Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 3 months ended
31 March 2022

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(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 31 March 2022	m PLN 1 January – 31 March 2021	m EUR 1 January – 31 March 2022	m EUR 1 January – 31 March 2021
Gross written premiums	6,253	6,148	1,346	1,345
Net earned premium	5,760	5,686	1,239	1,244
Revenue from commissions and fees	1,223	1,065	263	233
Net investment result	3,168	2,532	682	554
Net insurance claims and benefits	(3,690)	(3,926)	(794)	(859)
Profit before tax	2,198	1,609	473	352
Net profit, including:	1,610	1,154	346	252
- profit attributable to the equity holders of the Parent Company	758	880	163	192
- profit attributable to holders of non-controlling interests	852	274	183	60
Basic and diluted weighted average number of common shares	863,376,993	863,343,952	863,376,993	863,343,952
Basic and diluted earnings per common share (in PLN/EUR)	0.88	1.02	0.19	0.22

Data from the consolidated statement of financial position	m PLN 31 March 2022	m PLN 31 December 2021	m EUR 31 March 2022	m EUR 31 December 2021
Assets	424,559	402,129	91,254	87,431
Share capital	86	86	18	19
Equity attributable to equity holders of the parent	16,967	17,080	3,646	3,713
Non-controlling interest	22,400	22,914	4,815	4,982
Total equity	39,367	39,994	8,461	8,695
Basic and diluted number of common shares	863,390,681	863,359,431	863,390,681	863,359,431
Book value per ordinary share (in PLN/EUR)	19.65	19.78	4.22	4.30

Data from the consolidated cash flow statement	m PLN 1 January – 31 March 2022	m PLN 1 January – 31 March 2021	m EUR 1 January – 31 March 2022	m EUR 1 January – 31 March 2021
Net cash flows from operating activities	5,775	6,029	1,243	1,319
Net cash flows from investing activities	(3,773)	(265)	(812)	(58)
Net cash flows from financing activities	9,138	(2,523)	1,966	(552)
Total net cash flows	11,140	3,241	2,397	709

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 31 March 2022	m PLN 31 December 2021	m EUR 31 March 2022	m EUR 31 December 2021
Assets	44,917	44,466	9,654	9,668
Share capital	86	86	18	19
Total equity	15,570	15,776	3,347	3,430
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per ordinary share (in PLN/EUR)	18.03	18.27	3.88	3.97

(in millions of PLN)

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 31 March 2022	m PLN 1 January – 31 March 2021	m EUR 1 January – 31 March 2022	m EUR 1 January – 31 March 2021
Gross written premiums	3,927	3,719	845	813
Technical result of non-life insurance	285	294	61	64
Net investment result [1]	(58)	125	(12)	27
Net result	12	228	3	50
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	0.01	0.26	0.00	0.06

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

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

Data from the balance sheet	m PLN 31 March 2022	m PLN 31 December 2021	m EUR 31 March 2022	m EUR 31 December 2021
Assets	27,344	27,569	5,877	5,994
Total equity	3,793	3,706	815	806

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 31 March 2022	m PLN 1 January – 31 March 2021	m EUR 1 January – 31 March 2022	m EUR 1 January – 31 March 2021
Gross written premiums	2,072	2,254	446	493
Technical life insurance result	198	221	43	48
Net investment result	(123)	114	(26)	25
Net profit	119	135	26	30

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the 3-month period ended 31 March 2022 was PLN 1,610 million and was 39.5% higher than the net result in the corresponding period of the previous year. Net profit attributable to shareholders of the parent company was PLN 758 million compared to PLN 880 million in 2021 (down PLN 122 million).

ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2022 was 17.8%, down 0.7 percentage points from the same period last year.

The following factors also affected PZU Group's activity after the 3-month period ended 31 March 2022, as compared to the same period last year:

- higher gross written premium, especially in non-motor insurance in the mass client segment and corporate client segment, MOD insurance and growth of sales in the Baltic companies, including property and motor insurance;
- better performance of the banking segment due to the higher interest income and lower risk costs, partially offset by higher obligatory contributions to the Bank Guarantee Fund;
- increased profitability in group and individually continued insurance due to the lower loss ratio on account of deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- slightly lower result on individual insurance, despite a significant decline in sales of investment products, remaining at a stable level;
- largely as a result of the higher loss ratio on non-motor insurance (in particular in insurance against fire and other damage to property) and higher acquisition expenses;
- higher operating result in the corporate insurance segment due to the lower loss ratio in the motor insurance portfolio (motor own damage), partially offset by the decline in profitability of non-motor insurance;

- lower performance on investing activities, including as a result of last year's one-off effect of an increase in the valuation of shares in a logistics company following its IPO.

(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2022	1 January – 31 March 2021 (restated) [1)]
Gross written premiums	9.1	6,253	6,148
Reinsurers' share in gross written premium		(131)	(153)
Net written premiums		**6,122**	**5,995**
Movement in net provision for unearned premiums		(362)	(309)
Net earned premium		**5,760**	**5,686**
Revenue from commissions and fees	9.2	1,223	1,065
Interest income calculated using the effective interest rate	9.3	3,580	2,360
Other net investment income	9.4	11	(32)
Result on derecognition of financial instruments and investments	9.5	(108)	512
Movement in allowances for expected credit losses and impairment losses on financial instruments	9.6	(394)	(438)
Net movement in fair value of assets and liabilities measured at fair value	9.7	79	130
Other operating income	9.8	409	373
Claims, benefits and movement in technical provisions		(3,864)	(4,016)
Reinsurers' share in claims, benefits and movement in technical provisions		174	90
Net insurance claims and benefits	**9.9**	**(3,690)**	**(3,926)**
Fee and commission expenses	9.10	(304)	(256)
Interest expenses	9.11	(368)	(126)
Acquisition expenses	9.12	(917)	(837)
Administrative expenses	9.12	(1,781)	(1,680)
Other operating expenses	9.13	(1,291)	(1,216)
Operating profit		**2,209**	**1,615**
Share of the net financial results of entities measured by the equity method		(11)	(6)
Profit before tax		**2,198**	**1,609**
Income tax	9.14	(588)	(455)
Net profit, including:		**1,610**	**1,154**
- profit attributable to the equity holders of the Parent Company		758	880
- profit (loss) attributed to holders of non-controlling interest		852	274
Weighted average basic and diluted number of common shares	9.15	863,376,993	863,343,952
Basic and diluted profit (loss) per common share (in PLN)	9.15	0.88	1.02

[1)] Information on restatement of data for the period from 1 January to 31 March 2021 is presented in section 5.3.

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2022	1 January – 31 March 2021 (restated) [1)]
Net profit		1,610	1,154
Other comprehensive income	9.14	(2,237)	(731)
Subject to subsequent transfer to profit or loss		(2,300)	(780)
Valuation of debt instruments		(1,110)	(364)
Measurement of loan receivables from clients		(1)	(4)
Foreign exchange translation differences		18	26
Cash flow hedging		(1,207)	(438)
Not to be transferred to profit or loss in the future		63	49
Valuation of equity instruments		63	49
Total net comprehensive income		**(627)**	**423**
- comprehensive income attributable to equity holders of the Parent Company		(113)	581
- comprehensive income attributable to holders of non-controlling interest		(514)	(158)

[1)] Information on restatement of data for the period from 1 January to 31 March 2021 is presented in section 5.3.

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	31 March 2022	31 December 2021
Goodwill	9.16	2,798	2,778
Intangible assets	9.17	3,319	3,403
Deferred tax assets		3,156	3,058
Other assets	9.18	800	633
Deferred acquisition costs		1,635	1,573
Reinsurers' share in technical provisions	9.32	2,484	2,540
Property, plant and equipment	9.19	4,068	4,144
Investment property		2,802	2,773
Entities measured by the equity method	9.20	82	93
Assets securing liabilities	9.24	9,442	1,336
Assets held for sale	9.21	644	643
Loan receivables from clients	9.22	216,459	215,008
Financial derivatives	9.23	13,316	8,328
Investment financial assets	9.25	132,255	136,954
Measured at amortized cost		84,568	82,893
Measured at fair value through other comprehensive income		38,871	44,896
Measured at fair value through profit or loss		8,816	9,165
Receivables	9.26	10,654	9,418
Cash and cash equivalents		20,645	9,447
Total assets		**424,559**	**402,129**

Equity and liabilities	Note	31 March 2022	31 December 2021
Equity			
Equity attributable to equity holders of the parent		16,967	17,080
Share capital	9.30	86	86
Other capital		13,472	14,343
Retained earnings		3,409	2,651
Retained profit or loss		2,651	(685)
Net profit		758	3,336
Non-controlling interest		22,400	22,914
Total equity		**39,367**	**39,994**
Liabilities			
Technical provisions	9.32	50,136	50,173
Subordinated liabilities	9.33	6,254	6,274
Liabilities on the issue of own debt securities	9.34	7,217	5,940
Liabilities to banks	9.35	8,413	7,470
Liabilities to clients under deposits	9.36	271,184	265,155
Financial derivatives	9.23	18,156	11,880
Other liabilities	9.37	21,676	13,203
Provisions	9.38	1,195	1,206
Deferred tax liability		933	806
Liabilities related directly to assets classified as held for sale	9.21	28	28
Total liabilities		**385,192**	**362,135**
Total equity and liabilities		**424,559**	**402,129**

(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	9.30										2.4	
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**2,651**	**-**	**17,080**	**22,914**	**39,994**
Valuation of equity instruments	-	-	-	-	57	-	-	-	-	57	6	63
Valuation of debt instruments	-	-	-	-	(674)	-	-	-	-	(674)	(436)	(1,110)
Measurement of loan receivables from clients	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Cash flow hedging	-	-	-	-	(272)	-	-	-	-	(272)	(935)	(1,207)
Foreign exchange translation differences	-	-	-	-	-	-	18	-	-	18	-	18
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(889)**	**-**	**18**	**-**	**-**	**(871)**	**(1,366)**	**(2,237)**
Net profit (loss)	-	-	-	-	-	-	-	-	758	758	852	1,610
Total comprehensive income	**-**	**-**	**-**	**-**	**(889)**	**-**	**18**	**-**	**758**	**(113)**	**(514)**	**(627)**
Other changes, including:	**-**	**1**	**1**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued properties and other	-	-	2	-	(2)	-	-	-	-	-	-	-
As at 31 March 2022	**86**	**(4)**	**14,817**	**600**	**(2,031)**	**3**	**87**	**2,651**	**758**	**16,967**	**22,400**	**39,367**

(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	9.30										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	-	-	-	-	49	-	-	-	-	49	25	74
Valuation of debt instruments	-	-	-	-	(1,185)	-	-	-	-	(1,185)	(1,044)	(2,229)
Measurement of loan receivables from clients	-	-	-	-	(8)	-	-	-	-	(8)	(30)	(38)
Cash flow hedging	-	-	-	-	(872)	-	-	-	-	(872)	(2,119)	(2,991)
Foreign exchange translation differences	-	-	-	-	-	-	4	-	-	4	1	5
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	-	-	-	-	-	31	31
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**-**	**(2,012)**	**(3,136)**	**(5,148)**
Net profit (loss)	-	-	-	-	-	-	-	-	3,336	3,336	2,098	5,434
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**3,336**	**1,324**	**(1,038)**	**286**
Other changes, including:	**-**	**4**	**(1,032)**	**305**	**(15)**	**-**	**-**	**(2,283)**	**-**	**(3,021)**	**(674)**	**(3,695)**
Distribution of financial result	-	-	1,020	305	-	-	-	(1,325)	-	-	(674)	(674)
PZU dividend	-	-	(2,064)	-	-	-	-	(958)	-	(3,022)	-	(3,022)
Transactions on treasury shares	-	4	(3)	-	-	-	-	-	-	1	-	1
Sale of equity instruments designated for measurement at fair value through other comprehensive income	-	-	10	-	(10)	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	5	-	(5)	-	-	-	-	-	-	-
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**(685)**	**3,336**	**17,080**	**22,914**	**39,994**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)	**Equity attributable to equity holders of the parent**										**Non-controlling interest**	**Total equity**
	Share capital	**Other capital**						**Retained earnings**		**Total**		
		Treasury shares	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	9.30										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	22	-	-	-	-	22	27	49
Valuation of debt instruments	-	-	-	-	(217)	-	-	-	-	(217)	(147)	(364)
Measurement of loan receivables from clients	-	-	-	-	-	-	-	-	-	-	(4)	(4)
Cash flow hedging	-	-	-	-	(129)	-	-	-	-	(129)	(309)	(438)
Foreign exchange translation differences	-	-	-	-	-	-	25	-	-	25	1	26
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(324)**	**-**	**25**	**-**	**-**	**(299)**	**(432)**	**(731)**
Net profit (loss)	-	-	-	-	-	-	-	-	880	880	274	1,154
Total comprehensive income	**-**	**-**	**-**	**-**	**(324)**	**-**	**25**	**-**	**880**	**581**	**(158)**	**423**
Other changes, including:	**-**	**-**	**(11)**	**-**	**(2)**	**-**	-	**12**	**-**	**(1)**	-	**(1)**
Distribution of financial result	-	-	(12)	-	-	-	-	12	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued properties and other	-	-	2	-	(2)	-	-	-	-	-	-	-
As at 31 March 2021	**86**	**(9)**	**15,837**	**295**	**565**	**3**	**90**	**1,610**	**880**	**19,357**	**24,468**	**43,825**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 March 2022	1 January – 31 March 2021 (restated)
Profit before tax		2,198	1,609
Adjustments		3,577	4,420
Movement in loan receivables from clients		(1,825)	(764)
Movement in liabilities under deposits		6,403	4,392
Movement in the valuation of assets measured at fair value		(79)	(130)
Interest income and expenses		(788)	(685)
Realized gains/losses from investing activities and impairment losses		427	(151)
Net foreign exchange differences		113	164
Movement in deferred acquisition expenses		(62)	(34)
Amortization of intangible assets and depreciation of property, plant and equipment		346	326
Movement in the reinsurers' share in technical provisions		56	44
Movement in technical provisions		(37)	477
Movement in receivables		413	350
Movement in liabilities		398	(84)
Cash flow on investment contracts		-	3
Acquisitions and redemptions of participation units and investment certificates of mutual funds		(34)	75
Income tax paid		(411)	(294)
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		(1,343)	(559)
Net cash flows from operating activities		**5,775**	**6,029**
Cash flow from investing activities			
Proceeds		137,295	173,165
- sale of investment property		1	1
- proceeds from investment property		90	74
- sale of intangible assets and property, plant and equipment		36	11
- sale of ownership interests and shares		251	484
- realization of debt securities		51,162	96,789
- closing of buy-sell-back transactions		54,081	53,396
- closing of term deposits with credit institutions		21,524	15,527
- realization of other investments		9,872	6,690
- interest received		271	184
- dividends received		1	1
- increase in cash due to purchase of entities and change in the scope of consolidation		-	1
- other investment proceeds		6	7

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	**Note**	**1 January – 31 March 2022**	**1 January – 31 March 2021** (restated)
Expenditures		(141,068)	(173,430)
- purchase of investment properties		(23)	(27)
- expenditures for the maintenance of investment property		(40)	(32)
- purchase of intangible assets and property, plant and equipment		(181)	(188)
- purchase of ownership interests and shares		(235)	(232)
- purchase of ownership interests and shares in subsidiaries		(13)	-
- purchase of debt securities		(47,525)	(97,220)
- opening of buy-sell-back transactions		(54,031)	(53,209)
- purchase of term deposits with credit institutions		(28,990)	(15,643)
- purchase of other investments		(10,024)	(6,873)
- other expenditures for investments		(6)	(6)
Net cash flows from investing activities		**(3,773)**	**(265)**
Cash flows from financing activities			
Proceeds		43,547	19,614
- proceeds from loans and borrowings	9.39	633	-
- proceeds on the issue of own debt securities	9.39	4,901	2,884
- opening of repurchase transactions	9.39	38,013	16,730
Expenditures		(34,409)	(22,137)
- repayment of loans and borrowings	9.39	(300)	(186)
- redemption of own debt securities	9.39	(3,663)	(4,417)
- closing of repurchase transactions	9.39	(30,326)	(17,414)
- interest on loans and borrowings	9.39	(7)	(31)
- interest on outstanding debt securities	9.39	(32)	(10)
- expenditures on leases	9.39	(81)	(79)
Net cash flows from financing activities		**9,138**	**(2,523)**
Total net cash flows		**11,140**	**3,241**
Cash and cash equivalents at the beginning of the period		9,447	7,939
Movement in cash due to foreign exchange differences		58	76
Cash and cash equivalents at the end of the period, including:		20,645	11,256
- restricted cash		73	15

Supplementary notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2021.

Parent company's quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2022.

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.

FX rates

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

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

Currency	1 January – 31 March 2022	1 January – 31 March 2021	31 March 2022	31 December 2021
Euro	4.6472	4.5721	4.6525	4.5994
British pound	5.5431	5.2605	5.4842	5.4846
Ukrainian hryvnia	0.1431	0.1364	0.1467 [1)]	0.1487

[1)] Ukrainian hryvnia exchange rate according to the last table A of the NBP exchange rates of 24 March 2022 available as at the balance sheet date

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.

Having made this assumption, in its assessment, the PZU Management Board took into account the impact of factors subject to uncertainty, including the armed conflict in Ukraine which began on 24 February 2022, on the macroeconomic situation (additional information on this matter is presented in section 25.5).

Discontinued operations

In the 3-month period ended 31 March 2022, the PZU Group did not discontinue any type of activity.

Seasonal or cyclical business

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

Glossary

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

Names of companies

Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

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

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

Idea Bank – Idea Bank SA.

LD – Akcinė bendrovė „Lietuvos draudimas".

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

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.

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.

IRS – interest rate swap.

PZU's standalone financial statements for 2021 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2021, prepared in accordance with PAS, signed by the PZU Management Board on 23 March 2022.

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 Commission of European Communities ("IFRS"), published and in force as at 31 March 2022.

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.

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2021.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office for Competition and Consumer Protection.

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

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
				31 March 2022	31 December 2021	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga, Latvia	30.06.2014	100.00%[1)]	100.00%[1)]	Property insurance. http://www.balta.lv/
7	PRJSC IC "PZU Ukraine"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC „PZU Ukraine Life Insurance"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB "PZU Lietuva gyvybes draudimas"	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% [2)]	46.81% [2)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Development activity.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2022	31 December 2021	
Consolidated companies – Pekao Group – continued						
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o.	Warsaw	20.07.2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
30	AL Finance sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
31	Corsham Sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
32	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities.
33	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
34	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
35	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
36	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
37	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
38	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
39	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
40	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	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
				31 March 2022	31 December 2021	
Consolidated companies – PZU Zdrowie Group – continued						
41	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
42	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
43	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
44	Aura Medic Południe sp. z o.o. [3)]	Gdynia	31.03.2022	100.00%	n/a	Medical services. https://www.auramedic.pl/
Consolidated companies – other companies						
45	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
46	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
47	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
48	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
49	PZU Finance AB (publ.) in likvidation	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
50	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
51	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
52	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
53	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
54	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
55	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
56	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2022	31 December 2021	
Consolidated companies – other companies – continued						
57	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
58	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
59	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
60	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
61	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
62	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
63	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
64	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
65	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
66	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
67	PZU FIZ Sektora Nieruchomości 2 [4)]	Warsaw	21.11.2011	n/a	n/a	as above
68	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
69	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
70	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
71	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
72	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
73	inPZU Akcje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
74	inPZU Obligacje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
75	inPZU Obligacje Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
76	inPZU Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
77	inPZU Akcje Amerykańskie	Warsaw	28.10.2019	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2022	31 December 2021	
Consolidated companies – mutual funds – continued						
78	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	as above
79	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
80	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
81	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
82	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
83	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
84	PZU FIZ Legato	Warsaw	11.08.2021	n/a	n/a	as above
85	inPZU Akcje Rynku Surowców	Warsaw	15.12.2021	n/a	n/a	as above
86	inPZU Akcje Rynku Złota	Warsaw	15.12.2021	n/a	n/a	as above
87	inPZU Akcje Sektora Zielonej Energii	Warsaw	15.12.2021	n/a	n/a	as above
88	inPZU Akcje Sektora Informatycznego	Warsaw	15.12.2021	n/a	n/a	as above
89	inPZU Akcje Sektora Nieruchomości	Warsaw	15.12.2021	n/a	n/a	as above
90	inPZU Akcje Europejskie	Warsaw	15.12.2021	n/a	n/a	as above
91	inPZU Obligacje Inflacyjne	Warsaw	15.12.2021	n/a	n/a	as above
Associates						
92	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
93	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
94	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
95	Krajowy Integrator Płatności SA [5)]	Poznań	31.03.2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

[1)] Only one minority shareholder remains in Balta with 1 share.
[2)] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.
[3)] Information on the acquisition of the company is presented in section 2.3.1.
[4)] PZU FIZ Sektora Nieruchomości 2 conducts its investment activity through 30 (consolidated) subsidiary companies established under commercial law.
[5)] 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.

