Powszechny Zakład Ubezpieczeń

Spółka Akcyjna Group

Condensed Interim
Consolidated Financial Statements
for the 3 months ended
31 March 2023

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Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Financial highlights

1. Selected consolidated financial data of PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 31 March 2023	m PLN 1 January – 31 March 2022	m EUR 1 January – 31 March 2023	m EUR 1 January – 31 March 2022
Insurance service result	854	859	182	185
Fee and commission result	909	919	193	198
Net investment result	6,723	3,195	1,430	688
Profit before tax	3,412	2,366	726	509
Net profit, including:	2,577	1,736	548	373
- profit attributable to the equity holders of the Parent Company	1,155	884	246	190
- profit attributable to holders of non-controlling interests	1,422	852	302	183
Basic and diluted weighted average number of common shares	863,390,463	863,376,993	863,390,463	863,376,993
Basic and diluted earnings per common share (in PLN/EUR)	1.34	1.02	0.28	0.22

Data from the consolidated statement of financial position	m PLN 31 March 2023	m PLN 31 December 2022	m EUR 31 March 2023	m EUR 31 December 2022
Assets	445,545	429,178	95,294	91,511
Share capital	86	86	18	18
Equity attributable to the equity holders of the parent company	27,334	26,266	5,846	5,601
Non-controlling interest	24,682	22,263	5,279	4,747
Total equity	52,016	48,529	11,125	10,348
Basic and diluted number of common shares	863,391,351	863,392,961	863,391,351	863,392,961
Book value per common share (in PLN/EUR)	31.66	30.42	6.77	6.49

Data from the consolidated cash flow statement	m PLN 1 January – 31 March 2023	m PLN 1 January – 31 March 2022	m EUR 1 January – 31 March 2023	m EUR 1 January – 31 March 2022
Net cash flows from operating activities	17,780	5,775	3,783	1,243
Net cash flows from investing activities	(13,323)	(3,773)	(2,834)	(812)
Net cash flows from financing activities	322	9,138	69	1,966
Total net cash flows	4,779	11,140	1,017	2,397

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 31 March 2023	m PLN 31 December 2022	m EUR 31 March 2023	m EUR 31 December 2022
Assets	48,935	45,935	10,466	9,794
Share capital	86	86	18	18
Total equity	17,586	15,824	3,761	3,374
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	20.37	18.33	4.36	3.91

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Data from the technical non-life insurance account and from the general profit and loss account	m PLN 1 January – 31 March 2023	m PLN 1 January – 31 March 2022	m EUR 1 January – 31 March 2023	m EUR 1 January – 31 March 2022
Gross written premiums	4,443	3,927	945	845
Non-life insurance technical result	268	285	57	61
Net profit or loss on investing activities[1)]	940	(58)	200	(12)
Net profit or loss	962	12	205	3
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)	1.11	0.01	0.24	0.00

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

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

Data from the balance sheet	m PLN 31 March 2023	m PLN 31 December 2022	m EUR 31 March 2023	m EUR 31 December 2022
Assets	27,982	27,222	5,985	5,804
Total equity	4,366	3,984	934	849

Data from the technical life insurance account and from the general profit and loss account	m PLN 1 January – 31 March 2023	m PLN 1 January – 31 March 2022	m EUR 1 January – 31 March 2023	m EUR 1 January – 31 March 2021
Gross written premiums	2,217	2,072	472	446
Technical life insurance result	445	198	95	43
Net profit or loss on investing activities	531	(123)	113	(26)
Net profit	311	119	66	26

4. Summary of consolidated quarterly performance

The net profit of PZU Group for the 3-month period ended 31 March 2023 was PLN 2,577 million and was higher by 48.4% than the net profit for the corresponding period of the preceding year. The net profit attributable to the parent company's shareholders was PLN 1,155 million compared to PLN 884 million in 2022 (an increase by PLN 271 million).

The ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2023 was 17.2%, which constitutes an increase by 1.9 percentage points in comparison to that for the corresponding period of the preceding year.

The following factors affected the PZU Group's operations in the 3-month period ended 31 March 2023, as compared to the corresponding period of the preceding year:

- Higher profitability on the operating activities of the corporate non-life insurance business as a result of better performance on investments (increases in revenues on the variable coupon instruments triggered by increases in interest rates, in particular, in the debt and money market portfolios), and also better performance on insurance services (higher sales dynamics, mainly sales of Auto Casco insurance products);
- Better performance on the operating activities of the Individual protective insurance products segment, primarily, as a result of changes in financial revenues and expenses on insurance activities, and also better performance on insurance services;
- Lower profitability of mass non-life insurance business, including primarily motor insurance products, partially mitigated by higher profitability on investments allocated to this business;
- Better performance of the Baltic business due to higher revenues from insurance contracts triggered by higher sales of motor insurance and health insurance products, reversal of a surplus of the previous years' equalisation reserve over the present forecast amount of payments, partially offset by higher liabilities on claims in the current year;
- Higher performance on operating activities of the investment business due to higher revenues from money market instruments as a result of higher interest rates in Poland and due to higher profitability on real estate portfolio as a result of higher income on swap points on currency hedging instruments, as well as in rental income.

- Better performance of the banking business, in particular, due to an increase in the interest gain as a result of increases in interest rates in 2022 and lower compulsory payment to the Bank Guarantee Fund (BFG), partially offset by higher operating costs of banks, including in particular in Pekao triggered by the indexation of salaries and higher property maintenance costs;

This is the first time when PZU Group presents financial statements prepared according to IFRS 17, where the operating profit on the insurance activities is the profit on insurance services, which includes the amount of insurance revenue, i.e. remuneration to which the entity expects to be entitled in exchange for the insurance services provided during the period, less the insurance service expenses. The insurance service expenses consists of the claims incurred (excluding investment components), insurance service costs incurred, amortization of cash flows from the acquisition of insurance contracts, changes related to past service, i.e., changes in cash flows from the performance of contracts related to the liability for claims incurred, and losses on groups of contracts concerned and the reversal of such losses.

In contrast to the approach applied in standalone reporting based on PAS, for the purposes of the IFRS 17 reporting, PZU Group determines the profitability of a given contract or IFRS 17 portfolio at their initial recognition in the books at the level of the insurance contract for life insurance and the so-called IFRS 17 portfolio (for details please see section 6.1.2.1) for non-life insurance. During this process, a contract (or IFRS 17 portfolio) is measured and assigned to a group of contracts profitable at initial recognition or a group of contracts incurring future charges within a given cohort of contracts and a portfolio exposed to similar insurance risks. As a consequence of this process, PZU Group recognizes a new loss component (and revaluates the existing one), which in the first quarter of 2023 was recognized at a total value for all segments of PLN 347 million (a y/y increase of PLN 46 million).

This means that, unlike in the approach so far applied in IFRS 4, within the profit or loss of a given period PZU Group recognizes total future liabilities at the first recognition, and not, as was previously the case, only in the proportion attributable to a given reporting period. For the purposes of presentation in the condensed interim consolidated financial statements, the above means that it is not possible to offset losses on onerous insurance contracts with gains on other contracts made.

PZU Group conducts a number of activities to offset the share of onerous contracts in its portfolio, such as management of portfolios of entities with high claims, increases in rates as part of regular tariff review and update processes, including consideration of claims inflation, and the re-sale of additional contract packages.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2023	1 January – 31 March 2022 (restated) [1)]
Insurance service result before reinsurance		(125)	975
Insurance revenue	10.1.1 10.1.3	6,401	5,999
Insurance service expenses	10.1.3	(6,526)	(5,024)
Net expenses from reinsurance contracts held		979	(116)
Reinsurance premium allocation	10.1.2	(366)	(248)
Amounts recoverable from reinsurers	10.1.4	1,345	132
Insurance service result		854	859
Insurance finance income or expenses		(475)	(42)
Reinsurance finance income or expenses		14	10
Interest income calculated using the effective interest rate	10.2	6,843	3,580
Other net investment income	10.3	(102)	2
Result on derecognition of financial instruments and investments	10.4	171	(91)
Movement in allowances for expected credit losses and impairment losses on financial instruments	10.5	(349)	(375)
Net movement in fair value of assets and liabilities measured at fair value	10.6	160	79
Fee and commission result	10.7	909	919
Operating costs of banks	10.8	(1,489)	(1,266)
Interest expenses	10.9	(2,196)	(368)
Other operating income and expenses	10.10	(930)	(930)
Operating profit		**3,410**	**2,377**
Share of the net financial profit or loss of entities measured by the equity method		2	(11)
Profit before tax		**3,412**	**2,366**
Income tax	10.11	(835)	(630)
Net profit, including:		**2,577**	**1,736**
- profit attributable to the equity holders of the Parent Company		1,155	884
- profit (loss) attributable to holders of non-controlling interests		1,422	852
Weighted average basic and diluted number of common shares	10.12	863,390,463	863,376,993
Basic and diluted profit (loss) per common share (in PLN)	10.12	1.34	1.02

[1)] Information on the implementation of IFRS 17 and on the restatement made as a result thereof to the data for the period from 1 January to 31 March 2022 is provided for in pt. 6.1.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2023	1 January – 31 March 2022 (restated) [1)]
Net profit		2,577	1,736
Gross other comprehensive income	10.11	1,121	(511)
Subject to subsequent transfer to profit or loss		1,189	(589)
Valuation of debt instruments		838	(1,364)
Measurement of loan receivables from clients		(1)	(1)
Insurance finance income or expenses		(734)	2,314
Reinsurance finance income or expenses		(12)	(66)
Foreign exchange translation differences		(6)	18
Cash flow hedging		1,104	(1,490)
Not to be transferred to profit or loss in the future		(68)	78
Valuation of equity instruments		(75)	78
Reclassification of real property from property, plant and equipment to investment property		7	-
Tax recognised in other comprehensive income		(211)	99
Total net comprehensive income		**3,487**	**1,324**
- comprehensive income attributable to equity holders of the Parent Company		1,068	1,838
- comprehensive income attributable to holders of non-controlling interests		2,419	(514)

[1)] Information on the implementation of IFRS 17 and on the restatement made as a result thereof to the data for the period from 1 January to 31 March 2022 is provided for in pt. 6.1.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated statement of financial position

Assets	Note	31 March 2023	31 December 2022 (restated) [1)]	1 January 2022 (restated) [1)]
Goodwill	10.13	2,806	2,808	2,778
Intangible assets	10.14	3,253	3,282	3,403
Deferred tax assets		2,808	3,098	3,077
Insurance contract assets	10.1.3	74	68	59
Reinsurance contract assets	10.1.4	3,737	2,327	1,539
Other assets	10.15	612	462	331
Property, plant and equipment	10.16	4,056	4,304	4,144
Investment property		3,225	3,021	2,773
Entities measured by the equity method	10.17	54	52	93
Assets securing liabilities	10.21	4,066	972	1,336
Assets held for sale	10.18	658	654	643
Loan receivables from clients	10.19	212,409	212,693	215,008
Financial derivatives	10.20	14,294	16,197	8,328
Investment financial assets	10.22	165,448	153,861	136,954
Measured at amortized cost		116,227	106,013	82,893
Measured at fair value through other comprehensive income		40,232	39,725	44,896
Measured at fair value through profit or loss		8,989	8,123	9,165
Receivables	10.23	7,336	9,419	6,782
Cash and cash equivalents		20,709	15,960	9,447
Total assets		**445,545**	**429,178**	**396,695**

[1)] Information on the implementation of IFRS 17 and the restatement made as a result thereof to the data as at 1 January 2022 and as at 31 December 2022 is provided for in pt. 6.1.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated statement of financial position (continued)

Equity and liabilities	Note	31 March 2023	31 December 2022 (restated) [1)]	1 January 2022 (restated) [1)]
Equity				
Equity attributable to equity holders of the parent company		27,334	26,266	22,129
Share capital	10.27	86	86	86
Other capital		17,213	17,300	13,649
Retained earnings		10,035	8,880	8,394
Retained profit or loss		8,880	5,109	8,394
Net profit		1,155	3,771	-
Non-controlling interest		24,682	22,263	22,914
Total equity		**52,016**	**48,529**	**45,043**
Liabilities				
Insurance contract liabilities	10.1.3	40,292	37,415	40,566
Reinsurance contract liabilities	10.1.4	13	23	28
Subordinated liabilities	10.29	6,206	6,184	6,274
Liabilities on the issue of own debt securities	10.30	8,798	11,090	5,940
Liabilities to banks	10.31	6,991	7,720	7,470
Liabilities to clients under deposits	10.32	292,656	278,058	265,155
Financial derivatives	10.20	17,568	20,956	11,880
Other liabilities	10.33	16,209	14,625	11,153
Provisions	10.34	1,665	1,711	1,206
Deferred tax liability		3,097	2,834	1,952
Liabilities related directly to assets classified as held for sale	10.18	34	33	28
Total liabilities		**393,529**	**380,649**	**351,652**
Total equity and liabilities		**445,545**	**429,178**	**396,695**

