	1,475
Measured at fair value through profit or loss	-	-	173	173	-	-	187	187
Financial derivatives	-	4,751	57	4,808	-	6,246	93	6,339
Investment property	-	205	2,113	2,318	-	186	2,307	2,493
Liabilities								
Derivatives	-	5,770	20	5,790	-	6,221	60	6,281
Liabilities to members of consolidated mutual funds	-	382	-	382	-	265	-	265
Investment contracts for the client's account and risk *(unit-linked)*	-	277	-	277	-	268	-	268
Liabilities on borrowed securities (short sale)	403	-	-	403	851	-	-	851

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 September 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	-	2,862	-	-	3,595	1	1	53	-	72
Reclassification from Level II [1)]	-	737	-	-	21	-	-	-	-	99
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	157
Profit or loss recognized in the profit and loss account:	-	70	590	-	(7)	14	1	40	2	(53)
- interest income calculated using the effective interest rate	-	83	-	-	1	5	-	40	2	-
- result on derecognition of financial instruments and investments	-	3	585	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(16)	5	-	(8)	9	1	-	-	(53)
Profits or losses recognized in other comprehensive income	26	(111)	-	-	-	-	-	(21)	-	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(469)
Sales/settlements/repayments/conversion	-	(5,243)	(720)	-	(3,525)	(55)	(46)	(1,283)	(16)	-
Reclassification to Level II	-	(751)	-	-	-	-	-	-	-	-
Change in the composition of the Group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	10	-	15	1	-	-	-	-	-	-
End of the period	**468**	**8,995**	**255**	**22**	**178**	**57**	**20**	**264**	**173**	**2,113**

[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 comprehensive 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	30 September 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	-	-	210,486	210,486	211,567	-	-	193,609	193,609	195,637
Investment financial assets measured at amortized cost	44,687	12,557	28,244	85,488	82,105	42,591	7,450	22,845	72,886	66,864
Debt securities	44,687	7,265	18,279	70,231	66,920	42,591	6,168	15,045	63,804	57,871
Buy-sell-back transactions	-	2,181	5,719	7,900	7,900	-	1,000	3,657	4,657	4,657
Term deposits with credit institutions	-	3,111	697	3,808	3,815	-	282	670	952	952
Loans	-	-	3,549	3,549	3,470	-	-	3,473	3,473	3,384
Liabilities										
Liabilities to banks	-	1,411	6,320	7,731	7,707	-	2,504	7,140	9,644	9,751
Liabilities to clients under deposits	-	-	260,066	260,066	260,387	-	-	241,171	241,171	241,975
Liabilities on the issue of own debt securities [1)]	-	6,018	657	6,675	6,651	-	6,423	1,130	7,553	7,532
Subordinated liabilities [1)]	-	2,772	3,685	6,457	6,423	-	2,761	4,038	6,799	6,679
Liabilities on account of repurchase transactions	-	20	601	621	621	-	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 9 months ended on 30 September 2021 and 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 period of 9 months ended on 30 September 2021, the following reclassifications 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 estimated 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 significant and capital market derivatives for which estimated volatility exerted a significant impact on the measurement;
- 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;
- 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;
- 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 period of 9 months ended on 30 September 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 30 September 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 Jan 1997	27 Dec 1991
B	bearer	none	none	259,059,800	25,905,980	in-kind contribution	31 Mar 1999	1 Jan 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	30 September 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**26,077**	**(2,022)**	**24,055**	**25,276**	**(2,100)**	**23,176**
Provision for unearned premiums	8,738	(712)	8,026	8,645	(924)	7,721
Provision for unexpired risk	37	-	37	32	-	32
Provision for outstanding claims and benefits	10,954	(1,037)	9,917	10,371	(903)	9,468
- for reported claims	4,016	(914)	3,102	3,590	(738)	2,852
- for claims not reported (IBNR)	4,647	(103)	4,544	4,573	(146)	4,427
- for claims handling expenses	2,291	(20)	2,271	2,208	(19)	2,189
Provision for the capitalized value of annuities	6,345	(273)	6,072	6,226	(273)	5,953
Provisions for bonuses and discounts for insureds	3	-	3	2	-	2
Technical provisions in life insurance	**23,476**	**(1)**	**23,475**	**23,195**	**(1)**	**23,194**
Provision for unearned premiums	107	(1)	106	106	(1)	105
Provision for unexpired risk	41	-	41	51	-	51
Life insurance provision	16,353	-	16,353	16,309	-	16,309
Provision for outstanding claims and benefits	611	-	611	613	-	613
- for reported claims	164	-	164	175	-	175
- for claims not reported (IBNR)	442	-	442	433	-	433
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	5	-	5	6	-	6
Other technical provisions	173	-	173	190	-	190
Unit-linked provision	6,186	-	6,186	5,920	-	5,920
Total technical provisions	**49,553**	**(2,023)**	**47,530**	**48,471**	**(2,101)**	**46,370**

9.32 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue date/Maturity date	Carrying amount 30 September 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	2,254	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	221	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	-	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					**6,423**	**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	30 September 2021	31 December 2020
Bonds	4,766	4,597
Certificates of deposit	638	1,611
Covered bonds	1,247	1,324
Total liabilities on the issue of own debt securities	**6,651**	**7,532**

9.34 Liabilities to banks

Liabilities to banks	30 September 2021	31 December 2020
Current deposits	210	914
One-day deposits	270	1,826
Term deposits	918	123
Loans received	6,151	6,439
Other liabilities	158	449
Liabilities to banks, total	**7,707**	**9,751**

(in millions of PLN)

9.35 Liabilities to clients under deposits

Liabilities to clients under deposits	30 September 2021	31 December 2020
Current deposits	238,017	210,212
Term deposits	21,318	30,849
Other liabilities	1,052	914
Liabilities to clients under deposits, total	**260,387**	**241,975**

9.36 Other liabilities

Other liabilities	30 September 2021	31 December 2020
Liabilities measured at fair value	**1,062**	**1,389**
Liabilities on borrowed securities (short sale)	403	851
Investment contracts for the client's account and risk (unit-linked)	277	268
Liabilities to members of consolidated mutual funds	382	265
Liability on the settlement of the acquisition of shares of Tomma Diagnostyka Obrazowa Spółka Akcyjna	-	5
Accrued expenses	**1,670**	**1,963**
Accrued expenses of agency commissions	342	359
Accrued payroll expenses	705	609
Accrued reinsurance expenses	258	731
Other	365	264
Deferred revenue	**502**	**395**
Other liabilities	**12,564**	**8,687**
Liabilities on account of repurchase transactions	621	1,154
Lease liabilities	1,008	1,064
Liabilities due under transactions on financial instruments	1,751	1,044
Liabilities to banks for payment documents cleared in interbank clearing systems	1,817	1,140
Liabilities on direct insurance	958	915
Liabilities on account of payment card settlements	367	354
Regulatory settlements	199	223
Liabilities for contributions to the Bank Guarantee Fund	616	514
Reinsurance liabilities	216	223
Estimated non-insurance liabilities	149	143
Liabilities to employees	85	42
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	18	30
Trade liabilities	462	611
Current income tax liabilities	257	355
Liabilities on account of employee leaves	174	156
Liabilities to the state budget other than for income tax	130	116
Liabilities on account of donations	17	21
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	40	21
Insurance Guarantee Fund	13	14
Liability for the refund of loan costs	95	88
Liabilities for direct claims handling	35	31
Liabilities to PZU shareholders for dividends	3,025	3
Other	511	425
Other liabilities, total	**15,798**	**12,434**

(in millions of PLN)

9.37 Provisions

Movement in provisions in the period ended 30 September 2021	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	555	274	-	(328)	2	503
Provision for retirement severance pays	323	22	(29)	-	-	316
Provision for disputed claims and potential liabilities	80	25	(24)	(4)	3	80
Provision for potential refunds of borrowing costs	128	25	(69)	-	-	84
Provision for tax risk	-	91	-	-	2	93
Provision for legal risk pertaining to mortgage loans in Swiss francs	91	6	-	(1)	-	96
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	93	120	(135)	(15)	-	63
Provision for post-mortem benefits	32	-	-	-	-	32
Other	37	9	(3)	(1)	-	42
Total provisions	**1,378**	**572**	**(260)**	**(349)**	**7**	**1,348**

Movement in provisions in the period ended 31 December 2020	Beginning of the period	Increase	Utilization	Reversal	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 for 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 9-month period ended 30 September 2021, the provision increased by PLN 25 million, while PLN 69 million of the provision was utilized and its amount as at 30 September 2021 was PLN 84 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.

In December 2020, the Chairman of the Polish Financial Supervision Authority (KNF) presented a proposal to resolve the Swiss franc loan issue. According to this proposal, the banks would offer their clients out-of-court settlements under which the loan would be settled as if it had been granted in PLN from the beginning. The interest rate on the loan would depend on the WIBOR and the margin corresponding to the levels of margins in PLN offered on the market during the loan granting period. The historical repayments made by the borrower would be credited towards the interest and principal repayments of such a theoretical loan in PLN, and the outstanding principal as at the settlement date would be subject to further repayment by the borrower.

As at 30 September 2021, 1,337 individual court cases were pending against the PZU Group over foreign currency mortgage loans in Swiss francs, which were granted in previous years with the total disputed amount of PLN 378 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 the 9-month period ended 30 September 2021, the PZU Group received 52 unfavorable court judgments in cases filed by borrowers, including 6 final judgments, and 8 favorable judgments, including 1 final judgment, by which the court discontinued the claim for declaring invalidity of the loan agreement 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 30 September 2021, the level of the provision for legal risk associated with FX mortgage loans in Swiss franc was PLN 488 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 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 30 September 2021, it has been assumed that the provision amount (comprising the existing and possible future statements of claim) is recognized in "Impairment losses for loan receivables from clients" (in correspondence with the "Movement in allowances for expected credit losses and impairment losses on financial instruments" item 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	30 September 2021	31 December 2020
Impairment losses for loan receivables from clients	392	345
individual provision	143	65
portfolio provision	249	280
Other provisions	96	91
individual provision	25	11
portfolio provision	71	80
Total	**488**	**436**

Consolidated profit and loss account line items	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Movement in allowances for expected credit losses and impairment losses on financial instruments	(42)	(47)	(25)	(37)
Other operating expenses	(8)	(5)	(5)	(9)
Total	(50)	(52)	(30)	(46)

The rules for estimating these provisions as at 30 September 2021, including the parameters adopted in each scenario, 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 the expected 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.

(in millions of PLN)

The PZU Group carried out a sensitivity analysis for the major assumptions of provision calculations, where a change of the level of individual parameters would have the following impact on the provision amount for the legal risk of CHF mortgage loans.

Parameter	Scenario	Impact on the amount of the provision
Number of cases brought to court	+20%	62
	-20%	(62)
Probability of losing the case	+10 p.p. (no more than 100%)	24
	-10 p.p.	(37)
Probability of the agreement invalidation scenario	+10 p.p. (no more than 100%)	16
	-10 p.p.	(28)

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 submitted an appeal to the Court of Competition and Consumer Protection against the decision made by the President of UOKiK and received a reply from the President of the Office of Competition and Consumer Protection in which he petitioned for a dismissal of the appeal in whole.