(in millions of PLN)

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 2021.

The changes in the scope of consolidation and the structure of the PZU Group that occurred in the 3-month period ended 31 March 2022 are presented in the following sections.

2.3.1. Acquisition of Aura Medic Południe sp. z o.o.

On 31 March 2022, Bonus Diagnosta sp. z o.o. acquired 7,677 shares in the share capital of Aura Medic Południe sp. z o.o. representing 100% of the target company's share capital and carrying the right to a total of 100% votes at its shareholder meeting for PLN 13 million and an additional payment of PLN 2 million. The price will be subject to adjustment depending on the net financial debt of Aura Medic Południe sp. z o.o. as at the transaction closing date, i.e. 31 March 2022. The amount of the additional payment will depend on the terms specified in the purchase agreement.

Aura Medic Południe sp. z o.o. has been consolidated since 31 March 2022.

2.3.2. Completion of the liquidation of Aquaform Romania SRL

On 5 January 2022, Aquaform Romania SRL was deleted from the register. The decision became final non-appealable on 20 January 2022.

2.4 Non-controlling interest

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

Name of the entity	31 March 2022	31 December 2021
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
Balta	0.00% [3)]	0.00% [3)]

[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.

[3)] Only one minority shareholder remains in Balta with 1 share.

Carrying amount of non-controlling interests	31 March 2022	31 December 2021
Pekao Group	18,740	19,028
Alior Bank Group	3,659	3,885
Other	1	1
Total	**22,400**	**22,914**

Both Pekao and Alior Bank conduct operations primarily in the territory of Poland. Presented in the following tables 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.

(in millions of PLN)

Assets	Pekao Group		Alior Bank Group	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
Goodwill	693	693	-	-
Intangible assets	2,078	2,129	395	426
Deferred tax assets	1,629	1,650	1,459	1,352
Other assets	101	52	76	39
Property, plant and equipment	1,923	1,979	747	755
Entities measured by the equity method	45	44	-	-
Assets held for sale	14	14	-	-
Assets securing liabilities	5,482	846	3,753	131
Loan receivables from clients	158,278	156,692	57,750	57,907
Financial derivatives	12,825	8,007	415	272
Investment financial assets	69,486	69,781	12,190	15,992
Measured at amortized cost	50,022	46,736	4,663	6,578
Measured at fair value through other comprehensive income	18,810	22,372	7,196	9,265
Measured at fair value through profit or loss	654	673	331	149
Receivables	4,522	3,653	2,672	2,215
Cash and cash equivalents	14,757	4,967	4,989	3,748
Total assets	**271,833**	**250,507**	**84,446**	**82,837**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
Equity				
Equity attributable to equity holders of the parent	23,431	23,791	5,376	5,708
Share capital	263	263	1,306	1,306
Other capital	18,127	19,402	4,149	4,658
Retained earnings	5,041	4,126	(79)	(256)
Non-controlling interest	13	12	-	-
Total equity	**23,444**	**23,803**	**5,376**	**5,708**
Liabilities				
Subordinated liabilities	2,781	2,761	1,308	1,347
Liabilities on the issue of own debt securities	6,638	5,356	579	584
Liabilities to banks	8,084	7,040	356	462
Liabilities to clients under deposits	202,921	194,260	68,922	71,489
Derivatives	15,778	10,191	1,900	1,224
Other liabilities	11,344	6,240	5,715	1,732
Provisions	819	831	289	290
Deferred tax liability	24	25	1	1
Total liabilities	**248,389**	**226,704**	**79,070**	**77,129**
Total equity and liabilities	**271,833**	**250,507**	**84,446**	**82,837**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2022	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	6,253	-	-	5	6,258
Reinsurers' share in gross written premium	(131)	-	-	-	(131)
Net written premiums	**6,122**	**-**	**-**	**5**	**6,127**
Movement in net provision for unearned premiums	(362)	-	-	5	(357)
Net earned premium	**5,760**	**-**	**-**	**10**	**5,770**
Revenue from commissions and fees	1,223	(836)	(360)	39	66
Interest income calculated using the effective interest rate	3,580	(2,213)	(1,033)	39	373
Other net investment income	11	(121)	164	(5)	49
Result on derecognition of financial instruments and investments	(108)	11	-	2	(95)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(394)	134	231	-	(29)
Net movement in fair value of assets and liabilities measured at fair value	79	(13)	(199)	-	(133)
Other operating income	409	(59)	(44)	16	322
Claims, benefits and movement in technical provisions	(3,864)	-	-	-	(3,864)
Reinsurers' share in claims, benefits and movement in technical provisions	174	-	-	-	174
Net insurance claims and benefits	**(3,690)**	**-**	**-**	**-**	**(3,690)**
Fee and commission expenses	(304)	133	172	(2)	(1)
Interest expenses	(368)	185	159	(5)	(29)
Acquisition expenses	(917)	-	-	(46)	(963)
Administrative expenses	(1,781)	951	393	(36)	(473)
Other operating expenses	(1,291)	576	235	(12)	(492)
Operating profit (loss)	**2,209**	**(1,252)**	**(282)**	**-**	**675**
Share of the net financial results of entities measured by the equity method	(11)	(1)	-	-	(12)
Profit (loss) before tax	**2,198**	**(1,253)**	**(282)**	**-**	**663**
Income tax	(588)	337	105	-	(146)
Net profit (loss)	**1,610**	**(916)**	**(177)**	**-**	**517**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2021 (restated)	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	6,148	-	-	32	6,180
Reinsurers' share in gross written premium	(153)	-	-	-	(153)
Net written premiums	**5,995**	**-**	**-**	**32**	**6,027**
Movement in net provision for unearned premiums	(309)	-	-	(3)	(312)
Net earned premium	**5,686**	**-**	**-**	**29**	**5,715**
Revenue from commissions and fees	1,065	(737)	(305)	41	64
Interest income calculated using the effective interest rate	2,360	(1,379)	(694)	31	318
Other net investment income	(32)	(69)	148	(6)	41
Result on derecognition of financial instruments and investments	512	(12)	7	-	507
Movement in allowances for expected credit losses and impairment losses on financial instruments	(438)	194	232	-	(12)
Net movement in fair value of assets and liabilities measured at fair value	130	(29)	(200)	-	(99)
Other operating income	373	(47)	(52)	16	290
Claims, benefits and movement in technical provisions	(4,016)	-	-	-	(4,016)
Reinsurers' share in claims, benefits and movement in technical provisions	90	-	-	-	90
Net insurance claims and benefits	**(3,926)**	**-**	**-**	**-**	**(3,926)**
Fee and commission expenses	(256)	123	134	(1)	-
Interest expenses	(126)	69	46	(4)	(15)
Acquisition expenses	(837)	-	-	(48)	(885)
Administrative expenses	(1,680)	892	351	(34)	(471)
Other operating expenses	(1,216)	597	151	(24)	(492)
Operating profit (loss)	**1,615**	**(398)**	**(182)**	**-**	**1,035**
Share of the net financial results of entities measured by the equity method	(6)	-	-	-	(6)
Profit (loss) before tax	**1,609**	**(398)**	**(182)**	**-**	**1,029**
Income tax	(455)	155	65	-	(235)
Net profit (loss)	**1,154**	**(243)**	**(117)**	**-**	**794**

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 31 March 2022	**1 January – 31 March 2021**	**1 January – 31 March 2022**	**1 January – 31 March 2021**
Net profit	916	243	177	117
Other comprehensive income	(1,275)	(436)	(509)	(122)
Subject to subsequent transfer to profit or loss	(1,254)	(472)	(543)	(119)
Valuation of debt instruments	(449)	(193)	(113)	10
Measurement of loan receivables from clients	(1)	(4)	-	-
Cash flow hedging	(804)	(275)	(430)	(131)
Foreign exchange translation differences	-	-	-	2
Not to be transferred to profit or loss in the future	(21)	36	34	(3)
Valuation of equity instruments	(21)	36	34	(3)
Total net comprehensive income	**(359)**	**(193)**	**(332)**	**(5)**

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 March 2022	1 January – 31 March 2021	1 January – 31 March 2022	1 January – 31 March 2021
Net cash flows from operating activities	8,201	3,484	(2,561)	1,736
Net cash flows from investing activities	(4,360)	1,878	255	(1,941)
Net cash flows from financing activities	5,918	(2,170)	3,520	(28)
Total net cash flows	**9,759**	**3,192**	**1,214**	**(233)**

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 31 March 2022 or from 1 January to 31 March 2021.

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	Nationale Nederlanden Otwarty Fundusz Emerytalny [1)]	50,030,000	5.7937%
3	Other shareholders	518,275,700	60.0188%
Total		**863,523,000**	**100.00%**

[1)] Number of shares held by the fund at the Extraordinary Shareholder Meeting of PZU held on 25 March 2022.

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

In the period from 1 January 2022 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

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

As at the date of conveying this periodic report and as at the date of conveying the annual report for 2021 (i.e. 24 March 2022) PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. The other Management Board Members, Supervisory Board Members and Group Directors did not hold any PZU shares or rights to PZU shares as at the date of conveying this periodic report and as at the date of conveying the annual report for 2021.

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;
- 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.

On 4 February 2022, Krzysztof Szypuła tendered his resignation from being a PZU Management Board Member.

On 27 April 2022, the PZU Supervisory Board adopted a resolution to appoint Piotr Nowak to the PZU Management Board and entrust him with discharging the function of being a PZU SA Management Board Member. This appointment took place on 28 April 2022 for a joint term of office spanning the three full financial years from 2020 to 2022.

From 28 April 2022 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;
- Piotr Nowak – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

4.2 Composition of the parent company's Supervisory Board

From 1 January 2022 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 2022, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU).

On 4 February 2022, Krzysztof Szypuła was appointed to the position of PZU Group Director in PZU.

On 15 April 2022, Małgorzata Sadurska (at PZU Życie) and Andrzej Jaworski (at PZU) were appointed PZU Group Directors.

On 28 April 2022, Piotr Nowak was appointed a PZU Group Director at PZU Życie.

(in millions of PLN)

PZU Group Directors from 28 April 2022 to the date of signing the consolidated financial statements:

- Aleksandra Agatowska (PZU);
- Andrzej Jaworski (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Piotr Nowak (PZU Życie);
- Małgorzata Sadurska (PZU Życie);
- Krzysztof Szypuła (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 2021.

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 2021.

5.1 Amendments to the applied IFRS

5.1.1. Standards, interpretations and amended standards effective from 1 January 2022

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

Standard/interpretation	Approving regulation	Commentary
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	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 did not have any significant effect on the PZU Group's consolidated financial statements.
Amendment to IAS 37 – Onerous contracts – costs of fulfillment of contractual obligations	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 did not have any significant effect on the PZU Group's consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Approving regulation	Commentary
Amendments to IFRS 3	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 change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2018-2020	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 did not exert any material impact on the PZU Group's consolidated financial statements.

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	Commentary
IFRS 17 – Insurance contracts	1 January 2023	2021/2036	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. The introduction of unified valuation rules 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. Among the fundamental rules of the standard is the recognition of the full expected loss on insurance contracts at the time when the entity considers the contract as having become onerous, which may be the date of its initial recognition or the date of any subsequent measurement. In accordance with IFRS 17, contracts will be measured using 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 for non-financial risk (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

Name of standard/ interpretation	Effective date	Approving regulation	Commentary
			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 net profit and net 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. The PZU Group is conducting 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: • developing details of the valuation methodology for distinct types of contracts and the method of presenting financial information required by IFRS 17 in the consolidated financial statements; • building the target reporting process; • introducing changes necessary to be implemented in IT systems, processes and areas which will be significantly affected by the implementation of IFRS 17; • rolling out an IT system to support the financial reporting process in accordance with the requirements of IFRS 17; • gathering historical data on policies necessary for the calculation of the transition date; • building repositories of input and output data to facilitate the automation of calculations. At the current stage of the IFRS 17 implementation project, test calculations are continued in all insurance units of the PZU Group, and the impact of changes on total income, equity and information presented in the consolidated financial statements is evaluated. Due to the ongoing work within the PZU Group on the final methodology for the practical application of IFRS 17, final decisions on the adopted accounting principles and significant judgments will be made by the PZU Group at a later date. For this reason, it is not yet feasible to reliably estimate the actual impact of the application of IFRS 17 on the consolidated financial statements.
Amendments to IAS 1 – Presentation of Financial Statements	1 January 2023	2022/357	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.

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Commentary
Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023	2022/357	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.

- Not approved by the European Commission:

Name of standard/interpretation	Date of issue by IASB	Effective date (according to IASB)	Commentary
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.
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.
Amendment to IFRS 17 – Insurance contracts	9 December 2021	1 January 2023	On 9 December 2021, the IASB issued an amendment to IFRS 17 regarding comparative information about financial assets presented at the time of the first application of IFRS 17. The purpose of the amendment is to help avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts resulting from different requirements for the presentation of comparable data between IFRS 9 and IFRS 17. The amendment will not exert a significant impact on the PZU Group's reporting due to the implementation of IFRS 9 already in 2018.

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 affecting the value of distinct assets and liabilities of the PZU Group and revenues and costs presented in the condensed interim financial statements. Given the uncertainty regarding the future economic situation, in particular due to the ongoing armed conflict in Ukraine, any estimates are subject to change. The uncertainty pertains predominantly to forecasts of macroeconomic assumptions, in particular those concerning key economic indicators (such as the degree of expected economic slowdown, GDP, employment rate, housing prices, inflation, market interest rates, potential disruptions in capital markets), potential business disruptions caused by decisions made by state institutions, enterprises and consumers, the degree of effectiveness of aid programs designed to support businesses and consumers and the evolution of the mortality rate.

5.2.1. Impairment and expected credit losses

5.2.1.1. Loan receivables from clients

In connection with the following risks:

- associated with the armed conflict in Ukraine, its potential consequences for the standing of enterprises and consumer sentiment;
- greater than expected increase in interest rates, which may translate into an increase in the burden on some customers;
- greater than expected economic slowdown due to increasing cost pressure on commercial undertakings, and
- new COVID-19 mutations and successive waves of the pandemic;

The PZU Group identifies increased credit risk, which was taken into account when calculating impairment losses. Information on the movement in impairment losses is presented in section 9.27.

5.2.1.2. Investment financial assets and receivables

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

The value of impairment losses on investment financial assets and receivables stood at PLN 4 million in the 3 months ended 31 March 2022 (compared to a decrease by PLN 6 million in allowances recognized in the corresponding period of 2021).

Detailed information on the movement in impairment losses is presented in sections 9.6 and 9.27.

5.2.2. Goodwill

In the period of 3 months ended 31 March 2022, the PZU Group has not recognized impairment losses on goodwill.

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 9.38.

(in millions of PLN)

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

As at 31 March 2022, 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 9.38.

5.3 Comparability of financial data

To reflect better the economic nature of the acquisition expenses incurred at the PZU Group level, the presentation of some of the costs incurred by banks belonging to the PZU Group has been changed in the condensed interim consolidated financial statements and the model for deferring acquisition expenses at the PZU Group level has been adjusted, which led to the transfer of some administrative expenses to acquisition expenses and to the reduction in deferred acquisition expenses in correspondence with acquisition expenses in the profit and loss account.

Presented below is the impact of these changes on specific items in the condensed interim consolidated financial statements.

Consolidated profit and loss account	**1 January – 31 March 2021** (before restatement)	**Adjustment**	**1 January – 31 March 2021** (restated)
Acquisition expenses	(798)	(39)	(837)
Administrative expenses	(1,702)	22	(1,680)
Net profit, including:	**1,171**	**(17)**	**1,154**
- profit attributable to the equity holders of the Parent Company	897	(17)	880
- profit (loss) attributed to holders of non-controlling interest	274	-	274

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

In the 3-month period ended 31 March 2022, there were no events that resulted in any change of the structure of financial statement items.

7. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2022, no corrections were made of errors from previous years.

8. Material events after the end of the reporting period

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

(in millions of PLN)

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premiums

Gross written premiums	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premiums in non-life insurance	4,149	3,862
In direct insurance	4,145	3,861
In indirect insurance	4	1
Gross written premiums in life insurance	2,104	2,286
Individual insurance premiums	316	528
Individually continued insurance premiums	517	514
Group insurance premiums	1,271	1,244
Total gross written premiums	**6,253**	**6,148**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2022	1 January – 31 March 2021
Accident and sickness insurance (group 1 and 2)	275	288
Motor third party liability insurance (group 10)	1,310	1,327
Other motor insurance (group 3)	1,079	976
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	32	26
Insurance against fire and other property damage (groups 8 and 9)	952	790
TPL insurance (groups 11, 12, 13)	264	258
Credit and suretyship (groups 14, 15)	17	12
Assistance (group 18)	156	130
Legal protection (group 17)	4	4
Other (group 16)	56	50
Total	**4,145**	**3,861**

9.2 Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2022	1 January – 31 March 2021
Banking activity	1,090	911
Margin on foreign exchange transactions with clients	249	176
Brokerage fees	56	60
Fiduciary activity	20	18
Payment card and credit card services	299	236
Fees on account of insurance intermediacy activities	8	9
Credits and loans	108	100
Bank account-related services	142	130
Transfers	74	67
Cash operations	28	21
Receivables purchased	19	16
Guarantees, letters of credit, collections, promises	23	21
Commissions on leasing activity	24	19
Other commission	40	38
Revenue and payments received from funds and mutual fund management companies	92	122
Pension insurance	40	31
Other	1	1
Total revenue from commissions and fees	**1,223**	**1,065**

(in millions of PLN)

9.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 January – 31 March 2022	1 January – 31 March 2021
Loan receivables from clients	2,646	1,705
Debt securities measured at fair value through other comprehensive income	232	209
Debt securities measured at amortized cost	464	337
Buy-sell-back transactions	39	-
Term deposits with credit institutions	17	4
Loans	36	21
Receivables purchased	89	83
Receivables	7	-
Cash and cash equivalents	50	1
Interest income calculated using the effective interest rate, total	**3,580**	**2,360**

9.4 Other net investment income

Other net investment income	1 January – 31 March 2022	1 January – 31 March 2021
Hedge derivatives	80	105
Dividend income, including:	2	1
Investment financial assets measured at fair value through profit or loss	2	1
Foreign exchange differences	(113)	(163)
Income on investment property	72	56
Investment property maintenance expenses	(28)	(23)
Investment activity expenses	(7)	(13)
Other	5	5
Other net investment income, total	**11**	**(32)**

9.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 January – 31 March 2022	1 January – 31 March 2021
Investment financial assets	(30)	606
Debt instruments measured at fair value through other comprehensive income	(7)	4
Financial instruments measured at fair value through profit or loss	(25)	597
Equity instruments	1	583
Participation units and investment certificates	(21)	6
Debt instruments	(5)	8
Instruments measured at amortized cost	2	5
Loan receivables from clients measured at amortized cost	(10)	(5)
Derivatives	(56)	(68)
Short sale	5	2
Receivables	(17)	(24)
Investment property	-	1
Result on derecognition of financial instruments and investments, total	**(108)**	**512**

(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 January – 31 March 2022	1 January – 31 March 2021
Investment financial assets	(4)	(6)
Debt instruments measured at fair value through other comprehensive income	3	(1)
Instruments measured at amortized cost	(7)	(5)
- debt instruments	(2)	(5)
- term deposits with credit institutions	(3)	1
- loans	(2)	(1)
Loan receivables from clients	(374)	(440)
Measured at amortized cost	(375)	(440)
Measured at fair value through other comprehensive income	1	-
Guarantees and sureties given	8	17
Receivables	(23)	(8)
Cash and cash equivalents	(1)	(1)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(394)**	**(438)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 March 2022	1 January – 31 March 2021
Investment financial instruments measured at fair value through profit or loss	(115)	57
Equity instruments	(18)	(83)
Debt securities	1	142
Participation units and investment certificates	(98)	(2)
Derivatives	173	72
Measurement of liabilities to members of consolidated mutual funds	19	4
Investment contracts for the client's account and risk (unit-linked)	17	2
Investment property	(16)	(6)
Loan receivables from clients	1	1
Net movement in fair value of assets and liabilities measured at fair value, total	**79**	**130**

9.8 Other operating income

Other operating income	1 January – 31 March 2022	1 January – 31 March 2021
Revenues on the sales of products, merchandise and services by non-insurance companies	251	208
Revenues from direct claims handling on behalf of other insurance undertakings	40	42
Reversal of provisions	2	3
Reimbursement of the costs of pursuit of claims	11	7
Reinsurance commissions and profit participation	28	35
Interest for late payment of amounts due under direct insurance and outward reinsurance	14	14
Other	63	64
Other operating income, total	**409**	**373**

(in millions of PLN)