[1)] Information on the implementation of IFRS 17 and the restatement made as a result thereof to the data as at 1 January 2022 and as at 31 December 2022 is provided for in pt. 6.1.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	**Equity attributable to equity holders of the parent company**												**Non-controlling interest**	**Total equity**
	Share capital	**Other capital**								**Retained earnings**		**Total**		
		Treasury shares	Supple-mentary capital	Other reserve capital	Cumulative other comprehensive income					Retained profit or loss	Net profit			
					Revaluation reserve	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	10.27												2.4	
As at 1 January 2023	**86**	**(4)**	**15,315**	**1,721**	**(2,455)**	**2,714**	**(76)**	**(6)**	**91**	**8,880**	**-**	**26,266**	**22,263**	**48,529**
Net profit (loss)	-	-	-	-	-	-	-	-	-	-	1,155	1,155	1,422	2,577
Net other comprehensive income	-	-	-	-	519	(591)	(9)	-	(6)	-	-	(87)	997	910
Total comprehensive income	**-**	**-**	**-**	**-**	**519**	**(591)**	**(9)**	**-**	**(6)**	**-**	**1,155**	**1,068**	**2,419**	**3,487**
As at 31 March 2023	**86**	**(4)**	**15,315**	**1,721**	**(1,936)**	**2,123**	**(85)**	**(6)**	**85**	**8,880**	**1,155**	**27,334**	**24,682**	**52,016**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated)	Equity attributable to equity holders of the parent company												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	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	10.27												2.4	
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**-**	**-**	**3**	**69**	**2,651**	**-**	**17,080**	**22,914**	**39,994**
Amendment to the accounting policy – application of IFRS 17	-	-	-	-	-	(716)	22	-	-	5,743	-	5,049	-	5,049
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**(716)**	**22**	**3**	**69**	**8,394**	**-**	**22,129**	**22,914**	**45,043**
										-				
Net profit (loss)	-	-	-	-	-	-	-	-	-	-	884	884	852	1,736
Net other comprehensive income	-	-	-	-	(889)	1,879	(54)	-	18	-	-	954	(1,366)	(412)
Total comprehensive income	**-**	**-**	**-**	**-**	**(889)**	**1,879**	**(54)**	**-**	**18**	**-**	**884**	**1,838**	**(514)**	**1,324**
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)**	**1,163**	**(32)**	**3**	**87**	**8,394**	**884**	**23,967**	**22,400**	**46,367**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Profit before tax		3,412	2,366
Adjustments		14,368	3,409
Movement in loan receivables from clients		(151)	(1,825)
Movement in liabilities under deposits		14,134	6,403
Movement in the valuation of assets measured at fair value		(160)	(79)
Interest income and expenses		(1,344)	(788)
Realized gains/losses from investing activities and impairment losses		422	408
Net foreign exchange differences		(139)	113
Amortization of intangible assets and depreciation of property, plant and equipment		325	346
Movement in insurance contract assets and liabilities		2,137	(31)
Movement in reinsurance contract assets and liabilities		(1,432)	(285)
Movement in receivables		370	167
Movement in liabilities		(897)	479
Cash flows on investment contracts		2	-
Acquisitions and redemptions of participation units and investment certificates of investment funds		1	(34)
Income tax paid		(519)	(411)
Other adjustments		1,619	(1,054)
Net cash flows from operating activities		**17,780**	**5,775**
Cash flows from investing activities			
Inflows		479,868	137,295
- sale of investment property		-	1
- proceeds from investment property		106	90
- sale of intangible assets and of property, plant and equipment		15	36
- sale of interests and shares		129	251
- realization of debt securities		336,301	51,162
- closure of buy-sell-back transactions		77,017	54,081
- closure of term deposits with credit institutions		53,453	21,524
- realization of other investments		12,507	9,872
- interest received		327	271
- dividends received		1	1
- other proceeds from investments		12	6

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Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Expenditures		(493,191)	(141,068)
- purchase of investment property		(8)	(23)
- maintenance of investment property		(47)	(40)
- purchase of intangible assets and of property, plant and equipment		(232)	(181)
- purchase of interests and shares		(159)	(235)
- purchase of interests and shares in subsidiaries		-	(13)
- purchase of debt securities		(350,068)	(47,525)
- opening of buy-sell-back transactions		(76,035)	(54,031)
- opening of term deposits with credit institutions		(54,484)	(28,990)
- acquisition of other investments		(12,152)	(10,024)
- other expenses on investments		(6)	(6)
Net cash flows from investing activities		**(13,323)**	**(3,773)**
Przepływy środków pieniężnych z działalności finansowej			
Inflows		34,683	43,547
- proceeds from loans and borrowings	10.35	217	633
- proceeds on the issue of own debt securities	10.35	303	4,901
- opening of repurchase transactions	10.35	34,163	38,013
Expenditures		(34,361)	(34,409)
- repayment of loans and borrowings	10.35	(387)	(300)
- redemption of own debt securities	10.35	(2,494)	(3,663)
- closure of repurchase transactions	10.35	(31,265)	(30,326)
- interest on loans and borrowings	10.35	-	(7)
- interest on outstanding debt securities	10.35	(139)	(32)
- expenditures on leases	10.35	(76)	(81)
Net cash flows from financing activities		**322**	**9,138**
Total net cash flows		**4,779**	**11,140**
Cash and cash equivalents at the beginning of the period		15,960	9,447
Movement in cash due to foreign exchange differences		(30)	58
Cash and cash equivalents at the end of the period, including:		20,709	20,645
- restricted cash		86	73

Notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

These condensed interim consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("condensed interim consolidated financial statements" and "PZU Group", respectively) have been prepared in line with requirements of International Accounting Standard 34 "Interim Financial Reporting", as endorsed by the Commission of European Communities, and with 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 PZU Group for 2022.

Parent company's quarterly standalone financial information

Pursuant to Article 62 para. 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 para. 1a of the Accounting Act, 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 General Meeting of Shareholders of PZU has not made the decision referred to in Article 45 para. 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 implementing acts issued on the basis thereof, including, in particular:

- Regulation of the Minister of Finance on the special accounting principles for insurance and reinsurance undertakings of 12 April 2016;
- Regulation of the Minister of Finance on the detailed principles for recognition, valuation methods, scope of disclosure and presentation of financial instruments of 12 December 2001.

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover a 3-month period from 1 January to 31 March 2023.

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

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

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

FX rates

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

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

Due to the currency exchange restrictions in Ukraine and irregular quotations of the Ukrainian hryvnia by the NBP, PZU Group established an exchange rate for conversion of data of Ukrainian companies in accordance with the NBU Regulation (https://zakon.rada.gov.ua/laws/show/v0018500-22#n67), in keeping with which authorised institutions (banks) purchase and sell foreign currency, as commissioned by clients, in non-cash transactions:

- in USD – at the exchange rate which may not deviate by more than 1% from the official exchange rate announced by the NBU at the transaction date;
- in other foreign currencies – at the exchange rate which may not deviate by more than 1% from the rate determined on the basis of the official exchange rate of the hryvnia to the US dollar, in effect at the transaction date, as well as information on the current exchange rates of foreign currencies to the US dollar (or the US dollar to foreign currencies) on the international foreign exchange markets, which are obtained via trade information systems at the transaction date.

The official exchange rate of the Ukrainian hryvnia to American dollar adopted by the NBU (which on 21 July 2022 was and continues to be 36.5686 UAH/USD) was converted into Polish zloty at the USD/PLN exchange rate announced by the NBP. In keeping with the aforementioned method for establishing the Ukrainian hryvnia exchange rate, the PLN/UAH exchange rate was 0.1174 PLN/UAH on 31 March 2023 (and 0.1204 on 31 December 2022). The average exchange rate was established by applying the aforementioned method at the end of each month in the period from January to March 2023.

Currency	1 January – 31 March 2023	1 January – 31 March 2022	31 March 2023	31 December 2022
EUR	4.7005	4.6472	4.6755	4.6899
GBP	5.3467	5.5431	5.3107	5.2957
UAH	0.1193	0.1431	0.1174	0.1204

Going concern assumption

These condensed interim consolidated financial statements have been drawn up under the assumption that 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 hereof, there are no facts or circumstances that would indicate that a threat exists to the PZU Group's capability of continuing its operations in a 12-month period following the end of the reporting period as a result of an intentional or compulsory discontinuation or a mayor curtailment of its current activities.

When making this assumption, the Management Board of PZU took into account, in its assessment, an impact of risk factors such as, in particular, the macroeconomic situation and the armed conflict persisting in Ukraine (for additional information on this issue please see section 26.5).

Discontinued operations

In the 3-month period 3 ended 31 March 2023 PZU Group did not discontinue any significant type of the activities carried out.

Seasonal or cyclical business

The PZU Group's business is not of a significantly seasonal or cyclical nature.

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 Ukraina – PRJSC IC PZU Ukraine.

PZU Ukraina Życie – 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 terms

BFG – Bank Guarantee Fund [Bankowy Fundusz Gwarancyjny].

CIRS – Cross-currency interest rate swap.

COR – Combined operating ratio, calculated for the non-life insurance sector. This is the ratio of insurance service expenses, including amounts recoverable from reinsurers to the net income on insurance activities; a decrease in the value of this indicator signifies an improvement in efficiency (Combined Operating Ratio).

CSM – Contractual service margin.

EBC – European Central Bank.

Fed – Federal Reserve System.

FRA – Forward rate agreement .

GMM – General measurement model, for measurement of insurance contracts according to IFRS 17.

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

IRS – Interest rate swap.

PZU's standalone financial statements for 2022 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2022, prepared in accordance with PAS, signed by the Management Board of PZU on 29 March 2023.

KNF – Polish Financial Supervision Authority.

LIC – Liability for incurred claims.

LRC – Liability for remaining coverage.

Operating result margin in life insurance – profitability of life insurance segments, calculated as the ratio of the profit or loss on operating activities to the net income on insurance activities; the higher the ratio, the better the efficiency.

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

MRA – Modified retrospective approach.

NBP – National Bank of Poland.

NBU – National Bank of Ukraine.

PAA – Premium allocation approach.

POCI – Purchased or originated credit –impaired financial assets.

PSR – Accounting Act of 29 September 1994 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, less the minority interest at the beginning and at the end of the reporting period; the higher the ratio, the better the efficiency .

aROE– adjusted return on equity, calculated on the basis of equity, excluding cumulative other comprehensive income relating to finance income and expenses on insurance and reinsurance activities.

Regulation on Current and Periodic Information – Regulation of the Minister of Finance 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 of 29 March 2018.

IASB – International Accounting Standards Board.

Consolidated financial statements – consolidated financial statements of PZU Group prepared in accordance with IFRS for the year ended 31 December 2022.

CJEU – Court of Justice of the European Union.

UKNF – Polish Financial Supervision Authority.

UOKiK – Office of Competition and Consumer Protection.

Insurance Activity Act – Act on Insurance and Reinsurance Activity of 11 September 2015.

Financial leverage ratio – The quotient of debt to the PZU Group's 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. The ratio calculated on the basis of the categories disclosed in the PZU Group's consolidated financial statements net of the banking sector.

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; the lower the ratio, the better the efficiency .

Ordinary General Meeting of Shareholders of PZU – Ordinary General Meeting of Shareholders of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

2. Information on PZU and PZU Group

2.1 Key information on PZU Group

Key information on the Group	
Name of the reporting entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Legal form	Joint stock company [Spółka Akcyjna]
Registered office	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Country of registration	Poland
Registration address of the entity's offices	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Principal place of business	Poland
Core activities	Non-life 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 of the Capital City of Warsaw, 13th Commercial Division of the National Court Register, Commercial Register – KRS 0000009831

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million 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 2023	31 December 2022	
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%	100.00%	Non-life insurance. http://www.balta.lv/
7	PRJSC IC PZU Ukraine	Kiev (Ukraine)	01/07/2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PRJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01/07/2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva gyvybes draudimas	Vilnius (Lithuania)	26/04/2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07/06/2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07/06/2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07/06/2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07/06/2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07/06/2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11/12/2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07/06/2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07/06/2017	46.81% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Kraków	07/06/2017	20.02%	20.02%	Call centre services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07/06/2017	20.02%	20.02%	Development activities.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07/06/2017	20.02%	20.02%	Development activities.

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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 2023	31 December 2022	
Consolidated companies – Pekao Group – continued						
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.	Warsaw	18/12/2015	31.93%	31.93%	Lease 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.	Kraków	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 activities.
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 – Grupa PZU Zdrowie						
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/
41	Starówka sp. z o.o.	Warsaw	03/06/2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/

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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 2023	31 December 2022	
Consolidated companies – PZU Zdrowie Group – continued						
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	Centrum Medyczne Nowa 5 sp. z o.o.	Gorzów Wlkp.	30/12/2022	100.00%	100.00%	Medical services. http://www.nowa5.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.	Kraków	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 activities.
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

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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 2023	31 December 2022	
Consolidated companies – other companies – continued						
57	Omicron BIS SA	Warsaw	28/08/2014	100.00%	100.00%	No business activities carried out.
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 activities carried out.
61	PZU Projekt 01 SA	Warsaw	01/09/2020	100.00%	100.00%	No business activities carried out.
Consolidated companies – Armatura Group						
62	Armatura Kraków SA	Kraków	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	AQ SA in liquidation	Kraków	15/01/2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
64	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15/01/2015	100.00%	100.00%	No business activities carried out.
Consolidated companies – mutual funds						
65	PZU SFIO Universum	Warsaw	15/12/2009	n/a	n/a	Investment of funds collected from fund members.
66	PZU FIZ Sektora Nieruchomości 2 [2)]	Warsaw	21/11/2011	n/a	n/a	As above.
67	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12/12/2012	n/a	n/a	As above.
68	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19/11/2012	n/a	n/a	As above.
69	inPZU Inwestycji Ostrożnych	Warsaw	10/04/2018	n/a	n/a	As above.
70	inPZU Obligacje Polskie	Warsaw	10/04/2018	n/a	n/a	As above.
71	inPZU Akcje Polskie	Warsaw	10/05/2018	n/a	n/a	As above.
72	inPZU Akcje Rynków Rozwiniętych	Warsaw	10/05/2018	n/a	n/a	As above.
73	inPZU Obligacje Rynków Rozwiniętych	Warsaw	10/05/2018	n/a	n/a	As above.
74	inPZU Obligacje Rynków Wschodzących	Warsaw	10/05/2018	n/a	n/a	As above.
75	inPZU Akcje Rynków Wschodzących	Warsaw	28/10/2019	n/a	n/a	As above.
76	inPZU Akcje Amerykańskie	Warsaw	28/10/2019	n/a	n/a	As above.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million 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 2023	31 December 2022	
Consolidated companies – mutual funds – continued						
77	inPZU Akcje CEEplus	Warsaw	28/10/2019	n/a	n/a	As above.
78	inPZU Puls Życia 2025	Warsaw	22/10/2020	n/a	n/a	As above.
79	inPZU Puls Życia 2030	Warsaw	22/10/2020	n/a	n/a	As above.
80	inPZU Puls Życia 2040	Warsaw	22/10/2020	n/a	n/a	As above.
81	inPZU Puls Życia 2050	Warsaw	22/10/2020	n/a	n/a	As above.
82	inPZU Puls Życia 2060	Warsaw	22/10/2020	n/a	n/a	As above.
83	PZU FIZ Legato	Warsaw	11/08/2021	n/a	n/a	As above.
84	inPZU Akcje Rynku Surowców	Warsaw	15/12/2021	n/a	n/a	As above.
85	inPZU Akcje Rynku Złota	Warsaw	15/12/2021	n/a	n/a	As above.
86	inPZU Akcje Sektora Zielonej Energii	Warsaw	15/12/2021	n/a	n/a	As above.
87	inPZU Akcje Sektora Informatycznego	Warsaw	15/12/2021	n/a	n/a	As above.
88	inPZU Akcje Sektora Nieruchomości	Warsaw	15/12/2021	n/a	n/a	As above.
89	inPZU Akcje Europejskie	Warsaw	15/12/2021	n/a	n/a	As above.
90	inPZU Obligacje Inflacyjne	Warsaw	15/12/2021	n/a	n/a	As above.
Associates						
91	Sigma BIS SA	Warsaw	03/10/2019	34.00%	34.00%	Advertising activities.
92	RUCH SA	Warsaw	23/12/2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
93	Krajowy Integrator Płatności SA [3]	Poznań	31/03/2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