Provision for tax risk

PZU Finance AB, a PZU subsidiary, issued 5-year bonds in the period from 2014 to 2015, with the par value of EUR 850 million, which matured in July 2019. Proceeds from the issue were forwarded to PZU in the form of two loans for the total amount of EUR 850 million. Payments under the loans matched the payments under bonds in terms of the payment date and amount. PZU repaid loans to PZU Finance AB on 28 June 2019.

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019, PZU Finance AB received a ruling under which the FX differences arising on repayment of the loan should be subject to taxation, while the FX differences arising on repayment of the bonds are not subject to taxation. In the PZU Group's opinion, the Board's interpretation would mean that a different approach is applied in Sweden to companies reporting in euros than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of Article 63 of the Treaty on the Functioning of the European Union (TFEU) on the need to ensure the free movement of capital in the European Union or Articles 49 and 54 TFEU on the freedom of establishment.

On 3 April 2019, PZU Finance AB appealed against an individual tax ruling issued by the Swedish Tax Rulings Board to the Supreme Court of Administration (Högsta förvaltningsdomstolen). On 4 May 2020, the Supreme Administrative Court repealed the individual tax ruling in question and rejected the petition submitted by PZU Finance AB, having found that sufficient grounds for the issue of an individual tax ruling had not been demonstrated and thus the ruling should not be issued.

At the same time, on 27 August 2020, PZU Finance AB submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB received the tax decision from the tax office confirming that the tax was calculated correctly. The decision was not final. Due to the pursuit of the goals for which the company was established, on 4 May 2021, the Shareholder Meeting decided to commence the liquidation procedure of PZU Finance AB.On 23 June 2021, PZU Finance AB received a preliminary decision regarding the adjustment of its tax settlement for 2019. After receiving the final decision, PZU Finance AB Finance AB will be able to initiate court proceedings in Sweden from the first instance before an administrative court. Due to the uncertainty surrounding the outcome of the tax issue, the PZU Group recognized a provision for tax risks in the amount of PLN 93 million as at 30 September 2021 (disclosed as a contingent liability of PLN 92 million as at 31 December 2020), corresponding to the tax effect arising from the reduction of tax costs by the total amount of the disputed foreign exchange differences realized at the redemption of bonds issued by PZU Finance AB.

(in millions of PLN)

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 30 September 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	(300)	-	3	9	6,151
Debt securities liabilities	7,532	(905)	10	27	(13)	6,651
Bonds	4,597	144	4	26	(5)	4,766
Certificates of deposit	1,611	(977)	7	-	(3)	638
Covered bonds	1,324	(72)	(1)	1	(5)	1,247
Subordinated liabilities	6,679	(341)	85	-	-	6,423
Liabilities on account of repurchase transactions	1,154	(533)	-	-	-	621
Lease liabilities	1,064	(221)	20	-	145	1,008
Total	**22,868**	**(2,300)**	**115**	**30**	**141**	**20,854**

(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**

The table below presents an explanation of the differences between movements in line items of the statement of financial position and movements in these items disclosed in the operating activity part of the cash flow statement.

Item in the consolidated cash flow statement	Movement arising from balance sheet changes [1)]	Movement arising from business combinations	Total
Movement in loan receivables from clients	(16,120)	12,061	(4,059)
Movement in liabilities under deposits	16,809	(13,701)	3,108
Movement in receivables	(53)	228	175
Movement in liabilities	662	(344)	318

[1)] Including changes arising from movement in allowances for expected credit losses, impairment losses and foreign exchange differences.

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	30 September 2021	31 December 2020
Carrying amount of financial assets pledged as collateral for liabilities	11,022	11,671
Repurchase transactions	618	1,154
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	951	980
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	255	216
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	430	391
Lombard and technical credit	5,887	5,852
Other loans	477	699
Issue of covered bonds	1,738	1,838
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	34	43
Derivative transactions	592	456
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	40	42
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**11,022**	**11,671**

(in millions of PLN)

11. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2021	31 December 2020
Contingent assets, including:	6	7
- guarantees and sureties received	6	7
Contingent liabilities	67,953	65,785
- for renewable limits in settlement accounts and credit cards	4,933	4,830
- for loans in tranches	39,802	39,733
- guarantees and sureties given	9,311	9,826
- disputed insurance claims	849	771
- other disputed claims	190	222
- other, including:	12,868	10,403
- guaranteeing securities issues	5,141	4,339
- factoring	5,816	4,136
- intra-day limit	424	425
- letters of credit and commitment letters	1,339	1,231
- other	148	272

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

In the period of 9 months ended on 30 September 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 period of 9 months ended 30 September 2021, gross written premium was PLN 18,250 million compared to PLN 17,291 million in the corresponding period of the previous year (+5.5%). The increase in sales applied above all to the following:

- non-motor insurance, including insurance against fire and other damage to property in the corporate client segment as a result of renewal of a long-term high-ticket contract, general TPL insurance as a result of entering into several high-unit-value contracts;
- other TPL and ADD and other insurance in the mass client segment, mainly accident insurance as a result of the development of the sales of products offered in cooperation with the Group's banks for mortgage loans and cash loans, motor insurance as a result of an increase in volume and the concurrent rise in average price in MOD insurance;
- written premium in the individual insurance segment, including unit-linked products and protection products offered in collaboration with the banks and equity and term protection products offered in own channels;
- portfolio of group health products concluded in a group or continued form;
- in the Baltic health insurance and property insurance companies.

The increases were partially offset by lower premiums in:

- group ADD insurance in the mass client segment – in the corresponding period of 2020 insurance cover against a COVID-19 infection was provided to physicians and medical personnel;
- mandatory insurance of farm building insurance in the mass client segment resulting from the high competitiveness of the market and the natural erosion of the portfolio (declining number of farms);
- group protection products, due to the increased attrition of groups of insureds (work establishments).

Investment income including interest expenses in the first 3 quarters of 2021 and in the first 3 quarters of 2020 was PLN 6,790 million and PLN 5,269 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 the first 3 quarters of 2020, mainly due to an increased valuation of shares in a logistics company following its IPO and the high performance achieved on the Private Equity portfolio. At the same time, a lower result was posted on debt instruments, mainly due to a negative impact of profitability changes and a lower performance on the real estate portfolio, mainly due to the lack of implementation of property development projects in the commercial property portfolio due to a strong price hike in the corresponding period last year.

Net claims and benefits (including the movement in technical provisions) reached PLN 11,964 million and were 5.4% 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 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- higher benefits in riders related to hospital treatment and surgical operation and permanent disability and dismemberment in group and continued insurance as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic;
- higher loss ratio in motor insurance resulting from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) in the mass insurance segment and higher average payout, as well as depreciation of PLN against EUR in foreign currency claims in the corporate insurance segment.

At the same time, a lower loss ratio was recorded in non-motor insurance, including:

- in the mass client segment – as a result of lower than the year before level of losses caused by atmospheric phenomena, including rainfall and hail;
- in the corporate client segment – as a result of an improvement of the loss ratio in the class of natural catastrophe insurance and in insurance of various financial risks and guarantees (in the corresponding period of 2020 there were several events with a high unit value).

In the first three quarters of 2021 acquisition expenses rose PLN 32 million compared to the corresponding period of the previous year. This increase was mainly due to the shift in the mix of products and sales channels.

PZU Group's administrative expenses in the first 3 quarters of 2021 were PLN 5,141 million compared to PLN 4,930 million in the corresponding period of 2020, i.e. they were PLN 211 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 195 million (5.4%), including in Bank Pekao, mainly in connection with the integration costs of the acquired spun-off portion of Idea Bank, recovery of variable costs of remuneration and growing depreciation and amortization associated with investments in the Bank's transformation. At the same time, the administrative expenses of the insurance segments in Poland were PLN 9 million higher compared to the previous year. Their movement was driven predominantly by higher personnel costs in connection with wage pressures, increased intensity of marketing campaigns and higher costs of maintenance of properties due to the indexation of lease prices and utility prices.

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

In the first three quarters of 2021, the balance of other operating income and expenses was negative and stood at PLN 1,901 million, compared to the negative balance of PLN 3,444 million in 2020. The following contributed to this result:

- one-off effects in the corresponding period of the previous year: the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and customer relationships) in the amount of PLN 161 million;
- lower level of BFG fees – decline from PLN 473 million in the first 3 quarters of 2020 down to PLN 351 million in 2021;
- levy on financial institutions – the PZU Group's liability on account of this levy (in insurance and banking activity in total) in the first 3 quarters of 2021 was PLN 960 million compared to PLN 901 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);
- recognizing a provision of PLN 91 million in connection with the tax risk in PZU Finance AB;
- in the corresponding period last year – reversal of the PLN 57 million provision for the fine imposed on PZU by the President of the Office of Competition and Consumer Protection (UOKiK) on 30 December 2011.

Operating profit in the first 3 quarters of 2021 was PLN 5,253 million, up PLN 2,575 million (+96.2%) compared to the result for the corresponding period of the previous year. This movement resulted in particular from:

- higher performance in the banking segment (PLN +2,959 million); in the first 3 quarters of 2020, non-recurring effects of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and customer relationships) in the amount of PLN 161 million, as well as 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;
- slightly lower operating result in individual insurance (PLN -3 million) with a growing portfolio of banking investment products and a higher level of insurance activity expenses;
- lower profitability in group and individually continued insurance (PLN -619 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 -276 million) – driven by the lower net earned premium, particularly evident in the motor third party liability insurance portfolio, while the cost of claims remained level;
- higher operating result in the corporate insurance segment (PLN 17 million) due to the lower loss ratio in the non-motor insurance portfolio, coupled with the concurrent dip in the profitability of motor insurance.

Net profit grew in comparison to the first 3 quarters of 2020 by PLN 2,336 million (+149.9%) to PLN 3,894 million. Net profit attributable to the parent company's shareholders was PLN 2,430 million compared to PLN 1,191 million in 2020 (up 104.0%).

As at 30 September 2021, consolidated equity according to IFRS was PLN 41,715 million compared to PLN 42,159 million as at 30 September 2020. The decrease pertained to equity attributable to parent company's shareholders. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2021 to 30 September 2021 was 17.9%, up 8.6 p.p. compared to the corresponding period of the previous year. In comparison with the consolidated equity as at 31 December 2020, equity decreased by PLN 1,688 million. The value of non-controlling interests decreased compared to the end of the previous year by PLN 351 million to PLN 24,275 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, Pekao's dividend distributable to non-controlling shareholders in the amount of PLN 674 million and the profit of PLN 1,464 million (generated by Alior Bank and Bank Pekao) attributable to non-controlling shareholders. Equity attributable to the parent company's shareholders fell by PLN 1,337 million compared to the end of the previous year – driven by the distribution of PZU's profit, of which PLN 3,022 million was designated for a dividend payment, a decline in the valuation of debt securities and cash flow hedges measured at fair value

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

through other comprehensive income, partially offset by the net result for the 3 quarters of 2021 attributable to the parent company in the amount of PLN 2,430 million.

Total equity and liabilities as at 30 September 2021 increased compared to 31 December 2020 by PLN 17,459 million to PLN 396,433 million. This growth pertained mainly to liabilities to clients in the form of deposits (+PLN 18,412 million).