9.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 January – 31 March 2022	1 January – 31 March 2021
Claims, benefits and movement in technical provisions	**3,864**	**4,016**
In non-life insurance	2,443	2,189
- claims and benefits	2,015	1,744
- movement in technical provisions	198	226
- claims handling expenses	230	219
In life insurance	1,421	1,827
- claims and benefits	1,842	1,779
- movement in technical provisions	(454)	16
- claims handling expenses	33	32
Reinsurers' share in claims, benefits and movement in technical provisions	**(174)**	**(90)**
In non-life insurance	(174)	(90)
Total net insurance claims and benefits	**3,690**	**3,926**

9.10 Fee and commission expenses

Fee and commission expenses	1 January – 31 March 2022	1 January – 31 March 2021
Costs of card and ATM transactions, including card issue costs	218	165
Commissions on acquisition of banking clients	19	27
Fees for the provision of ATMs	10	8
Costs of awards to banking clients	4	4
Costs of bank transfers and remittances	12	11
Additional services attached to banking products	6	6
Brokerage fees	6	8
Costs of administration of bank accounts	1	1
Costs of banknote operations	9	5
Fiduciary activity expenses	7	6
Other commission	12	15
Total fee and commission expenses	**304**	**256**

9.11 Interest expenses

Interest expenses	1 January – 31 March 2022	1 January – 31 March 2021
Term deposits	47	35
Current deposits	95	16
Own debt securities issued	87	53
Hedge derivatives	64	7
Loans	8	-
Repurchase transactions	40	-
Bank loans contracted by PZU Group companies	14	6
Leases	7	6
Other	6	3
Total interest expenses	**368**	**126**

(in millions of PLN)

9.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2022	1 January – 31 March 2021 (restated)
Consumption of materials and energy	53	44
Third party services	393	374
Taxes and charges	30	35
Employee expenses	1,363	1,282
Depreciation of property, plant and equipment	162	158
Amortization of intangible assets	140	118
Other, including:	885	786
- commissions in insurance activities	705	629
- advertising	57	43
- remuneration of group insurance administrators in work establishments	51	50
- other	72	64
Movement in deferred acquisition expenses	(65)	(29)
Administrative, acquisition and claims handling expenses, total	**2,961**	**2,768**

9.13 Other operating expenses

Other operating expenses	1 January – 31 March 2022	1 January – 31 March 2021
Levy on financial institutions	348	317
Expenses of the core business of non-insurance and non-banking companies	277	242
Direct claims handling expenses on behalf of other insurance undertakings	42	48
Compulsory payments to insurance market institutions and banking market institutions	64	62
Bank Guarantee Fund	364	266
Insurance Guarantee Fund	15	16
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	13	14
Expenditures for prevention activity	11	12
Establishment of provisions	29	127
Amortization of intangible assets purchased in company acquisition transactions	25	32
Recognition of impairment losses for non-financial assets	36	2
Donations	28	21
Costs of pursuit of claims	24	22
Other	15	35
Other operating expenses, total	**1,291**	**1,216**

9.14 Income tax

Total amount of current and deferred tax	1 January – 31 March 2022	1 January – 31 March 2021
Recognized through profit or loss, including:	(588)	(455)
- current tax	(33)	(227)
- deferred tax	(555)	(228)
Recognized in other comprehensive income (deferred tax)	522	178
Total	**(66)**	**(277)**

(in millions of PLN)

Income tax on other comprehensive income items	1 January – 31 March 2022	1 January – 31 March 2021
Gross other comprehensive income	(2,759)	(909)
Income tax	522	178
Debt instruments	254	86
Loan receivables from clients	-	1
Cash flow hedging	283	103
Equity instruments measured at fair value through other comprehensive income	(15)	(12)
Net other comprehensive income	**(2,237)**	**(731)**

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 January – 31 March 2022	1 January – 31 March 2021 (restated)
Net profit attributable to the equity holders of the parent company	758	880
Weighted average basic and diluted number of common shares	863,376,993	863,343,952
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(146,007)	(179,048)
Basic and diluted earnings (losses) per common share (in PLN)	0.88	1.02

In the 3-month periods ended 31 March 2022 and 31 March 2021 there were no transactions or events resulting in the dilution of earnings per share.

9.16 Goodwill

Goodwill	31 March 2022	31 December 2021
Pekao [1)]	1,715	1,715
LD [2)]	514	508
Medical companies	301	288
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	42	41
Other	5	5
Total goodwill	**2,798**	**2,778**

[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.

(in millions of PLN)

9.17 Intangible assets

Intangible assets by type groups	31 March 2022	31 December 2021
Software, licenses and similar assets	1,757	1,738
Trademarks	523	522
- Pekao	340	340
- other	183	182
Customer relationships	413	437
- Pekao	345	366
- other	68	71
Intangible assets under development	600	686
Other intangible assets	26	20
Total intangible assets	**3,319**	**3,403**

9.18 Other assets

Other assets	31 March 2022	31 December 2021
Reinsurance settlements	113	90
Estimated salvage and subrogation	193	198
Deferred IT expenses	138	110
Accrued direct claims handling receivables	50	53
Costs settled over time	128	74
Inventories	56	57
Payments for taxes on property, means of transport and land	36	-
Payments for the costs of the allowance to the Company Social Benefit Fund	35	-
Accrued commissions	15	18
Other assets	36	33
Total other assets	**800**	**633**

9.19 Property, plant and equipment

Property, plant and equipment by groups by type	31 March 2022	31 December 2021
Plant and machinery	659	647
Means of transport	238	246
Property, plant and equipment under construction	224	283
Real property	2,560	2,587
Other property, plant and equipment	387	381
Total property, plant and equipment	**4,068**	**4,144**

9.20 Entities measured by the equity method

Associates	31 March 2022	31 December 2021
RUCH SA	36	48
Krajowy Integrator Płatności SA	45	44
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	-	-
Associates, total	**82**	**93**

(in millions of PLN)

9.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	31 March 2022	31 December 2021
Groups held for sale	**299**	**297**
Assets	327	325
Investment property	298	298
Receivables	4	7
Cash and cash equivalents	23	20
Other assets	2	-
Liabilities related directly to assets classified as held for sale	28	28
Other liabilities	14	14
Deferred tax liability	14	14
Other assets held for sale	**317**	**318**
Property, plant and equipment	18	18
Investment property	299	300
Assets and groups of assets held for sale	**644**	**643**
Liabilities related directly to assets classified as held for sale	**28**	**28**

The “Investment property” line item and the “Groups held for sale” section presented mainly the properties held by a real estate sector mutual fund as held for sale.

9.22 Loan receivables from clients

Loan receivables from clients	31 March 2022	31 December 2021
Measured at amortized cost	216,064	214,602
Measured at fair value through other comprehensive income	246	246
Measured at fair value through profit or loss	149	160
Total loan receivables from clients	**216,459**	**215,008**

Loan receivables from clients	31 March 2022	31 December 2021
Retail segment	**115,717**	**116,523**
Operating loans	221	214
Consumer finance	26,492	27,013
Consumer finance loans	4,202	4,284
Loan to purchase securities	23	32
Overdrafts in credit card accounts	1,000	1,106
Loans for residential real estate	82,804	82,923
Other mortgage loans	704	717
Other receivables	271	234
Business segment	**100,742**	**98,485**
Operating loans	33,488	31,859
Car financing loans	3	3
Investment loans	28,250	27,992
Receivables purchased (factoring)	7,389	7,393
Overdrafts in credit card accounts	137	157
Loans for residential real estate	71	76
Other mortgage loans	10,270	9,522
Finance leases	13,817	13,694
Other receivables	7,317	7,789
Total loan receivables from clients	**216,459**	**215,008**

(in millions of PLN)

9.23 Financial derivatives

Derivatives	31 March 2022		31 December 2021	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**11,093**	**16,155**	**6,706**	**10,372**
Fair value hedging instruments – swap transactions	55	16	24	91
Cash flow hedging instruments – swap transactions	78	5,126	30	3,513
Instruments held for trading, including:	10,960	11,013	6,652	6,768
- forward contracts	15	14	7	13
- swap transactions	10,900	10,944	6,621	6,729
- call options (purchase)	34	46	16	20
- put options	9	7	6	4
- cap floor options	2	2	2	2
Foreign exchange derivatives	**1,322**	**1,201**	**797**	**727**
Cash flow hedging instruments – swap transactions	123	43	63	31
Instruments held for trading, including:	1,199	1,158	734	696
- forward contracts	479	575	361	393
- swap transactions	590	468	287	254
- call options (purchase)	121	23	83	24
- put options	9	92	3	25
Equity derivatives – held for trading	**50**	**15**	**69**	**41**
- forward contracts	1	-	-	-
- call options (purchase)	49	15	69	41
Commodity derivatives – held for trading	**851**	**785**	**756**	**740**
- forward contracts	45	14	12	7
- swap transactions	758	723	729	717
- call options (purchase)	48	48	15	14
- put options	-	-	-	2
Total derivatives	**13,316**	**18,156**	**8,328**	**11,880**

9.24 Assets securing liabilities

Assets securing liabilities	31 March 2022				31 December 2021			
	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
Debt securities	7,363	2,061	18	9,442	131	911	48	1,090
Government securities	7,363	2,061	18	9,442	131	911	48	1,090
Domestic	7,363	2,061	18	9,442	131	911	48	1,090
Fixed rate	5,008	402	18	5,428	131	911	2	1,044
Floating rate	2,355	1,659	-	4,014	-	-	46	46
Buy-sell-back transactions	-	-	-	-	246	-	-	246
Assets securing liabilities, total	**7,363**	**2,061**	**18**	**9,442**	**377**	**911**	**48**	**1,336**

(in millions of PLN)

9.25 Investment financial assets

Investment financial assets	31 March 2022				31 December 2021			
	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	846	908	1,754	n/a	768	931	1,699
Participation units and investment certificates	n/a	n/a	5,511	5,511	n/a	n/a	5,816	5,816
Debt securities	67,681	38,025	2,397	108,103	74,052	44,128	2,418	120,598
Government securities	58,482	27,743	2,131	88,356	65,228	31,409	2,135	98,772
Domestic	58,211	25,116	1,997	85,324	64,958	28,664	1,952	95,574
Fixed rate	55,112	17,812	1,553	74,477	59,532	21,233	1,511	82,276
Floating rate	3,099	7,304	444	10,847	5,426	7,431	441	13,298
Foreign	271	2,627	134	3,032	270	2,745	183	3,198
Fixed rate	271	2,627	134	3,032	270	2,745	180	3,195
Floating rate	-	-	-	-	-	-	3	3
Other	9,199	10,282	266	19,747	8,824	12,719	283	21,826
Fixed rate	3,026	5,359	51	8,436	2,844	7,424	37	10,305
Floating rate	6,173	4,923	215	11,311	5,980	5,295	246	11,521
Other, including:	16,887	-	-	16,887	8,841	-	-	8,841
Buy-sell-back transactions	4,316	-	-	4,316	3,871	-	-	3,871
Term deposits with credit institutions	8,812	-	-	8,812	1,384	-	-	1,384
Loans	3,759	-	-	3,759	3,586	-	-	3,586
Investment financial assets, total	**84,568**	**38,871**	**8,816**	**132,255**	**82,893**	**44,896**	**9,165**	**136,954**

Equity instruments measured at fair value through other comprehensive income	31 March 2022	31 December 2021
Grupa Azoty SA	308	243
Biuro Informacji Kredytowej SA	297	323
PSP sp. z o.o.	134	94
Polimex-Mostostal SA	45	42
Krajowa Izba Rozliczeniowa SA	17	16
Astaldi SFP	15	14
Webuild SpA	12	15
Other	18	21
Equity instruments measured at fair value through other comprehensive income, total	**846**	**768**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	31 March 2022	31 December 2021
Lithuania	836	845
Romania	234	227
Latvia	155	155
Croatia	151	154
Ukraine	142	163
Hungary	136	134
Indonesia	135	132
Italy	112	118
Mexico	83	87
Columbia	76	76
Bulgaria	74	88
Panama	71	76
Peru	70	74
Brazil	68	70
South Africa	56	58
Saudi Arabia	53	59
Uruguay	52	55
Philippines	51	56
Other	477 [1)]	571 [2)]
Total	**3,032**	**3,198**

[1)] The line item “Other” includes bonds issued by 55 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 53 countries.

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	31 March 2022	31 December 2021
K. Financial and insurance activities, of which:	6,636	8,375
Foreign banks	4,914	4,777
National Bank of Poland	20	1,870
Companies from the WIG-Banks Index	556	553
O. Public administration and defense, compulsory social security, of which:	5,242	5,354
Domestic local governments	5,235	5,345
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	2,238	2,329
Companies from the WIG-Energy Index	1,612	1,614
C. Manufacturing, of which:	1,770	1,818
Production and processing of crude oil refining products	720	766
N. Administrative and support service activities	862	1,006
H. Transportation and storage	885	801
E. Water supply; sewerage, waste management and remediation activities	481	413
J. Information and communication	372	377
I. R. Accommodation and food service activities (including: WIG - hotels and restaurants), and arts, entertainment and recreation activities	332	335
F. Construction	309	305
L. Real estate activities	207	285
M. Professional, scientific and technical activity	199	196
B. Mining and quarrying	170	185
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	44	47
Total	**19,747**	**21,826**

(in millions of PLN)

9.26 Receivables

Receivables – carrying amount	31 March 2022	31 December 2021
Receivables on direct insurance, including:	2,449	2,694
- receivables from policyholders	2,292	2,604
- receivables from insurance intermediaries	94	89
- other receivables	63	1
Reinsurance receivables	45	63
Other receivables	8,160	6,661
- receivables from disposal of securities and margins [1)]	5,891	4,516
- receivables on account of payment card settlements	779	931
- trade receivables	270	310
- receivables from the state budget, other than corporate income tax receivables	114	98
- receivables by virtue of commissions concerning off-balance sheet products	171	170
- prevention settlements	32	33
- receivables from direct claims handling on behalf of other insurance undertakings	16	12
- receivables for acting as an emergency adjuster	8	8
- receivables on account of Corporate Income Tax	538	223
- receivables from security and bid deposits	51	54
- interbank and interbranch receivables	2	16
- other	288	290
Total receivables	**10,654**	**9,418**

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

As at 31 March 2022 and 31 December 2021, 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)

9.27 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 31 March 2022					1 January – 31 December 2021 (restated)				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	182,578	28,470	11,239	5,307	227,594	163,118	28,238	12,044	5,473	208,873
Recognition of instruments at the time of acquisition, creation, granting	19,470	-	-	21	19,491	58,460	-	-	8	58,468
Change attributable to modification of cash flows concerning the given instrument	-	-	-	-	-	(2)	(1)	-	-	(3)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(16,441)	(713)	(232)	(176)	(17,562)	(40,618)	(4,955)	(2,570)	(1,132)	(49,275)
Assets from the statement of financial position	-	-	(560)	(4)	(564)	-	-	(1,678)	(57)	(1,735)
Reclassification to basket 1	3,420	(3,327)	(93)	-	-	7,958	(7,665)	(293)	-	-
Reclassification to basket 2	(5,668)	5,882	(214)	-	-	(15,055)	15,127	(72)	-	-
Reclassification to basket 3	(480)	(910)	1,390	-	-	(1,374)	(2,167)	3,541	-	-
Change in the composition of the Group	-	-	-	-	-	11,131	-	-	1,058	12,189
Other changes, including foreign exchange differences	151	(21)	83	50	263	(1,040)	(107)	267	(43)	(923)
End of the period	**183,030**	**29,381**	**11,613**	**5,198**	**229,222**	**182,578**	**28,470**	**11,239**	**5,307**	**227,594**
Expected credit losses										
Beginning of the period	(1,067)	(1,798)	(6,321)	(3,806)	(12,992)	(909)	(1,876)	(6,413)	(4,048)	(13,246)
Establishment of allowances for newly acquired, created, granted instruments	(109)	-	-	(10)	(119)	(839)	-	-	(3)	(842)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	191	(152)	(381)	60	(282)	927	(395)	(1,202)	306	(364)
Assets from the statement of financial position	-	-	560	4	564	-	-	1,678	57	1,735
Reclassification to basket 1	(190)	162	28	-	-	(495)	360	135	-	-
Reclassification to basket 2	70	(186)	116	-	-	157	(161)	4	-	-
Reclassification to basket 3	16	137	(153)	-	-	111	372	(483)	-	-
Other changes, including foreign exchange differences	(8)	(3)	(191)	(127)	(329)	(19)	(98)	(40)	(118)	(275)
End of the period	**(1,097)**	**(1,840)**	**(6,342)**	**(3,879)**	**(13,158)**	**(1,067)**	**(1,798)**	**(6,321)**	**(3,806)**	**(12,992)**
Net carrying amount at the end of the period	**181,933**	**27,541**	**5,271**	**1,319**	**216,064**	**181,511**	**26,672**	**4,918**	**1,501**	**214,602**

In connection with the entry into force, on 1 January 2022, of the “Recommendation R on the principles of classification of credit exposures, the estimation and recognition of expected credit losses and credit risk management” issued by the Polish Financial Supervision Authority (KNF), the PZU Group identified new POCI assets, resulting in the need to transform the comparative data on the gross value of loans and advances to customers measured at amortized cost and the value of allowances for expected credit losses related to these loans (presentation changes between Basket 3 and POCI assets). The change did not affect the total net value of loan receivables from clients.

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 March 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	115	131	-	-	246	720	755	-	-	1,475
Change in measurement	1	2	-	-	3	-	-	-	-	-
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	-	(2)	-	-	(2)	(601)	(622)	-	-	(1,223)
Other changes	(1)	-	-	-	(1)	(4)	(2)	-	-	(6)
End of the period	**115**	**131**	**-**	**-**	**246**	**115**	**131**	**-**	**-**	**246**
Expected credit losses										
Beginning of the period	(2)	(2)	-	-	(4)	(4)	(22)	-	-	(26)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	1	-	-	1	(2)	2	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	4	19	-	-	23
Other changes	-	-	-	-	-	-	(1)	-	-	(1)
End of the period	**(2)**	**(1)**	**-**	**-**	**(3)**	**(2)**	**(2)**	**-**	**-**	**(4)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January – 31 March 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	73,897	354	35	39	74,325	57,850	73	34	-	57,957
Recognition of instruments at the time of acquisition, creation, granting	2,862	-	-	-	2,862	26,513	-	-	-	26,513
Change in measurement	248	-	-	-	248	802	-	1	-	803
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(2,383)	(37)	-	-	(2,420)	(11,476)	(8)	-	-	(11,484)
Assets from the statement of financial position	-	-	-	-	-	-	-	(1)	-	(1)
Reclassification to basket 2	(65)	65	-	-	-	(288)	288	-	-	-
Change in the composition of the Group	-	-	-	-	-	15	-	-	40	55
Other changes, including foreign exchange differences	178	2	1	4	185	481	1	1	(1)	482
End of the period	**74,737**	**384**	**36**	**43**	**75,200**	**73,897**	**354**	**35**	**39**	**74,325**
Expected credit losses										
Beginning of the period	(69)	(8)	(35)	(30)	(142)	(50)	(2)	(34)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(5)	-	-	-	(5)	(39)	-	-	-	(39)
Changes attributable to valuation or credit risk level (excluding reclassification)	(1)	4	-	-	3	9	1	-	-	10
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	4	-	-	-	4
Assets from the statement of financial position	-	-	-	-	-	-	-	1	-	1
Reclassification to basket 2	2	(2)	-	-	-	7	(7)	-	-	-
Other changes, including foreign exchange differences	-	-	(1)	(11)	(12)	-	-	(2)	(30)	(32)
End of the period	**(73)**	**(6)**	**(36)**	**(41)**	**(156)**	**(69)**	**(8)**	**(35)**	**(30)**	**(142)**
Net carrying amount at the end of the period	**74,664**	**378**	**-**	**2**	**75,044**	**73,828**	**346**	**-**	**9**	**74,183**

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

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 March 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	44,788	251	-	-	45,039	63,387	256	-	-	63,643
Recognition of instruments at the time of acquisition, creation, granting	44,453	-	-	-	44,453	297,955	4	-	-	297,959
Change in measurement	(1,094)	(4)	-	-	(1,098)	(445)	(10)	-	-	(455)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(48,599)	(5)	-	-	(48,604)	(315,883)	(93)	-	-	(315,976)
Reclassification to basket 2	-	-	-	-	-	(94)	94	-	-	-
Change in the composition of the Group	-	-	-	-	-	313	-	-	-	313
Other changes, including foreign exchange differences	295	1	-	-	296	(445)	-	-	-	(445)
End of the period	**39,843**	**243**	**-**	**-**	**40,086**	**44,788**	**251**	**-**	**-**	**45,039**
Expected credit losses										
Beginning of the period	(54)	(26)	-	-	(80)	(68)	(13)	-	-	(81)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(19)	-	-	-	(19)
Changes attributable to valuation or credit risk level (excluding reclassification)	2	1	-	-	3	12	(12)	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	20	-	-	-	20
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
End of the period	**(52)**	**(25)**	**-**	**-**	**(77)**	**(54)**	**(26)**	**-**	**-**	**(80)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January – 31 March 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	1,385	-	-	-	1,385	953	-	-	-	953
Recognition of instruments at the time of acquisition, creation, granting	14,703	-	-	-	14,703	33,091	-	-	-	33,091
Change in measurement	4	-	-	-	4	2	-	-	-	2
Change attributable to modification of cash flows concerning the given instrument	(72)	-	-	-	(72)	(399)	-	-	-	(399)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(7,201)	-	-	-	(7,201)	(32,411)	-	-	-	(32,411)
Reclassification to basket 3	(134)	-	134	-	-	-	-	-	-	-
Change in the composition of the Group	-	-	-	-	-	161	-	-	-	161
Other changes, including foreign exchange differences	(3)	-	-	-	(3)	(12)	-	-	-	(12)
End of the period	**8,682**	**-**	**134**	**-**	**8,816**	**1,385**	**-**	**-**	**-**	**1,385**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	-	-	-	-	-	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	-	(1)	-	(3)	(4)	-	-	-	(4)
Reclassification to basket 3	1	-	(1)	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	6	-	-	-	6
End of the period	**(2)**	**-**	**(2)**	**-**	**(4)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**8,680**	**-**	**132**	**-**	**8,812**	**1,384**	**-**	**-**	**-**	**1,384**

(in millions of PLN)

Loans	1 January – 31 March 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	3,522	75	-	-	3,597	3,318	79	-	-	3,397
Recognition of instruments at the time of acquisition, creation, granting	180	-	-	-	180	1,418	-	-	-	1,418
Change in measurement	16	1	-	-	17	(10)	2	-	-	(8)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(22)	-	-	-	(22)	(1,204)	(6)	-	-	(1,210)
End of the period	**3,696**	**76**	**-**	**-**	**3,772**	**3,522**	**75**	**-**	**-**	**3,597**
Expected credit losses										
Beginning of the period	(5)	(6)	-	-	(11)	(7)	(6)	-	-	(13)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	1	-	-	(1)	1	-	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	2	-	-	-	2
End of the period	**(8)**	**(5)**	**-**	**-**	**(13)**	**(5)**	**(6)**	**-**	**-**	**(11)**
Net carrying amount at the end of the period	**3,688**	**71**	**-**	**-**	**3,759**	**3,517**	**69**	**-**	**-**	**3,586**

Receivables	1 January – 31 March 2022	1 January – 31 December 2021
Gross carrying amount		
Beginning of the period	10,575	7,333
Changes in the period	1,350	3,242
End of the period	**11,925**	**10,575**
Expected credit losses		
Beginning of the period	(1,157)	(1,087)
Changes in the period	(114)	(70)
End of the period	**(1,271)**	**(1,157)**
Net carrying amount at the end of the period	**10,654**	**9,418**

9.28 Fair value

9.28.1. Description of valuation techniques

9.28.1.1. 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. For debt instruments based on a variable interest rate, the reference curve reflecting the level of risk-free rates for the discounting of future flows is developed on the basis of an appropriate swap curve for the respective currency. In turn, for instruments based on a fixed interest rate, it is based on treasury bond quotations in the respective currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of the respective debt instrument, a market-based sectoral spread published in news services is added, reflecting the risk valuation for the issuer's sector and its rating.