[1] PZU holds directly a 33.5% equity stake in Pekao Financial Services sp. z o.o., while Pekao holds 66.5%.
[2] Fundusz PZU FIZ Sektora Nieruchomości 2 conducts its investment activities through 30 (consolidated) subsidiaries established under commercial law.
[3] Pekao's associate in which it holds a 38.33% stake. Therefore, the Management Board of PZU believes that PZU Group has a significant impact on this company.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

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

The accounting policy concerning the settlement of acquisition transactions is presented in detail in the consolidated financial statements for 2022.

In the 3-month period ended 31 March 2023, the scope of consolidation and the structure of PZU Group remained unchanged.

2.4 Non-controlling interests

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

Name of the entity	31 March 2023	31 December 2022
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%

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

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

Carrying amount of non-controlling interests	31 March 2023	31 December 2022
Pekao Group	20,095	18,184
Alior Bank Group	4,586	4,078
Other	1	1
Total	**24,682**	**22,263**

Both Pekao and Alior Bank conduct operations primarily in the territory of Poland. The tables below present 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.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Assets	Pekao Group		Alior Bank Group	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Goodwill	693	693	-	-
Intangible assets	1,979	2,009	389	390
Deferred tax assets	1,399	1,572	1,329	1,458
Other assets	179	111	96	48
Property, plant and equipment	1,664	1,706	723	744
Entities measured by the equity method	50	48	-	-
Assets held for sale	14	930	-	41
Assets securing liabilities	3,999	14	48	2
Loan receivables from clients	154,986	155,174	57,053	57,095
Financial derivatives	13,578	15,369	557	544
Investment financial assets	94,721	84,829	17,046	17,162
Measured at amortized cost	78,927	67,167	5,058	7,195
Measured at fair value through other comprehensive income	14,427	16,594	11,929	9,896
Measured at fair value through profit or loss	1,367	1,068	59	71
Receivables	4,111	5,976	2,334	2,663
Cash and cash equivalents	15,236	12,681	4,578	2,551
Total assets	**292,609**	**281,112**	**84,153**	**82,698**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Equity				
Equity attributable to equity holders of the parent company	25,125	22,736	6,737	5,991
Share capital	263	263	1,306	1,306
Other capital	19,756	18,828	4,602	4,229
Retained earnings	5,106	3,645	829	456
Non-controlling interests	13	12	-	-
Total equity	**25,138**	**22,748**	**6,737**	**5,991**
Liabilities				
Subordinated liabilities	2,851	2,789	1,176	1,164
Liabilities on the issue of own debt securities	7,800	10,338	999	752
Liabilities to banks	6,687	7,450	304	270
Liabilities to clients under deposits	222,475	208,696	70,856	70,025
Derivatives	15,679	18,698	1,648	1,935
Other liabilities	10,594	9,023	2,212	2,274
Provisions	1,363	1,347	219	285
Deferred tax liability	22	23	2	2
Total liabilities	**267,471**	**258,364**	**77,416**	**76,707**
Total equity and liabilities	**292,609**	**281,112**	**84,153**	**82,698**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2023	PZU Group	Pekao data excluded	Alior Bank data excluded	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Insurance service result before reinsurance	(125)	-	-	(6)	(131)
Insurance revenue	6,401	-	-	-	6,401
Insurance service expenses	(6,526)	-	-	(6)	(6,532)
Net expenses from reinsurance contracts held	979	-	-	-	979
Reinsurance premium allocation	(366)	-	-	-	(366)
Amounts recoverable from reinsurers	1,345	-	-	-	1,345
Insurance service result	854	-	-	(6)	848
Insurance finance income or expenses	(475)	-	-	-	(475)
Reinsurance finance income or expenses	14	-	-	-	14
Interest income calculated using the effective interest rate	6,843	(4,563)	(1,774)	45	551
Other net investment income	(102)	212	(79)	(3)	28
Result on derecognition of financial instruments and investments	171	23	(2)	-	192
Movement in allowances for expected credit losses and impairment losses on financial instruments	(349)	109	251	-	11
Net movement in fair value of assets and liabilities measured at fair value	160	(115)	48	-	93
Fee and commission result	909	(683)	(202)	34	58
Operating costs of banks	(1,489)	1,093	444	(49)	(1)
Interest expenses	(2,196)	1,472	682	(17)	(59)
Other operating income and expenses	(930)	524	114	16	(276)
Operating profit (loss)	**3,410**	**(1,928)**	**(518)**	**20**	**984**
Share of the net financial profit or loss of entities measured by the equity method	2	(1)	-	-	1
Gross profit (loss)	**3,412**	**(1,929)**	**(518)**	**20**	**985**
Income tax	(835)	468	145	(12)	(234)
Net profit (loss)	**2,577**	**(1,461)**	**(373)**	**8**	**751**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2022 (restated)	**PZU Group**	**Pekao data excluded**	**Alior Bank data excluded**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Insurance service result before reinsurance	975	-	-	(1)	974
Insurance revenue	5,999	-	-	-	5,999
Insurance service expenses	(5,024)	-	-	(1)	(5,025)
Net expenses from reinsurance contracts held	(116)	-	-	-	(116)
Reinsurance premium allocation	(248)	-	-	-	(248)
Amounts recoverable from reinsurers	132	-	-	-	132
Insurance service result	859	-	-	(1)	858
Insurance finance income or expenses	(42)	-	-	-	(42)
Reinsurance finance income or expenses	10	-	-	-	10
Interest income calculated using the effective interest rate	3,580	(2,213)	(1,033)	39	373
Other net investment income	2	(121)	164	(5)	40
Result on derecognition of financial instruments and investments	(91)	11	-	2	(78)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(375)	134	231	-	(10)
Net movement in fair value of assets and liabilities measured at fair value	79	(13)	(199)	-	(133)
Fee and commission result	919	(703)	(188)	37	65
Operating costs of banks	(1,266)	951	393	(77)	1
Interest expenses	(368)	185	159	(5)	(29)
Other operating income and expenses	(930)	517	191	8	(214)
Operating profit (loss)	**2,377**	**(1,252)**	**(282)**	**(2)**	**841**
Share of the net financial profit or loss of entities measured by the equity method	(11)	(1)	-	-	(12)
Gross profit (loss)	**2,366**	**(1,253)**	**(282)**	**(2)**	**829**
Income tax	(630)	337	105	4	(184)
Net profit (loss)	**1,736**	**(916)**	**(177)**	**2**	**645**

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 31 March 2023	**1 January – 31 March 2022**	**1 January – 31 March 2023**	**1 January – 31 March 2022**
Net profit	1,461	916	373	177
Gross other comprehensive income	1,146	(1,575)	461	(630)
Subject to subsequent transfer to profit or loss	1,093	(1,549)	457	(672)
Valuation of debt instruments	419	(555)	110	(142)
Measurement of loan receivables from clients	(1)	(2)	-	-
Foreign exchange translation differences	-	-	-	-
Cash flow hedging	675	(992)	347	(530)
Not to be transferred to profit or loss in the future	53	(26)	4	42
Valuation of equity instruments	53	(26)	4	42
Tax recognized in other comprehensive income	(218)	300	(88)	121
Total net comprehensive income	**2,389**	**(359)**	**746**	**(332)**

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Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 March 2023	1 January – 31 March 2022	1 January – 31 March 2023	1 January – 31 March 2022
Net cash flows from operating activities	14,521	8,201	1,612	(2,561)
Net cash flows from investing activities	(12,164)	(4,360)	223	255
Net cash flows from financing activities	211	5,918	212	3,520
Total net cash flows	**2,568**	**9,759**	**2,047**	**1,214**

Pekao and Alior Bank did not pay any dividend both in the period from 1 January to 31 March 2023 and in the period from 1 January to 31 March 2022.

3. Shareholder structure

At the date of conveying this interim report, the PZU's shareholder structure, including shareholders with at least 5% of votes at the General Meeting of Shareholder of PZU is as follows:

No.	Shareholder's name	Number of shares and votes at the General Meeting of Shareholders	Percentage held in the share capital and in the total number of votes at the General Meeting of Shareholders
1	State Treasury	295,217,300	34.1875%
2	Funds managed by Nationale Nederlanden Powszechne Towarzystwo Emerytalne Spółka Akcyjna [1]	49,223,000	5.7003%
3	Allianz Polska Otwarty Fundusz Emerytalny [2]	45,736,958	5.2966%
4	Other shareholders	473,345,742	54.8156%
Total		**863,523,000**	**100%**

[1] Number of shares held by the funds at the Extraordinary General Meeting of Shareholders of PZU held on 1 September 2022.
[2] Pursuant to the notice dated 17 May 2023.

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

On 5 January 2023, PZU was notified by Powszechne Towarzystwo Emerytalne Allianz Polska SA of an increase in the shareholding and in the general number of votes of PZU over 5% held jointly by the funds managed by Powszechne Towarzystwo Emerytalne Allianz Polska SA, i.e. by Allianz Polska Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska Otwarty Fundusz Emerytalny, which held in total 48,183,212 PZU shares, corresponding to 5.5798% of the share capital and entitling to 5.5798% of shares at the General Meeting of Shareholders of PZU.

On 17 May 2023, PZU was notified by Powszechne Towarzystwo Emerytalne Allianz Polska SA that on 12 May 2023 as a result of liquidation of Drugi Allianz Polska Otwarty Fundusz Emerytalnego and of transfer of its assets to Allianz Polska Otwarty Fundusz Emerytalnu, Allianz Polska Otwarty Fundusz Emerytalny held 45,736,958 PZU shares, corresponding to 5.2966% of the share capital and entitling to 5.2966 votes at the General Meeting of Shareholders.

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

At the date of conveying this interim report and as the date of conveying the annual report for 2022 (i.e. at 30 March 2023) the Management Board member of PZU, Tomasz Kulik held 2,847 PZU shares. Other members of the Management Board, Supervisory Board or the Directors of the Group did not hold PZU shares or rights to them either at the date of conveying this interim report or at the date of conveying the annual report for 2022.

4. Key management personnel – Management Board of the parent company and Directors of PZU Group

4.1 Management Board of the parent company

From 1 January 2023, the composition of the Management Board of PZU was as follows:

- Beata Kozłowska-Chyła – President of the Mangement Board of PZU;
- Ernest Bejda – Member of the Management Board of PZU;
- Małgorzata Kot – Member of the Management Board of PZU;
- Krzysztof Kozłowski – Member of the Management Board of PZU;
- Tomasz Kulik – Member of the Management Board of PZU;
- Piotr Nowak – Member of the Management Board of PZU;
- Maciej Rapkiewicz – Member of the Management Board of PZU;
- Małgorzata Sadurska – Member of the Management Board of PZU.

Until the date of conveying the condensed interim financial statements the composition of the Management Board has remained unchanged.

4.2 Directors of PZU Group

From 1 January 2023, Directors of PZU Group were as follows:

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

On 1 February 2023, Małgorzata Skibińska was appointed to the position of PZU Group Director at PZU and PZU Życie.

From 1 February 2023 to the date of conveying the condensed interim financial statements, PZU Group Directors were as follows:

- Aleksandra Agatowska (PZU);
- Andrzej Jaworski (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Sylwia Matusiak (PZU);
- Piotr Nowak (PZU Życie);
- Małgorzata Sadurska (PZU Życie);
- Małgorzata Skibińska (PZU and PZU Życie).

5. Supervisory Board of the parent company

From 1 January 2023 to the date of conveying the condensed interim financial statements, the composition of the Supervisory Board of PZU was as follows:

- Robert Jastrzębski – Chairman of the Supervisory Board;
- Paweł Górecki – Deputy Chairman of the Supervisory Board;
- Robert Śnitko – Secretary of the Supervisory Board;
- Marcin Chludziński – Member of the Supervisory Board;
- Agata Górnicka – Member of the Supervisory Board;
- Elżbieta Mączyńska-Ziemacka – Member of the Supervisory Board;
- Krzysztof Opolski – Member of the Supervisory Board;
- Radosław Sierpiński – Member of the Supervisory Board;
- Piotr Wachowiak – Member of the Supervisory Board;
- Józef Wierzbowski – Member of the Supervisory Board;
- Maciej Zaborowski – Member of the Supervisory Board.

The accounting policies, key estimates and judgements are presented in detail in the consolidated financial statements of PZU Group for 2022, except for issues relating to the implementation of IFRS 17, which are described in section 6.1.