The investment portfolio (investment financial assets, investment properties and financial derivatives) as at 30 September 2021 totaled PLN 149,743 million and was PLN 11 million less than at the end of last year. The decrease in the value of investments was related to the banking business, including the portfolio of government debt securities in Bank Pekao. Net of the banking business, the investment portfolio expanded in connection with investment performance and the inflow of premiums driven by business growth. Loan receivables as at 30 September 2021 were PLN 212,004 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 30 September 2021. The increase in the amount thereof by PLN 18,412 million to PLN 260,387 pertained to clients' current deposits. At the same time, a drop in term deposits was recorded.

The value of technical provisions as at the end of Q3 2021 was PLN 49,553 million and accounted for 12.5% of total equity and liabilities. In comparison with 31 December 2020, provisions surged up by PLN 1,082 million. The change was driven mainly by the increase in provisions for outstanding claims and benefits in non-life insurance, primarily in property and liability insurance; and in life insurance the increase in provisions was associated with the increase in business in bank protection products.

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.

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 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.
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.

Segment	Accounting standards	Segment description	Aggregation criteria
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 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premium – external	592	2,054	516	1,732
Gross written premium – cross-segment	14	27	5	15
Gross written premiums	**606**	**2,081**	**521**	**1,747**
Movement in provision for unearned premiums and gross provision for unexpired risks	215	327	267	591
Gross earned premium	**821**	**2,408**	**788**	**2,338**
Reinsurers' share in gross written premium	(71)	(368)	(60)	(272)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(149)	(280)	(131)	(286)
Net earned premiums	**601**	**1,760**	**597**	**1,780**
Investment income, including:	30	57	28	85
external operations	30	57	28	85
intersegment operations	-	-	-	-
Other net technical income	11	27	21	49
Total income	**642**	**1,844**	**646**	**1,914**
Net insurance claims and benefits	(384)	(1,124)	(447)	(1,210)
Acquisition expenses	(131)	(385)	(128)	(381)
Administrative expenses	(30)	(99)	(32)	(105)
Reinsurance commissions and profit participation	13	41	11	33
Other	(3)	(41)	(5)	(32)
Insurance result	**107**	**236**	**45**	**219**

(in millions of PLN)

Mass insurance (non-life insurance)	**1 July – 30 September 2021**	**1 January – 30 September 2021**	**1 July – 30 September 2020**	**1 January – 30 September 2020**
Gross written premium – external	2,569	7,953	2,367	7,587
Gross written premium – cross-segment	4	(3)	3	15
Gross written premiums	**2,573**	**7,950**	**2,370**	**7,602**
Movement in provision for unearned premiums and gross provision for unexpired risks	54	(319)	257	173
Gross earned premium	**2,627**	**7,631**	**2,627**	**7,775**
Reinsurers' share in gross written premium	(50)	(154)	4	(15)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	21	58	(31)	(67)
Net earned premiums	**2,598**	**7,535**	**2,600**	**7,693**
Investment income, including:	108	287	135	414
external operations	108	287	135	414
intersegment operations	-	-	-	-
Other net technical income	20	79	31	76
Total income	**2,726**	**7,901**	**2,766**	**8,183**
Net insurance claims and benefits	(1,717)	(4,711)	(1,682)	(4,753)
Acquisition expenses	(556)	(1,590)	(502)	(1,490)
Administrative expenses	(157)	(486)	(155)	(496)
Reinsurance commissions and profit participation	1	26	1	-
Other	(63)	(221)	(62)	(249)
Insurance result	**234**	**919**	**366**	**1,195**

Group and individually continued insurance (life insurance)	**1 July – 30 September 2021**	**1 January – 30 September 2021**	**1 July – 30 September 2020**	**1 January – 30 September 2020**
Gross written premium – external	1,757	5,267	1,746	5,259
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,757**	**5,267**	**1,746**	**5,259**
Movement in provision for unearned premiums and provision for unexpired risks	(40)	11	-	-
Gross earned premium	**1,717**	**5,278**	**1,746**	**5,259**
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	**1,717**	**5,278**	**1,746**	**5,259**
Investment income, including:	157	485	165	458
external operations	157	485	165	458
intersegment operations	-	-	-	-
Other net technical income	-	1	1	2
Total income	**1,874**	**5,764**	**1,912**	**5,719**
Net insurance claims and benefits and movement in other net technical provisions	(1,220)	(4,222)	(1,226)	(3,581)
Acquisition expenses	(99)	(284)	(92)	(284)
Administrative expenses	(162)	(486)	(149)	(464)
Other	(10)	(33)	(10)	(32)
Insurance result	**383**	**739**	**435**	**1,358**

(in millions of PLN)

Individual insurance (life insurance)	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premium – external	434	1,365	476	1,238
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**434**	**1,365**	**476**	**1,238**
Movement in the provision for unearned premiums	1	2	1	3
Gross earned premium	**435**	**1,367**	**477**	**1,241**
Reinsurers' share in gross written premium	(1)	(1)	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premiums	**434**	**1,366**	**477**	**1,241**
Investment income, including:	13	164	130	261
external operations	13	164	130	261
intersegment operations	-	-	-	-
Other net technical income	-	-	-	1
Total income	**447**	**1,530**	**607**	**1,503**
Net insurance claims and benefits and movement in other net technical provisions	(290)	(1,119)	(475)	(1,136)
Acquisition expenses	(60)	(164)	(46)	(121)
Administrative expenses	(19)	(61)	(19)	(58)
Other	(2)	(5)	(1)	(4)
Insurance result	**76**	**181**	**66**	**184**

Investments	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment income, including:	(65)	617	37	77
- external operations	(79)	577	23	31
- intersegment operations	14	40	14	46
Operating result	**(65)**	**617**	**37**	**77**

Banking activity	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Revenue from commissions and fees	1,212	3,389	1,030	2,935
- external operations	1,173	3,272	1,003	2,863
- intersegment operations	39	117	27	72
Investment income	1,799	5,325	1,569	4,802
- external operations	1,799	5,325	1,569	4,802
- intersegment operations	-	-	-	-
Total income	**3,011**	**8,714**	**2,599**	**7,737**
Fee and commission expenses	(328)	(870)	(276)	(756)
Interest expenses	(74)	(253)	(185)	(953)
Administrative expenses	(1,252)	(3,799)	(1,181)	(3,604)
Other	(295)	(1,174)	(291)	(2,765) [1)]
Operating result	**1,062**	**2,618**	**666**	**(341)**

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank in the amount of PLN 746 million and Pekao in the amount of PLN 555 million.

(in millions of PLN)

Pension insurance	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment income, including:	2	3	1	3
external operations	2	3	1	3
intersegment operations	-	-	-	-
Other income	35	105	28	101
Total income	**37**	**108**	**29**	**104**
Administrative expenses	(14)	(45)	(8)	(34)
Other	(1)	(4)	(2)	(4)
Operating result	**22**	**59**	**19**	**66**

Insurance - Baltic States	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premium – external	454	1,363	417	1,252
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**454**	**1,363**	**417**	**1,252**
Movement in provision for unearned premiums and gross provision for unexpired risks	12	(29)	7	19
Gross earned premium	**466**	**1,334**	**424**	**1,271**
Reinsurers' share in gross written premium	(9)	(56)	(9)	(54)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(8)	7	(6)	9
Net earned premiums	**449**	**1,285**	**409**	**1,226**
Investment income, including:	5	32	8	1
external operations	5	32	8	1
intersegment operations	-	-	-	-
Total income	**454**	**1,317**	**417**	**1,227**
Net insurance claims and benefits	(280)	(795)	(257)	(727)
Acquisition expenses	(96)	(266)	(85)	(254)
Administrative expenses	(36)	(108)	(33)	(104)
Other	1	4	1	3
Insurance result	**43**	**152**	**43**	**145**

(in millions of PLN)

Insurance – Ukraine	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premium – external	100	246	78	222
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**100**	**246**	**78**	**222**
Movement in provision for unearned premiums and gross provision for unexpired risks	(7)	(14)	(4)	7
Gross earned premium	**93**	**232**	**74**	**229**
Reinsurers' share in gross written premium	(28)	(69)	(25)	(78)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(1)	1	(2)	(2)
Net earned premiums	**64**	**164**	**47**	**149**
Investment income, including:	7	20	8	33
external operations	7	20	8	33
intersegment operations	-	-	-	-
Total income	**71**	**184**	**55**	**182**
Net insurance claims and benefits	(26)	(65)	(19)	(55)
Acquisition expenses	(30)	(81)	(25)	(77)
Administrative expenses	(9)	(27)	(8)	(24)
Other	5	17	6	23
Insurance result	**11**	**28**	**9**	**49**

Investment contracts	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Gross written premium	7	22	6	21
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**7**	**22**	**6**	**21**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premiums	**7**	**22**	**6**	**21**
Investment income, including:	1	11	5	(3)
external operations	1	11	5	(3)
intersegment operations	-	-	-	-
Other income	-	-	-	-
Total income	**8**	**33**	**11**	**18**
Net insurance claims and benefits and movement in other net technical provisions	(5)	(26)	(9)	(12)
Acquisition expenses	-	-	-	-
Administrative expenses	(1)	(2)	-	(2)
Operating result	**2**	**5**	**2**	**4**

(in millions of PLN)

Other segments	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Investment income, including:	(5)	4	8	18
- external operations	(5)	4	8	18
- intersegment operations	-	-	-	-
Other income	388	1,138	347	927
Total income	**383**	**1,142**	**355**	**945**
Expenses	(394)	(1,163)	(339)	(960)
Other	3	23	4	20
Operating result	**(8)**	**2**	**20**	**5**

Reconciliations 1 January 2021 – 30 September 2021	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,760	57	(1,124)	(385)	(99)	236
Mass insurance	7,535	287	(4,711)	(1,590)	(486)	919
Group and individually continued insurance	5,278	485	(4,222)	(284)	(486)	739
Individual insurance	1,366	164	(1,119)	(164)	(61)	181
Investments	-	617	-	-	-	617
Banking activity	-	5,325	-	-	(3,799)	2,618
Pension insurance	-	3	-	(5)	(45)	59
Insurance - Baltic States	1,285	32	(795)	(266)	(108)	152
Insurance – Ukraine	164	20	(65)	(81)	(27)	28
Investment contracts	22	11	(26)	-	(2)	5
Other segments	-	4	-	-	-	2
Total segments	**17,410**	**7,005**	**(12,062)**	**(2,775)**	**(5,113)**	**5,556**
Presentation of investment contracts	(22)	(7)	26	-	-	-
Estimated salvage and subrogation	-	-	6	-	-	6
Valuation of equity instruments	-	2	-	-	-	2
Valuation of properties	-	(4)	-	-	(2)	(6)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	3
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(16)	77	66	277	(16)	(298)
Consolidated data	**17,372**	**7,073** [2)]	**(11,964)**	**(2,498)**	**(5,141)**	**5,253**