9.28.1.2. 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.

9.28.1.3. 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.

9.28.1.4. 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.

9.28.1.5. 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.

9.28.1.6. 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.

9.28.1.7. 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 individual credit spread for the issue. The individual spread is initially calibrated to the issue price and periodically recalibrated when trading data are available.

9.28.1.8. 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.

9.28.1.9. 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.

9.28.2. 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 funds;
  - investment properties or properties held for sale measured using the comparative method, for which there is a sufficient number of similar property transactions in the market under analysis, 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, the residual method or the comparative method (if there is an insufficient number of transactions on similar properties);
  - loan receivables from clients and liabilities to clients under deposits;

- options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

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

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

9.28.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2022				31 December 2021			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets and assets securing liabilities measured at fair value through other comprehensive income	23,298	11,618	6,016	40,932	22,733	17,002	6,072	45,807
Equity instruments	364	-	482	846	297	-	471	768
Debt securities	22,934	11,618	5,534	40,086	22,436	17,002	5,601	45,039
Investment financial assets and assets securing liabilities measured at fair value through profit or loss	2,751	5,686	397	8,834	2,625	6,142	446	9,213
Equity instruments	635	3	270	908	615	57	259	931
Participation units and investment certificates	169	5,321	21	5,511	164	5,631	21	5,816
Debt securities	1,947	362	106	2,415	1,846	454	166	2,466
Loan receivables from clients	-	-	395	395	-	-	406	406
Measured at fair value through other comprehensive income	-	-	246	246	-	-	246	246
Measured at fair value through profit or loss	-	-	149	149	-	-	160	160
Financial derivatives	3	13,271	42	13,316	1	8,273	54	8,328
Investment property	-	160	2,642	2,802	-	166	2,607	2,773
Liabilities								
Derivatives	3	18,149	4	18,156	-	11,860	20	11,880
Liabilities to members of consolidated mutual funds	-	326	-	326	-	380	-	380
Investment contracts for the client’s account and risk *(unit-linked)*	-	249	-	249	-	267	-	267
Liabilities on borrowed securities (short sale)	424	-	-	424	686	-	-	686

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 31 March 2022	Investment financial assets and assets securing liabilities measured at fair value through other comprehensive income		Investment financial assets and assets securing liabilities 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 comprehend-sive income**	**through profit or loss**	
Beginning of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**
Purchase/opening of the position/granting	-	11	-	-	606	-	-	-	-	43
Reclassification from Level II [1)]	-	1,745		-	22	1	-	-	-	7
Profit or loss recognized in the profit and loss account:	-	6	9	-	(5)	(4)	(8)	2	-	(15)
- interest income calculated using the effective interest rate	-	25	-	-	-	(2)	-	2	(1)	-
- result on derecognition of financial instruments and investments	-	1	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(20)	9	-	(5)	(2)	(8)	-	1	(15)
Profits or losses recognized in other comprehensive income	11	(145)	-	-	-	-	-	(1)	-	-
Sales/settlements/repayments/conversions	-	(112)	-	-	(625)	(9)	(8)	(1)	(11)	-
Reclassification to Level II	-	(1,572)	-	-	(58)	-	-	-	-	-
Foreign exchange differences	-	-	2	-	-			-	-	-
End of the period	**482**	**5,534**	**270**	**21**	**106**	**42**	**4**	**246**	**149**	**2,642**

[1)] Information on the restatements is presented in section 9.28.6.

(in millions of PLN)

Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 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 comprehend-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	-	3,376	-	-	5,938	2	2	53	1	310
Reclassification from Level I [1)]		7	-	-	-	-	-	-	-	-
Reclassification from Level II [1)]	-	788	-	-	36	-	-	-	-	142
Reclassifications from assets held for sale to investment property	-		-	-	-	-	-	-	-	157
Profit or loss recognized in the profit and loss account:	-	68	604	(2)	(17)	19	10	44	(4)	160
- interest income calculated using the effective interest rate	-	113	-	-	2	7	-	44	(4)	-
- result on derecognition of financial instruments and investments	-	2	586	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(47)	18	(2)	(20)	12	10	-	-	160
Profits or losses recognized in other comprehensive income	39	(161)	-	-	-	-	-	(24)	-	-
Sales/settlements/repayments/conversions	-	(9,034)	(720)	-	(5,880)	(64)	(52)	(1,302)	(24)	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(469)
Reclassification to Level II	-	(874)	-	-	(5)	-	(4)	-	-	-
Change in the composition of the Group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	-	-	5	2	-	-	-	-	-	-
End of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**

[1)] Information on the restatements is presented in section 9.28.6.

(in millions of PLN)

9.28.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2022					31 December 2021				
	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	-	-	217,346	217,346	216,064	-	-	214,781	214,781	214,602
Investment financial assets and assets securing liabilities measured at amortized cost	38,361	24,960	21,887	85,208	91,931	39,455	8,663	32,383	80,501	83,270
Debt securities	38,361	14,991	14,953	68,305	75,044	39,455	6,436	25,489	71,380	74,183
Buy-sell-back transactions	-	1,939	2,377	4,316	4,316	-	1,590	2,527	4,117	4,117
Term deposits with credit institutions	-	8,030	787	8,817	8,812	-	637	754	1,391	1,384
Loans	-	-	3,770	3,770	3,759	-	-	3,613	3,613	3,586
Liabilities										
Liabilities to banks	-	2,373	6,090	8,463	8,413	-	2,726	4,762	7,488	7,470
Liabilities to clients under deposits	-	-	270,875	270,875	271,184	-	-	264,818	264,818	265,155
Liabilities on the issue of own debt securities [1)]	-	6,654	575	7,229	7,217	-	5,418	539	5,957	5,940
Subordinated liabilities [1)]	-	2,772	3,473	6,245	6,254	-	2,748	3,520	6,268	6,274
Liabilities on account of repurchase transactions	-	7,478	1,512	8,990	8,995	-	846	359	1,205	1,207

[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.

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

In the 3-month period ended 31 March 2022 and in 2021, 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.

9.28.6. Reclassification between fair value hierarchy levels

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

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

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

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

In the 3-month period ended 31 March 2022, the following reclassifications of assets between fair value levels was made:

- reclassification from level III to level II was applied to corporate and municipal 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;

(in millions of PLN)

- 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 derivatives for which estimated volatility exerted a significant impact on the measurement;
- reclassification from level II to level I was applied to government bonds measured using market quotations due to ab increase in market activity.

In 2021, the following transfers of assets between fair value levels were made:

- reclassification from level III to level II was applied to corporate and municipal bonds measured using market information about the prices of comparable financial instruments, corporate and municipal bonds for which the estimated credit parameters had no significant impact on their measurement and capital market derivatives for which the estimated correlation had no significant impact on their measurement;
- reclassification from level II to level III was effected with respect to corporate to municipal bonds, for which the estimated credit parameters exerted material impact on the measurement, and capital market derivatives for which the estimated volatility exerted a material 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.

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

In the 3-month period ended 31 March 2022, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

9.30 Share capital

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

All the Shares have been fully paid for.

As at 31 March 2022 and 31 December 2021

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

9.31 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)

9.32 Technical provisions

Technical provisions	31 March 2022			31 December 2021		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**27,321**	**(2,483)**	**24,838**	**26,881**	**(2,539)**	**24,342**
Provision for unearned premiums	9,664	(983)	8,681	9,423	(1,139)	8,284
Provision for unexpired risk	41	-	41	42	-	42
Provision for outstanding claims and benefits	11,189	(1,222)	9,967	11,039	(1,119)	9,920
- for reported claims	4,180	(1,075)	3,105	4,024	(966)	3,058
- for claims not reported (IBNR)	4,688	(119)	4,569	4,748	(129)	4,619
- for claims handling expenses	2,321	(28)	2,293	2,267	(24)	2,243
Provision for the capitalized value of annuities	6,419	(275)	6,144	6,371	(280)	6,091
Provisions for bonuses and discounts for insureds	8	(3)	5	6	(1)	5
Technical provisions in life insurance	**22,815**	**(1)**	**22,814**	**23,292**	**(1)**	**23,291**
Provision for unearned premiums	112	-	112	113	(1)	112
Provision for unexpired risk	-	-	-	25	-	25
Life insurance provision	16,341	-	16,341	16,345	-	16,345
Provision for outstanding claims and benefits	683	(1)	682	676	-	676
- for reported claims	175	(1)	174	163	-	163
- for claims not reported (IBNR)	503	-	503	508	-	508
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	6	-	6	6	-	6
Other technical provisions	157	-	157	164	-	164
Unit-linked provision	5,516	-	5,516	5,963	-	5,963
Total technical provisions	**50,136**	**(2,484)**	**47,652**	**50,173**	**(2,540)**	**47,633**

9.33 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue date/Maturity date	Carrying amount 31 March 2022 (in PLN m)	Carrying amount 31 December 2021 (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	2,266	2,266
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,263	1,255
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	556	553
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	355	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	405	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	222	225
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	609	604
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	-	47
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 / 16 May 2022	153	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	152	150
Subordinated liabilities					**6,254**	**6,274**

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.

9.34 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 March 2022	31 December 2021
Bonds	3,530	4,154
Certificates of deposit	2,736	695
Covered bonds	951	1,091
Total liabilities on the issue of own debt securities	**7,217**	**5,940**

9.35 Liabilities to banks

Liabilities to banks	31 March 2022	31 December 2021
Current deposits	2,080	821
One-day deposits	3	3
Term deposits	1,100	1,893
Loans received	4,995	4,658
Other liabilities	235	95
Liabilities to banks, total	**8,413**	**7,470**

(in millions of PLN)

9.36 Liabilities to clients under deposits

Liabilities to clients under deposits	31 March 2022	31 December 2021
Current deposits	234,506	241,112
Term deposits	35,610	23,067
Other liabilities	1,068	976
Liabilities to clients under deposits, total	**271,184**	**265,155**

9.37 Other liabilities

Other liabilities	31 March 2022	31 December 2021
Liabilities measured at fair value	**999**	**1,333**
Liabilities on borrowed securities (short sale)	424	686
Investment contracts for the client's account and risk (unit-linked)	249	267
Liabilities to members of consolidated mutual funds	326	380
Accrued expenses	**1,760**	**2,230**
Accrued expenses of agency commissions	382	381
Accrued payroll expenses	720	750
Accrued reinsurance expenses	259	725
Other	399	374
Deferred revenue	**550**	**502**
Other liabilities	**18,367**	**9,138**
Liabilities on account of repurchase transactions	8,995	1,207
Lease liabilities	985	992
Liabilities due under transactions on financial instruments	1,846	1,338
Liabilities to banks for payment documents cleared in interbank clearing systems	1,864	1,251
Liabilities on direct insurance	987	955
Liabilities on account of payment card settlements	448	404
Regulatory settlements	259	275
Liabilities for contributions to the Bank Guarantee Fund	932	629
Reinsurance liabilities	314	228
Estimated non-insurance liabilities	130	159
Liabilities to employees	121	101
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	17	18
Trade liabilities	392	652
Current income tax liabilities	84	147 [1)]
Liabilities on account of employee leaves	204	165
Liabilities to the state budget other than for income tax	164	68
Liabilities on account of donations	12	17
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	34	28
Insurance Guarantee Fund	13	13
Liability for the refund of loan costs	97	96
Liabilities for direct claims handling	35	36
Other	434	359
Other liabilities, total	**21,676**	**13,203**

[1)] Including PLN 72 million of a tax liability in Sweden. Additional information on this issue is presented in item 25.6.

(in millions of PLN)

9.38 Provisions

Movement in provisions in the period ended 31 March 2022	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	496	110	-	(116)	2	492
Provision for retirement severance pays	267	6	(16)	-	3	260
Provision for disputed claims and potential liabilities	69	5	(5)	(1)	-	68
Provision for potential refunds of borrowing costs	120	11	(14)	-	-	117
Provision for legal risk pertaining to mortgage loans in Swiss francs	132	7	-	-	-	139
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	28	-	(2)	-	-	26
Provision for post-mortem benefits	25	-	1	-	(2)	24
Other	30	5	(4)	(1)	-	30
Total provisions	**1,206**	**144**	**(40)**	**(118)**	**3**	**1,195**

Movement in provisions in the period ended 31 December 2021	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	555	340	-	(401)	2	496
Provision for retirement severance pays	323	32	(38)	(4)	(46)	267
Provision for disputed claims and potential liabilities	80	34	(35)	(11)	1	69
Provision for potential refunds of borrowing costs	128	75	(83)	-	-	120
Provision for legal risk pertaining to mortgage loans in Swiss francs	91	43	-	(2)	-	132
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	93	120	(137)	(48)	-	28
Provision for post-mortem benefits	32	1	(3)	(4)	(1)	25
Other	37	12	(10)	(9)	-	30
Total provisions	**1,378**	**657**	**(306)**	**(479)**	**(44)**	**1,206**

Provision for potential refunds of borrowing costs

The PZU Group keeps monitoring on an ongoing basis the value of the estimated amounts resulting from prepayments of consumer loans made before 11 September 2019, i.e. the date of publication of the CJEU judgment in case C-383/18.

The value of this provision is the best possible estimate based on the historically observed trend of the amount of loan cost refunds arising from reported complaints and takes into account the scenario of a possible evolution of market practice or the regulator's views.

The estimates require the adoption of expert assumptions and are affected by uncertainty. For this reason, the provision amount will be subject to updates in the next periods, depending on the trend in the value of refunds.

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.

(in millions of PLN)

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. However, it is uncertain whether and when the full panel of the Civil Chamber will adopt a resolution on these legal questions.

As at 31 March 2022, there were 1,919 individual court cases pending against the PZU Group pertaining to FX mortgage loans which were granted in previous years with the total disputed amount of PLN 579 million (as at 31 December 2021, there were 1,623 cases pending with the value of PLN 470 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

In Q1 2022, the PZU Group received 104 unfavorable court judgments in cases filed by borrowers, including 16 final non-appealable judgments, and 9 favorable court judgments, including 3 final non-appealable judgments (in 2021: 125 unfavorable court judgments, including 20 final non-appealable judgments, and 11 favorable court judgments, including 4 final non-appealable judgments).

The tables below present the amounts of provisions for individual court cases in which the PZU Group is a party and a portfolio provision for the remaining FX mortgage loans which are exposed to legal risk associated with the nature of these agreements.

Consolidated statement of financial position line items	31 March 2022	31 December 2021
Impairment losses for loan receivables from clients	524	516
individual provision	249	220
portfolio provision	275	296
Other provisions	139	132
individual provision	63	52
portfolio provision	76	80
Total	**663**	**648**

(in millions of PLN)

Consolidated profit and loss account line items	1 January – 31 March 2022	1 January – 31 March 2021
Movement in allowances for expected credit losses and impairment losses on financial instruments	(31)	(1)
Other operating expenses	(7)	1
Total	**(38)**	-

The rules for estimating the provision are described in detail in the consolidated financial statements for 2021.

Although the subject matter of legal risk related to the portfolio of foreign currency mortgage loans has been one of the key topics in the banking sector in recent years, there is still no stabilized history of data on the scale of lawsuits (in particular with regard to final non-appealable judgments) or regarding the line of judicial decisions in this area. All of the foregoing means that the process of determining the amount of the provision each time requires the adoption of a number of expert assumptions based on professional judgment.

New rulings and possible sectoral solutions which will appear in the Polish market for CHF mortgage loans may have impact on the amount of the provision established by the PZU Group and necessitate a change of individual assumptions adopted in the calculations. In connection with this uncertainty it is possible that the provision amount will change in the future.

The PZU Group 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 mortgage loans.

Parameter	Scenario	Impact on the amount of the provision 31 March 2022	Impact on the amount of the provision 31 December 2021
Number of cases brought to court	+20%	86	97
	-20%	(86)	(73)
Probability of losing the case	+10 p.p. (no more than 100%)	49	61
	-10 p.p.	(59)	(47)
Probability of the agreement invalidation scenario	+10 p.p. (no more than 100%)	31	53
	-10 p.p.	(40)	(37)

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 s clause used by Pekao in annexes to agreements on the rules for setting foreign exchange rates is an impermissible contractual clause. Pekao appealed against the UOKiK President's decision to the Court of Competition and Consumer Protection and received a reply from the UOKiK President requesting that the appeal be dismissed in its entirety.

(in millions of PLN)

9.39 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 31 March 2022	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	4,658	327	-	3	7	4,995
Liabilities on the issue of debt securities	5,940	1,258	(2)	15	6	7,217
Bonds	4,154	(655)	1	14	16	3,530
Certificates of deposit	695	2,047	(3)	-	(3)	2,736
Covered bonds	1,091	(134)	-	1	(7)	951
Subordinated liabilities	6,274	(53)	34	(1)	-	6,254
Liabilities on account of repurchase transactions	1,207	7,687	107	-	(6)	8,995
Lease liabilities	992	(81)	7	-	67	985
Total	**19,071**	**9,138**	**146**	**17**	**74**	**28,446**

Movement in liabilities attributable to financial activities in the period ended 31 December 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	(1,779)	1	(10)	7	4,658
Liabilities on the issue of debt securities	7,532	(1,610)	6	10	2	5,940
Bonds	4,597	(457)	1	11	2	4,154
Certificates of deposit	1,611	(918)	6	-	(4)	695
Covered bonds	1,324	(235)	(1)	(1)	4	1,091
Subordinated liabilities	6,679	(500)	95	-	-	6,274
Liabilities on account of repurchase transactions	1,154	54	2	-	(3)	1,207
Lease liabilities	1,064	(292)	22	-	198	992
Total	**22,868**	**(4,127)**	**126**	**-**	**204**	**19,071**

(in millions of PLN)

10. Assets securing receivables, liabilities and contingent liabilities

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

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2022	31 December 2021
Carrying amount of financial assets pledged as collateral for liabilities	20,523	12,133
Repurchase transactions	9,314	1,205
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	995	1,027
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	303	275
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	552	489
Lombard and technical credit	5,220	5,481
Other loans	445	431
Issue of covered bonds	1,354	1,402
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	28	28
Derivative transactions	2,279	1,756
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	33	39
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**20,523**	**12,133**

11. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2022	31 December 2021
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	68,878	68,948
- for renewable limits in settlement accounts and credit cards	4,820	4,813
- for loans in tranches	41,598	41,017
- guarantees and sureties given	8,464	9,531
- disputed insurance claims	816	785
- other disputed claims	188	190
- other, including:	12,992	12,612
- guaranteeing securities issues	4,957	5,240
- factoring	6,488	5,863
- intra-day limit	424	424
- letters of credit and commitment letters	1,040	947
- other	83	138

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

In the 3-month period ended 31 March 2022 and 2021, 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.

12. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2022, gross written premium was PLN 6,253 million compared to PLN 6,148 million in the corresponding period of the previous year (+1.7%). The increase in sales applied above all to the following:

- non-motor insurance, including natural catastrophe insurance and insurance against other property damage in the mass client segment, mainly due to higher sales of building and real estate insurance and subsidized agricultural crop insurance (the impact of the subsidy pool from the state budget greater than the year earlier), motor insurance as a result of the high rate of growth in sales of motor own damage insurance and the higher average price of insurance against fire and other damage to property in the corporate client segment as a consequence of signing several contracts with a high unit value;
- insurance against fire and other damage to property in the corporate client segment as a consequence of obtaining several contracts with a high unit value;
- portfolio of group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product);
- in Baltic non-life and motor insurance companies;

The increases were partially offset by lower premiums in:

- individual insurance segment, including investment products in the bancassurance channel as a result of limited cooperation with Bank Millennium and lower sales of these products offered in collaboration with Bank Pekao and Alior Bank;
- motor third party liability insurance – the impact of the slowdown in sales of new vehicles and the declining lease market;
- 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).

Investment income including interest expenses in Q1 2022 and Q1 2021 was PLN 2,800 million and PLN 2,406 million, respectively. An increase was recorded in investment income generated on banking activities. The improved result was driven in particular by the increase in interest income of both banks as a result of a series of interest rate hikes and lower risk costs due to the currently observed customer behaviors and as a result of actions taken in 2020 and 2021 in the area of credit portfolio risk management.

Investment income excluding banking activity[1] was lower than in Q1 2021, mainly due to last year's effect of an increased valuation of shares in a logistics company following its IPO and a decline in investment performance on the portfolio of assets covering investment products and the weaker performance of debt instruments marked to market due to changes in profitability. Lower investment results of the portfolio of assets held to cover the investment products alone do not affect the PZU Group's overall net result, because they are offset by the movement in net insurance claims and benefits. The impact of the said factors was partially offset by the improved performance on treasury instruments measured at amortized cost, chiefly due to the impact of the increase in interest rates and the improved performance of the real property portfolio.

Net claims and benefits (including the movement in technical provisions) were PLN 3,690 million, down 6.0% from the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

- decrease in the unit-linked life insurance technical provisions, both as an effect of lower sales of these products both in own channels and in the banking channel (lower inflow of new investment premiums) as well as lower results on investment activity in comparison to the results generated last year (the latter effect has no impact on the PZU Group's total net result; the item is the outcome of lower investment results on the portfolio of assets held to cover investment products);
- decrease in benefits for the insureds' and co-insureds' death in 2022, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS).

In parallel, an increase in the loss ratio was recorded in:

- mass client segment – increase in the loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of the higher losses caused by weather phenomena (chiefly cyclones and gusty winds);

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

- outpatient health insurance with a simultaneous enlargement of the portfolio of these products;
- riders related to hospital treatment and surgical operation and permanent disability and dismemberment in group and continued insurance as a result of lower benefits last year due to lower activity related to the lower number of reported claims.

In Q1 2022, acquisition expenses rose by PLN 80 million relative to the corresponding period of the previous year. This increase was mainly due to the shift in the mix of products and sales channels, including the higher share of the multi-agency channel in the mass insurance segment.

The PZU Group's administrative expenses in Q1 2022 totaled PLN 1,781 million compared to PLN 1,680 million in the corresponding period of 2021, up PLN 101 million from 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 100 million (8.1%), chiefly due to higher depreciation costs in Bank Pekao and an increase in personnel costs in Alior Bank. At the same time, the administrative expenses of the insurance segments in Poland were PLN 2 million higher compared to the previous year. This shift was largely driven by the intensification of advertising (communication products) and sponsorship activities, aid related to the situation in Ukraine and an increase in property maintenance expenses (indexation of rents and utility prices). These effects were partially offset by lower costs as a result of the completed depreciation of modernization deployments of certain IT systems and consulting services (IFRS17 project and Distribution).

In Q1 2022, the balance of other operating income and expenses was negative and amounted to PLN 882 million, compared to the also negative balance in 2021 of PLN 843 million. The following contributed to this result:

- increase in BFG charges from PLN 266 million in Q1 2021 to PLN 364 million in 2022;
- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in Q1 2022 was PLN 348 million compared to PLN 317 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);
- impairment loss on non-financial assets related to the business of Alior Bank's Romanian branch;
- lower provision for lay-offs in Pekao than in the previous year.

In Q1 2022, operating profit hit PLN 2,209 million, up by PLN 594 million (+36.8%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- better performance of the banking segment (up PLN 944 million), in particular due to an increase in net interest income and lower risk costs related to the creation of additional provisions for expected credit losses, partially offset by higher obligatory contributions to the Bank Guarantee Fund;
- higher profitability in group and individually continued insurance (up PLN 55 million) on account of the decreased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- higher operating result in the corporate insurance segment (up PLN 23 million) due to the lower loss ratio in the motor insurance portfolio (motor own damage), partially offset by the decline in profitability of non-motor insurance;
- slightly lower result on individual insurance (down PLN 2 million), despite a significant decline in sales of investment products, remaining at a stable level;
- lower profitability in the mass insurance segment (down PLN 42 million) – largely as a result of the higher loss ratio on non-motor insurance (in particular in insurance against fire and other damage to property) and higher acquisition expenses;
- decrease in investment income excluding banking activity as a result of last year's increased valuation of shares in a logistics company due to the very high valuation of its shares obtained during the company's IPO in 2021.

The net profit grew in comparison to Q1 2021 by PLN 456 million (+39.5%) to PLN 1,610 million. The net profit attributable to shareholders of the parent company was PLN 758 million, compared to PLN 880 million in 2021 (down 13.9%).

As at 31 March 2022, consolidated equity according to IFRS was PLN 39,367 million, compared to PLN 43,825 million as at 31 March 2021. The decline pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2022 to 31 March 2022 was 17.8%, down 0.7 p.p. compared to the same period last year. In comparison with the consolidated equity as at 31 December 2021, equity decreased by PLN 627 million. The value of non-controlling interests decreased compared to the end of the previous year by PLN 514 million to PLN 22,400 million, its movement driven by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the profit attributable to non-controlling owners of PLN 852 million (generated by Alior Bank and Bank Pekao). Equity attributable to the parent company's shareholders shrank by PLN 113 million compared to the previous year as a result of the decline in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, which was partially offset by the net result attributable to the parent company of PLN 758 million in Q1 2022.

Total equity and liabilities as at 31 March 2022 increased compared to 31 December 2021 by PLN 22,430 to PLN 424,559 million. The increase was recorded chiefly in the following items: other liabilities (up PLN 8,473 million), in particular liabilities on repurchase transactions, deposits from customers (up PLN 6,029 million) and derivatives (up PLN 6,276 million).

The investment portfolio (investment financial assets, assets securing liabilities, investment properties and financial derivatives) as at 31 March 2022 totaled PLN 157,815 million and was up PLN 8,424 million versus the end of last year. The increase in the value of investments was related chiefly to the banking business, including the portfolio of government debt securities held to secure liabilities. 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 31 March 2021 were PLN 216,459 million, compared to PLN 215,008 million as at 31 December 2021.

Liabilities to clients in the form of deposits were the largest component of liabilities as at 31 March 2022. The increase in the amount thereof by PLN 6,029 million to PLN 271,184 pertained to clients' term deposits. At the same time, a drop in current deposits was recorded.

The value of technical provisions at the end of Q1 2022 was PLN 50,136 million and accounted for 11.8% of total equity and liabilities. Compared to 31 December 2021, provisions declined by PLN 37 million. The movement was predominantly caused by the decrease in provisions related to lower investment income on investments and weaker sales of these products in life insurance. This effect was partially offset by an increase in the provision for unearned premiums in non-life insurance as a result of the growth of business.

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;

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

- 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 2021 report published on 18 May 2022 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 2021, published in the PZU Group's 2021 solvency and financial condition report, was 221%.

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.

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

14.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

14.2 Inter-segment settlements

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

14.3 Segment's measure of profit

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

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

14.4 Accounting policies applied according to PAS

14.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2021.

PZU's 2021 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

14.4.2. PZU Życie

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

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

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

14.5 Simplifications in the segmental note

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

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

(in millions of PLN)

14.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	689	667
Gross written premium – cross-segment	1	9
Gross written premiums	**690**	**676**
Movement in provision for unearned premiums and gross provision for unexpired risks	139	97
Gross earned premium	**829**	**773**
Reinsurers' share in gross written premium	(80)	(86)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(147)	(112)
Net earned premium	**602**	**575**
Investment income, including:	27	24
external operations	27	24
intersegment operations	-	-
Other net technical income	10	9
Total income	**639**	**608**
Net insurance claims and benefits	(379)	(372)
Acquisition expenses	(128)	(128)
Administrative expenses	(36)	(37)
Reinsurance commissions and profit participation	15	15
Other	(27)	(25)
Insurance result	**84**	**61**

Mass insurance (non-life insurance)	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	2,892	2,707
Gross written premium – cross-segment	8	15
Gross written premiums	**2,900**	**2,722**
Movement in provision for unearned premiums and gross provision for unexpired risks	(296)	(266)
Gross earned premium	**2,604**	**2,456**
Reinsurers' share in gross written premium	(36)	(43)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(6)	-
Net earned premium	**2,562**	**2,413**
Investment income, including:	105	101
external operations	105	101
intersegment operations	-	-
Other net technical income	22	31
Total income	**2,689**	**2,545**
Net insurance claims and benefits	(1,601)	(1,489)
Acquisition expenses	(567)	(503)
Administrative expenses	(161)	(170)
Reinsurance commissions and profit participation	9	23
Other	(85)	(80)
Insurance result	**284**	**326**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	1,788	1,757
Gross written premium – cross-segment	-	-
Gross written premiums	**1,788**	**1,757**
Movement in provision for unearned premiums and provision for unexpired risks	25	12
Gross earned premium	**1,813**	**1,769**
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 premium	**1,813**	**1,769**
Investment income, including:	74	132
external operations	74	132
intersegment operations	-	-
Other net technical income	-	-
Total income	**1,887**	**1,901**
Net insurance claims and benefits and movement in other net technical provisions	(1,358)	(1,466)
Acquisition expenses	(108)	(88)
Administrative expenses	(174)	(162)
Other	(12)	(5)
Insurance result	**235**	**180**

Individual insurance (life insurance)	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	275	487
Gross written premium – cross-segment	-	-
Gross written premiums	**275**	**487**
Movement in the provision for unearned premiums	1	1
Gross earned premium	**276**	**488**
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 premium	**276**	**488**
Investment income, including:	(69)	15
external operations	(69)	15
intersegment operations	-	-
Other net technical income	-	-
Total income	**207**	**503**
Net insurance claims and benefits and movement in other net technical provisions	(51)	(351)
Acquisition expenses	(57)	(52)
Administrative expenses	(22)	(22)
Other	(2)	(1)
Insurance result	**75**	**77**

Investments	1 January – 31 March 2022	1 January – 31 March 2021
Investment income, including:	(9)	501
external operations	(26)	488
intersegment operations	17	13
Operating result	**(9)**	**501**

(in millions of PLN)

Banking activity	1 January – 31 March 2022	1 January – 31 March 2021
Revenue from commissions and fees	1,196	1,042
external operations	1,160	1,004
intersegment operations	36	38
Investment income	2,999	1,765
external operations	2,999	1,765
intersegment operations	-	-
Total income	**4,195**	**2,807**
Fee and commission expenses	(306)	(257)
Interest expenses	(343)	(117)
Administrative expenses	(1,339)	(1,239)
Other	(691)	(622)
Operating result	**1,516**	**572**

Pension insurance	1 January – 31 March 2022	1 January – 31 March 2021
Investment income, including:	1	1
external operations	1	1
intersegment operations	-	-
Other income	41	31
Total income	**42**	**32**
Administrative expenses	(9)	(14)
Other	(2)	(1)
Operating result	**31**	**17**

Insurance - Baltic States	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	547	462
Gross written premium – cross-segment	-	-
Gross written premiums	**547**	**462**
Movement in provision for unearned premiums and gross provision for unexpired risks	(65)	(33)
Gross earned premium	**482**	**429**
Reinsurers’ share in gross written premium	(41)	(33)
Reinsurer’s share in the movement in provision for unearned premiums and the gross provision for unexpired risk	22	17
Net earned premium	**463**	**413**
Investment income, including:	(6)	11
external operations	(6)	11
intersegment operations	-	-
Total income	**457**	**424**
Net insurance claims and benefits	(295)	(258)
Acquisition expenses	(104)	(83)
Administrative expenses	(38)	(34)
Other	1	1
Insurance result	**21**	**50**

(in millions of PLN)

Insurance – Ukraine	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium – external	63	67
Gross written premium – cross-segment	-	-
Gross written premiums	**63**	**67**
Movement in provision for unearned premiums and gross provision for unexpired risks	11	(2)
Gross earned premium	**74**	**65**
Reinsurers' share in gross written premium	(11)	(20)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(7)	2
Net earned premium	**56**	**47**
Investment income, including:	1	6
external operations	1	6
intersegment operations	-	-
Total income	**57**	**53**
Net insurance claims and benefits	(25)	(20)
Acquisition expenses	(14)	(24)
Administrative expenses	(9)	(9)
Other	5	6
Insurance result	**14**	**6**

Investment contracts	1 January – 31 March 2022	1 January – 31 March 2021
Gross written premium	9	9
Movement in the provision for unearned premiums	-	-
Gross earned premium	**9**	**9**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**9**	**9**
Investment income, including:	(16)	(1)
external operations	(16)	(1)
intersegment operations	-	-
Other income	-	-
Total income	**(7)**	**8**
Net insurance claims and benefits and movement in other net technical provisions	**9**	**(6)**
Acquisition expenses	-	-
Administrative expenses	(1)	(1)
Operating result	**1**	**1**

Other segments	1 January – 31 March 2022	1 January – 31 March 2021
Investment income, including:	1	1
external operations	1	1
intersegment operations	-	-
Other income	432	368
Total income	**433**	**369**
Expenses	(460)	(378)
Other	12	4
Operating result	**(15)**	**(5)**

(in millions of PLN)

Reconciliations 1 January – 31 March 2022	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administra-tive expenses	Operating result
Corporate insurance	602	27	(379)	(128)	(36)	84
Mass insurance	2,562	105	(1,601)	(567)	(161)	284
Group and individually continued insurance	1,813	74	(1,358)	(108)	(174)	235
Individual insurance	276	(69)	(51)	(57)	(22)	75
Investments	-	(9)	-	-	-	(9)
Banking activity	-	2,999	-	-	(1,339)	1,516
Pension insurance	-	1	-	(2)	(9)	31
Insurance – Baltic States	463	(6)	(295)	(104)	(38)	21
Insurance – Ukraine	56	1	(25)	(14)	(9)	14
Investment contracts	9	(16)	9	-	(1)	1
Other segments	-	1	-	-	-	(15)
Total segments	**5,781**	**3,108**	**(3,700)**	**(980)**	**(1,789)**	**2,237**
Presentation of investment contracts	(9)	17	(9)	-	-	-
Estimated salvage and subrogation	-	-	1	-	-	1
Valuation of properties	-	(1)	-	-	-	-
Elimination of the equalization provision and prevention fund	-	-	-	-	-	3
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(12)	44	18	63	18	(22)
Consolidated data	**5,760**	**3,168** [2)]	**(3,690)**	**(917)**	**(1,781)**	**2,209**

[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 – 31 March 2021 (restated)	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	575	24	(372)	(128)	(37)	61
Mass insurance	2,413	101	(1,489)	(503)	(170)	326
Group and individually continued insurance	1,769	132	(1,466)	(88)	(162)	180
Individual insurance	488	15	(351)	(52)	(22)	77
Investments	-	501	-	-	-	501
Banking activity	-	1,765	-	-	(1,239)	572
Pension insurance	-	1	-	(1)	(14)	17
Insurance – Baltic States	413	11	(258)	(83)	(34)	50
Insurance – Ukraine	47	6	(20)	(24)	(9)	6
Investment contracts	9	(1)	(6)	-	(1)	1
Other segments	-	1	-	-	-	(5)
Total segments	**5,714**	**2,556**	**(3,962)**	**(879)**	**(1,688)**	**1,786**
Presentation of investment contracts	(9)	2	6	-	-	-
Estimated salvage and subrogation	-	-	2	-	-	2
Valuation of properties	-	(1)	-	-	-	(1)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(12)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(19)	(25)	28	42	18	(150)
Consolidated data	**5,686**	**2,532** [2]	**(3,926)**	**(837)**	**(1,680)**	**1,615**

[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".

Geographic breakdown	1 January – 31 March 2022					1 January – 31 March 2021				
	Poland	Baltic States	Ukraine	Unallocated	Consolidated value	Poland	Baltic States	Ukraine	Unallocated	Consolidated value
Gross written premium – external	5,643	547	63	-	6,253	5,619	462	67	-	6,148
Gross written premium – cross-segment	5	-	-	(5)	-	(8)	-	-	8	-
Revenue from commissions and fees	1,223	-	-	-	1,223	1,065	-	-	-	1,065
Investment income [1]	3,173	(6)	1	-	3,168	2,515	11	6	-	2,532

[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".

(in millions of PLN)

Geographic breakdown	31 March 2022					31 December 2021				
	Poland	Baltic States	Ukraine [1]	Un-allocated	Consoli-dated value	Poland	Baltic States	Ukraine [1]	Un-allocated	Consoli-dated value
Non-current assets, other than financial assets [2]	7,091	292	4	-	7,387	7,261	281	5	-	7,547
Deferred tax assets	3,153	-	3	-	3,156	3,055	-	3	-	3,058
Assets	421,580	3,722	537	(1,280)	424,559	399,262	3,611	554	(1,298)	402,129

[1] Assets of companies with their registered office in Ukraine, adjusted for shares mutually held between them.
[2] The sum of the following items of the consolidated statement of financial position: "Intangible assets" and "Property, plant and equipment".

14.7 Information on key customers

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

15. Commentary to segment reporting and investing activity

15.1 Corporate insurance – non-life insurance

In Q1 2022, gross written premium in the corporate insurance segment increased relative to Q1 2021 by PLN 14 million (2.1% y/y). The following factors were recorded concerning premiums:

- higher written premium from insurance against fire and other damage to property (+23.0% y/y) as a consequence of obtaining several contracts with a high unit value;
- maintaining gross written premium on the ADD and other insurance portfolio at a similar level, due to the higher premium in the assistance insurance portfolio (growth of strategic partnerships in TUW PZUW) and lower premiums in sickness insurance products;
- lower premiums in motor insurance (-4.5% y/y), resulting from the decrease in motor TPL and increase in MOD – effect of the declining sales of new vehicles and the slowdown in the lease market;
- lower premiums in the third party liability portfolio.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	690	676	2.1%
Net earned premium	602	575	4.7%
Investment income	27	24	12.5%
Net insurance claims and benefits	(379)	(372)	1.9%
Acquisition expenses	(128)	(128)	-
Administrative expenses	(36)	(37)	(2.7%)
Reinsurance commissions and profit-sharing	15	15	-
Other	(17)	(16)	x
Insurance result	**84**	**61**	**37.7%**
acquisition expenses ratio (including reinsurance commission)[1]	18.8%	19.7%	(0.9) p.p.
administrative expense ratio [1]	6.0%	6.4%	(0.5) p.p.
loss ratio [1]	63.0%	64.7%	(1.7) p.p.
combined ratio (COR) [1]	87.7%	90.8%	(3.1) 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 improved 1.9% y/y, which in addition to the increase in net earned premium by 4.7% y/y translated into an improvement in the loss ratio by 1.7 percentage points y/y. The decline in the loss ratio in the segment was driven by the following factors:

- lower loss ratio in the motor insurance group, including a significant improvement in motor own damage and a deterioration in motor TPL insurance as a result of the lower frequency of claims in motor TPL insurance and the larger average claim payment in motor own damage insurance;
- higher loss ratio in the non-motor insurance portfolio, including due to damage caused by natural disasters, predominantly as a result of the higher value of damage caused by weather phenomena (cyclones), general third party liability and various financial risks (several high unit value events in the period under analysis).