6. Key accounting policies, key estimates and judgments

6.1 Implementation of IFRS 17

On 18 May 2017, the IASB published IFRS 17 (Insurance Contracts), which replaced IFRS 4 in force until the end of 2022.

The new standard introduces completely new unified rules for measuring insurance contracts, ensuring better comparability of statements between various insurance companies, and also providing for a series of new disclosures to recipients of financial statements.

IFRS 17 introduces new principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts containing a discretionary participation feature.

According to the new standard:

- embedded derivatives, distinct investment components and the promise to provide the insured with separated goods or services other than those covered by the insurance contract are separated from the insurance and reinsurance contracts and accounted for in accordance with other relevant standards;
- the insurance and reinsurance contracts are divided into groups which are subject to measurement;
- The IFRS 17 contract group measurement model is based on estimates of the present value of future cash flows from the performance of contracts relating to future and past services attributable to the group, and on the contractual service margin that represents the unearned profit;
- the profit on a group of insurance contracts is accounted for in each period in which the insurance service is provided. If a group of contracts is expected to be onerous in the remaining insurance period, the loss is recognized directly in profit or loss.

For the presentation in the statement of financial position, portfolios of insurance contracts and portfolios of reinsurance contracts are aggregated and the following portfolios are presented separately:

- insurance contracts issued that are assets;
- reinsurance contracts held that are assets;
- insurance contracts issued that are liabilities;
- reinsurance contracts held that are liabilities.

The structure of presentation in the consolidated profit and loss account and in the consolidated statement of comprehensive income has changed significantly. In accordance with IFRS 4, reported were, inter alia, premiums written, costs incurred and benefits gained during the period and a movement in the insurance contract liabilities.

In accordance with IFRS 17, the entity presents separately the following items:

- insurance revenue;
- insurance service expenses;
- net expenses from reinsurance contracts held;
- insurance finance income or expenses;

The most significant part of the operating profit for the PZU Group's insurance activities is the insurance service result. According to IFRS 17, the insurance service result comprises:

- insurance revenue which corresponds to the amount of remuneration paid to PZU Group for services provided in a given period; and
- insurance service expenses which include incurred claims, amortization of insurance acquisition cash flows, changes relating to the past service and losses on groups of onerous contracts.

The accounting policies and estimates applied for the purposes of measuring insurance contracts and reinsurance contracts, as well as the approach adapted to the preparation of disclosures are presented in detail in section 6.1.2.

6.1.1. Transition date

PZU applied IFRS 17 Insurance Contracts for the first time to the consolidated financial statements for the periods starting on 1 January 2023.

Due to the need to prepare comparative data, 1 January 2022 is considered the transition date to the new standard.

At the transition date, PZU Group:

- identified, recognized and measured each group of insurance contracts in accordance with one of the three methods described above;
- deleted all the balances existing in the statement of financial position, which would not have existed, were IFRS 17 always applied. These included certain deferred acquisition costs of insurance contracts, insurance receivables and payables, provisions for fees attributable to the existing insurance contracts which, in accordance with IFRS 17, are included in the measurement of insurance contracts;
- recognized all the net differences in the consolidated equity.

According to the standard the following three methods can be applied for the purpose of measuring financial items at the transition date:

- full retrospective approach (FRA) – a method in which an entity measures groups of insurance contracts as if the standard had been applied from the beginning for those contracts;
- modified retrospective approach (MRA) – a method that allows for simplifications to be applied to the FRA if its full application is impracticable;
- fair value approach – a method that is permitted, if the FRA is impracticable or if the entity has decided not to use the MRA.

PZU Group applied all the three methods depending on the availability of historical data. The full retrospective approach was applied to all the groups of non-life insurance contracts, except for liabilities arising from claims incurred before 1993, to which the fair value approach was applied. Approaches applied to the groups of life insurance contracts are presented in the table below:

Contract recognition date	Approach
2019 or later	• Full retrospective approach for contracts other than those unit-linked • Fair value approach for contracts other than those unit-linked
From 2015 to 2018	• Full retrospective approach for individually continued insurance contracts • Fair value approach for contracts other than those unit-linked • Modified retrospective approach for other contracts
2014 and earlier	• Modified retrospective approach for individually continued insurance contracts and for traditional insurance contracts • Fair value approach for other products

6.1.1.1. Full retrospective approach

In accordance with section C3 of IFRS 17, PZU Group applied the full retrospective approach unless it was impracticable. PZU Group decided that it was not feasible to apply the standard in practice within the meaning of section 5 of International Accounting Standard 8, i.e. the application of the requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a specific prior period the entity cannot make amendments to the accounting policies or to restate data retrospectively, if:

- effects of the retrospective approach cannot be determined;
- the retrospective application of policies or restatement of data requires that assumptions be made with regard to the intentions of management in the period concerned; or
- The retrospective application of policies or restatement of data requires that significant estimates be made and it is not possible to objectively separate from the information obtained such information on the estimates which:
  - confirm the conditions as at the date at which the values are to be recognized, measured or disclosed;
  - could be available when the financial statements for that period were authorized for publication.

For those parts of the business for which the application of the full retrospective approach was impracticable (e.g. the data were not collected at the required resolution, there were changes in IT systems that made it impossible to prepare the relevant data, and significant changes were made in actuarial models that in practice were impossible to implement retrospectively), PZU Group applied simplifications permitted by the standard.

6.1.1.2. Simplifications

If the application of the full retrospective approach is considered as impracticable, PZU Group applies either the modified retrospective approach or the fair value approach, and a decision thereon is made individually for each group of contracts. The decision is made based on factors such as the availability of historical data, their significance and also information on whether the group of contracts forms part of the portfolio held for sale by PZU Group at the transition date.

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The table below presents simplifications which are allowed by the standard and which are applied by PZU Group, along with a reference to the relevant provisions of IFRS 17 depending on the approach taken:

Simplification	Modified retrospective approach	Fair value approach
Evaluation of the groups of contracts on the basis of information available at the transition date, instead of at the contract inception date	C9	C21-22
Failure to comply with the provisions of section 22 to divide groups into those that do not include contracts entered into at intervals greater than one year	C10	C23
Use of historical cash flows in order to determine contractual service margins	C12	n/a
Simplified calculation of a risk adjustment for non-financial risks at the initial recognition of the group of insurance contracts	C14	n/a
Breakdown of financial revenues or expenses into amounts recognized in profit or loss and amounts recognized in other comprehensive income	C18-19	C24

Modified retrospective approach

If the application of the full retrospective approach is impracticable, IFRS 17 allows this approach to be modified and the so-called modified retrospective approach to be applied, in order to achieve a result as close as possible to that of the full retrospective approach. Modifications allowed by the standard include the areas of evaluation of contracts or groups of insurance contracts that would have been made at the commencement thereof or initial recognition, and also the estimation of amounts related to a contractual service margin or a loss component, and the estimation of insurance finance expenses or income.

The modified retrospective approach was applied by PZU Group only to the groups of contracts without direct participation features. To the groups of contracts with direct participation features, to which the application of the full retrospective approach was impracticable, PZU Group applied the fair value approach.

If permitted by IFRS 17 and if considered reasonable by PZU Group, the following modifications were applied to the full retrospective approach:

- the use of historical cash flows and reliable estimates of historical cash flows to estimate future cash flows and the contractual service margin or the loss component at the date of initial recognition for the groups of insurance contracts without direct participation features
- the estimation of a risk adjustment for non-financial risks at the date of initial recognition of the group of insurance contracts and the derecognition of risks prior to the transition date based on information available at the transition date. Information used for these estimates includes in particular the calibration of the risk adjustment for non-financial risks at the transition date, estimation of cash flows at the date of initial recognition of the group of insurance contracts and historical data available at the transition date
- aggregation of groups of contracts issued more than one year apart.

When making estimates with the use of the modified retrospective approach, PZU Group did not apply the modifications permitted by IFRS 17 in relation to the determination of discount rates.

When applying the modified retrospective approach, PZU Group used reasonable and documented information, making the maximum use of the data available, without any excessive cost or effort, which PZU Group would have used if the full retrospective approach had been applied.

Fair value approach

PZU Group applied the fair value approach in the transition period to:

- pension and traditional insurance products issued before 1993, for which no reasonable or documented information is available without incurring excessive costs or making extra efforts which would make it feasible for the calculations to be made in accordance with the modified retrospective approach.

- Unit-linked products for which the application of the MRA or FRA would result in excessive costs being incurred or efforts being made, which would be disproportionate to the extent of potential distortion of reported data which is considered insignificant.

For contracts to which the fair value approach was applied, PZU Group determined the CSM at the transition date as a difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. When determining the fair value, PZU Group applied requirements of IFRS 13 (Determination of fair value), except for the requirement concerning a minimum limit on demand deposits.

PZU Group aggregated contracts issued more than one year apart, when determining groups of insurance contracts in accordance with the fair value approach at the transition date, as it did not have reasonable or documented information allowing for a division to be made into groups that contain only contracts concluded within a 1-year period.

When applying the fair value approach, PZU Group used reasonable and reliable information available as the transition date for the purposes of:

- identifying groups of insurance contracts;
- determining of whether insurance contracts meet the definition of an insurance contract with direct participation features;
- identifying discretionary cash flows for insurance contracts without direct participation features.

PZU Group applied the income method to measure the fair value of insurance contracts at the transition date.

6.1.1.3. Discounting cash flows

For the purposes of determining the discount rate curves for the measurement of liabilities for periods from 31 December 2015, PZU Group uses the risk-free discount rates published by EIOPA, and for earlier periods, i.e. years prior to the implementation of Solvency II Directive, PZU Group determined historical discount rate curves based on the bond market data and on the evaluation of availability of illiquid assets in the market. In applying discount rates, the assessment of liquidity of liabilities of a given product was also taken into account. The illiquidity premium was determined on the basis of market data and liquidity characteristics of individual groups of insurance contracts.

6.1.1.4. Impact of the application of IFRS 17 on the consolidated statement of financial position as at 1 January 2022

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Assets at 1 January 2022	IFRS 4	Reclassifications	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Goodwill	2,778	-	-	-	-	2,778	Goodwill
Intangible assets	3,403	-	-	-	-	3,403	Intangible assets
Deferred tax assets	3,058	-	19	-	-	3,077	Deferred tax assets
Other assets	633	(234)	(68)	-	-	331	Other assets
	n/a	-	246	(187)	-	59	Insurance contract assets
	n/a	1,535	(172)	-	176	1,539	Reinsurance contract assets
Deferred acquisition costs	1,573	(1,573)	-	-	-	n/a	
Reinsurers' share in technical provisions	2,540	(2,540)	-	-	-	n/a	
Property, plant and equipment	4,144	-	-	-	-	4,144	Property, plant and equipment
Investment property	2,773	-	-	-	-	2,773	Investment property
Entities measured by the equity method	93	-	-	-	-	93	Entities measured by the equity method
Assets securing liabilities	1,336	-	-	-	-	1,336	Assets securing liabilities
Assets held for sale	643	-	-	-	-	643	Assets held for sale
Loan receivables from clients	215,008	-	-	-	-	215,008	Loan receivables from clients
Financial derivatives	8,328	-	-	-	-	8,328	Financial derivatives
Investment financial assets	136,954	-	-	-	-	136,954	Investment financial assets
Measured at amortized cost	82,893	-	-	-	-	82,893	Measured at amortized cost
Measured at fair value through other comprehensive income	44,896	-	-	-	-	44,896	Measured at fair value through other comprehensive income
Measured at fair value through profit or loss	9,165	-	-	-	-	9,165	Measured at fair value through profit or loss
Receivables	9,418	(2,636)	-	-	-	6,782	Receivables
Cash and cash equivalents	9,447	-	-	-	-	9,447	Cash and cash equivalents
Total assets	**402,129**	**(5,448)**	**25**	**(187)**	**176**	**396,695**	**Total assets**

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Equity and liabilities at 1 January 2022	IFRS 4	Reclassifica-tions	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Equity							Equity
Equity attributable to equity holders of the parent company	17,080	-	13,851	(7,778)	(1,024)	22,129	Equity attributable to equity holders of the parent company
Share capital	86	-	-	-	-	86	Share capital
Other capital	14,343	-	(694)	-	-	13,649	Other capital
Retained earnings	2,651	-	14,545	(7,778)	(1,024)	8,394	Retained earnings
Non-controlling interests	22,914	-	-	-	-	22,914	Non-controlling interests
Total equity	**39,994**	**-**	**13,851**	**(7,778)**	**(1,024)**	**45,043**	**Total equity**
Liabilities							**Liabilities**
	n/a	46,862	(15,090)	7,591	1,203	40,566	Insurance contract liabilities
	n/a	16	15	-	(3)	28	Reinsurance contract liabilities
Technical provisions	50,173	(50,173)	-	-	-	n/a	
Subordinated liabilities	6,274	-	-	-	-	6,274	Subordinated liabilities
Liabilities on the issue of own debt securities	5,940	-	-	-	-	5,940	Liabilities on the issue of own debt securities
Liabilities to banks	7,470	-	-	-	-	7,470	Liabilities to banks
Liabilities to clients under deposits	265,155	-	-	-	-	265,155	Liabilities to clients under deposits
Financial derivatives	11,880	-	-	-	-	11,880	Financial derivatives
Other liabilities	13,203	(2,125)	75	-	-	11,153	Other liabilities
Provisions	1,206	-	-	-	-	1,206	Provisions
Deferred tax liability	806	(28)	1,174	-	-	1,952	Deferred tax liability
Liabilities related to assets classified as held for sale	28	-	-	-	-	28	Liabilities related to assets classified as held for sale
Total liabilities	**362,135**	**(5,448)**	**(13,826)**	**7,591**	**1,200**	**351,652**	**Total liabilities**
Total equity and liabilities	**402,129**	**(5,448)**	**25**	**(187)**	**176**	**396,695**	**Total equity and liabilities**

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The impact of IFRS 17 on the PZU Group's consolidated equity as at 1 January 2022 was PLN 5,049 million. This resulted, in particular, from a change in the approach to the measurement of liabilities under insurance and reinsurance contracts in accordance with requirements of IFRS 17. The new standard allows for a part of the difference in the measurement of liabilities to be recognized as a reduction in the cumulative other comprehensive income by PLN 694 million. This is a result of declines in historical interest rates. The discount rates determined at the initial recognition (the so-called locked-in rates, which are rates at the conclusion of a policy or the occurrence of a loss event) were mostly higher than the risk-free rates at 1 January 2022.