[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 - 30 September 2020	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,780	85	(1,210)	(381)	(105)	219
Mass insurance	7,693	414	(4,753)	(1,490)	(496)	1,195
Group and individually continued insurance	5,259	458	(3,581)	(284)	(464)	1,358
Individual insurance	1,241	261	(1,136)	(121)	(58)	184
Investments	-	77	-	-	-	77
Banking activity	-	4,802	-	-	(3,604)	(341) [1]
Pension insurance	-	3	-	(4)	(34)	66
Insurance - Baltic States	1,226	1	(727)	(254)	(104)	145
Insurance – Ukraine	149	33	(55)	(77)	(24)	49
Investment contracts	21	(3)	(12)	-	(2)	4
Other segments	-	18	-	-	-	5
Total segments	**17,369**	**6,149**	**(11,474)**	**(2,611)**	**(4,891)**	**2,961**
Presentation of investment contracts	(22)	8	12	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	(7)	-	-	-	(7)
Valuation of properties	-	(3)	-	-	(2)	(3)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(8)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [2]	(30)	125	114	145	(27)	(251)
Consolidated data	**17,317**	**6,272** [3]	**(11,352)**	**(2,466)**	**(4,930)**	**2,678**

[1] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 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 – 30 September 2021					1 January – 30 September 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value
Gross written premium – external	16,641	1,363	246	-	18,250	15,817	1,252	222	-	17,291
Gross written premium – cross-segment	(4)	-	-	4	-	13	-	-	(13)	-
Revenue from commissions and fees	3,459	1	-	-	3,460	3,037	-	-	-	3,037
Investment income [1]	7,021	32	20	-	7,073	6,238	1	33	-	6,272

[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	30 September 2021					31 December 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value
Non-current assets, other than financial assets [1]	7,054	277	7	-	7,338	7,116	272	6	-	7,394
Deferred tax assets	2,841	-	3	-	2,844	2,509	-	2	-	2,511
Assets	393,452	3,619	682	(1,320)	396,433	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

During the first 3 quarters of 2021, in the corporate insurance segment, gross written premium increased by PLN 334 million (19.1% y/y) as compared to the first 3 quarters of 2020. 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 premium of nearly PLN 124 million;
- higher premium in the third party liability portfolio;
- higher premiums in motor insurance (+2.4% y/y) offered to both leasing firms and in fleet insurance, resulting from the decrease in motor TPL and increase in MOD – effect of recovering sales of new vehicles and recovery in the leasing market after the COVID-19 pandemic;
- higher gross written premium in the ADD and other insurance portfolio, including insurance of various financial risks in cooperation with the Group's banks and illness insurance in TUW PZUW.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	2,081	1,747	19.1%
Net earned premiums	1,760	1,780	(1.1%)
Investment income	57	85	(32.9%)
Net insurance claims and benefits	(1,124)	(1,210)	(7.1%)
Acquisition expenses	(385)	(381)	1.0%
Administrative expenses	(99)	(105)	(5.7%)
Reinsurance commissions and profit-sharing	41	33	24.2%
Other	(14)	17	x
Insurance result	**236**	**219**	**7.8%**
acquisition expenses ratio (including reinsurance commission)[1)]	19.5%	19.6%	(0.1) p.p.
administrative expense ratio [1)]	5.6%	5.9%	(0.3) p.p.
loss ratio [1)]	63.9%	68.0%	(4.1) p.p.
combined ratio (COR) [1)]	89.0%	93.4%	(4.4) 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 of the glossary.

Net insurance claims and benefits slipped 7.1% y/y while net earned premium edged down by 1.1% y/y, translating into improvement in the loss ratio by 4.1 percentage points y/y. The decline in the loss ratio in the segment was driven by the following factors:

- lower loss ratio in the non-motor insurance portfolio as a result of an improvement of the loss ratio in natural catastrophe insurance and in insurance of various financial risks and guarantees (in the corresponding period of 2020 there were several events with a high unit value);
- higher loss ratio in the motor TPL insurance group and a significant deterioration in MOD insurance. The increased loss ratio resulted mainly from the higher average payout, which was partially offset by a lower frequency of reported claims.

The decrease in investment income allocated to the segment on the basis of transfer prices, compared to the same period of the previous year, resulted in particular from a less pronounced appreciation of the euro against the Polish zloty in the current period, as well as a low level of market rates. The exchange rate effect was additionally partly offset at the level of the PZU Group's overall net result by the changed level of insurance liabilities covered by assets.

(in millions of PLN)

Acquisition expenses (including reinsurance commissions) were PLN 344 million, down by PLN 4 million (-1.1% y/y) from the corresponding period last year, which, considering the decrease in the net earned premium by 1.1% y/y, meant that the acquisition expense ratio remained at the same level.

The decrease in administrative expenses by 5.7% (PLN -6.0 million) y/y was driven predominantly by the lower costs of protective and preventive measures linked to the COVID-19 pandemic, as well as lower demand for consulting services related to the strategy and regulatory projects.

After three quarters of 2021, the corporate insurance segment generated an operating result of PLN 236 million, signifying a 7.8% increase compared to the corresponding period of the previous year. The higher result was due to a lower loss ratio in the non-motor insurance portfolio, including natural catastrophe insurance, liability insurance and insurance against various financial risks, partly offset by the concurrent dip in the profitability of motor insurance.

15.2 Mass insurance – non-life insurance

In the first 3 quarters of 2021, in the mass insurance segment, gross written premium increased by PLN 348 million (+4.6% y/y) compared to the corresponding period of 2020. This change resulted primarily from the following:

- increase in written premium in ADD and other insurance (+23.9% y/y), chiefly accident insurance as a result of the growing sales of insurance offered in cooperation with the Group's banks for mortgage loans and cash loans; The increase was partially offset by a drop in group ADD insurance premiums – in the corresponding period of 2020 insurance cover against a COVID-19 infection was provided to physicians and medical personnel;
- higher written premium in motor insurance as a consequence of an increase in the number of MOD insurance contracts and a higher average price – the recovery in sales after a period of lower availability due to the COVID-19 pandemic was partly offset by the still low supply of new vehicles on the market (which was particularly visible in the dealership channel);
- higher premiums from the natural catastrophe insurance and other property damage insurance and other TPL insurance mainly due to higher sales of residential insurance and insurance for small and medium-sized enterprises. This effect was partly offset by lower premiums from mandatory insurance of farm building insurance due to the significant competition on the market and the natural erosion of the portfolio (declining number of farms).

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	7,950	7,602	4.6%
Net earned premiums	7,535	7,693	(2.1%)
Investment income	287	414	(30.7%)
Net insurance claims and benefits	(4,711)	(4,753)	(0.9%)
Acquisition expenses	(1,590)	(1,490)	6.7%
Administrative expenses	(486)	(496)	(2.0%)
Reinsurance commissions and profit-sharing	26	-	x
Other	(142)	(173)	(17.9%)
Insurance result	**919**	**1,195**	**(23.1%)**
acquisition expenses ratio (including reinsurance commission) 1)	20.8%	19.4%	1.4 p.p.
administrative expense ratio 1)	6.4%	6.4%	0.0 p.p.
loss ratio 1)	62.5%	61.8%	0.7 p.p.
combined ratio (COR) 1)	89.7%	87.6%	2.1 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 of the glossary.

Net insurance claims and benefits slipped 0.9% y/y while net earned premium edged down by 2.1%, translating into deterioration in the loss ratio by 0.7 percentage point as compared to 3 quarters of 2020.

This change was driven mainly by:

- higher loss ratio in motor insurance, mainly MOD, resulting from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) and reduction of average payouts;
- lower loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of lower than the year before level of losses caused by atmospheric events (ground frost, hail).

The lower income from investments allocated to the segment according to transfer prices resulted mainly from a less pronounced appreciation of the euro against the Polish zloty in the current period, as well as a low level of market rates. The exchange rate effect was additionally partly offset at the level of the PZU Group's overall net result by the changed level of insurance liabilities covered by foreign currency assets.

In the period of 3 quarters of 2021, acquisition expenses (including reinsurance commissions) amounted to PLN 1,564 million, up by PLN 74 million (+5.0% y/y) from the corresponding period last year, which, considering the 2.1% decrease in the net earned premium, represented a 1.4 p.p. deterioration of 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, namely a higher share of the multiagency and banking channel in the portfolio combined with lower share of crop insurance, which carries lower commission rates.

The drop in administrative expenses by 2.0% y/y (PLN -10 million) was caused, among others, by the expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic. The effect was partially offset by rising personnel costs as a result of wage pressures and the intensification of marketing activities.

The decline in the operating result in the mass insurance segment by PLN 276 million (-23.1% y/y) as compared to 3 quarters of 2020, resulted from the lower net earned premium, particularly evident in the motor third party liability insurance portfolio, while the cost of claims remained at a similar level.

15.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 8 million (0.2%) higher 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 September 2021, PZU Życie had nearly 2.4 million in force contracts of this type;
- active up-selling of other insurance riders as part of individually continued products, including in the malignant neoplasm insurance rider in Q2 2021.

At the same time, revenues from group protection products remained under pressure posed by higher attrition in groups (work establishments).

(in millions of PLN)

Data from the profit and loss account – group and individually continued insurance	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	5,267	5,259	0.2%
Group insurance (periodic premium)	3,725	3,725	-
Individually continued insurance (periodic premium)	1,542	1,534	0.5%
Net earned premiums	5,278	5,259	0.4%
Investment income	485	458	5.9%
Net insurance claims and benefits and movement in other net technical provisions	(4,222)	(3,581)	17.9%
Acquisition expenses	(284)	(284)	-
Administrative expenses	(486)	(464)	4.7%
Other	(32)	(30)	6.7%
Insurance result	**739**	**1,358**	**(45.6)%**
acquisition expense ratio [1)]	5.4%	5.4%	-
administrative expense ratio [1)]	9.2%	8.8%	0.4 p.p.
insurance margin [1)]	14.0%	25.8%	(11.8) 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 of the glossary.

The increase in investment income, which is comprised of income allocated according to transfer prices and income from investment products, resulted from improved performance on investment products, especially Employee Pension Schemes, and lower income allocated in protection products. At the same time income from investment products does not affect the result of the group and individually continued insurance segment because it is offset by changes in insurance liabilities;

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 4,222 million, which signifies a y/y increase of PLN 641 million, or 17.9%. This change was driven by the following factor in particular:

- an increase in benefits for the insureds' and co-insureds' death in H1 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- higher benefits in riders related to hospital treatment and surgical operation and permanent disability and dismemberment as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic;
- growing outpatient health insurance benefits due to low base - limited availability of health care last year caused deferment of some scheduled procedures to future periods;
- 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.

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);
- 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 12.0 million of provisions was released, some PLN 2.6 million more than in the corresponding period of 2020.

Acquisition expenses in the group and individually continued insurance segment during the first 3 quarters of 2021 were PLN 284 million and did not change compared to last year.

The movement in administrative expenses by 4.7% y/y (PLN +22 million) was driven predominantly by higher personnel costs in connection with wage pressures, increased intensity of marketing campaigns and higher costs of maintenance of properties due to the indexation of lease prices and utility prices. This effect is partly offset by the higher utilization of holiday time (including overdue holiday leaves) by employees, phasing out of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic, as well as a lower demand for renovation work and equipment of the branch network.