The increase 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 the increase in market rates and insurance provisions. The exchange rate effect is 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.

Acquisition expenses (including reinsurance commissions) were PLN 113 million and remained at a constant level compared to the corresponding period of the previous year, which, considering the increase in the net earned premium by 4.7% y/y, represented a 0.9 p.p. improvement in the acquisition expense ratio.

The y/y decrease in administrative expenses by 2.7% (down PLN 1 million) was caused predominantly by the completed depreciation of modernization deployments of IT systems, the lower costs of consulting services (IFRS17 project and Distribution) and the decline in paid vacation provisions. This effect was partially offset by the higher costs of assistance related to the situation in Ukraine, maintenance of real properties (indexation of rents and utility prices) and intensified marketing activities.

After Q1 2022, the corporate insurance segment generated an operating result of PLN 84 million, signifying a 37.7% increase compared to the corresponding period of the previous year. The higher result was a consequence of the lower loss ratio in the motor insurance portfolio (motor own damage), partially offset by the decline in profitability of non-motor insurance.

15.2 Mass insurance – non-life insurance

In Q1 2022, gross written premium in the mass insurance segment rose PLN 178 million (+6.5% y/y) compared to the corresponding period of 2021. This change resulted primarily from the following:

- increase in written premium on natural catastrophe insurance and insurance against other property damage, mainly due to higher sales of building and real estate insurance and subsidized agricultural crop insurance (the impact of the subsidy pool from the state budget greater than the year earlier), partly offset by lower premiums from mandatory insurance of farm buildings due to the significant competition on the market and the natural erosion of the portfolio (declining number of farms);
- increase in written premium on motor insurance, driven by the increase in motor own damage insurance and the decline in motor TPL insurance – high rate of growth in sales of motor own damage insurance with a simultaneous increase in the average premium. This effect was limited to a certain extent by the decline in the number of registrations of new passenger vehicles (most acutely experienced in the dealership channel);
- lower premium in ADD and other insurance (-1.9% y/y), chiefly as a result of the declining sales of insurance offered in cooperation with the Group's banks for cash loans and mortgage loans – lower demand for mortgage loans due to the increasing interest rates and stronger restrictions in calculating creditworthiness.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	2,900	2,722	6.5%
Net earned premium	2,562	2,413	6.2%
Investment income	105	101	4.0%
Net insurance claims and benefits	(1,601)	(1,489)	7.5%
Acquisition expenses	(567)	(503)	12.7%
Administrative expenses	(161)	(170)	(5.3%)
Reinsurance commissions and profit-sharing	9	23	(60.9%)
Other	(63)	(49)	28.6%
Insurance result	**284**	**326**	**(12.9%)**
acquisition expenses ratio (including reinsurance commission)[1)]	21.8%	19.9%	1.9 p.p.
administrative expense ratio [1)]	6.3%	7.0%	(0.7) p.p.
loss ratio [1)]	62.5%	61.7%	0.8 p.p.
combined ratio (COR) [1)]	90.6%	88.6%	2.0 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 increased 7.5% y/y which, combined with the net earned premium improved by 6.2%, translated into a deterioration in the loss ratio by 0.8 percentage point as compared to Q1 2021.

This change was driven mainly by:

- increase in the loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of the higher losses caused by weather phenomena (chiefly cyclones and gusty winds);
- decrease in the loss ratio in motor insurance, both in motor own damage insurance and motor third party liability insurance, as a result of, without limitation, the positive development of claims from previous years, partially offset by the deterioration of the current year's claims ratio (impact of the increase in the average payout, including the depreciation of PLN against EUR, and the higher frequency of claims).

The increase in investment income allocated to the segment on the basis of transfer prices, resulted in particular from the increase in market rates and insurance provisions. The exchange rate effect is 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 Q1 2022, acquisition expenses (including reinsurance commissions) amounted to PLN 558 million, up by PLN 78 million (+16.3% y/y) from the corresponding period last year, which, considering the 6.2% increase in the net earned premium, represented a 1.9 p.p. y/y 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, including the larger share of the multi-agency channel.

The y/y decrease in administrative expenses by 5.3% (down PLN 9 million) was caused predominantly by the completed depreciation of modernization deployments of IT systems, the lower costs of consulting services (IFRS17 project and Distribution) and the decline in paid vacation provisions. This effect was partially offset by the higher costs of assistance related to the situation in Ukraine, maintenance of real properties (indexation of rents and utility prices) and intensified advertising activities (including a motor insurance campaign).

The PLN 42 million decrease in the operating result of the mass insurance segment (-12.9%) compared to Q1 2021 was caused by a higher loss ratio in non-motor insurance (in particular in insurance against fire and other damage to property) and an increase in acquisition expenses.

(in millions of PLN)

15.3 Group and individually continued insurance – life insurance

Gross written premium was higher than in the corresponding period of the previous year by PLN 31 million (1.8%), which was mainly the result of the following:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of March 2022, PZU Życie had more than 2.5 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;
- increase in sales of other riders to group protection products, with the simultaneous pressure of a higher attrition in groups (work establishments).

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	1,788	1,757	1.8%
Group insurance (periodic premium)	1,271	1,243	2.3%
Individually continued insurance (periodic premium)	517	514	0.6%
Net earned premium	1,813	1,769	2.5%
Investment income	74	132	(43.9)%
Net insurance claims and benefits and movement in other net technical provisions	(1,358)	(1,466)	(7.4)%
Acquisition expenses	(108)	(88)	22.7%
Administrative expenses	(174)	(162)	7.4%
Other	(12)	(5)	140.0%
Insurance result	**235**	**180**	**30.6%**
acquisition expense ratio [1)]	6.0%	5.0%	1.0 p.p.
administrative expense ratio [1)]	9.7%	9.2%	0.5 p.p.
insurance margin [1)]	13.1%	10.2%	2.9 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 decline in investment income, which is comprised of income allocated according to transfer prices and income from investment products, resulted from weaker performance on investment products, especially Employee Pension Schemes, and the improved 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 1,358 million, which signifies a y/y decline by PLN 108 million, or 7.4%. This change was driven by the following factor in particular:

- decrease in benefits for the insureds' and co-insureds' death in 2022, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS);
- 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);
- decrease in technical provisions in Employee Pension Schemes (EPS, a third pillar retirement security product);

The foregoing effects were partially offset by the following:

- growing medical benefits in outpatient health insurance with a simultaneous enlargement of the portfolio of these products;
- higher benefits on riders related to hospital treatment and surgical operation and permanent disability and dismemberment as a result of lower benefits last year due to lower activity related to the lower number of reported claims;
- 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;

(in millions of PLN)

- lower than last year reversal of mathematical provisions in individually continued insurance, which was caused by lower payments on account of insureds' deaths;
- lower 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 Q1 2022, provisions were released for PLN 3 million, i.e. PLN 2 million less than in the corresponding period of 2021.

Acquisition expenses in the group and individually continued insurance segment in Q1 2022 were PLN 108 million, having increased by PLN 20 million (22.7%) y/y compared to last year.

The y/y increase in administrative expenses by 7.4% (up PLN 12 million) was mainly driven by the higher personnel costs as a result of the wage pressure, the increase in the provision for unused paid vacation, the intensification of sponsorship activities, the assistance support related to the situation in Ukraine and the maintenance of properties due to the indexation of prices. This effect was partially offset by the lower costs of consulting services (IFRS17 project and Distribution) and advertising campaigns related to life products.

The operating result in the group and individually continued insurance segment in Q1 2018 climbed up compared to the corresponding period of 2021 by PLN 55 million (+30.6%) to PLN 235 million. The decreased loss ratio had a favorable 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 decline in gross written premium compared to the corresponding period of 2021 by PLN 212 million (-43.5%) to PLN 275 million was caused by the following factors:

- lower sales of investment products in the bancassurance channel as a result of limited cooperation with Bank Millennium and lower sales of these products offered in collaboration with Bank Pekao and Alior Bank;
- lower sales of individual investment products in own network as a result of the withdrawal of the Cel na Przyszłość product at the end of December 2021 and the lower number of newly opened individual retirement accounts.

At the same time, favorable deviations were recorded in the 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.

Data from the profit and loss account – individual insurance	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	275	487	(43.5)%
Net earned premium	276	488	(43.4)%
Investment income	(69)	15	x
Net insurance claims and benefits and movement in other net technical provisions	(51)	(351)	(85.5)%
Acquisition expenses	(57)	(52)	9.6%
Administrative expenses	(22)	(22)	-
Other	(2)	(1)	100.0%
Insurance result	**75**	**77**	**(2.6)%**
acquisition expense ratio [1)]	20.7%	10.7%	10.0 p.p.
administrative expense ratio [1)]	8.0%	4.5%	3.5 p.p.
insurance margin [1)]	27.3%	15.8%	11.5 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.

(in millions of PLN)

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.

The amount of insurance claims and benefits together with the movement in other net technical provisions was PLN 51 million, reflecting an decrease in this item by PLN 300 million compared to the corresponding period of 2021. The lower movement in provisions compared to the previous year was caused by the lower income on premiums in investment insurance and lower sales of these products both in own channels and in the banking channel (lower inflow of new investment premiums). The foregoing was offset by business growth in protection products in own channels and the accompanying increase in the level of mathematical provisions.

In Q1 2022, acquisition expenses in the individual insurance segment increased 9.6% to PLN 57 million. The increase in commission on sales of protection insurance in the banking channel was partially offset by the lower commission caused by the decline in sales of banking investment products.

Maintaining the y/y administrative expenses at a similar level as a result of higher costs related to the roll-out of the New Model for the Organization and IT Work Tools, aid related to the situation in Ukraine, property maintenance as a result of the indexation of rents and utilities prices, offset by the lower costs of consulting services (IFRS17 project and Distribution) and advertising campaigns related to life products.

The segment's operating result dipped in comparison to last year by PLN 2 million to PLN 75 million and remains stable despite a significant decrease in sales of investment products.

15.5 Investments

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

- last year's increased valuation of shares in a logistics company due to the very high valuation of its shares obtained during the company's IPO in 2021;
- lower investment income in the portfolio of assets to cover investment products, even though it does not affect the PZU Group's overall net result because it is offset by the movement in net insurance claims and benefits;
- lower performance of market-valued debt instruments due to changes in profitability.

The impact of the said factors was partially offset by the improved performance on treasury instruments measured at amortized cost, chiefly due to the impact of the increase in interest rates and the improved performance of the real property portfolio.

15.6 Bank segment

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

Data from the profit and loss account – banking activity	1 January – 31 March 2022	1 January – 31 March 2021	% change
Fee and commission income and expenses	890	785	13.4%
Investment income	2,999	1,765	69.9%
Interest expenses	(343)	(117)	193.2%
Administrative expenses	(1,339)	(1,239)	8.1%
Other	(691)	(622)	11.1%
Total	**1,516**	**572**	**165.0%**

In Q1 2022, the banking activity segment generated PLN 1,516 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 944 million compared to the same period in 2021. The higher result was associated mainly with higher net interest income, lower costs of risk and higher net fee and commission income.

(in millions of PLN)

In Q1 2022, Pekao contributed PLN 1,243 million to the operating profit (without amortization of intangible assets acquired as part of an acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 273 million.

The key element of the segment's income is investment income, which increased to PLN 2,999 million y/y (69.9% y/y) in 2022. Investment income consists of interest income, dividend revenue, the trading result and the result on impairment losses. The segment's income was favorably impacted by the higher interest income driven by a series of interest rate hikes initiated in October 2021 and the lower cost of risk.

As at the end of Q1 2022, the portfolio of loan receivables in both banks increased by a total of 0.6% compared to yearend 2021, whereas the y/y increase in interest income was primarily due to the interest rate hikes (by 175 bps in Q1 2022). In the first quarter, the cost of allowances for expected credit losses and impairment losses on financial instruments in totaled PLN 134 million in Pekao and PLN 231 million in Alior Bank, and was lower y/y by PLN 42 million and PLN 1 million, respectively.

The profitability of banks in the PZU Group in Q1 2022 was measured by the net interest margin ratio and was 3.44% for Pekao and 4.58% for Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks posted an increase in their interest margins due to the interest rate hikes initiated in October 2021.

The net fee and commission income in the banking activity segment amounted to PLN 890 million and was 13.4% higher than in the corresponding period of last year. The main drivers of the improved commission income were commissions on loans and leases, margins on currency transactions (increased customer activity) and commissions on payment cards.

The segment's administrative expenses totaled PLN 1,339 million and consisted of Pekao's expenses of PLN 946 million and Alior Bank's expenses of PLN 393 million. The increase in costs by 8.1% y/y was caused mainly by the increase in depreciation costs in Bank Pekao and the increase in personnel costs in Alior Bank.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 364 million) and the levy on other financial institutions (PLN 266 million). As a result, the Cost/Income[3] ratio stood at 35% for both banks. This ratio was 34% for Pekao and 37% for Alior Bank.

15.7 Pension insurance

Data from the profit and loss account – pension insurance	1 January – 31 March 2022	1 January – 31 March 2021	% change
Investment income	1	1	0.0%
Other income	41	31	32.3%
Income	42	32	31.3%
Administrative expenses	(9)	(14)	(35.7)%
Other	(2)	(1)	100.0%
Operating result	**31**	**17**	**82.4%**

Revenue on core business in the pension insurance segment in Q1 2022 and Q1 2021 was PLN 42 million and PLN 32 million, respectively. The PLN 10 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 overpayment to the Insurance Guarantee Fund in the Central Securities Depository (no revenues on this account was recorded in 2021).

PTE PZU's administrative expenses dropped by PLN 5 million y/y (-35.7%). The main contributing factor was the absence of a surcharge to the Insurance Guarantee Fund in the Central Securities Depository for Q1 2022, whereas in the corresponding period in 2021 the surcharge was PLN 4.1 million.

As at the end of Q1 2022, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 176.1 billion, down 6.3% from the end of 2021. The decline in assets was caused by the weaker performance of the funds, which generated an average

[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)

rate of return of -5.6% after Q1 2022. In the same period, OFE PZU's assets fell by 5.9% to PLN 24.3 billion. In the period from January to March 2022, OFE PZU's rate of return was -5.1%, which resulted from the weaker conditions on the domestic stock market.

15.8 Baltic States

Data from the profit and loss account – Baltic states	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	547	462	18.4%
Net earned premium	463	413	12.1%
Investment income	(6)	11	x
Net insurance claims and benefits	(295)	(258)	14.3%
Acquisition expenses	(104)	(83)	25.3%
Administrative expenses	(38)	(34)	11.8%
Other	1	1	0.0%
Insurance result	**21**	**50**	**(58.0)%**
EUR exchange rate in PLN	4.6472	4.5721	1.6%
acquisition expense ratio [1)]	22.5%	20.1%	2.4 p.p.
administrative expense ratio [1)]	8.2%	8.2%	0.0 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 February 2022 was 27.4%; the life insurance market share was 6.5%. At the end of 2021, the share in the Latvian non-life insurance market was 28.8%. At the end of Q1 of this year, the share in the Estonian market was 15.1%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q1 2022 an insurance result of PLN 21 million compared to PLN 50 million at the end of March last year.

This result was driven by the following factors:

- an increase in gross written premium. It totaled PLN 547 million, up PLN 85 million (i.e. 18.4%) compared to the corresponding period of the previous year. Sales were up PLN 83 million and were generated in non-life insurance, chiefly as a result of a considerable growth in sales of property insurance (by 23.9% yoy) and motor insurance (by 10.8% yoy), both motor own damage and civil liability insurance as a result of increases in insurance rates. As a result of the higher number of policies, an increase in sales in health insurance products was also recorded (by 22.3% y/y). In life insurance, sales climbed PLN 2 million;
- higher net earned premium. It reached PLN 463 million and was PLN 50 million (or 12.1%) higher than the amount at the end of Q1 of last year;
- lower investment income. In Q1 2022, the investment result was down PLN 17 million in comparison with the corresponding period of the past year due to the lower valuation of investment assets;
- increase in net claims and benefits. They amounted to PLN 295 million and were 14.3% higher than at the end of March last year. The loss ratio in non-life insurance stood at 65.2%, up 5.3 p.p. from the end of Q1 2021. Last year, the restrictions introduced in connection with the COVID-19 pandemic had a significant impact on the loss ratio. In life insurance the value of benefits was PLN 8 million, down PLN 15 million higher from the corresponding period of the previous year;
- higher acquisition expenses. The segment's expenditures for this purpose totaled PLN 104 million and were up 25.3% over the corresponding period of last year. The acquisition expense ratio calculated on the basis of net earned premium increased by 2.4 p.p. and stood at 22.5%;
- increase in administrative expenses. They were PLN 38 million, up 11.8% from the comparable period last year. The administrative expense ratio was 8.2%, remaining at the previous year's level.

(in millions of PLN)

15.9 Ukraine

Data from the profit and loss account – Ukraine	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	63	67	(6.0)%
Net earned premium	56	47	19.1%
Investment income	1	6	(83.3)%
Net insurance claims and benefits	(25)	(20)	25.0%
Acquisition expenses	(14)	(24)	(41.7)%
Administrative expenses	(9)	(9)	0.0%
Other	5	6	(16.7)%
Insurance result	**14**	**6**	**133.3%**
exchange rate UAH/PLN	0.1431	0.1364	4.9%
acquisition expense ratio [1)]	25.0%	51.1%	(26.1) p.p.
administrative expense ratio [1)]	16.1%	19.1%	(3.0) 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.

As a result of the outbreak of the war, operating activities since 24 February 2022 have been conducted by both companies to a very limited extent. All branches in the areas affected by the hostilities are closed. Clients may buy selected groups of insurance products remotely. The following compulsory insurance products are available to clients: Green Card, motor third party liability insurance and some voluntary insurance products: MOD insurance and travel insurance. In life insurance, the sales processes for new business were suspended, and since 1 March 2022, the possibility of amending existing contracts has also been suspended – no possibility of indexing or increasing the sum insured.

Due to the war which started on 24 February 2022, the National Bank of Ukraine does not publish data on insurance markets.

The Ukraine segment closed Q1 2022 with an operating profit of PLN 14 million, compared to PLN 6 million after March of last year. The movement in the y/y result was largely driven by the decline in sales and thus the reduction in the provision for unearned premiums. Certain obstacles related to the registration of claims also had an impact: in the first weeks of the war, the registration process was not fully functional. The change in the result generated by the segment was caused by the following factors:

- lower gross written premium. It totaled PLN 63 million, down 6.0% (i.e. PLN 4 million) compared to the first quarter of the previous year. Since 24 February, sales of property and personal insurance products have mainly involved motor third party liability insurance, comprehensive motor insurance, green card insurance and travel insurance. In the life insurance area, sales of new policies have been suspended;
- higher net earned premium. It reached PLN 56 million, up PLN 9 million (19.1%) from the amount generated at the end of Q1 last year;
- lower investment income. It amounted to PLN 1 million;
- higher amount of net claims and benefits paid – they amounted to PLN 25 million, up 25.0% from the corresponding period of the previous year. At the same time, as a result of the military operations in Ukraine, the frequency of claims dropped significantly, and despite all efforts, it was impossible for clients to report loss events in an unconstrained manner;
- lower acquisition expenses. They stood at PLN 14 million compared to PLN 24 million at the end of Q1 of the previous year;
- maintaining administrative expenses at the previous year's level. They amounted to PLN 9 million. The segment's administrative expense ratio went down 3.0 p.p. to 16.1%.

15.10 Investment contracts

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

(in millions of PLN)

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

Gross written premium generated on investment contracts in Q1 2022 remained at the same level as in the corresponding period of last year and amounted to PLN 9 million.

Data from the profit and loss account – investment contracts	1 January – 31 March 2022	1 January – 31 March 2021	% change
Gross written premiums	9	9	-
Group insurance	-	-	x
Individual insurance	9	9	-
Net earned premium	9	9	-
Investment income	(16)	(1)	1500.0%
Net insurance claims and benefits and movement in other net technical provisions	9	(6)	x
Acquisition expenses	-	-	x
Administrative expenses	(1)	(1)	-
Other	-	-	x
Operating result	**1**	**1**	**-**
operating profit margin	11.1%	11.1%	-

The investment result in the segment of investment contracts decreased compared to the previous year, chiefly due to the lower rate of return on IRSAs and in group banking products. 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 coupled with the movement in other net technical provisions fell y/y by PLN 15 million to PLN -9 million, mainly due to the difference in investment income in the unit-linked products as described above (the investment result was negative). In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses totaled PLN 1 million, signifying no change versus the previous year. The segment's operating result was at the same level as in the corresponding period of the previous year and amounted to PLN 1 million.

16. Impact of non-recurring events on operating results

In Q1 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. In Q1 2021, the increase in income on that account amounted to PLN 472.7 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

17.1.1. Gross domestic product

In Q4 2021, GDP grew by 7.6% y/y. Household consumption during this period increased by 8.0% y/y and investment by 5.2% y/y. The GDP growth rate was driven largely by the increase in inventories (which added 4.3 percentage points to the annual GDP growth rate), offset to a certain extent by net exports (-2.5 p.p.).