At 31 December 2022, the impact of IFRS 17 on the equity in comparison to that at 1 January 2022 increased due to a significant increase in the risk-free interest rates in 2022.

6.1.2. Insurance contracts and reinsurance contracts

The table below presents information on the key decisions made by PZU Group with regard to the accounting policy applied for the measurement purposes in accordance with IFRS 17.

Accounting policy	Decision made by PZU Group	Justification
Method for determining discount rate curves	In default approach curves determined in a bottom-up approach. However, if justified, PZU Group allows for a top-down approach to be applied.	Approach adopted for consistency with Solvency II discounting methodology
Recognition of finance income or expenses	For products other than unit-linked products, financial income and expenses are allocated between profit or loss and other comprehensive income. For unit-linked products, finance income and expenses are fully recognized in profit or loss.	Decision made in order to reduce the volatility of net performance and to keep the approach applied to the measurement of liabilities as consistent as possible with the approach applied to measurement of assets.
Risk adjustment for non-financial risk	Depending on a nature of the risk concerned, a risk adjustment for non-financial risks is determined using the VaR method or the cost-of-capital method.	Decision on the valuation method made taking into account the characteristics of a risk profile of the portfolio concerned, as referred to in section 6.1.2.1, in order to best reflect uncertainties of measurement associated with non-financial risks.
Contract grouping	For life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a year (“annual cohorts”). For non-life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a quarter (“quarterly cohorts”).	PZU Group considered that, for long-term life insurance contracts, the introduction of a period shorter than one year would lead to excessive complexity (storage of greater quantities of data), which would not be commensurate with the benefits obtained. However, for non-life insurance products, which are mostly short-term, the division into quarterly cohorts allows for the profitability to be assessed in a more accurate manner in events in which tariffs change during the year.
Impact of accounting estimates made in the interim financial statements	PZU Group decided to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period (the so-called year-to-date reporting).	Consistency with the reporting according to IFRS 4 and with the reporting according to other accounting standards.

6.1.2.1. Identification and aggregation of insurance contracts

In order to identify insurance contracts and inward reinsurance contracts that are within the scope of IFRS 17, PZU Group verifies whether, under a given contract, the entity assumes a significant insurance risk from the policyholder and undertakes to compensate the policyholder for an adverse effect defined as an uncertain future insured event.

For the measurement of liabilities, insurance contracts are aggregated into groups of insurance contracts. The purpose of this aggregation is to ensure that profits are recognized in time in proportion to the insurance services provided, and that losses are recognized immediately when the entity assesses that the concluded contract is onerous. Offsetting profits and losses between the identified groups of insurance contracts is not permitted. Insurance contracts are grouped at initial recognition and in accordance with IFRS 17 the PZU Group does not reassess the groups in subsequent periods, unless certain conditions for derecognition as set forth in IFRS 17 related to the modification of the insurance contract are met. Insurance contracts are aggregated into groups of insurance contracts, taking into consideration the following three dimensions:

- portfolio – contracts with similar risk characteristics and managed jointly;
- profitability – contracts forming part of the same profitability group – one of the three defined by IFRS 17:
  - the group of contracts that are onerous at the initial recognition;
  - the group of contracts that at the initial recognition have no significant possibility of becoming onerous subsequently;
  - the group of remaining contracts in the portfolio;
- cohorts – contracts concluded at intervals no longer than one year.

In PZU Group, portfolios are divided into groups of insurance contracts, taking into account the aforementioned dimensions as follows:

- portfolio:
  - on the basis of the risk characteristics of individual insurance contracts and on the basis of existing insurance portfolio management processes;
- profitability:
  - for life insurance – at the level of an individual contract through the measurement of the insurance contract concerned;
  - for non-life insurance – all the contracts are treated as profitable unless there are facts or circumstances that indicate that they are not profitable. Profitability is assessed at the level of portfolio, but assessment at the level of a quarterly or annual cohort level is also permitted;
- cohorts:
  - it is decided to use annual cohorts for life insurance products and quarterly cohorts for non-life insurance products, which allows for insurance contracts to be allocated in a more accurate manner to the profitability for the measurement of liabilities.

Insurance contracts may contain one or more components that would be subject to the scope of another IFRS, were they separate contracts. As a result of the analysis carried out, PZU Group concluded that it does not offer products with components that constitute separate contracts that would fall within the scope of another IFRS.

6.1.2.2. Contract boundary

The measurement of an insurance contract only includes cash flows that fall within the contract boundary. The contract boundary separates future cash flows related to the existing insurance contracts from cash flows related to future insurance contracts that have not yet been concluded.

In PZU Group, the contract boundary ends when PZU Group is unable to oblige the insured to pay premiums or when PZU Group does not have any substantive obligation to provide services covered by the insurance contract to the insured. The substantive obligation to provide services expires when:

- it is feasible in practice to reassess the risk for an individual insured and, consequently, a price or level of benefits can be established that fully reflects that risk (assessment at the level of an individual insured); or
- both of the following criteria are met:
  - it is feasible in practice to reassess the risks associated with the portfolio of insurance contracts, of which the contract concerned forms part, and, consequently, a price or level of benefits can be determined that fully reflects the risks associated with that portfolio (assessment at the level of a portfolio); and
  - the measurement of premiums up to the date of risk reassessment does not take into account any risk associated with periods following the reassessment date.

In PZU Group, the approach to the contract boundary, except for a few exceptions, is consistent with the definition of the end of the contract provided for in the insurance contract as a legal document. The exception is the contract boundaries applied in life insurance riders. From the formal point of view, they are mostly annual renewable contracts. For the measurement according to IFRS 17, riders are recognized and measured together with the main contracts, unless it is determined that a rider contract constitutes a separate insurance contract and is to be separated from the main contract. Rider contracts are modelled taking into account renewals, and the contract boundaries for riders correspond to those of the main contracts. In the case of unit-linked insurance products, for the measurement under IFRS 17, in products with regular premiums, the boundary ends when PZU Group has no substantial obligation to provide services under the insurance contract to the insured, which in practice means that all the forecast future flows are included in the measurement.

6.1.2.3. Measurement methods

In accordance with IFRS 17, insurance contracts are measured according to the following rules:

- GMM – general measurement model;

  The total insurance liability is calculated as the sum of:

  - fulfilment cash flows which comprise: (1) estimates of future cash flows within the contract boundary, (2) an adjustment that reflects the time value of money and the financial risk related to the future cash flows, to the extent that the financial risk is not included in the estimates of future cash flows, (3) a risk adjustment for non-financial risks that reflects the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risks; and
  - the contractual service margin representing an unearned profit. The contractual service margin is sensitive to changes in cash flow estimates triggered by changes in non-economic assumptions. The contractual service margin cannot be a negative value – losses on contracts are recognized directly in profit or loss;

- PAA – premium allocation approach:

  The premium allocation approach is a simplified approach, according to which the measurement of the liability for the remaining coverage period is analogous to the IFRS 4 premium provision mechanism (without separate presentation of a risk adjustment for non-financial risks and contractual service margin), and the liabilities for claims incurred are measured in the same way as for the general measurement model. The PAA method is applied to contracts that meet the relevant eligibility criteria at the initial recognition, allowing for the simplification set out in section 53 or 69 of IFRS 17 to be applied:

  - the entity reasonably expects that this simplification produces a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the GMM method;
  - The coverage period for each contract in the group of contracts is one year or less.

  Groups of insurance contracts can be valued using the PAA method, despite not meeting the aforementioned criteria, provided that an impact on the consolidated financial statements of PZU Group is considered insignificant.

  In line with the PZU Group's policy, under the PAA approach, cash flows from acquisitions are included in the liability for the remaining coverage (LRC) and are therefore amortized over the entire coverage period.

  For the PAA method, PZU Group does not make any adjustment to reflect the time value of money and the impact of financial risk.

- VFA – variable fee approach:

  The liability measurement method used for reporting contracts with direct participation features according to IFRS 17, liabilities are measured in a way similar to that used under the GMM approach, with the difference that changes in the contractual service margin in subsequent periods also include an impact of changes in economic assumptions, and not only operational assumptions. The variable fee approach is only used to measure selected products, following the assessment of the eligibility criteria at the initial recognition of a group of contracts. PZU Group applies the VFA to unit-linked products for which the qualifying criteria are met (in the PZU Group's assessment, all the unit-linked products meet the criteria for applying the VFA).

In PZU Group, the majority of non-life insurance and reinsurance contracts meet the criteria for applying the simplified premium allocation approach (PAA). Life insurance contracts are measured using a general model, i.e. the GMM, and to contracts with direct participation features PZU Group applies the VFA model.

Liability for remaining coverage without loss component

Measurement at the initial recognition

A liability for remaining coverage corresponding to the entity's obligation to:

- investigate and pay valid claims under existing insurance contracts for insurance events that have not yet occurred (i.e. the obligation in respect of the unexpired portion of the insurance coverage); and
- pay amounts resulting from the existing insurance contracts, which are not included in the section above and which are related to:
  - the insurance contract services not yet provided (i.e., obligations relating to the future provision of insurance contract services); or
  - investment components or other amounts which are not related to the provision of services covered by the insurance contract and which have not been transferred to the liability for incurred claims.

At the initial recognition, the total insurance contract liability consists of the liability for remaining coverage and the carrying amount is zero for non-onerous contracts.

In keeping with the general measurement model, as well as under the variable fee method, at the initial recognition, the liability for remaining coverage is measured as:

- the fulfilment cash flows described in section 6.1.2.4; and increased by
- the contractual service margin representing the unearned profit.

The premium allocation approach does not take into account the contractual service margin, the risk adjustment for non-financial risks and the adjustment reflecting the value of money in time. The liability for remaining coverage at the initial recognition is measured as:

- premiums received at the initial recognition;
- less any cash flow from the acquisition of insurance contracts at that date, unless the entity allows for those payments to be recognized as expenses and decides to do so; and
- increased or decreased by any amount resulting from the derecognition at that date:
  - any assets in respect of the insurance contract acquisition cash flows paid out prior to the initial recognition of the group of insurance contracts; and
  - any other assets or liabilities previously recognized in respect of cash flows relating to the group of contracts.

Subsequent measurement

After initial recognition, at the end of each reporting period, the liability for remaining coverage, excluding the contractual service margin, is remeasured using the fulfilment cash flows of the contracts related to the future service provision period, i.e. it includes the present value of the best estimate of the cash flows necessary to meet the liability along with the risk adjustment for non-financial risks.

According to the general measurement model and the variable fee approach, at the end of the reporting period, the liability for remaining coverage, excluding the contractual service margin, is estimated as:

- the liability for remaining coverage at the beginning of the reporting period, which is equal to the value of this liability at the end of the previous reporting period;
- increased/decreased by the estimated expected amounts relating to premiums and claims and expenses to be paid in the reporting period as estimated at the previous reporting date;

- increased/decreased by changes in estimates resulting from changes in assumptions concerning future services;
- increased/decreased by the interest accrued on the present carrying amount of the future cash flows and risk adjustments for non-financial risks during the reporting period using the discount rate applied at initial recognition;
- increased/decreased by the remaining interest calculated using current discount rates.

Under the premium allocation approach, at the end of the reporting period, the liability for remaining coverage is measured as:

- the value of this liability at the beginning of the period;
- increased by the premiums received in the period concerned;
- decreased by cash flows from the acquisition of insurance contracts;
- increased by amounts related to the amortization of cash flows from the acquisition of insurance contracts recognized as expenses during the reporting period;
- increased by adjustments to the funding, if applicable;
- decreased by the amount recognized as insurance revenue for services provided during the period;
- decreased by any value of the investment component paid or transferred to the liability for the damage incurred.

Accordingly, PZU Group recognizes income or expense relating the following changes in the carrying amount of the liability for remaining coverage:

- insurance revenue – changes due to reduction in the liability for remaining coverage in relation to the services provided during the period concerned;
- insurance service expenses – changes due to losses on groups of onerous contracts and to the reversal of such losses;
- financial income or expenses from insurance – changes due to the time value of money and the impact of financial risk.

Contractual service margin

Measurement at the initial recognition

The contractual service margin is determined for non-onerous contracts at the initial recognition and reflects unearned profits. It is then recognized as profit over the life of a contract (group of contracts).

The contractual service margin can be defined as the difference between the expected cash inflows less the expected outflows within the contract boundary, adjusted for non-financial risks and the time value of money.

Contractual service margin is not created using the premium allocation approach. In accordance with the general measurement model and the variable fee approach, PZU Group measures the contractual service margin at the initial recognition of a group of contracts at an amount that results in no income or expenses arising from:

- the initial recognition of an amount of cash flows from the performance of contracts;
- cash flows arising from contracts in the group at that date;
- the derecognition at the date of initial recognition of:
  - any assets for acquisition cash flows;
  - any other assets or liabilities previously recognized for cash flows related to the group of contracts.

As a general rule, the contractual service margin cannot be used to amortize losses over time. The loss recognized at the recognition of a group of contracts is recognized in profit or loss in the amount of the excess of the expected value of future cash outflows over the expected future value of inflows, taking into account the impact of non-financial risks (through a risk adjustment for non-financial risks). This approach is the opposite approach to the method in which the expected profit from insurance business is recognized and distributed over time in proportion to the insurance service provided.