(in millions of PLN)

Operating profit in the group and individually continued insurance segment after 3 quarters of 2021 declined compared to the corresponding period of 2020 by PLN 619 million (45.6%) to PLN 739 million. 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 growth in gross written premium by PLN 127 million (10.3%) to PLN 1,365 million compared to Q3 2020 was the result of the following favorable drivers:

- 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;
- higher contributions to the unit-linked insurance accounts offered jointly with banks;
- 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, positive deviations were recorded in payments for unit-linked products offered in the own network.

Data from the profit and loss account – individual insurance	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	1,365	1,238	10.3%
Net earned premiums	1,366	1,241	10.1%
Investment income	164	261	(37.2)%
Net insurance claims and benefits and movement in other net technical provisions	(1,119)	(1,136)	(1.5)%
Acquisition expenses	(164)	(121)	35.5%
Administrative expenses	(61)	(58)	5.2%
Other	(5)	(3)	66.7%
Insurance result	**181**	**184**	**(1.6)%**
acquisition expense ratio [1)]	12.0%	9.8%	2.2 p.p.
administrative expense ratio [1)]	4.5%	4.7%	(0.2) p.p.
insurance margin [1)]	13.3%	14.9%	(1.6) 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 of the glossary.

The decrease in investment income, which is comprised of income allocated according to transfer prices and income from investment products, was related in particular to the deterioration of funds' performance in the portfolio of investment products. At the same time income from investment products does not affect the result of the individual insurance segment because it is offset by changes in insurance liabilities.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 1,119 million, signifying a decrease in this item by PLN 17 million compared to the corresponding period of 2020. The decrease was due to lower claims and benefits in investment bancassurance products, in which much less requests for surrender payments were recorded versus last year. The above was offset by business growth in bancassurance protection products and the accompanying increase in the level of mathematical provisions.

In the first 3 quarters of 2021, acquisition expenses in the individual insurance segment increased 35.5% to PLN 164 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 movement in administrative expenses by 5.2% y/y (PLN +3 million) was driven predominantly by higher personnel costs in connection with wage pressures, increased intensity of marketing campaigns and higher costs of maintenance of properties due to the indexation of lease prices and utility prices. This effect was partly offset by the expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic.

(in millions of PLN)

The segment's operating result dipped in comparison to last year by PLN 3 million to PLN 181 million. That was mainly due to the development of the banking investment product portfolio and the resulting higher remuneration paid to intermediaries, lower investment income allocated in protection products due to lower interest rates and higher 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 – 30 September 2021	1 January – 30 September 2020	% change
Fee and commission income and expenses	2,519	2,179	15.6%
Investment income	5,325	4,802	10.9%
Interest expenses	(253)	(953)	x
Administrative expenses	(3,799)	(3,604)	5.4%
Other	(1,174)	(2,765)	x
Total	**2,618**	**(341)**	**x**

In the first 3 quarters of 2021, the banking activity segment generated PLN 2,618 million in operating profit (without amortization of intangible assets acquired in bank acquisition transactions), which represented an increase by PLN 2,959 million compared to the corresponding period of 2020. The result without the impairment of Alior Bank's and Pekao's goodwill in 2020 increased by PLN 1,658 million. The higher result was associated mainly with lower costs of risk, higher net fee and commission income and lower regulatory fees.

In the first three quarters of 2021, Bank Pekao contributed PLN 2,045 million to operating profit (net of the amortization of intangible assets acquired as part of the acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 573 million.

The key element of the segment's income is investment income, which increased to PLN 5,325 million y/y (10.9% y/y) in 2021. Investment income consists of interest income, dividend revenue, the trading result and the result on impairment losses. Lower allowances for expected credit losses in 2021 and lower interest expenses had a positive effect on the segment's income.

As at the end of Q3 2021, the portfolio of loan receivables in both banks increased by a total of 8.4% compared to the corresponding period of 2020, whereas the y/y decline in interest income was primarily due to lower interest rates (by 140 bps in H1 2020). During the first 3 quarters, the cost of allowances for expected credit losses and impairment losses on financial instruments in totaled PLN 545 million in Bank Pekao and PLN 745 million in Alior Bank, and year-on-year it was PLN 539 million and PLN 757 million lower, respectively.

The profitability of the banks in the PZU Group after Q3 2021, measured by the net interest margin was 2.31% in Bank Pekao and 3.71% 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 2,519 million and was 15.6% 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 3,799 million and consisted of Bank Pekao's expenses of PLN 2,714 million and Alior Bank's expenses of PLN 1,085 million. The 5.4% y/y increase in costs resulted chiefly from higher costs in Bank Pekao, mainly in connection with the integration of the acquired spun-off portion of Idea Bank, recovery of variable costs of remuneration and growing depreciation and amortization associated with investments in the Bank's transformation.

(in millions of PLN)

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 351 million) and the levy on other financial institutions (PLN 707 million). As a result, the Cost/Income[3] ratio stood at 43% for both banks. This ratio was 45% for Bank Pekao and 41% for Alior Bank, respectively.

15.6 Investments

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;
- high performance of the Private Equity portfolio due to an improved situation on the technology market, which is the main market where portfolio funds are investing.

The impact of the above factors was offset to some extent by the lower performance on debt instruments, mainly due to a negative impact of profitability changes, as well as a lower performance on the real estate portfolio, mainly due to the lack of development projects in the commercial property portfolio, against strong valuation increases in the corresponding period last year.

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.

15.7 Pension insurance

Pension insurance	1 January – 30 September 2021	1 January – 30 September 2020	% change
Investment income	3	3	0.0%
Other income	105	101	4.0%
Income	108	104	3.8%
Administrative expenses	(45)	(34)	32.4%
Other	(4)	(4)	0.0%
Operating result	**59**	**66**	**(10.6)%**

Revenue on core business in the pension insurance segment after Q3 2021 and after Q3 2020 was PLN 108 million and PLN 104 million, respectively. The PLN 4 million increase in revenues was mainly due to higher management fees earned in connection with the higher level of assets under management and revenue on the OFE reserve account (no revenues on this account was recorded in 2020).

Administrative expenses of PTE PZU rose PLN 11 million y/y (32.4%). The main contributing factor was the surcharge to the Insurance Guarantee Fund for 3 quarters of 2021 (PLN 15.95 million) due to the rapid growth of net asset value.

At the end of Q3 2021, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 186.8 billion, up 25.7% 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 27.8% after 3 quarters of 2021. In the same period, OFE PZU's assets grew 26.3% to PLN 25.7 billion. In the period from January to September 2021 OFE PZU's rate of return was +29.6%, which resulted from better conditions on the domestic stock market.

[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)

15.8 Baltic States

Data from the profit and loss account – Baltic States segment	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	1,363	1,252	8.9%
Net earned premiums	1,285	1,226	4.8%
Investment income	32	1	x
Net insurance claims and benefits	(795)	(727)	9.4%
Acquisition expenses	(266)	(254)	4.7%
Administrative expenses	(108)	(104)	3.8%
Other	4	3	33.3%
Insurance result	**152**	**145**	**4.8%**
EUR exchange rate in PLN	4.5585	4.4420	2.6%
acquisition expense ratio [1)]	20.7%	20.7%	0.0 p.p.
administrative expense ratio [1)]	8.4%	8.5%	(0.1) 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 of the glossary.

As part of the 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 – leader in Latvia and the LD branch in Estonia. Life insurance is sold by PZU LT GD in Lithuania.

The Lithuanian non-life insurance market share at the end of August 2021 was 28.8%; the life insurance market share was 6.7%. At the end of H1, the share in the Latvian non-life insurance market was 29.1%. At the end of Q3, the share in the Estonian market was 14.7%.

On account of its activity in the Baltic States, the PZU Group generated as at the end of Q3 2021 an insurance result of PLN 152 million compared with PLN 145 million at the end of September of last year.

This result was driven by the following factors:

- an increase in gross written premium. It was PLN 1,363 million, up PLN 111 million (i.e. 8.9%) compared to the corresponding period of the previous year. Sales were up PLN 104 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 7 million;
- higher net earned premium. It was PLN 1,285 million and was PLN 59 million (or 4.8%) higher than the amount at the end of Q3 last year;
- higher investment income. After Q3 2021, the investment result was up PLN 31 million in comparison with the corresponding period of the past year due to the higher valuation of investment assets;
- increase in net claims and benefits. They amounted to PLN 795 million and were 9.4% higher than at the end of September last year. The loss ratio in non-life insurance stood at 60.0%, up 0.7 p.p. from the end of Q3 2020. In life insurance the value of benefits was PLN 63 million, down PLN 29 million lower from the corresponding period of the previous year;
- higher acquisition expenses. The segment's expenditures for this purpose totaled PLN 266 million and were up 4.7% over the corresponding period of last year. The acquisition expense ratio calculated on the basis of net earned premium remained at the same level of 20.7%;
- increase in administrative expenses. They were PLN 108 million, up 3.8% from the comparable period last year. The administrative expense ratio was 8.4%, down 0.1 p.p. relative to the corresponding period of the previous year.

(in millions of PLN)

15.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	246	222	10.8%
Net earned premiums	164	149	10.1%
Investment income	20	33	(39.4)%
Net insurance claims and benefits	(65)	(55)	18.2%
Acquisition expenses	(81)	(77)	5.2%
Administrative expenses	(27)	(24)	12.5%
Other	17	23	(26.1)%
Insurance result	**28**	**49**	**(42.9)%**
exchange rate UAH/PLN	0.1394	0.1471	(5.2)%
acquisition expense ratio [1)]	49.4%	51.7%	(2.3) p.p.
administrative expense ratio [1)]	16.5%	16.1%	0.4 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 of the glossary.

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 first half of 2021 was 3.5%, while the life insurance market share was 11.1%.

The Ukraine Segment closed Q3 2021 with an operating profit of PLN 28 million, compared to PLN 49 million at the end of September of the previous year.

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

- an increase in gross written premium. It totaled PLN 246 million, up 10.8% (i.e. PLN 24 million) compared to the third quarter of the previous year. Sales of non-life insurance were up PLN 17 million from the third quarter of last year, mostly as a result of higher sales of travel insurance and other TPL insurance required when applying for a visa to Poland as well as green card insurance, as limitations imposed on transborder traffic were lifted, and also in motor insurance. Sales growth of PLN 7 million was recorded in life insurance;
- higher net earned premium. It reached PLN 164 million, up PLN 15 million (10.1%) from the amount generated at the end of Q3 last year;
- lower investment income. It totaled PLN 20 million and, as a result of the lower interest rate of deposits, it was PLN 13 million lower higher than in the corresponding period of the previous year;
- higher amount of net claims and benefits paid – they amounted to PLN 65 million. Claims paid in non-life insurance increased PLN 11 million while life insurance benefits fell by PLN 1 million. The loss ratio in non-life insurance stood at 40.0%, up 10.2 p.p. from the end of September 2020;
- higher acquisition expenses. They stood at PLN 81 million compared to PLN 77 million at the end of Q3 of the previous year. In life insurance, they increased by PLN 5 million, while declining by PLN 1 million in non-life insurance;
- increase in administrative expenses. They stood at PLN 27 million. For comparison: they were PLN 24 million in the corresponding period of the previous year. The segment's administrative expense ratio edged up 0.4 p.p. to 16.5%.