Despite the strong supply shocks experienced by the Polish economy, data on economic activity until March indicate that the very high GDP growth rate will be maintained also in Q1 of this year. Perhaps it will even exceed the previous quarter's figures. In this period, sold industrial output was greater by as much as 16.7% than one year before. Significant growth was recorded in all sectors of the industry, of which the highest pertained to the production of energy-related goods. After the previous year's decline, a high increase in construction and assembly output was also recorded, which in Q1 of this year was 23.3% greater than in the previous year. Retail sales in Q1 of this year increased by 9% compared to the same period last year. This growth was largely driven by the purchases of food and other products related to the inflow of refugees from Ukraine to Poland and the absence of pandemic restrictions, which contributed to the increased mobility of consumers compared to the same period of last year (unseasoned data from Statistics Poland).

17.1.2. Labor market and consumption

In Q1 of this year, the average monthly gross wage in the corporate sector increased in nominal terms by 11.7% y/y. It was the highest growth rate since 2008. Despite the high increase in consumer prices, the purchasing power of wages defined in this manner was 1.9% higher than in the previous year.

The average employment rate in the enterprise sector increased by 2.3% y/y in Q1 if this year. At the end of March, the number of registered unemployed and the registered unemployment rate were lower than in the corresponding period of 2021. At the end of the quarter, the registered unemployment rate was 5.4%. The seasonally adjusted economic unemployment rate (according to Eurostat) in March 2022 stood at 3.0%, clearly below the average for the European Union (6.2%) and the euro area (6.8%).

Despite the favorable situation of employees on the labor market, consumer sentiments deteriorated significantly in March of this year. This was caused directly by the outbreak of the war in Ukraine and the related increase in inflation and uncertainty about the outlook for the economic situation of households. However, data on retail sales indicate that in Q1 of this year, the robust increase in private consumption continued – also owing to purchases related to the influx of refugees from Ukraine (Statistics Poland and Eurostat data).

17.1.3. Inflation, monetary policy, interest rates

Despite the introduction of the "Anti-Inflation Shields", CPI inflation in Q1 increased significantly in March of this year, having reached a double-digit level for the first time in more than twenty years (11% y/y compared to 8.6% y/y in December 2021). The prices of consumer goods and services increased 4.9% compared to December 2021. This was largely driven by the strong increase in the prices of energy carriers – especially gas and fuel prices – with food prices also having increased significantly, although this increase was limited in Q1 by the VAT rate reduced to zero. This translated, along with the depreciation of the Polish zloty, into an increase in the prices of a number of services and goods. The favorable situation on the labor market and the increase in demand also contributed to these increases. In these circumstances, the major increase in costs (including labor costs) and production prices translated into an increase in consumer prices. The Russia-Ukraine conflict also contributed to the increase in fuel, energy and food prices and the depreciation of the Polish zloty. The increase in the inflation rate was also driven by increases in domestic electricity, natural gas and heat tariffs. The increase in inflation was experienced on a global scale. It was also boosted by the clash of strong post-pandemic growth in demand with the limited supply of production factors and supply disruptions – both due to the pandemic and the war in Ukraine – which translated into further price increases and prompted manufacturers to accumulate inventories (Statistics Poland data).

The strong increase in CPI inflation above the NBP's inflation target (2.5%) led to significant hikes in the NBP rates in Q1 of this year. The base NBP interest rate increased by a total of 175 bps throughout the quarter. The NBP reference rate at the end of Q1 was 3.5%.

17.1.4. Public finance

According to the Statistics Poland notification of 22 April of this year, the deficit of the general government sector in 2021 was 1.9% of GDP, and the sector's debt was 53.8% of GDP. The growth in income, which contributed to the strong reduction in the deficit, was caused by the good economic situation and the high growth of consumer prices.

The government's actions aimed at mitigating the consequences of inflation, including changes in the tax system, and the provision of support to Ukrainian refugees will be a significant burden for the general government sector throughout this year.

The sector's deficit forecast in the Convergence Program Update (APK 2022) will increase to 4.3% of GDP in 2022, while the sector's debt will stand at 52.1% of GDP (data according to the ESA2010 methodology).

17.1.5. Situation on the financial markets

The situation on the financial markets in Q1 2022 was shaped chiefly by geopolitical tensions, including the war between Russia and Ukraine, and its consequences for the Polish and global economies. The market situation was affected by the increasing inflation, the tightening of monetary policy in Poland and the prospects of tightening of monetary policy in the United States and the euro area. Concerns about a slowdown in economic growth intensified. In these circumstances, the course of the COVID-19 pandemic exerted a declining impact on financial markets.

17.1.5.1. Bond market

In Q1 2022, the whole Polish yield curve clearly moved upwards. The yields on annual bonds increased from 3.47% at the end of 2021 to 5.07% at the end of March 2022, for 2-year bonds from 3.35% to 5.59%, for 5-year bonds from 3.99% to 5.66 %, and for 10-year bonds from 3.705% to 5.24% (data from Refinitiv Datastream). The spread versus 10-year German bonds that at the end of 2021 was 388 basis points, increased to 469 basis points at the end of March (data from Refinitiv Datastream). The increase in the yields on Polish treasury bonds was related to the strong increase in inflation and inflationary expectations as well as the tightening of the NBP's monetary policy. The NBP reference rate between the end of 2021 and the end of March 2022 increased by 175 bps, to 3.5%.

The situation on the core markets in Q1 2022 also contributed to the increased yields on Polish bonds. In the face of the rising inflation, the United States central bank raised its main interest rate by 25 bps in March – for the first time since 2018 – at the same time signaling a lot of room for further increases. The ECB, in turn, accelerated the pace of asset purchases and the market expectations for interest rate hikes clearly intensified. The yields on 10-year US treasury bonds increased from 1.50% at the end of 2021 to 2.325% at the end of March 2022, and on German bonds from -0.179% to 0.55% (data from Refinitiv Datastream).

17.1.5.2. Equity market

In Q1 2022, the indices of the Warsaw Stock Exchange declined. The WIG20 index fell by 5.91%, the WIG index by 6.34%, the mWIG40 by 9.71% and the sWIG80 by 1.71% (Warsaw Stock Exchange data). This was caused predominantly by the war in Ukraine, which exerted an unfavorable impact especially on the markets of Central and Eastern Europe, coupled with the actions taken by central banks to suppress inflation.

The same factors also affected global equity markets in Q1 2022. The US stock exchange index S&P500 declined from the end of 2021 to the end of March 2022 by 4.95%, while the German DAX – due to the greater sensitivity of the German economy to the consequences of the war in Ukraine (dependence on Russian gas supplies and a major export sector) – by 9.25% (data from Refinitiv Datastream).

17.1.5.3. Currency market

The euro exchange rate expressed in PLN increased from 4.60 at the end of 2021 to 4.65 at the end of Q1 2022 (NBP data). However, the increase in risk aversion related to the outbreak of the war in Ukraine contributed to the EUR/PLN exchange rate reaching 4.96 on March 7 (average NBP exchange rate). During that day, the Polish zloty exchange rate on the currency market for even briefly slightly exceeded the PLN 5 per euro mark. The actions taken by the NBP, especially the reference rate hike in March by 75 bps along with the accompanying communication pointing to the determination of the Monetary Policy Council to suppress inflation and strengthen the Polish zloty, contributed to the calming of the market situation and the declining trend in the EUR/PLN exchange rate until the end of March.

The euro to USD exchange rate fell from 1.13 at the end of 2021 to 1.11 at the end of Q1 2022 (the EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). The appreciation of the US dollar is the result of the earlier commencement of the cycle of rate hikes in the United States and the country's better economic outlook in relation to the euro zone in the face of the consequences of the war in Ukraine. The increase in the attractiveness of the US dollar on global markets also translated into an increase in the exchange rate of the American currency against the Polish zloty, which rose from 4.06 to 4.18 in Q1 2022 (NBP data). The Swiss franc exchange rate increased from PLN 4.45 at the end of 2021 to PLN 4.52 at the end of Q1 2022. Meanwhile, on 7 March, the CHF/PLN exchange rate reached as much as 4.95, and the USD/PLN rate reached 4.57 (NBP data).

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

Due to the scope of PZU Group's business (insurance sector in Poland, the Baltic States and Ukraine, mutual and pension funds sector, banking), the main factors that will shape the environment in which the Group will operate and may have a direct impact on the development and results of the Group in the medium term, in particular in 2022, may be divided into the following three categories:

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

Macroeconomic and geopolitical factors

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

In 2022, the armed conflict between Russia and Ukraine poses a particular threat and may exert an adverse impact on economic growth, primarily due to the increased level of uncertainty and the increase in food, gas and oil prices (and, to a lesser extent, as a result of disruptions in trade with Russia, Belarus and Ukraine). Natural gas is broadly used in many energy-intensive production processes. Additionally, the cost of gas is an important part of the budgets of households. The shock of rising prices may contribute to a deeper than currently expected weakening of the rate of growth in consumption and may suppress the GDP growth rate. Increased uncertainty may, in turn, exacerbate sentiments among investors. The increase in gas, oil and food prices – depending on the magnitude and persistence of this growth – will also push the inflation rate even higher.

The increase in risk aversion, on a regional and global level, due to the Russia-Ukraine conflict may result in at least a temporary outflow of foreign capital, decreases in stock market indices, a temporary depreciation of the Polish zloty and may also contribute to an increase in bond yields. If, in this situation, the National Bank of Poland deems that the risk of an increase in inflation is too serious in the medium term, it may be forced to impose even greater than anticipated interest rate hikes, thus hampering demand in the domestic economy. If the supply shocks pose a threat of a major deceleration of GDP growth – and the risk of a persistently high inflation in the medium term clearly diminishes – the NBP may opt for a more dovish monetary policy.

Other threats that may materialize include the possible return of the COVID-19 pandemic in Poland and the scale of constraints affecting economic activity as a result of upholding the necessary sanitary restrictions in Poland and in relations with the country's trading partners. In this context, the risk includes a possible emergence of new SARS-CoV-2 variants resistant to the existing vaccines as well as an insufficient pace of vaccinations. Disruptions associated with the pandemic may pose the strongest hit to the service sector, transport, trade, restaurant and hotel services, and the broadly construed cultural and entertainment sector. This can generate additional challenges for insurers, banks and financial institutions in terms of their ability to offer products and aftersales service.

A risk factor, which may cause a weakening of economic activity in Poland, as well as in other countries, is a possible continuation of the disruptions in supply chains and transport and the related strong increase in the prices of raw materials, components and finished products. In particular, the continuation of the sanitary restrictions in China and the conflict between Russia and Ukraine may also cause an intensification of such disruptions. The increased demand for goods, materials and labor in the face of the limited supply and disruptions in supply chains pushes up the costs of property claims, with which the increasing premiums may fail to keep pace.

The war between Russia and Ukraine also has a direct impact on the PZU Group's business and results. This impact is currently difficult to estimate, but may include the loss of some insurance revenues and increased operating expenses.

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

In addition, in an environment of recovering demand and an improving labor market, the higher inflation is already resulting in tighter monetary policy. There is a risk that the reaction of the NBP, but also other central banks, will prove too strong, causing excessive cooling of the economy. In turn, too weak a response from central banks could mean an extended period of high inflation. The uncertainty about the level of inflation in Poland in 2022 is also related to the possibility that the government will extend the Anti-Inflation Shields.

The economic environment, in particular the actions of the Monetary Policy Council with respect to interest rates and the reserve requirement, play a key role in the functioning of 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), which could be felt in 2021. However, the interest rate hike cycle starting in late 2021 should be more beneficial to the performance of the banking sector. The relatively high level of inflation and the need to bring it down makes it much more likely that the NBP will continue to raise interest rates rather than lower them in 2022.

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, however, it carries risks to financial stability by contributing to a deterioration of the quality of banks' loan portfolios. The increase in the yields on bonds marked to market in the portfolios of banks and insurers results in their lower value.

The coming into life of the economic recovery scenario and a reduction in the level of uncertainty across the financial markets may result in a slight appreciation of the Polish zloty. This would help reduce expenses related to the prices of spare parts in motor insurance. However, in the conditions of the war between Russia and Ukraine, the current account deficit and the risk of postponing the disbursement of European funds under the National Reconstruction Plan – the risk of depreciation of the Polish zloty remains, at least temporarily, relatively high.

On the other hand, slower-than-expected GDP growth in Poland may result in reduced 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 may result in an increase in credit risk (in particular in the banking segment) and higher loss ratio on the financial insurance portfolio, weakening of the growth rate of new mortgage loans and a weaker growth rate of consumer loans.

Market factors (specific to distinct sectors)

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

- after the period of the economic slowdown caused by the COVID-19 pandemic, a risk has emerged of the economic crisis getting worse as a result of the conflict between Russia and Ukraine, with inevitable socio-economic consequences, in particular deterioration of the financial standing of businesses and the related problems with maintaining and paying for the policies;
- high uncertainty as to the growth of new car sales, mainly in the dealership channel and financed by leasing companies, which may result in lower sales of motor insurance;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro and the persisting limited availability of spare parts (due to COVID-19);

- reduced demand for voluntary insurance due to a higher inflation rate, higher unemployment and a decline in employment caused by the pandemic;
- slower economic growth in Poland – the more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth;
- changes in trends and behavior of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase of insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates;
- introduction of additional regulations or financial burdens on insurance undertakings.

In turn, the risk of persistently elevated inflation and interest rates may cause:

- increases in the value 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);
- 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;
- 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.

Legal and regulatory

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. Because the exposure of the PZU Group's banks to foreign currency loans is limited compared to other banks operating in Poland, the direct impact of this risk on the Group will be limited.

The economic and tax/regulatory environment, in particular the policy of the Monetary Policy Council regarding interest rates, are of critical importance for the banking sector, including, in particular, the tax on certain financial institutions, the high own capital requirements, the BFG charges, the costs of further adjustments to a plethora of regulatory solutions (including MIFID II, GDPR, PSD II, MREL).

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 3-month period ended 31 March 2022, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no remedial actions 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.

As at the date of signing these condensed interim consolidated financial statements, the PZU Management Board has not made any decision regarding the distribution of the 2021 profit.

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, FX loan agreements, 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 usually of a typical and repetitive nature and typically 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 signing the consolidated financial statements, however their value may change in the future. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 31 March 2022, the total value of dispute in all 250,765 cases (as at 31 December 2021: 284,223) pending before courts, arbitration bodies or public administration authorities in PZU Group entities, was PLN 8,131 million (as at 31 December 2021: PLN 8,516 million). This amount included PLN 4,945 million (as at 31 December 2021: PLN 4,723 million) of liabilities and PLN 3,186 million (as at 31 December 2021: PLN 3,793 million) of accounts receivable of PZU Group companies.

During the 3-month period ended 31 March 2022 and by the date of signing the condensed interim consolidated financial statements, 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 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 and litigation costs. 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. On 6 April 2022, the Regional Court in Warsaw issued a decision in which it admitted evidence from an opinion by a scientific institute for the determination of the amount of damage suffered by MSC and J.P. Morgan, in the form of lost profits, as a result of Resolution No. 8/2007 adopted by the PZU Ordinary Shareholder Meeting of 30 June 2007 excluding the profit generated in the financial year 2006 from the distribution and the retaining of this profit in 2007.

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

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

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

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

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

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

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

PBG's bankruptcy proceedings ended on 20 July 2016 by a legally binding decision of the Bankruptcy Court.

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

Alior Bank is being sued in a class action (the statement of claim was filed on 5 March 2018) brought by a natural person representing a group of 84 natural and legal persons and 3 individual cases seeking 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 (Funds). With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. By letter of 15 July 2021, the statement of claim was extended by a group of another 283 people. At the same time, 14 individuals submitted statements of withdrawal from the group. The court has not yet issued a decision on the composition of the group. The lawsuits were filed to establish liability (rather than award payment, i.e. compensation for damage), therefore the PZU Group does not expect any cash outflow from these proceedings other than legal fees estimated at PLN 600 thousand.

(in millions of PLN)

Moreover, Alior Bank is being sued for payment (compensation for damage) in 75 cases brought by buyers of the Funds' investment certificates. The total value under dispute in these cases is PLN 29 million.

Due to the pending fund liquidation process, the PZU Group is of the opinion that until the liquidation process is completed and the final value of the investment certificates is determined, all (existing and future) claims for payment are unfounded. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 31 March 2022, no provision was established in relation to these legal actions.

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. As at the date of signing the condensed interim consolidated financial statements, the Supreme Court of Administration did not review 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. In its justification, the agency pointed to a good growth outlook and a stable capital position.

The table below depicts the most recent changes to the S&P rating outlook 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

(in millions of PLN)

Poland's credit rating

On 1 April 2022, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

In its press release, S&P emphasized that the Russian-Ukrainian armed conflict will have a significant impact on the Polish economy, and therefore the agency lowered the real GDP growth forecast for Poland for 2022 by approximately 1.4 percentage points to 3.6%. At the same time, the agency believes that the country's robust economy, qualified workforce, well-managed public debt, prudent monetary policy and transfers of funds from the EU, including those aimed at supporting countries receiving war refugees, will allow Poland to minimize these effects without the risk of deteriorating its credit rating.

24. Related party transactions

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

In the 3-month period ended 31 March 2022, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on non-arm's length basis.

24.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2022 and as at 31 March 2022		1 January – 31 December 2021 and as at 31 December 2021		1 January – 31 March 2021 and as at 31 March 2021	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	1	-	3	-	1
in non-life insurance	-	1	-	3	-	1
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	2	-	-
Expenses	-	3	-	22	-	2
Investment financial assets	-	3	-	3	-	3
Loan receivables from clients	1	-	1	-	1	-
Receivables	-	-	-	-	-	-
Liabilities under deposits	2	6	2	14	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 set the requirements and dates for providing the evidence of implementation. On 7 December 2021, PZU submitted the implementation report regarding the recommendation. On 28 January 2022, KNF requested additional explanations and documents, which were provided by PZU on 14 February 2022. Until the date of signing the condensed interim consolidated financial statements, the Polish Financial Supervision Authority did not raise any objections to the manner in which the recommendation was implemented.

During the period from 11 January 2022 to 10 March 2022, KNF conducted an inspection of PZU's operations and assets in terms of the solvency capital requirement. On 4 April 2022, PZU received an audit report, to which it submitted its reservations, additional explanations and documents on 15 April 2022. On 22 April 2022, the KNF wrote that the information and explanations received from PZU did not affect the findings contained in the audit report, but would be taken into account for the regulator's further supervisory actions.

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

In December 2021, Alior Bank and Alior Leasing sp. z o.o. received new summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw due to its management program. The grounds for the summons are the same factual and legal circumstances as for the previous ones, dismissed by the arbitration court on 30 June 2021.

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 or signing the consolidated financial statements, no claims were filed on this account. The PZU Group believes that there are no circumstances justifying recognition of a provision on this account.

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

25.3 Intended bond issue by PZU

On 15 February 2022, the PZU Management Board adopted a resolution to submit a motion to the PZU Shareholder Meeting in the matter of issuing subordinated bonds on the domestic market. The contemplated issue is closely related to PZU's planned early redemption of the series A subordinated bonds issued on 30 June 2017 with a total par value of PLN 2,250 million and a maturity date of 29 July 2027 (Series A Bonds). The terms and conditions for the issue of Series A Bonds contemplate PZU SA's early redemption option on 29 July 2022.

In connection with the planned redemption of the Series A Bonds, PZU intends to issue a new issue of subordinated bonds to replace them and their parameters will be similar to the Series A Bonds. The contemplated issue would be for subordinated bonds on the domestic market with a total nominal value of no more than PLN 3,000 million whose proceeds would be treated as tier 2 own funds according to the Insurance Activity Act and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

On 25 February 2022, the PZU Supervisory Board endorsed the PZU Management Board's motion regarding the issue of bonds, and on 25 March 2022, the PZU Shareholder Meeting agreed to the issue of bonds.

25.4 Acquisition of TFI Energia SA

On 17 March 2022, PZU signed a preliminary agreement to purchase a 100% equity stake in Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna ("TFI Energia") from Polska Grupa Energetyczna Spółka Akcyjna. The deal is expected to be consummated in the middle of the year after obtaining approvals from the Polish Financial Supervision Authority and the Office of Competition and Consumer Protection. Following the completion of the transaction, TFI Energia will become a subsidiary of PZU and will be subject to consolidation.

25.5 Conflict in Ukraine

Due to the invasion of Ukraine by the Russian Federation on 24 February 2022, the PZU Management Board evaluated the impact of this event on the PZU Group's operations, business continuity, financial standing and future operations.

As at 31 March 2022, the net total assets (assets net of liabilities and adjusted for shares held mutually between PZU Ukraine and PZU Ukraine Life) of the three companies operating in Ukraine (PZU Ukraine, PZU Ukraine Life and LLC SOS Services Ukraine) stood at PLN 79 million (as at 31 December 2021: PLN 70 million).