Subsequent measurement

The contractual service margin at the end of the reporting period reflects the profit in the group of insurance contracts that has not yet been recognized in profit or loss, as it is related to the future service to be provided under the contracts within the group.

At the end of each reporting period, the carrying value of the contractual service margin for the group of insurance contracts without direct participation features, measured in accordance with the general measurement model, corresponds to the carrying value at the beginning of the reporting period adjusted by:

- the effect of any new contracts added to the group;
- any interest accreted on the carrying value of the contractual service margin during the reporting period, measured at the discount rates at the initial recognition (“locked-in” rates);
- changes in fulfilment cash flows relating to future services, except for when:
  - such an increase in the contract cash flow exceeds the carrying value of the contractual service margin, resulting in a loss; or
  - such a decrease in the contract cash flows is attributed to a loss component within the liability for remaining coverage;
- an impact of the exchange rate differences on the contractual service margin;
- any amount recognized as insurance revenue in relation to the transfer of contracted services in the period, determined by allocating the contractual service margin remaining at the end of the reporting period (before any allocation) to the current and remaining coverage period.

At the end of each reporting period, the carrying value of the contractual service margin for the group of insurance contracts with direct participation features, valued using the variable fee approach, corresponds to the carrying amount at the beginning of the reporting period adjusted by:

- the effect of any new contracts added to the group;
- a change in the amount of the entity's share in the fair value of the underlying items;
- changes in fulfilment cash flows relating to the future service;
- an impact of the exchange rate differences on the contractual service margin;
- any amount recognized as insurance revenue in relation to the transfer of services covered by the insurance contract in the period, determined by allocating the contractual service margin remaining at the end of the reporting period (before any allocation) to the current and remaining coverage period.

Loss component

Measurement at the initial recognition

The loss component is part of the liability for remaining coverage (LRC) and represents losses from the group of onerous contracts. Initial loss is separated in profit or loss, and adjusted in subsequent periods for further losses, reversal of losses, and their release over time, so that the loss component for a group of contracts is nil until the end of the coverage period of a group of contracts.

The loss component is established regardless of the measurement model applied (i.e., it is set for the general measurement model, variable fee approach, and the premium allocation approach).

An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows (with risk adjustment for non-financial risk and the time value of money) allocated to the contract, any previously recognized insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow, recognized in profit or loss.

For the purpose of the premium allocation approach, if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the entity establishes a loss component which can be expressed as the difference between the carrying amount of the liability for remaining coverage calculated in line with PAA and the fulfilment cash flows that relate to remaining coverage of the group in line with the general model.

Subsequent measurement

Under the general measurement model and variable fee approach, an insurance contract or group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if unfavorable changes relating to future service arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk exceed the carrying amount of the contractual service margin. In this case, the PZU Group recognizes the loss in profit or loss in the amount equal to that excess.

If on subsequent measurement, there are favorable changes relating to future service, the PZU Group recognizes profit (reversal of losses) in profit or loss to the maximum amount of the loss component. Should favorable changes in measurement exceed the value of the loss component, the PZU Group recognizes profit equal to the recognized loss component, whereas the excess is recognized as contractual service margin in profit or loss in future periods.

In the case of premium allocation approach, loss component in subsequent measurement is measured using the same calculation method as at initial recognition.

Liability for incurred claims

Measurement at the initial recognition

The liability for incurred claims corresponds to the entity's obligation to:

- investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and
- pay amounts other than specified in the point above and which relate to:
  - insurance contract services which have already been provided; or
  - any investment components or other amounts which are not related to the provision of insurance contract services and which are not in the liability for remaining coverage.

In all valuation models, at the initial recognition of a group of contracts, the liability for incurred claims is usually zero, as no insured events have yet occurred.

A liability for incurred claims must be recognized, separately for each type of insured event, after the occurrence of a single insured event, covering the expected payment of claims for such an insured event for which claims have not yet been paid in full.

The liability for incurred claims comprises cash flows associated with the service provided at the reporting date. The measurement of this liability is based on the same requirements for (1) estimates of future cash flows, (2) discount rates and (3) risk adjustment for non-financial risks that also apply to the liability for remaining coverage at the initial and subsequent measurement.

Subsequent measurement

At each reporting period, the liability for incurred claims occurred is measured at the value of fulfilment cash flows related to the claims incurred. This means that it includes the present value of the expected future cash flows required to settle the liability for claims incurred and the costs for each insured event, together with a risk adjustment for non-financial risks.

For all the measurement methods, at the end of the reporting period, the liability for incurred claims is estimated as:

- the value of the liability for incurred claims at the beginning of the reporting period, which is equal to the value thereof at the end of the preceding reporting period;
- increased/decreased by the expected cash flows associated with the past service;
- increased by an increase in the liability for claims and costs incurred during the period but not yet paid;
- increased/decreased by any interest accreted on the carrying amount of the best estimate of liabilities and risk adjustment for non-financial risks during the reporting period using the discount rate applied at the initial recognition (“locked-in” rate);
- increased/decreased by the remaining interest calculated using current discount rates.

Subsequent to the initial recognition, the entity recognizes income or expenses for the following changes in the carrying amount of the liability for incurred claims:

- in the case of the costs of insurance services, changes due to an increase in the liability for claims and costs incurred in the period, excluding any investment component;
- in the case of the costs of insurance services, changes due to any subsequent changes in fulfilment cash flows related to the claims and costs incurred; and
- for insurance financial income or expenses, changes due to the time value of money and the impact of financial risks.

PZU Group decided to apply the Year-to-Date (YTD) cumulative value recognition in calculations. Consequently, the 'previous reporting period' to which the above points refer is always the end of December of the previous year.

Assets in relation to cash flows from the acquisition of insurance contracts

Prepayments understood as acquisition expenses paid before their due date and initial recognition of an contract (where payments are not within the contract boundary but are part of fulfilment cash flows following the initial recognition of a contract) are not recognized under the liability for remaining coverage (LRC) until the initial recognition of the contract; however, they are treated as part of the insurance contract assets or liabilities as assets for insurance acquisition cash flows.

If facts and circumstances indicate that an asset may have been impaired in relation to the cash flows from the acquisition of insurance contracts, then at the end of each reporting period PZU Group:

- recognizes an impairment loss so that the carrying amount of each asset does not exceed the expected net cash inflows for that group of insurance contracts (group level impairment testing); and
- if the asset relates to the groups expected to arise from the renewal of insurance contracts in the group (additional impairment test), recognizes an impairment loss to the extent that:
  - cash flows from the acquisition of insurance contracts will exceed the net cash inflows from expected anticipated renewals;
  - the excess has not already been recognized as an impairment loss.

A previously recognized impairment loss is reversed in a subsequent reporting period to the extent to which the impairment has improved or no longer exists. As at 31 March 2023, 31 December 2022 and 1 January 2022, PZU Group in IFRS 17 reporting did not recognize any asset relating to the groups expected to arise from the renewal of insurance contracts in the group.

6.1.2.4. Significant judgements and estimation processes

Cash flows from the performance of insurance contracts

In estimating future cash flows, PZU Group considers all reasonable and documented information that is available without undue cost and effort. This information includes both historical internal and external data concerning claims and other measurement elements, updated to reflect current expectations of future events.

Estimates of future cash flows include all cash flows expected to arise from the fulfilment of the rights and obligations under the insurance contract. Estimates of future cash flows:

- are within the contract boundary;
- take into account all available information on the amount, timing and uncertainty of these future cash flows;
- are unambiguous – the entity estimates a risk adjustment for non-financial risks separately from other estimates; the entity also estimates cash flows separately from the adjustment for time value of money and financial risks, unless the most appropriate measurement technique combines these estimates;
- reflect the entity's perspective, provided that estimates of any relevant market variables are consistent with observable market prices for those variables;
- are up to date.

Inward reinsurance contracts are modelled on the same basis as insurance contracts. However, given the characteristics of reinsurance contracts, at the initial recognition (and similarly at each subsequent reporting date), expected future cash flows include an estimate of future cash flows arising from underlying insurance contracts that will be issued in the future by the ceding company but are within the boundaries of inward reinsurance contracts.

Key assumptions

For the purposes of estimating future cash flows, PZU Group applies the following key assumptions:

- loss ratios – assumptions are based on historical observations as well as the PZU Group's own assessment of expected claims patterns for new insurance contracts;
- mortality – assumptions are based on life tables published by the Central Statistical Office, which are adjusted to reflect historical observations on mortality in the PZU Group's contract portfolio, taking into account expert judgment.
- morbidity/accidentality – assumptions are based on historical observations in the PZU Group's contract portfolio, taking into account expert assessment.
- lapse rates on surrenders – assumptions are based on historical withdrawal levels in the PZU Group's contract portfolio, taking into account expert judgment;
- expense assumptions – assumptions are based on the PZU Group's own assessment of future costs, taking into account the inflation of costs.

Finance income and expenses from insurance

PZU Group presents finance income or expenses from insurance and reinsurance in the consolidated profit and loss account or in other comprehensive income (for portfolios of contracts without direct participation features). In order to determine the value of finance income or expenses from insurance and reinsurance, PZU Group uses:

- for groups of insurance contracts in respect of which changes in the assumptions concerning financial risk do not have a significant impact on the amounts paid to policyholders, the discount rates determined at the initial recognition of the group of contracts;
- for groups of insurance contracts in respect of which changes in the financial risk assumptions have a significant impact on the amounts paid to policyholders, discount rates that allocate the remaining adjusted expected finance income or expenses over the remaining life of the group of contracts at a fixed rate

Discounting cash flows

In principle, PZU Group uses discount rate curves determined using the bottom-up approach (IFRS 17 section B80), under which discount curves are to be determined as liquid risk-free rate curves, adjusted for the illiquidity premium resulting from the difference in the liquidity characteristics of rates observed in the market and the liquidity characteristics of insurance contracts. For groups of contracts created after the transition date to be measured under IFRS 17 (i.e. after 1 January 2022), PZU Group applies the EIOPA methodology to determine the base risk-free curves. The approach to the discount rate curves determined for groups recognized prior to the transition date is described in section 6.1.1. In specific cases, a top-down approach may be applied, in which the yield curve is adjusted for factors that are not relevant to the insurance contracts. A top-down approach may only be applied if an easy identifiable reference portfolio exists.

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The table below shows the curves used to discount cash flows from insurance contracts for the main currencies. The 'No premium' rows present the base curves for IFRS 17 portfolios in which no illiquidity premium has been applied to the measurement (applicable to group insurance and J insurance products, bank products and unit-linked products). The 'Annuities' rows present curves for PLN and EUR, respectively, used for the purposes of discounting the selected annuity liabilities concerning non-life insurance products. On the other hand, in the line "IK" – curves used for the purposes of discounting selected individual life insurance products, in particular, the individually continued portfolio and term insurance products.

Portfolio duration	31 March 2023					31 December 2022					1 January 2022				
	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years
No premium															
PLN	5,95%	5,87%	5,92%	5,50%	4,66%	6,40%	6,74%	6,65%	6,01%	4,94%	2,66%	3,73%	3,57%	3,50%	3,52%
EUR	3,47%	2,93%	2,85%	2,67%	2,83%	3,18%	3,13%	3,09%	2,76%	2,85%	(0,59%)	(0,08%)	0,21%	0,46%	1,62%
USD	4,72%	3,33%	3,16%	3,11%	2,85%	5,07%	3,95%	3,75%	3,63%	2,82%	0,44%	1,28%	1,50%	1,67%	1,36%
GBP	4,55%	3,78%	3,42%	3,31%	2,90%	4,46%	4,06%	3,71%	3,53%	3,31%	0,78%	1,20%	1,11%	1,05%	0,75%
NOK	3,60%	3,11%	3,01%	3,08%	3,22%	3,46%	3,15%	3,20%	3,29%	3,36%	1,14%	1,78%	1,81%	2,23%	2,80%
Annuities															
PLN	6,41%	6,32%	6,38%	5,95%	5,12%	6,81%	7,15%	7,05%	6,42%	5,35%	2,83%	3,91%	3,75%	3,68%	3,69%
EUR	3,50%	2,96%	2,88%	2,70%	2,86%	3,23%	3,18%	3,14%	2,82%	2,90%	(0,57%)	(0,07%)	0,22%	0,47%	1,64%
IK															
PLN	6,25%	6,17%	6,22%	5,80%	4,97%	6,67%	7,01%	6,92%	6,28%	5,21%	2,77%	3,85%	3,69%	3,62%	3,63%

Risk adjustment for non-financial risks

PZU Group includes risk adjustment for non-financial risks (e.g. underwriting risk, surrender risk and expense risk) in the measurement of insurance contracts. The risk adjustment for non-financial risk is a form of compensation for the uncertainty about the amount and timing of cash flows arising from the groups of insurance contracts. Due to the different risk characteristics, the risk adjustment for cash flows relating to the future coverage period (included in the liability for remaining coverage) and the past coverage period (included in the liability for claims incurred) are estimated separately.

PZU Group estimates the adjustment using available methods, including the Value at Risk (VaR) method and techniques based on the cost of capital method.

At the entity level, the risk adjustment is determined as a simple sum of the risk adjustments for all groups of contracts in the portfolio, disregarding any correlations between these groups. Finally, a confidence level is determined based on the value obtained, which takes into account correlations and diversification effects between homogeneous risk groups. To determine the risk adjustment, parameters are selected in such a way that the final value of the adjustment for non-financial risk corresponds to a confidence level from the range defined by PZU Group as the expected confidence level for the purposes of determining non-financial risk in IFRS 17 financial reporting.

Confidence levels for the final determined non-financial risk adjustment were 79% at 31 March 2023 and 31 December 2022, and 80% at 31 March 2022: 80%.