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.

(in millions of PLN)

Gross written premium generated on investment contracts after 3 quarters of 2021 increased by PLN 1 million to PLN 22 million compared to the previous year.

Data from the profit and loss account – investment contracts	1 January – 30 September 2021	1 January – 30 September 2020	% change
Gross written premiums	22	21	4.8%
Group insurance	-	1	x
Individual insurance	22	20	10.0%
Net earned premiums	22	21	4.8%
Investment income	11	(3)	x
Net insurance claims and benefits and movement in other net technical provisions	(26)	(12)	116.7%
Acquisition expenses	-	-	x
Administrative expenses	(2)	(2)	-
Other	-	-	x
Operating result	**5**	**4**	**25.0%**
operating profit margin	22.7%	19.0%	3.7 p.p.

The investment result in the segment of investment contracts improved compared to the previous year, chiefly due to the higher rate of return on IRSAs. 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 14 million y/y to PLN 26 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 2 million, signifying no change versus the previous year. The segment's operating result was PLN 5 million and was PLN 1 million higher than last year.

16. Impact of non-recurring events on operating results

During the first 3 quarters of 2021, a higher result on investing activity was recorded due to the IPO of a logistics company held in the portfolio of a mutual fund managed by TFI PZU. During the 3 quarters of 2021, the income on that account was PLN 518 million.

Additionally, in the corresponding period of 2020, a one-off effect was recognized in connection with the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and customer relationships) in the amount of PLN 161 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 Q2 2021, GDP grew by 11.2% y/y in real terms. Such a high growth rate was driven by the fast recovery of economic growth in quarterly terms (+1.6% q/q after accounting for seasonality) following the loosening of sanitary restrictions, and a very low base in the corresponding quarter of last year, when the pandemic-related decrease in GDP was the most significant. The largest contributors to economic growth in Q2 this year included: consumption in the household sector, which added 7.2 p.p. to GDP growth, an increase in inventories (+2.8 p.p.) and gross fixed capital formation (+0.9 p.p.). The contribution of public consumption was also positive (+0.6% p.p.). On the other hand, GDP growth in Q2 this year was reduced by net exports (-0.3 p.p.) according to Statistics Poland.

The economic recovery continued in the third quarter of the year. Sold industrial output continued to increase: despite the disruptions in global supply chains, which were common in that period, it was 10.5% higher than one year before. Retail sales in fixed prices also rose y/y: in Q3 this year it was 6.1% higher from the corresponding period last year. In Q3 a slight increase in construction and installation output was also recorded (data not adjusted for seasonality, Statistics Poland). Still, retail sales adjusted for seasonality fell slightly in Q3, following a strong recovery after sanitary restrictions were lifted. When adjusted for seasonality, construction and installation output also fell in Q3.

According to quick estimates, in Q3 this year GDP was 5.1% higher in real terms compared to the same quarter last year (Statistics Poland, data not adjusted for seasonality).

Labor market and consumption

Recovery on the labor market was continued in Q3 this year. The increased demand for labor, coupled with a limited number of candidates meeting the employers' criteria, contributed to the high growth in salaries while average employment rose only slightly. The nominal pace of growth of the average gross monthly salary in the corporate segment was 9.6% y/y in the third quarter of this year. Given the increasing inflation, the purchasing power of salary rose in this period by 3.9% y/y. In the same period, average employment in the corporate segment increased by 1.1% y/y (according to Statistics Poland).

Registered unemployment has been falling gradually since March this year. At the end of September, as well as in the three preceding months, the number of registered unemployed and the registered unemployment rate were below the previous year's levels. According to Statistics Poland, the registered unemployment rate was 5.6% at the end of Q3 this year.

The dynamics of retail sales in Q3 this year, coupled with the likely increase in expenditures for services, points to the possible q/q increase in household consumption, which may have increased by about 4% from last year.

Inflation, monetary policy, interest rates

Inflation measured by the consumer price index (CPI) was rising in successive quarters of this year. In Q3, consumer prices were 5.4% higher than the year before (following a 4.5% y/y increase in Q2). In September this year, prices rose by 5.9% y/y, which was the highest rate in twenty years (according to Statistics Poland). The elevated inflation rate was driven mainly by higher prices of fuel and energy (including gas), higher food prices and disruption in global transport and supply chains, which caused increases in the prices of raw materials, components and finished products. The globally-correlated rise in "post-pandemic demand" has encountered problems with the corresponding adjustment of supply. These supply shocks occur amid an ongoing economic recovery, including rising incomes and deferred household demand.

In the first three quarters of 2021, the National Bank of Poland's reference rate did not change, remaining at 0.1%. During this period, other central bank rates remained at the end-of-2020 levels. The NBP continued to make purchases on the secondary market for treasury bonds and treasury-guaranteed bonds (including bonds issued by the Polish Development Fund and Bank Gospodarstwa Krajowego), thereby supporting the liquidity of the domestic financial sector. These measures were aimed at counteracting the adverse economic effects of the COVID-19 pandemic and supporting economic growth. The strong increase in CPI inflation above the NBP's inflation target (2.5%) since March this year and clearly above the upper limit of the inflation target (3.5%) since April this year, did not cause changes in interest rates until the end of the third quarter. Central banks – not just NBP – have faced the dilemma. For the rise in prices caused by supply shocks also has a negative impact on economic growth. Considering the causes of increased inflation and at the same time taking into account the uncertainty as to the persistence and scale of economic recovery, the NBP kept interest rates at an unchanged level until the end of the third quarter. It still emphasized that it was ready to act without delay if the economic situation required prompt action.

Public finance

As was the case in other countries, the COVID-19 pandemic and the measures taken by the government to minimize its effects resulted in an increase in the deficit of the public finance sector. The deficit in the government and local government sector in 2020 was 7% of GDP, versus 0.7% 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 the public finance sector, which in 2020 increased to 57.5% of GDP compared to 45.7% of GDP in 2019 (according to Statistics Poland), is expected to increase to 60% of GDP in 2021. In the following years, however, it will gradually fall, reaching 57.9% of GDP 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. In spite of the anti-pandemic restrictions, which were tightened in certain periods starting in early 2021, the fulfillment of the state budget at the end of September 2021 pointed to a record surplus of PLN 47.6 billion, compared to a deficit of about PLN 13.8 billion in the same period a year earlier. The high level of the state budget surplus at the end of June was possible due to the increase in tax revenues. At the end of September, the level of liquid funds in Polish zloty and foreign currencies in the budget was PLN 178.1 billion.

Situation on the financial markets

The COVID-19 pandemic, the rising inflationary expectations and expectations of more dynamic economic growth in Poland and globally were the main factors affecting the financial markets in the first three quarters of 2021. The improvement in sentiments on financial markets was supported by the unprecedented scale of fiscal and monetary stimuli launched to combat adverse economic effects of the COVID-19 pandemic. Even though the risk of successive COVID-19 mutations may potentially reduce the pace of further global economic recovery, the progress of the vaccination campaigns and adaptation of economies to sanitary restrictions have reduced the level of uncertainty on financial markets. Still, further development of inflation and continuing supply chain disruptions remain the key risk factors on financial markets.

During the first three quarters of 2021, the yields on Polish 1-year, 2-year, 5-year and 10-year treasury bonds increased. 1-year yields increased from 0.051% to 0.159%, 2-year yields from 0.102% to 0.824%, 5-year yields from 0.471% to 1.571% and 10-year yields rose from 1.252% to 2.029% (Refinitiv). The spread versus 10-year German bonds, which was 183 bps at the end of 2020, increased to 239.6 bps at the end of Q3 (Refinitiv). The whole Polish yield curve shifted upwards as a result of the economic recovery, which was expected and which materialized after sanitary restrictions were lifted, rising inflationary expectations and emerging market anticipation of domestic interest rate increases in the coming months and years. Yield curve adjustments were particularly pronounced in the above 1 year segment. The situation on the core markets also contributed to the increased yields on Polish bonds. By the end of Q3, the yields on 10-year US treasury bonds rose from 0.9165% to 1.527% and on German bonds from -0.575% to -0.195% (Refinitiv).

The euro to PLN exchange rate increased from 4.61 at the end of 2020 to 4.63 at the end of Q3 2021 (NBP). The key factor, which kept the Zloty at relative weak levels in this period, was the loose monetary policy adopted by the NBP, which, combined with the steadily growing inflation, led to interest rates in Poland that were negative in real terms.

The euro to USD exchange rate fell from 1.23 at the end of 2020 to 1.16 at the end of Q3 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 resulted from the fact that the US recovered from the pandemic-related recession faster than the Eurozone, and from the slightly more “hawkish” rhetoric of the U.S. central bank, which revised forecasts for the timing of the beginning of interest rate hikes in the U.S. moving them first from 2024 to 2023 and then to 2022. It also signaled the imminent start of discussions on the gradual phasing out of asset purchases. The attractiveness of the US dollar on global markets also translated to its exchange rate to PLN, which rose from 3.76 at the end of 2020 to 3.99 at the end of Q3 2021 (NBP).

The Swiss franc to PLN exchange rate increased from 4.26 at the end of 2020 to 4.27 at the end of Q3 2021 (NBP). Even though it went down to as low as 4.12 during this period, the dovish monetary policy of the ECB (which fostered the franc’s appreciation against the euro), combined with the EUR-PLN rate movement towards 4.60, eventually resulted in the weakening of the zloty against the franc (since the CHF/PLN exchange rate is a cross rate of the euro against the franc and the euro against the zloty: CHF/PLN = EUR/PLN : EUR/CHF).

By the end of Q3, the WIG20 index increased by 16.45%, the WIG index by 23.35%, the mWIG40 by 32.17%, and the sWIG80 by 31.13% (Warsaw Stock Exchange data). In addition to the dynamic economic growth and the visible adaptation of the national economy to the sanitary restrictions, the rises in domestic stock market indices were also fostered by the loose monetary and fiscal policy (and a large scale of government aid to businesses in connection with the COVID-19 pandemic). The low interest rates in an inflationary environment provided an additional incentive for investors in the domestic stock markets. They were also supported by rising risk appetites across the world, which usually favors emerging stock markets, including the Polish market.

In the first three quarters of 2021, we observed significant gains on global equity markets, caused by expectations for economic recovery (prospects of the end of the pandemic and the progress of COVID-19 vaccinations) in the conditions of loose monetary and fiscal policy globally and inflation. Since early 2021 to the end of September, the S&P500 US stock market index shot up 14.68% (S&P) while the German DAX index climbed 11.22% (Deutsche Boerse). The rising yields did not hinder the growth of stock market indices. Some signs of a slowdown in the growth of stock indices were visible only in China, which was linked to growing market concerns regarding the effect of the gradual phasing out of the intensive economic stimulus programs (implemented in China in connection with the COVID-19 pandemic), problems of Chinese real estate developers and the observed partial withdrawal of Chinese suppliers from global supply chains. As a result, the Shanghai Composite index increased by a mere 2.74% from early 2021 to the end of Q3.

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

The key risk factors are – as previously – 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 sanitary 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. 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.