The assets (net of the shares held mutually between PZU Ukraine and PZU Ukraine Life) of these companies subject to consolidation totaled PLN 537 million (as at 31 December 2021: PLN 554 million), including:

- investment financial assets of PLN 279 million (as at 31 December 2021: PLN 322 million), of which PLN 143 million (as at 31 December 2021: PLN 159 million) were instruments issued by the Ukrainian government, and PLN 136 million (as at 31 December 2021: PLN 163 million) were term deposits;
- reinsurers' share in technical provisions of PLN -117 million (as at 31 December 2021: PLN 134 million), of which PLN 41 million (as at 31 December 2021: PLN 47 million) was PZU's share.

The companies' liabilities totaled PLN 458 million (as at 31 December 2021: PLN 484 million), including:

- technical provisions of PLN 396 million (as at 31 December 2021: PLN 414 million);
- other liabilities of PLN 62 million (as at 31 December 2021: PLN 70 million).

As at 31 March 2022, the banks in the PZU Group held PLN 320 million in bank credit exposures (as at 31 December 2021: PLN 335 million) and PLN 211 million of off-balance sheet exposures (as at 31 December 2021: PLN 317 million) to entities that are residents of Ukraine, Russia or Belarus.

In addition to the assets of companies operating in Ukraine and exposures to Alior Bank and Pekao, the PZU Group did not have any significant exposures to markets subject to hostilities or sanctions.

Due to the exacerbating political situation, all of the bonds held on 31 December 2021 issued by the governments of Russia (90 m PLN), Belarus (1.6 m PLN) and Ukraine (4 m PLN) were sold by 3 March 2022 (the realized loss was 13 m PLN).

The war that has covered the whole territory of Ukraine since 24 February 2022 and the current hostilities in the east and south of the country, resulting from the invasion of the Russian Federation's troops, has caused the PZU Group' Ukrainian companies to operate in emergency mode:

- Operational processes are carried out to a limited extent and kept being adjusted to the changing situation, all important processes (stationary and remote) are ongoing, while ensuring the continuation and deployment of critical processes, all IT systems are available;
- PZU Ukraine's sales processes are conducted to a limited extent – branches have been closed in cities and towns affected by hostilities, the company sells both new and renewed insurance through all channels, but sales operations are limited mostly to compulsory third party liability insurance, travel (accident) insurance and the Green Card;
- PZU Ukraine Life's sales processes have been suspended in all sales channels until the end of the war;
- claims handling processes in PZU Ukraine Life are limited – payouts are made with thorough documentation providing there are no indications of fraud (e.g. childbirth) and withdrawal amounts are disbursed, to the extent possible; in PZU Ukraine, the functionality of the full claims handling cycle is ensured, including from motor own damage and third party liability insurance, in accordance with the terms of insurance contracts and applicable legislation – the company makes payments only if it has a complete set of documents; losses incurred after 24 February 2022 are paid up to a defined cap (UAH 50 thousand) (pre-war claims are not subject to such limitations), because the declaration of martial law across the nation excludes the insurer's liability for losses incurred due to acts of war;
- the contact center and hotline are operating normally (LLC SOS Services Ukraine);
- the companies have been implementing HR policy rules, including the "suspension of employment contract", in order to adjust employment relationships to the actual situation of employees who are not working, who have been mobilized, are staying abroad or who currently may not be offered a job due to the company's limited business activity – application of the provisions of the Ukrainian Act of 15 March 2022 "On the organization of labor relations during martial law";
- the companies' financial liquidity is ensured, and payroll liabilities and other obligations, including administrative and fiscal ones, to the extent technically possible, are handled on an ongoing basis;
- the companies focus on ensuring cybersecurity, information security and physical security of their servers.

Moreover, the National Bank of Ukraine (NBU) has introduced, since 24 February 2022, restrictions affecting the conduct of business in Ukraine, including:

- temporary ban on the purchase of foreign currencies;
- suspension of trading in bonds issued by the Ukrainian government;
- ban on international transfers from Ukraine.

In addition, under the so-called "Wartime regulations" of the market, on 6 March 2022, the NBU adopted Resolution No. 39 on the regulation of the activities of participants of the market for non-banking financial services, non-banking financial groups, payment market participants, debt collection companies and legal entities authorized to provide services in the field of transporting cash to banks, pursuant to which during martial law no sanctions will be applied for breaches of regulatory criteria or standards normally applicable to capital adequacy, solvency, liquidity, profitability, asset quality and business risk of insurers. Insurers will be required to demonstrate compliance with the mandatory criteria and standards normally applicable to the sector within 4 months from the date of ending or lifting of martial law.

Due to these extraordinary circumstances, the PZU Group's Ukrainian companies will be unable to meet their financial plans for 2022. As at the date of signing the condensed interim consolidated financial statements, the assessment of the possibility of maintaining business continuity (materialization of the risk of the full loss of operational capabilities) of the PZU Group's Ukrainian companies is subject to uncertainty due to the following potential threats, among others:

- long-term persistence and escalation of hostilities;
- devastation of energy infrastructure, communication and internet access;
- lack of access to key systems, including due to the destruction of the companies' physical infrastructure;
- suspension of all internal transfers of funds within Ukraine's banking system;
- unavailability of staff.

The PZU Group continuously monitors the situation and analyzes potential future scenarios of how the events may unfold. It is currently impossible to reliably estimate future potential impairment losses on assets or present a reliable valuation of technical provisions and other liabilities.

25.6 Tax on foreign exchange differences in Sweden

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 (publ.) 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 and 21 December 2021, PZU Finance AB received a preliminary and enforceable, respectively, negative decision from the tax office regarding the adjustment of its tax settlement for 2019. Accordingly, as at 31 December 2021, the PZU Group posted a current income tax liability of PLN 72 million (SEK 159 million). On 21 January 2022, PZU transferred directly to the Swedish tax office SEK 159 million (SEK 155 million of the principal amount and SEK 4 million in interest). PZU Finance AB may now initiate court proceedings in Sweden in an administrative court of first instance.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2022	31 December 2021	31 March 2021
I. Intangible assets, including:	292,008	299,215	293,528
- goodwill	-	-	-
II. Investments	38,981,719	39,250,562	41,313,302
1. Real property	294,118	297,328	306,993
2. Investments in related parties, including:	14,487,353	14,641,582	16,263,992
- investments in related parties measured by the equity method	13,795,558	13,961,463	15,579,893
3. Other financial investments	24,200,248	24,311,652	24,742,317
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,415,992	2,403,594	2,045,743
1. Receivables on direct insurance	1,458,348	1,623,557	1,427,260
1.1. From subordinated entities	7,743	13,839	25,215
1.2. From other entities	1,450,605	1,609,718	1,402,045
2. Reinsurance receivables	258,701	215,755	246,167
2.1. From subordinated entities	227,972	173,758	196,359
2.2. From other entities	30,729	41,997	49,808
3. Other receivables	698,943	564,282	372,316
3.1. Receivables from the state budget	97,409	4,511	35,485
3.2. Other receivables	601,534	559,771	336,831
a) from subordinated entities	79,259	35,365	20,138
b) from other entities	522,275	524,406	316,693
V. Other assets	403,735	269,278	302,826
1. Property, plant and equipment	114,782	123,443	115,008
2. Cash	288,953	145,835	187,818
3. Other assets	-	-	-
VI. Prepayments and accruals	2,823,799	2,243,572	2,544,632
1. Deferred tax assets	-	-	-
2. Deferred acquisition costs	1,802,084	1,601,223	1,568,221
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	1,021,715	642,349	976,411
VII. Unpaid share capital	-	-	-
VIII. Treasury shares	-	-	-
Total assets	**44,917,253**	**44,466,221**	**46,500,031**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	31 March 2022	31 December 2021	31 March 2021
I. Equity	15,569,777	15,776,367	18,310,288
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	7,347,497	7,347,436	8,458,170
3. Revaluation reserve	6,095,462	6,314,244	7,618,749
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	2,028,335	-	1,918,780
6. Net profit (loss)	12,131	2,028,335	228,237
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,265,710	2,265,739	2,253,366
III. Technical provisions	25,765,399	24,837,097	24,286,257
IV. Reinsurers' share in technical provisions (negative figure)	(2,152,277)	(2,161,952)	(1,694,797)
V. Estimated salvage and subrogation (negative figure)	(89,527)	(98,206)	(81,979)
1. Gross estimated salvage and subrogation	(91,817)	(100,985)	(84,091)
2. Reinsurers' share in estimated salvage and subrogation	2,290	2,779	2,112
VI. Other provisions	731,950	574,656	813,752
1. Provisions for pension benefits and other compulsory employee benefits	64,001	46,361	69,051
2. Deferred tax liability	652,142	512,983	715,207
3. Other provisions	15,807	15,312	29,494
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,688,568	1,755,771	1,577,355
1. Liabilities on direct insurance	422,662	415,398	423,089
1.1. To subordinated entities	4,788	7,636	5,282
1.2. To other entities	417,874	407,762	417,807
2. Reinsurance liabilities	267,363	184,421	197,943
2.1. To subordinated entities	21,929	18,722	29,135
2.2. To other entities	245,434	165,699	168,808
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-
4. Liabilities to credit institutions	5,097	125,253	12
5. Other liabilities	864,990	925,033	860,143
5.1. Liabilities to the state budget	36,991	60,215	50,359
5.2. Other liabilities	827,999	864,818	809,784
a) to subordinated entities	183,594	229,394	258,628
b) to other entities	644,405	635,424	551,156
6. Special-purpose funds	128,456	105,666	96,168
IX. Prepayments and accruals	1,137,653	1,516,749	1,035,789
1. Accrued expenses	925,649	1,316,816	947,222
2. Negative goodwill	-	-	-
3. Deferred income	212,004	199,933	88,567
Total equity and liabilities	**44,917,253**	**44,466,221**	**46,500,031**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2022	31 December 2021	31 March 2021
Carrying amount	15,569,777	15,776,367	18,310,288
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	18.03	18.27	21.20
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	18.03	18.27	21.20

2. Interim statement of off-balance sheet line items

Off-balance sheet items	31 March 2022	31 December 2021	31 March 2021
1. Contingent receivables, including:	3,676,824	3,703,939	3,816,091
1.1. Guarantees and sureties received	2,392	2,492	2,700
1.2. Other [1]	3,674,432	3,701,447	3,813,391
2. Contingent liabilities, including:	1,164,097	1,203,395	1,066,732
2.1. Guarantees and sureties given	93,737	93,637	93,263
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	145,327	142,496	113,996
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**4,986,248**	**5,049,830**	**4,996,819**

[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 January – 31 March 2022	1 January – 31 March 2021
I. Premium income (1-2-3+4)	3,000,226	2,855,525
1. Gross written premium	3,927,443	3,718,571
2. Reinsurers' share in gross written premium	96,657	110,399
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	701,022	667,752
4. Reinsurers' share in the movement in provision for unearned premiums	(129,538)	(84,895)
II. Net investment income (including costs) transferred from the general profit and loss account	58,728	52,039
III. Other net technical income	30,639	37,554
IV. Claims and benefits (1+2)	1,877,875	1,788,695
1. Net claims and benefits paid	1,762,615	1,642,796
1.1. Gross claims and benefits paid	1,806,734	1,668,731
1.2. Reinsurers' share in claims and benefits paid	44,119	25,935
2. Movement in provision for outstanding claims and benefits, net of reinsurance	115,260	145,899
2.1. Movement in provision for outstanding claims and benefits, gross	235,006	193,683
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	119,746	47,784
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	1,013	2,050
VII. Insurance activity expenses	823,507	767,686
1. Acquisition expenses, including:	673,970	611,305
- movement in deferred acquisition costs	(200,861)	(194,559)
2. Administrative expenses	172,923	184,588
3. Reinsurance commissions and profit participation	23,386	28,207
VIII. Other net technical charges	101,772	92,794
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**285,426**	**293,893**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2022	1 January – 31 March 2021
I. Technical result of non-life insurance or life insurance	285,426	293,893
II. Investment income	186,534	148,400
1. Investment income on real estate	1,617	1,683
2. Investment income from related parties	5,129	3,615
2.1. on ownership interests or shares	-	-
2.2. On borrowings and debt securities	4,896	3,462
2.3. On other investments	233	153
3. Other financial investment income	142,207	133,068
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	265	404
3.2. On debt securities and other fixed income securities	129,802	116,972
3.3. on term deposits with credit institutions	31	-
3.4. On other investments	12,109	15,692
4. Gain on revaluation of investments	-	-
5. Gain on realization of investments	37,581	10,034
III. Unrealized investment gains	124,866	154,912
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	89,616	47,480
1. Real estate maintenance expenses	571	697
2. Other investment activity expenses	7,816	8,095
3. Loss on revaluation of investments[1)]	-	-
4. Loss on realization of investments	81,229	38,688
VI. Unrealized investment losses	58,267	139,652
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	58,728	52,039
VIII. Other operating income	64,315	55,100
IX. Other operating expenses	145,405	124,903
X. Operating profit (loss)	309,125	288,231
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	(221,055)	8,843
XIV. Profit (loss) before tax	88,070	297,074
XV. Income tax	75,939	68,837
a) current part	(126,167)	(29,004)
b) deferred part	202,106	97,841
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**12,131**	**228,237**

(in thousands of PLN)

	1 January – 31 March 2022	1 January – 31 March 2021
Net profit (loss) (annualized)[1)]	49,198	925,628
Weighted average number of ordinary shares	863,523,000	863,523,000
Profit (loss) per ordinary share (PLN)	0.01	0.26
Weighted average diluted number of ordinary shares	863,523,000	863,523,000
Diluted earnings (losses) per ordinary share (PLN)	0.01	0.26

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

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2022	1 January – 31 December 2021	1 January – 31 March 2021
I. Equity at the beginning of the period (Opening Balance)	15,776,367	17,688,602	17,688,602
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	15,776,367	17,688,602	17,688,602
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	7,347,436	8,458,089	8,458,089
2.1. Change in supplementary capital	61	(1,110,653)	81
a) additions (by virtue of):	61	953,167	81
- distribution of profit (above the statutorily required amount)	-	953,039	-
- from revaluation reserve – by sale and liquidation of fixed assets	61	128	81
b) decreases	-	2,063,820	-
2.2. Supplementary capital at the end of the period	7,347,497	7,347,436	8,458,170
3. Revaluation reserve at the beginning of the period	6,314,244	7,225,381	7,225,381
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	6,314,244	7,225,381	7,225,381
3.1. Change in the revaluation reserve	(218,782)	(911,137)	393,368
a) additions (by virtue of):	227,497	938,487	752,459
- valuation of financial investments	185,899	863,534	752,395
- additions by virtue of disposal of available for sale instruments	5,487	4,386	64
- additions by virtue of hedge accounting	36,111	70,567	-
b) reductions (by virtue of)	446,279	1,849,624	359,091
- valuation of financial investments	421,169	1,464,327	325,750
- reductions by virtue of the disposal of instruments available for sale	15,025	159,372	1,117
- sale of fixed assets	61	128	81
- reductions by virtue of hedge accounting	10,024	225,797	32,143
3.2. Revaluation reserve at the end of the period	6,095,462	6,314,244	7,618,749

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2022	1 January – 31 December 2021	1 January – 31 March 2021
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	2,028,335	1,918,780	1,918,780
5.1. Retained earnings at the beginning of the period	2,028,335	1,918,780	1,918,780
a) changes in the accepted accounting policies	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,028,335	1,918,780	1,918,780
a) increases	-	2,063,820	-
b) decreases	-	3,982,600	-
- transfers to supplementary capital	-	953,039	-
- disbursement of dividends	-	3,022,330	-
- transfers/charges to the Company Social Benefit Fund	-	7,231	-
5.3. Retained earnings at the end of the period	2,028,335	-	1,918,780
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	2,028,335	-	1,918,780
6. Net result	12,131	2,028,335	228,237
a) net profit	12,131	2,028,335	228,237
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	**15,569,777**	**15,776,367**	**18,310,288**

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2022	1 January – 31 December 2021	1 January – 31 March 2021
A. Cash flows from operating activities			
I. Proceeds	4,121,613	14,850,921	3,900,200
1. Proceeds on direct activity and inward reinsurance	3,822,908	13,764,263	3,653,161
1.1. Proceeds on gross premiums	3,746,316	13,547,894	3,598,315
1.2. Proceeds on subrogation, salvage and claim refunds	56,737	181,473	46,552
1.3. Other proceeds on direct activity	19,855	34,896	8,294
2. Proceeds from outward reinsurance	97,184	327,521	55,473
2.1. Payments received from reinsurers for their share of claims paid	43,984	114,749	17,545
2.2. Proceeds on reinsurance commissions and profit participation	50,482	212,265	37,927
2.3. Other proceeds from outward reinsurance	2,718	507	1
3. Proceeds from other operating activity	201,521	759,137	191,566
3.1. Proceeds for acting as an emergency adjuster	106,438	371,208	118,256
3.2. Disposal of intangible assets and property, plant and equipment other than investments	952	5,766	399
3.3. Other proceeds	94,131	382,163	72,911
II. Expenditures	3,679,586	13,447,030	3,373,014
1. Expenditures on direct activity and inward reinsurance	2,888,090	10,903,711	2,662,258
1.1. Gross premium refunds	66,789	276,375	67,092
1.2. Gross claims and benefits paid	1,653,690	6,394,776	1,525,172
1.3. Acquisition expenditures	515,669	2,011,883	501,364
1.4. Administrative expenditures	434,880	1,513,013	377,052
1.5. Expenditures for claims handling and pursuit of subrogation	72,583	296,440	74,314
1.6. Commissions paid and profit-sharing on inward reinsurance	84,831	268,598	83,009
1.7. Other expenditures on direct activity and inward reinsurance	59,648	142,626	34,255
2. Expenditures on outward reinsurance	458,634	967,988	418,526
2.1. Premiums paid for reinsurance	458,633	967,892	418,479
2.2. Other expenditures on outward reinsurance	1	96	47
3. Expenditures on other operating activity	332,862	1,575,331	292,230
3.1. Expenditures for acting as an emergency adjuster	67,560	184,582	57,375
3.2. Purchase of intangible assets and property, plant and equipment other than investments	18,527	100,981	25,297
3.3. Other operating expenditures	246,775	1,289,768	209,558
III. Net cash flows from operating activities (I-II)	**442,027**	**1,403,891**	**527,186**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2022	1 January – 31 December 2021	1 January – 31 March 2021
B. Cash flow on investing activity			
I. Proceeds	19,058,402	57,349,591	14,691,482
1. Sale of real estate	591	6,580	889
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	46,565	544,377	3,753
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	-	-
5. Realization of debt securities issued by other entities	193,083	662,461	478,216
6. Liquidation of term deposits with credit institutions	2,778,685	3,287,781	1,116,788
7. Realization of other investments	15,980,462	50,712,885	13,022,416
8. Proceeds from real estate	1,751	8,048	1,981
9. Interest received	56,965	545,484	67,422
10. Dividends received	-	1,579,403	-
11. Other investment proceeds	300	2,572	17
II. Expenditures	19,111,595	55,787,803	15,135,319
1. Purchase of real estate	265	1,084	100
2. Purchase of ownership interests and shares in subordinated entities	70,494	4,564	27
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	82,818	387,830	220,944
4. Purchase of debt securities issued by related parties and extension of loans to these parties	40,000	2,800	-
5. Purchase of debt securities issued by other entities	69,818	1,137,979	792,039
6. Purchase of term deposits with credit institutions	2,746,777	3,318,676	1,062,888
7. Purchase of other investments	16,081,472	50,862,675	13,040,189
8. Expenditures to maintain real estate	14,624	47,947	13,027
9. Other expenditures for investments	5,327	24,248	6,105
III. Net cash flows from investing activities (I-II)	**(53,193)**	**1,561,788**	**(443,837)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2022	1 January – 31 December 2021	1 January – 31 March 2021
C. Cash flows from financing activities			
I. Proceeds	1,559,888	1,576,772	23,489
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	1,559,888	1,576,772	23,489
3. Other financial proceeds	-	-	-
II. Expenditures	1,802,488	4,520,507	47,082
1. Dividends	-	3,022,331	-
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	1,779,236	1,451,709	23,489
5. Interest on loans and borrowings and issued debt securities	23,252	46,467	23,593
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(242,600)**	**(2,943,735)**	**(23,593)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**146,234**	**21,944**	**59,756**
E. Balance sheet change in cash, including:	143,118	21,378	63,361
- movement in cash due to foreign exchange differences	(3,116)	(566)	3,605
F. Cash at the beginning of the period	145,835	124,457	124,457
G. Cash at the end of the period (F+/-E), including:	288,953	145,835	187,818
- restricted cash	72,118	42,697	41,081

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 2021.

9. Changes in accounting policies

In the 3-month period ended 31 March 2022, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 18 May 2022