Coverage units

The contractual service margin recognized in profit or loss during the period is determined by PZU Group in accordance with the requirements of IFRS 17 based on the units of services provided (*coverage units*). For each group of insurance contracts, PZU Group identifies the coverage units provided based on the characteristics of the product, considering for each contract the quantity of the benefits provided and expected coverage period. For each product segment, PZU Group identifies the coverage units in accordance with the table below:

Type of insurance	Basis for calculating units of service provided
Group and continuing insurance	Total sum insured under the main contract and the riders
Traditional insurance	In addition to the annuity insurances, the total sum insured from the main contract and the riders. Annual benefit for annuity insurance
Unit-linked insurance	Total sum insured under the main contract (also includes the value of the fund)
Other insurance	Total sum insured under the main contract and riders

6.1.2.5. Consolidated profit and loss account and consolidated statement of other comprehensive income

PZU Group presents separately in the consolidated profit and loss account and in the consolidated statement of other comprehensive income:

- the insurance service result, including:
  - insurance revenue - the amount of remuneration to which the entity expects to be entitled in return for services provided in the period;
  - insurance service expenses:
    - incurred claims (excluding investment components) and other incurred insurance service expenses;
    - amortization of insurance acquisition cash flows;
    - changes that relate to past service, i.e., changes in fulfilment cash flows relating to the liability for incurred claims; and
    - losses on groups of onerous contracts, and reversals of such losses;
- insurance financial income or expenses:
  - the effect of the time value of money;
  - the effect of financial risks.

Under IFRS 17, PZU Group has the right to decide whether to present the total insurance finance income or expenses in the profit or loss account or decide to disaggregate them and present them separately in the profit or loss account and in the other comprehensive income for each IFRS 17 portfolio. PZU Group has exercised the option of disaggregation for all IFRS 17 portfolios.

6.1.2.6. Reinsurance contracts

A reinsurance contract is defined as an insurance contract issued by one entity (the reinsurer) to compensate another entity (the holder) for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

All reinsurance contracts issued by the PZU Group transfer significant insurance risk onto the reinsurer; therefore, they are considered reinsurance contracts held within the meaning of IFRS 17, and measured accordingly.

For outward reinsurance contracts, PZU Group applies the same identification, classification, measurement and presentation principles as for insurance contracts with the following key exceptions:

- Outward reinsurance contracts are divided into three profitability groups:
  - contracts for which there is a net gain at the initial recognition;
  - contracts where there is a net cost without a significant possibility of a net gain after initial recognition;
  - other contracts for which there is a net cost with a significant possibility of a net gain after initial recognition;

- Cash flows are within the contract boundary if they arise from substantive rights and obligations existing during the reporting period in which the entity:
  - is obliged to pay amounts to the reinsurer; or
  - has a material right to avail itself of the reinsurer's services .
- The valuation models applicable to outward reinsurance contracts are as follows:
  - general measurement model (GMM);
  - premium allocation approach (PAA);
- Outward reinsurance contracts are measured separately from the underlying insurance contracts to which they relate. The entity applies consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts and estimates of the present value of the underlying insurance contracts. In addition to applying consistent assumptions, PZU Group makes the following modifications to calculate the estimates of the present value of cash flows for outward reinsurance, compared to the underlying insurance contracts:
  - estimates of the present value of future cash flows for the group of outward reinsurance contracts include the effects of any risk of non-performance by the issuer of the reinsurance contract , taking into account an impact of collateral and the costs associated with settling disputes;
  - the estimate of the risk adjustment for non-financial risks shall be set so that it represents the amount of risk transferred by the cedant to the reinsurer;
- Requirements for determining the contractual service margin at the initial recognition are amended for outward reinsurance contracts to reflect the fact that for such groups of contracts there is no unearned profit, but instead there is a net cost or net gain on the purchasing the reinsurance contract. Accordingly, at the initial recognition:
  - PZU Group recognizes the net expense or gain on the purchasing the reinsurance contract group as contractual service margin, measured at an amount equal to the sum of the fulfilment cash flows, the value of any asset or liability ceasing to be recognized at that date and previously recognized in respect of cash flows relating to a group of outward reinsurance contracts, any cash flows occurring at that date; unless
  - the net cost of buying reinsurance coverage relates to events that occurred prior to the purchasing of the group of outward reinsurance contracts, in which case the costs are recognized immediately as an expense in profit or loss.

  In addition, when losses from onerous insurance contracts are recognized at the initial recognition, PZU Group recognizes a gain on outward reinsurance contracts to the extent that the outward reinsurance contracts were entered into prior to or at the same time as the underlying contracts. If the entity is entitled to recognize a loss recovery component at the initial recognition, the related income adjusts the initial value of the contractual service margin;
- In the consolidated statement of financial position, the consolidated profit and loss account and the consolidated statement of comprehensive income, for outward reinsurance contracts, PZU Group presents separately:
  - The net cost of outward reinsurance contracts:
    - reinsurance premiums allocation – the amount of remuneration to which the reinsurer expects to be entitled in return for services provided over a given period;
    - amounts recoverable from reinsurers: recoveries of claims incurred in the current period, excluding any investment component; recoveries of expenses incurred in the current period; changes related to past service; loss recovery component and changes in assumptions (so-called unlocking) of the loss recovery component;
  - Reinsurance financial income or expenses:
    - the effect of the time value of money;
    - the effect of financial risks.

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6.1.3. Other standards and interpretations and amendments to standards effective from 1 January 2023

The following amendments to standards have been applied to the consolidated financial statements.

Name of standard/interpretation	Approval Regulation	Comment
Amendments to IAS 1 - Presentation of Financial Statements	2021/1080	Under the amendments, an entity is required to disclose significant, rather than material (as before), accounting policies. The amendment provides examples of how to identify significant accounting policies and clarifies that an accounting policy may be material by its nature even if the figures are immaterial. An accounting principle is material if the users of the financial statements need it to understand other relevant information in the financial statements. Disclosure of immaterial accounting policies must not obscure material accounting policies. The change did not have a significant impact on the consolidated statements of PZU Group.
Amendments to IAS 8 - Accounting policies, changes in accounting estimates and errors correction	2022/357	Amendments to IAS 8 include: • replacing the definition of change in estimates with the definition of estimated values. According to the new definition, estimated values are "monetary amounts in the financial statements that are subject to measurement uncertainty"; • clarification that a change in an estimate resulting from new information or new developments does not constitute the correction of an error. In addition, the effects of a change in the inputs or the valuation technique used to determine the estimate are changes in estimates, unless they result from the correction of prior period errors; • an explanation that a change in estimate can affect only the profit or loss of the current period or the profit or loss of both the current and future periods. The effect of a change relating to the current period is recognized as income or expense for the current period. The effect, if any, on future periods is recognized as income or expense in future periods. The change did not have a significant impact on the consolidated statements of PZU Group.
Amendment to IAS 12 - Income taxes	2022/1392	Under the amendment, the exemption set out in IAS 12.15(b) for the initial recognition of deferred tax assets or liabilities 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 leasing transactions). The amendment applies to transactions that occur on or after the date that begins the earliest comparable period presented in the financial statements. The change did not have a significant impact on the consolidated statements of PZU Group.

6.1.4. Standards and interpretations and amendments to standards issued, not yet effective

The following changes have not yet been approved by the European Commission:

Name of standard/interpretation	Date of issue by the IASB	Effective date (according to IASB)	Comment
Amendment to IAS 1 - Classification of liabilities as current and non-current	23 January 2020	1 January 2023	The amendment clarifies that conditions existing at the end of the reporting period are taken into account when determining the right to defer a liability, and that the classification does not depend on an entity's intention or expectation to exercise the option to defer a liability. The changes will not have a significant impact on the consolidated financial statements of PZU Group.

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Name of standard/interpretation	Date of issue by the IASB	Effective date (according to IASB)	Comment
Amendment to IFRS 16 - Leases	22 September 2022	1 January 2024	The amendment requires that when measuring lease liabilities arising from a sale-leaseback, the seller (lessee) should not recognize any gain or loss associated with the retained right of use. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.

PZU Group does not expect the introduction of the above standards and interpretations to have a significant impact on the accounting policies applied by PZU Group.

6.2 Use of estimates and assumptions

PZU Group evaluated the estimates and assumptions made that affect the value of individual assets and liabilities of PZU Group, as well as revenues and costs presented in the condensed interim financial statements. Given the uncertainty of further economic developments, in particular due to the ongoing armed conflict in Ukraine, the estimates made may change in the future. Uncertainties mainly relate to forecasts of macroeconomic assumptions, in particular those relating to key economic indicators (inflation, level of expected economic slowdown, GDP, employment, housing prices, levels of market interest rates, possible disruptions in capital markets), possible disruptions in activity resulting from decisions taken by state institutions, businesses and consumers, the effectiveness of aid programs designed to support businesses and consumers, and the development of mortality rates.

6.2.1. Assets and liabilities under insurance and reinsurance contracts

Significant assumptions regarding the valuation of assets and liabilities under insurance and reinsurance contracts are presented in section 6.1.2.4.

6.2.2. Impairment and expected credit losses

6.2.2.1. Loans receivable from customers

In relation to risk:

- related to the armed conflict in Ukraine, its potential consequences for the situation of businesses and consumer sentiment;
- a larger-than-expected increase in interest rates, which may translate into an increase in the burden for some customers;
- a greater-than-expected economic slowdown due to increasing cost pressures on businesses, and
- subsequent COVID-19 mutations and subsequent waves of pandemics

PZU Group identifies an increased credit risk, which is taken into account in the estimation of impairment losses. Information on changes in impairment losses is presented in section 10.24.

6.2.2.2. Investment (investment) financial assets and receivables

In preparing the condensed interim financial statements, PZU Group took into account the economic conditions (such as market prices, interest rates or exchange rates) that existed as at the balance sheet date.

Information on changes in impairment losses is detailed in sections 10.5 and 10.24.

6.2.3. Goodwill

PZU Group did not recognize any goodwill impairment losses in the 3-month period ended 31 March 2023.

6.2.4. Provision for potential loan refunds

PZU Group monitors, on an ongoing basis, the value of estimated amounts resulting from prepaid consumer loans and, in the calculation of the provision for potential loan refunds, takes into account the most recent data on incoming claims and refund amounts. For detailed information thereon please see section 10.34.

6.2.5. Legal risk provision for foreign currency mortgage loans in Swiss francs

As at 31 March 2023, PZU Group assessed the probability of an impact of a legal risk of Swiss franc foreign currency mortgages on future expected cash flows from credit exposures and the probability of cash outflows.

Given the inconsistent court jurisprudence and the relatively short period of historical data on lawsuits, estimating the provision involves taking into account expert assumptions and is subject to significant uncertainty.

For more information thereon please see section 10.34.

7. Major events that have a significant impact on the structure of items of the financial statements

The implementation of IFRS 17 has had a significant impact on the structure of items of the condensed interim consolidated financial statements. Information about the application of IFRS 17 is presented in detail in section 6.1.

8. Correction of errors from previous years

In the 3-month period from 1 January to 31 March 2023, no corrections of errors from previous years were made.

9. Significant events after the end of the reporting period

On 8 May 2023, the Management Board of Alior Bank adopted a resolution approving the commencement of the book-building process in connection with the Alior Bank's intention to issue bonds, the liabilities from which will be the Alior Bank's eligible liabilities within the meaning of Article 97a para. 1 pt. 2 of the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution of 10 June 2016.

The book-building process will be carried out with the participation of institutional investors, in accordance with the provisions of the base prospectus compiled by Alior Bank, approved by the FSA's decision of 24 August 2022, as supplemented by subsequent supplements. Alior Bank will invite qualified investors, within the meaning of Article 2 pt. e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, to participate in the process concerned.

Key parameters of the bond issue scheduled are as follows:

- the maximum total nominal value of bonds is up to PLN 400 million, but having analyzed the reported demand for bonds, the Management Board of Alior Bank may decide to change the maximum total nominal value of bonds;
- the nominal value of a bond is PLN 400 thousand;
- bonds will not be secured by collateral;
- bonds will bear interest at a variable rate that is the sum of WIBOR 6M and a margin to be determined in the book-building process;

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- Alior Bank will apply for the admission and listing of bonds on the regulated market operated by the Giełda Papierów Wartościowych w Warszawie SA as part of Catalyst;
- The issue of bonds is planned for June 2023; however, Alior Bank will decide on the bond issue and its parameters after analyzing market conditions. Having analyzed the market conditions, Alior Bank may also decide not to issue bonds;
- The detailed terms of the issue and the exact value of the bond issue will be determined by the Alior Bank's Management Board at a later date, taking into account the results of the book-building process.