Recently, there has been a growing risk of weakening global economic activity associated with continuing disruptions in supply chains and transportation, as well as strong price increases in raw materials, components and finished goods. The persisting strong increase in the price of gas, which is widely used in many energy-intensive production processes, would pose a particular threat. Additionally, the cost of gas is an important part of the budgets of households.

The possible persistence of high inflation is also a risk factor, since inflation increases the amount of future claims paid under policies issued currently. It also creates a problem for customers affected by depreciation of insurance benefits in long-term products.

Moreover, in the situation of recovering demand and improving labor market conditions, the higher inflation may “take”, so it would require tightening of the monetary policy, if such risk arises. If central banks react too late then a stronger reaction will be required and consequently the economy will have to be cooled off to contain inflation growth. On the other hand, however, supply price shocks may stifle economic growth. If central banks assess the situation incorrectly and raise interest rates too quickly or by too much, they might increase significantly the risk of slowing down GDP growth.

On the one hand, an increase in market interest rates contributes to financial stability, because it helps improve profitability and financial standing of banks and insurers. On the other hand, it may also pose a risk to financial stability by contributing to a deterioration of banks’ loan portfolios.

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, supply restrictions and price pressures mount – 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;
- low interest rate levels, which contribute 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);
- introduction of additional regulations or financial burdens on insurance undertakings.

On the other hand, the risk of persistently elevated inflation and an increase in interest rates may cause:

- increases in the amount of future claims paid under policies issued currently;
- increased risk of deterioration of banks' loan portfolio (rise in interest rates).

Other risks:

- 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);
- growing price pressure to harmonize the management fee rates to the limits introduced in the ECS Act, which are max. 0.5% for the annual management fee and 0.1% for the success fee;
- 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 its G series bonds with a par value of PLN 193 million. On 29 April 2021, it redeemed its B series bonds (Meritum Bank) with a par value of PLN 67 million.

20. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2021, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements 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 16 June 2021, the PZU Ordinary Shareholder Meeting distributed 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.

The dividend record date was 15 September 2021 and the dividend payout date was 6 October 2021.

The accepted profit distribution 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.

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 30 September 2021, the total value of the disputes in all 265,652 cases (as at 31 December 2020: 282,352 cases) pending before courts, arbitration bodies and public administration authorities in which PZU Group entities take part, was PLN 9,187 million (as at 31 December 2020: PLN 8,825 million). This amount included PLN 4,573 million (as at 31 December 2020: PLN 4,408 million) of liabilities and PLN 4,614 million (as at 31 December 2020: PLN 4,417 million) of receivables of PZU Group companies.

During the 9-month period ended 30 September 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 to dismiss the claim 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 30 September 2021, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on 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. The decision is final. 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 30 September 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 30 September 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. The PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 30 September 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 a rating outlook, which is an assessment of the future position of the Company in the event of the occurrence of specific circumstances.

Current rating

PZU and PZU Życie hold an S&P rating of A- with a stable outlook. The rating was affirmed in the analytical report published on 3 November 2021. When justifying their PZU rating, S&P analysts pointed to two key aspects: PZU's persistently good financial performance and its stable capital position. They anticipated that the dominating market position of the PZU Group, its brand recognition and diversified structure of the conglomerate would allow it to continue growth on local as well as international markets.

(in millions of PLN)

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

Company name	Rating and outlook	Most recent change	Previous rating and outlook	Most recent change
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 April 2021, S&P reviewed Poland's rating, keeping it at A-/A-2, respectively, for long- and short-term liabilities in foreign currency, and at A/A-1, respectively, for long- and short-term liabilities in the domestic currency. 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 1 October 2021, S&P conducted a periodic review of Poland's rating. The rating remained unchanged and the agency did not publish a new report.

24. Related party transactions

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

In the 9-month period ended 30 September 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 terms other than based on the arm's length principle.

(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 – 30 September 2021 and as at 30 September 2021		1 January – 31 December 2020 and as at 31 December 2020		1 January – 30 September 2020 and as at 30 September 2020	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	2	-	3	-	2
in non-life insurance	-	2	-	3	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	1	-	-	-	-
Expenses	-	12	-	7	-	-
Investment financial assets	-	3	-	3	-	3
Loan receivables from clients	1	-	-	-	-	-
Receivables	-	-	-	-	-	-
Liabilities under deposits	2	14	1	-		1
Other liabilities	-	3	-	6	-	1
					-	-
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. KNF made a positive assessment of the direction of implementing the recommendation and set the requirements and dates for providing the evidence of implementation. In the period from 5 August to 5 November 2021, PZU filed monthly reports on the implementation of the recommendation.

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. On 30 June 2021, the arbitration court handed down a ruling to discontinue the ad hoc arbitration proceedings regarding this claim. The discontinuation ruling is final.

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 in this respect. 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	30 September 2021	30 June 2021	31 December 2020	30 September 2020
I. Intangible assets, including:	288,254	288,368	305,666	295,875
- goodwill	-	-	-	-
II. Investments	41,076,897	42,026,052	40,207,051	37,486,648
1. Real property	300,170	304,142	310,722	319,045
2. Investments in related parties, including:	15,305,421	16,260,618	16,160,447	15,997,299
- investments in related parties measured by the equity method	14,645,994	15,642,449	15,457,719	15,241,119
3. Other financial investments	25,471,306	25,461,292	23,735,882	21,170,304
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-	-
IV. Receivables	3,460,789	1,875,753	1,688,726	3,229,719
1. Receivables on direct insurance	1,296,571	1,505,303	1,388,275	1,409,446
1.1. From subordinated entities	17,629	22,024	1,991	2,310
1.2. From other entities	1,278,942	1,483,279	1,386,284	1,407,136
2. Reinsurance receivables	260,560	136,385	146,099	224,829
2.1. From subordinated entities	222,846	107,807	119,069	140,776
2.2. From other entities	37,714	28,578	27,030	84,053
3. Other receivables	1,903,658	234,065	154,352	1,595,444
3.1. Receivables from the state budget	3,491	2,012	2,523	2,561
3.2. Other receivables	1,900,167	232,053	151,829	1,592,883
a) from subordinated entities	1,290,099	11,591	21,034	1,400,074
b) from other entities	610,068	220,462	130,795	192,809
V. Other assets	298,647	306,351	243,012	286,720
1. Property, plant and equipment	121,122	120,828	118,555	109,071
2. Cash	177,525	185,523	124,457	177,649
3. Other assets	-	-	-	-
VI. Prepayments and accruals	2,165,695	2,508,695	2,220,620	1,935,220
1. Deferred tax assets	-	-	-	-
2. Deferred acquisition costs	1,550,779	1,574,859	1,373,662	1,344,916
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	614,916	933,836	846,958	590,304
VII. Unpaid share capital	-	-	-	-
VIII. Treasury shares	-	-	-	-
Total assets	**47,290,282**	**47,005,219**	**44,665,075**	**43,234,182**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2021	30 June 2021	31 December 2020	30 September 2020
I. Equity	16,373,983	15,814,635	17,688,602	16,809,259
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	7,347,430	7,347,420	8,458,089	8,458,090
3. Revaluation reserve	6,670,726	7,627,733	7,225,381	6,834,614
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	-	-
6. Net profit (loss)	2,269,475	753,130	1,918,780	1,430,203
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	2,253,939	2,265,035	2,265,385	2,253,418
III. Technical provisions	24,162,962	24,429,576	23,439,515	23,030,132
IV. Reinsurers' share in technical provisions (negative figure)	(1,671,572)	(1,709,188)	(1,732,313)	(1,307,564)
V. Estimated salvage and subrogation (negative figure)	(78,093)	(75,438)	(98,213)	(72,554)
1. Gross estimated salvage and subrogation	(80,124)	(77,368)	(101,024)	(75,758)
2. Reinsurers' share in estimated salvage and subrogation	2,031	1,930	2,811	3,204
VI. Other provisions	714,662	794,401	637,045	606,688
1. Provisions for pension benefits and other compulsory employee benefits	55,145	72,623	53,830	50,666
2. Deferred tax liability	630,414	692,077	553,867	535,618
3. Other provisions	29,103	29,701	29,348	20,404
VII. Liabilities for reinsurers' deposits	-	-	-	-
VIII. Other liabilities and special-purpose funds	4,566,828	4,395,992	1,185,583	1,152,008
1. Liabilities on direct insurance	409,170	403,969	413,989	377,968
1.1. To subordinated entities	20,124	8,427	8,037	5,269
1.2. To other entities	389,046	395,542	405,952	372,699
2. Reinsurance liabilities	164,994	188,516	115,677	148,212
2.1. To subordinated entities	21,775	7,585	8,920	15,763
2.2. To other entities	143,219	180,931	106,757	132,449
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-	-
4. Liabilities to credit institutions	27,193	12	12	12
5. Other liabilities	3,848,943	3,681,631	557,838	514,414
5.1. Liabilities to the state budget	194,364	139,154	63,860	142,431
5.2. Other liabilities	3,654,579	3,542,477	493,978	371,983
a) to related parties	197,510	227,986	235,082	142,523
b) to other entities	3,457,069	3,314,491	258,896	229,460
6. Special-purpose funds	116,528	121,864	98,067	111,402
IX. Prepayments and accruals	967,573	1,090,206	1,279,471	762,795
1. Accrued expenses	803,933	952,212	1,208,398	690,516
2. Negative goodwill	-	-	-	-
3. Deferred income	163,640	137,994	71,073	72,279
Total equity and liabilities	**47,290,282**	**47,005,219**	**44,665,075**	**43,234,182**

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2021	30 June 2021	31 December 2020	30 September 2020
Carrying amount	16,373,983	15,814,635	17,688,602	16,809,259
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	18.96	18.31	20.48	19.47
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	18.96	18.31	20.48	19.47

2. Interim statement of off-balance sheet line items

Off-balance sheet items	**30 September 2021**	**30 June 2021**	**31 December 2020**	**30 September 2020**
1. Contingent receivables, including:	3,726,720	3,736,132	3,975,736	4,133,986
1.1. Guarantees and sureties received	2,496	2,700	2,700	2,745
1.2. Other [1)]	3,724,224	3,733,432	3,973,036	4,131,241
2. Contingent liabilities, including:	1,277,656	1,097,701	1,201,063	1,248,939
2.1. Guarantees and sureties given	94,313	92,078	92,890	90,073
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	143,591	143,829	112,171	110,360
6. Other off-balance sheet line items	-	-	-	-
Total off-balance sheet line items	**5,147,967**	**4,977,662**	**5,288,970**	**5,493,285**

[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

Revenue account of non-life insurance	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
I. Premium income (1-2-3+4)	3,051,746	8,877,620	3,070,435	9,110,869
1. Gross written premium	2,796,894	9,603,753	2,549,985	9,013,347
2. Reinsurers' share in gross written premium	93,241	434,185	31,105	225,915
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	(453,152)	125,973	(701,422)	(628,015)
4. Reinsurers' share in the movement in provision for unearned premiums	(105,059)	(165,975)	(149,867)	(304,578)
II. Net investment income (including costs) transferred from the general profit and loss account	51,032	156,938	33,074	159,956
III. Other net technical income	29,428	99,943	49,905	119,070
IV. Claims and benefits (1+2)	1,998,049	5,574,456	2,052,947	5,754,248
1. Net claims and benefits paid	1,882,092	5,063,430	1,855,351	5,245,306
1.1. Gross claims and benefits paid	1,902,209	5,136,698	1,945,713	5,483,961
1.2. Reinsurers' share in claims and benefits paid	20,117	73,268	90,362	238,655
2. Movement in provision for outstanding claims and benefits, net of reinsurance	115,957	511,026	197,596	508,942
2.1. Movement in provision for outstanding claims and benefits, gross	183,300	616,746	164,973	579,936
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	67,343	105,720	(32,623)	70,994
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	713	3,190	(483)	(518)
VII. Insurance activity expenses	818,296	2,381,927	766,154	2,341,749
1. Acquisition expenses, including:	667,483	1,919,309	609,754	1,829,911
- movement in deferred acquisition costs	24,080	(177,117)	88,836	(347)
2. Administrative expenses	164,323	517,635	165,662	538,063
3. Reinsurance commissions and profit participation	13,510	55,017	9,262	26,225
VIII. Other net technical charges	55,602	227,706	57,342	250,815
IX. Movement in loss ratio (risk) equalization provisions	-	-	-	-
X. Technical result of non-life insurance	**259,546**	**947,222**	**277,454**	**1,043,601**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
I. Technical result of non-life insurance or life insurance	259,546	947,222	277,454	1,043,601
II. Investment income	1,550,268	2,178,918	197,864	1,865,695
1. Investment income on real estate	1,565	4,791	1,549	4,337
2. Investment income from related parties	1,385,226	1,531,381	2,437	1,381,488
2.1. On ownership interests or shares	1,382,649	1,524,095	-	1,376,738
2.2. On borrowings and debt securities	2,432	6,830	2,285	3,986
2.3. On other investments	145	456	152	764
3. Other financial investment income	132,144	390,923	111,507	377,263
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	237	772	861	7,592
3.2. On debt securities and other fixed income securities	119,139	356,687	100,391	313,200
3.3. on term deposits with credit institutions	-	-	2	3,525
3.4. On other investments	12,768	33,464	10,253	52,946
4. Gain on revaluation of investments	11	11	-	-
5. Gain on realization of investments	31,322	251,812	82,371	102,607
III. Unrealized investment gains	64,000	142,968	(41,763)	120,711
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V. Investment activity expenses	29,487	92,348	14,736	857,835
1. Real estate maintenance expenses	482	1,730	646	2,348
2. Other investment activity expenses	8,387	24,686	10,110	29,813
3. Loss on revaluation of investments[1)]	-	-	-	744,973
4. Loss on realization of investments	20,618	65,932	3,980	80,701
VI. Unrealized investment losses	62,475	153,514	20,145	122,000
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	51,032	156,938	33,074	159,956
VIII. Other operating income	50,554	148,915	44,203	204,033
IX. Other operating expenses	118,055	349,230	114,503	374,447
X. Operating profit (loss)	1,663,319	2,665,993	295,300	1,719,802
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	(79,989)	(160,134)	20,884	(58,169)
XIV. Profit (loss) before tax	1,583,330	2,505,859	316,184	1,661,633
XV. Income tax	66,985	236,384	56,405	231,430
a) current part	120,864	209,068	93,259	209,104
b) deferred part	(53,879)	27,316	(36,854)	22,326
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**1,516,345**	**2,269,475**	**259,779**	**1,430,203**

[1)] The value of the line item "Loss on revaluation of investments" in 2020 was entirely attributable to the impairment losses on shares in subordinated entities (PLN 694,158 thousand pertained to Alior Bank and PLN 50,815 thousand to Bank Pekao).

(in thousands of PLN)

	1 July – 30 September 2021	1 January – 30 September 2021	1 July – 30 September 2020	1 January – 30 September 2020
Net profit (loss) (annualized)[1)]	6,015,934	3,034,280	1,033,469	1,910,417
Weighted average number of ordinary shares	863,523,000	863,523,000	863,523,000	863,523,000
Profit (loss) per ordinary share (PLN)	1.76	2.63	0.30	1.66
Weighted average diluted number of ordinary shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted earnings (losses) per ordinary share (PLN)	1.76	2.63	0.30	1.66

[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 – 30 September 2021	1 January – 31 December 2020	1 January – 30 September 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	(1,110,659)	2,643,848	2,643,849
a) additions (by virtue of):	953,161	2,643,848	2,643,849
- distribution of profit (above the statutorily required amount)	953,039	2,643,739	2,643,739
- from revaluation reserve – by sale and liquidation of fixed assets	122	109	110
b) decreases	2,063 820 [1)]	-	-
2.2. Supplementary capital at the end of the period	7,347,430	8,458,089	8,458,090
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	(554,655)	820,124	429,357
a) additions (by virtue of):	736,135	1,172,538	803,452
- valuation of financial investments	731,902	1,000,444	732 894 [2)]
- additions by virtue of disposal of available for sale instruments	4,233	28,198	20,605
- additions by virtue of hedge accounting	-	143,896	49,953
b) reductions (by virtue of)	1,290,790	352,414	374,095
- valuation of financial investments	1,005,922	330,598	355,210
- reductions by virtue of the disposal of instruments available for sale	157,347	21,707	13,710
- sale of fixed assets	122	109	110
- reductions by virtue of hedge accounting	127,399	-	5,065
3.2. Revaluation reserve at the end of the period	6,670,726	7,225,381	6,834,614

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2021	1 January – 31 December 2020	1 January – 30 September 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	2,063,819	-	-
b) decreases	3,982,599	2,651,012	2,651,012
- transfers to supplementary capital	953,039	2,643,739	2,643,739
- disbursement of dividends	3,022,330	-	-
- transfers/charges to the Company Social Benefit Fund	7,230	7,273	7,273
5.3. Retained earnings at the end of the period	-	-	-
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	-	-	-
6. Net result	2,269,475	1,918,780	1,430,203
a) net profit	2,269,475	1,918,780	1,430,203
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	16,373,983	17,688,602	16,809,259

1) The reduction resulted from the decision of the Ordinary Shareholder Meeting of PZU described in clause 21 of the condensed interim consolidated financial statements.

2) PLN 358,027 thousand of which is attributable to impairment losses on shares in related parties (PLN 34,842 thousand in Alior Bank and PLN 323,185 thousand in Bank Pekao).

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 30 September 2021	1 January – 31 December 2020	1 January – 30 September 2020
A. Cash flows from operating activities			
I. Proceeds	10,896,326	14,680,725	10,969,730
1. Proceeds on direct activity and inward reinsurance	10,211,856	13,335,849	10,045,274
1.1. Proceeds on gross premiums	10,060,433	12,943,042	9,711,341
1.2. Proceeds on subrogation, salvage and claim refunds	125,826	355,253	306,390
1.3. Other proceeds on direct activity	25,597	37,554	27,543
2. Proceeds from outward reinsurance	228,194	353,053	252,710
2.1. Payments received from reinsurers for their share of claims paid	67,504	271,983	192,678
2.2. Proceeds on reinsurance commissions and profit participation	160,421	77,525	57,656
2.3. Other proceeds from outward reinsurance	269	3,545	2,376
3. Proceeds from other operating activity	456,276	991,823	671,746
3.1. Proceeds for acting as an emergency adjuster	286,006	506,274	325,038
3.2. Disposal of intangible assets and property, plant and equipment other than investments	4,002	1,471	1,286
3.3. Other proceeds	166,268	484,078	345,422
II. Expenditures	9,861,511	13,226,521	10,069,841
1. Expenditures on direct activity and inward reinsurance	8,105,932	10,757,353	8,235,913
1.1. Gross premium refunds	202,704	192,954	163,803
1.2. Gross claims and benefits paid	4,715,498	6,631,019	5,081,451
1.3. Acquisition expenditures	1,500,000	1,793,022	1,343,273
1.4. Administrative expenditures	1,134,971	1,489,123	1,140,446
1.5. Expenditures for claims handling and pursuit of subrogation	216,107	285,884	203,958
1.6. Commissions paid and profit-sharing on inward reinsurance	218,267	226,421	187,290
1.7. Other expenditures on direct activity and inward reinsurance	118,385	138,930	115,692
2. Expenditures on outward reinsurance	815,441	741,687	651,662
2.1. Premiums paid for reinsurance	815,284	741,399	651,432
2.2. Other expenditures on outward reinsurance	157	288	230
3. Expenditures on other operating activity	940,138	1,727,481	1,182,266
3.1. Expenditures for acting as an emergency adjuster	135,787	338,507	191,665
3.2. Purchase of intangible assets and property, plant and equipment other than investments	75,908	76,393	52,525
3.3. Other operating expenditures	728,443	1,312,581	938,076
III. Net cash flows from operating activities (I-II)	**1,034,815**	**1,454,204**	**899,889**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2021	1 January – 31 December 2020	1 January – 30 September 2020
B. Cash flow on investing activity			
I. Proceeds	45,666,783	110,463,723	84,763,318
1. Sale of real estate	5,707	11,526	10,306
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	288,317	50,745	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	536,763	1,666,883	940,840
6. Liquidation of term deposits with credit institutions	2,617,343	39,683,504	31,037,679
7. Realization of other investments	41,498,609	67,166,315	52,270,108
8. Proceeds from real estate	5,649	7,245	5,425
9. Interest received	402,131	481,701	392,937
10. Dividends received	309,952	1,376,928	45,952
11. Other investment proceeds	2,312	11,376	9,326
II. Expenditures	46,631,519	111,841,827	85,534,406
1. Purchase of real estate	851	2,287	1,198
2. Purchase of ownership interests and shares in subordinated entities	28	67,174	4,200
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	318,776	77,145	43,546
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	67,395	47,395
5. Purchase of debt securities issued by other entities	1,135,648	4,569,661	2,235,031
6. Purchase of term deposits with credit institutions	2,628,086	39,659,091	31,174,763
7. Purchase of other investments	42,493,785	67,320,059	51,968,859
8. Expenditures to maintain real estate	36,006	48,092	34,890
9. Other expenditures for investments	18,339	30,923	24,524
III. Net cash flows from investing activities (I-II)	**(964,736)**	**(1,378,104)**	**(771,088)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2021	1 January – 31 December 2020	1 January – 30 September 2020
C. Cash flows from financing activities			
I. Proceeds	64,486	234,888	212,589
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	64,486	234,888	212,589
3. Other financial proceeds	-	-	-
II. Expenditures	83,771	316,044	293,744
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	37,305	234,895	212,595
5. Interest on loans and borrowings and issued debt securities	46,466	80,996	80,996
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(19,285)**	**(81,156)**	**(81,155)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**50,794**	**(5,056)**	**47,646**
E. Balance sheet change in cash, including:	53,068	(1,684)	51,508
- movement in cash due to foreign exchange differences	2,274	3,372	3,862
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:	177,525	124,457	177,649
- restricted cash	59,124	34,186	48,718

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 9-month period ended 30 September 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)
Małgorzata Kot	Member of the PZU Management Board	.... (signature)
Krzysztof Kozłowski	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, 17 November 2021