10. Notes to the condensed interim consolidated financial statements

10.1 Insurance and reinsurance contracts

10.1.1. Insurance contract revenue

Insurance contract revenue	1 January – 31 March 2023	1 January – 31 March 2022
Contracts not measured under the PAA	2,009	2,104
Amounts relating to changes in liabilities for the remaining coverage	1,850	1,939
Expected incurred claims and other insurance service expenses	1,477	1,619
Release of the risk adjustment for non-financial risk for the period	41	45
Contractual service margin recognized in profit or loss for services provided	355	294
Other (including experience adjustments for premium receipts)	(23)	(19)
Recovery of insurance acquisition cash flows	159	165
Contracts measured under the PAA	4,392	3,895
Total insurance contract revenue	**6,401**	**5,999**

10.1.2. Allocation of premium for reinsurance contracts

Allocation of premium for reinsurance contracts	1 January – 31 March 2023	1 January – 31 March 2022
Contracts not measured under the PAA	-	-
Contracts measured under the PAA	(366)	(248)
Allocation of reinsurance premiums, total	**(366)**	**(248)**

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10.1.3. Movement in insurance contract assets and liabilities

Movement in insurance contract assets and liabilities 1 January – 31 March 2023	LRC Excluding the loss component	LRC Loss component	LIC Contracts not under PAA	LIC – Contracts under PAA Estimated present value of the future cash flows	LIC – Contracts under PAA Risk adjustment for non-financial risks	Total
Beginning of the period	**22,481**	**642**	**724**	**12,373**	**1,127**	**37,347**
Assets	(73)	-	2	3	-	(68)
Liabilities	22,554	642	722	12,370	1,127	37,415
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(4,980)**	**44**	**1,878**	**4,277**	**115**	**1,334**
Insurance service result before reinsurance	(5,690)	39	1,872	3,828	76	125
Insurance contract revenue	(6,401)					(6,401)
Measured under the modified retrospective approach	(1,188)					(1,188)
Measured under the fair value	(70)					(70)
Other contracts	(5,143)					(5,143)
Insurance service expenses	1,030	39	1,568	3,813	76	6,526
Incurred claims and other insurance service expenses		(308)	1,568	3,813	76	5,149
Incurred in the period		(308)	1,568	2,701	121	4,082
Incurred in the past			-	1,112	(45)	1,067
Amortization of insurance acquisition cash flows	1,030					1,030
Losses and loss reversals on onerous contracts		347				347
Investment component	(319)		304	15		-
Net finance expenses from insurance contracts	710	5	6	454	39	1,214
Effect of movements in exchange rates	0	-	-	(5)	-	(5)
Cash flows	**6,149**		**(1,843)**	**(2,756)**		**1,550**
Premiums received	7,286					7,286
Insurance service expenses paid, including investment components			(1,843)	(2,756)		(4,599)
Insurance acquisition cash flows	(1,137)					(1,137)
Other changes	(10)	-	-	(3)	-	(13)
End of the period	**23,640**	**686**	**759**	**13,891**	**1,242**	**40,218**
Assets	(80)	-	3	3	-	(74)
Liabilities	23,720	686	756	13,888	1,242	40,292

Assets on acquisition expenses are presented as part of liabilities for remaining coverage.

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Movement in insurance contract assets and liabilities 1 January – 31 March 2022	LRC		LIC			Total
				Contracts under PAA		
	Excluding the loss component	Loss component	Contracts not under PAA	Estimated present value of future cash flows	Risk adjustment for non-financial risks	
Beginning of the period	**24,983**	**578**	**700**	**13,043**	**1,203**	**40,507**
Assets	(86)	6	18	3	-	(59)
Liabilities	25,069	572	682	13,040	1,203	40,566
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(6,776)**	**7**	**2,089**	**1,625**	**(192)**	**(3,247)**
Insurance service result before reinsurance	(5,551)	6	2,090	2,598	(118)	(975)
Insurance contract revenue	(5,999)					(5,999)
Measured under the modified retrospective approach	(1,178)					(1,178)
Measured under the fair value	(83)					(83)
Other contracts	(4,738)					(4,738)
Insurance service expenses	918	6	1,629	2,589	(118)	5,024
Incurred claims and other insurance service expenses		(295)	1,629	2,589	(118)	3,805
Incurred in the period		(295)	1,629	2,614	139	4,087
Incurred in the past			-	(25)	(257)	(282)
Amortization of insurance acquisition cash flows	918					918
Losses and loss reversals on onerous contracts		301				301
Investment component	(470)		461	9		-
Net finance expenses from insurance contracts	(1,226)	1	(1)	(984)	(74)	(2,284)
Effect of movements in exchange rates	1	-	-	11	-	12
Cash flows	**5,517**		**(2,085)**	**(2,545)**		**887**
Premiums received	6,512					6,512
Insurance service expenses paid, including investment components			(2,085)	(2,545)		(4,630)
Insurance acquisition cash flows	(995)					(995)
Other changes	9	1	(1)	5	1	15
End of the period	**23,733**	**586**	**703**	**12,128**	**1,012**	**38,162**
Assets	(84)	5	16	2	-	(61)
Liabilities	23,817	581	687	12,126	1,012	38,223

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Movement in insurance contract assets and liabilities Non PAA specifics	1 January – 31 March 2023				1 January – 31 March 2022			
	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM	Total	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM	Total
Beginning of the period	**8,041**	**1,373**	**8,162**	**17,576**	**11,159**	**1,605**	**7,778**	**20,542**
Assets	(300)	46	197	(57)	(299)	59	187	(53)
Liabilities	8,341	1,327	7,965	17,633	11,458	1,546	7,591	20,595
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**138**	**68**	**241**	**447**	**(1,377)**	**(171)**	**19**	**(1,529)**
Insurance service result before reinsurance	(418)	(16)	160	(274)	(245)	(9)	(49)	(303)
Changes that relate to future services	(432)	24	515	107	(132)	38	245	151
Contracts initially recognized in the period	(190)	32	286	128	(133)	40	251	158
Changes that adjust the CSM	(215)	(9)	229	5	12	(2)	(6)	4
Changes on onerous contracts	(27)	1		(26)	(11)	-		(11)
Changes that relate to current services	14	(40)	(355)	(381)	(114)	(47)	(294)	(455)
CSM recognized for services provided	-	-	(355)	(355)	-	-	(294)	(294)
Changes in risk adjustments for non-financial risks for the period		(40)		(40)		(47)		(47)
Experience adjustment for current service	14			14	(114)			(114)
Changes that relate to past services – changes for claims and other insurance service expenses	-	-		-	1	-		1
Net finance expenses from insurance contracts	556	84	81	721	(1,132)	(162)	68	(1,226)
Effect of movements in exchange rates	-	-	-	-	-	-	-	-
Cash flows	**270**			**270**	**(134)**			**(134)**
Premiums received	2,269			2,269	2,105			2,105
Insurance service expenses paid, including investment component	(1,833)			(1,833)	(2,063)			(2,063)
Insurance acquisition cash flows	(166)			(166)	(176)			(176)
Other changes	(5)	-	(4)	(9)	-	(1)	2	1
End of the period	**8 444**	**1,441**	**8,399**	**18,284**	**9,648**	**1,433**	**7,799**	**18,880**
Assets	(347)	53	229	(65)	(347)	65	228	(54)
Liabilities	8,791	1,388	8,170	18,349	9,995	1,368	7,571	18,934

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10.1.4. Movement in reinsurance contract assets and liabilities

Movement in reinsurance contract assets and liabilities 1 January – 31 March 2023	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	Excluding the loss recovery component	**Loss recovery component**	**Contracts not under PAA**	**Estimates of the present value of the future cash flows**	**Risk adjustment for non-financial risks**	
Beginning of the period	**(68)**	**-**	**-**	**(2,035)**	**(201)**	**(2,304)**
Assets	(116)	-	-	(2,011)	(200)	(2,327)
Liabilities	48	-	-	(24)	(1)	23
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**369**	**-**	**-**	**(1,265)**	**(83)**	**(979)**
Net expenses from reinsurance contracts held	367	-	-	(1,264)	(82)	(979)
Allocation of reinsurance premiums	366	-	-			366
Amounts recoverable from reinsurers		-	-	(1,263)	(82)	(1,345)
Recoveries of incurred claims and other expenses incurred in the period		-	-	(93)	(24)	(117)
Changes for recoveries of incurred claims and other expenses incurred in the past		-	-	(1,170)	(58)	(1,228)
Reinsurance investment component	1	-	-	(1)		-
Effect of changes in non-performance risk of reinsurers	-	-	-	2	-	2
Net finance income from reinsurance contracts	-	-	-	(5)	(1)	(6)
Effect of movements in exchange rates	1	-	-	2	-	4
Cash flows	**(513)**	**-**	**-**	**73**		**(440)**
Premiums paid	(513)	-	-			(513)
Claims recovered and expenses paid		-	-	73		73
Other changes	(1)	-	-	-	-	(1)
End of the period	**(214)**	**-**	**-**	**(3,226)**	**(284)**	**(3,724)**
Assets	(245)	-	-	(3,208)	(284)	(3,737)
Liabilities	31	-	-	(18)	-	13

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Movement in reinsurance contract assets and liabilities 1 January – 31 March 2022	LRC		LIC			Total
				Contracts under PAA		
	Excluding the loss recovery component	Loss recovery component	Contracts not under PAA	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risks	
Beginning of the period	**(48)**	**-**	**-**	**(1,284)**	**(179)**	**(1,511)**
Assets	(98)	-	-	(1,265)	(176)	(1,539)
Liabilities	50	-	-	(19)	(3)	28
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**248**	**-**	**-**	**(70)**	**(6)**	**172**
Net expenses from reinsurance contracts held	249	-	-	(122)	(11)	116
Allocation of reinsurance premiums	248	-	-	-	-	248
Amounts recoverable from reinsurers	-	-	-	(121)	(11)	(132)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(118)	(30)	(148)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(3)	19	16
Reinsurance investment component	1	-	-	(1)	-	-
Effect of changes in non-performance risk of reinsurers	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	54	5	59
Effect of movements in exchange rates	(1)	-	-	(2)	-	(3)
Cash flows	**(455)**	**-**	**-**	**64**	**-**	**(391)**
Premiums paid	(455)	-	-	-	-	(455)
Claims recovered and expenses paid	-	-	-	64	-	64
Other changes	(1)	-	-	1	-	-
End of the period	**(256)**	**-**	**-**	**(1,289)**	**(185)**	**(1,730)**
Assets	(287)	-	-	(1,276)	(183)	(1,746)
Liabilities	31	-	-	(13)	(2)	16

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10.1.5. Carrying amount of insurance and reinsurance contracts recognized in the period (without PAA)

Insurance contracts not under PAA	Contracts issued 1 January – 31 March 2023			Contracts issued 1 January – 31 March 2022		
	Profits	Losses	Total	Profits	Losses	Total
Insurance contracts						
Present value of cash outflows	1,026	1,002	2,028	834	1,154	1,988
Present value of claims and insurance service expenses	903	924	1,827	732	1,074	1,806
Present value of insurance acquisition cash flows	123	78	201	102	80	182
Present value of cash inflows	(1,336)	(882)	(2,218)	(1,112)	(1,009)	(2,121)
Risk adjustment for non-financial risks	24	8	32	27	13	40
CSM	286		286	251		251
Losses recognized on initial recognition		(128)	(128)		(158)	(158)
Reinsurance contracts						
Present value of cash outflows	-	-	-	-	-	-
Present value of cash inflows	-	-	-	-	-	-
Risk adjustment for non-financial risks	-	-	-	-	-	-
CSM	-	-	-	-	-	-

In the period from 1 January to 31 March 2023 and in the period from 1 January to 31 March 2022, PZU Group did not acquire any insurance or reinsurance contract.

10.2 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 January – 31 March 2023	1 January – 31 March 2022
Loan receivables from clients	4,517	2,646
Debt securities measured at fair value through other comprehensive income	735	232
Debt securities measured at amortized cost	830	464
Buy-sell-back transactions	151	39
Term deposits with credit institutions	77	17
Loans	111	36
Receivables purchased	180	89
Receivables	22	7
Cash and cash equivalents	220	50
Total interest income calculated using the effective interest rate	**6,843**	**3,580**

10.3 Other net investment income

Other net investment income	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Hedge derivatives	(275)	80
Dividend income, including:	2	2
Investment financial assets measured at fair value through profit or loss	2	2
Foreign exchange differences	139	(113)
Income on investment property	86	72
Investment property maintenance expenses	(44)	(28)
Investment activity expenses	(6)	(7)
Other	(4)	(4)
Total other net investment income	**(102)**	**2**

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10.4 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Investment financial assets	15	(30)
Debt instruments measured at fair value through other comprehensive income	(6)	(7)
Financial instruments measured at fair value through profit or loss	20	(25)
Equity instruments	7	1
Participation units and investment certificates	13	(21)
Debt instruments	-	(5)
Instruments measured at amortized cost	1	2
Loan receivables from clients measured at amortized cost	(7)	(10)
Derivatives	160	(56)
Short sale	5	5
Receivables	(2)	-
Result on derecognition of financial instruments and investments, total	**171**	**(91)**

10.5 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 2023	1 January – 31 March 2022 (restated)
Investment financial assets	1	(4)
Debt instruments measured at fair value through other comprehensive income	1	3
Instruments measured at amortized cost	-	(7)
- debt instruments	(5)	(2)
- term deposits with credit institutions	1	(3)
- loans	4	(2)
Loan receivables from clients	(439)	(374)
Measured at amortized cost	(439)	(375)
Measured at fair value through other comprehensive income	-	1
Guarantees and sureties granted	92	8
Receivables	-	(4)
Cash and cash equivalents	(3)	(1)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(349)**	**(375)**

10.6 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 2023	1 January – 31 March 2022
Investment financial instruments measured at fair value through profit or loss	162	(115)
Equity instruments	29	(18)
Debt securities	15	1
Participation units and investment certificates	118	(98)
Derivatives	21	173
Measurement of liabilities to members of consolidated mutual funds	(13)	19
Investment contracts for the client's account and risk (unit-linked)	(11)	17
Investment property	(4)	(16)
Loan receivables from clients	5	1
Net movement in fair value of assets and liabilities measured at fair value, total	**160**	**79**

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10.7 Fees and commissions result

Fees and commissions result	1 January – 31 March 2023	1 January – 31 March 2022
Revenue from commissions and fees	**1,285**	**1,223**
Banking activities	1,154	1,090
Margin on foreign exchange transactions with clients	258	249
Brokerage fees	50	56
Fiduciary activity	18	20
Payment card and credit card services	366	299
Fees on account of insurance intermediacy activities	7	8
Loans and borrowings	129	108
Bank account-related services	103	142
Transfers	76	74
Cash operations	28	28
Receivables purchased	22	19
Guarantees, letters of credit, collections, promises	24	23
Commissions on leasing activity	26	24
Other commission	47	40
Revenue and payments received from funds and mutual fund management companies	96	92
Pension insurance	34	40
Other	1	1
Fees and commissions expenses	**(376)**	**(304)**
Costs of card and ATM transactions, including card issue costs	(275)	(218)
Commissions on acquisition of banking clients	(24)	(19)
Fees for the provision of ATMs	(11)	(10)
Costs of awards to banking clients	(7)	(4)
Costs of bank transfers and remittances	(13)	(12)
Additional services attached to banking products	(6)	(6)
Brokerage fees	(7)	(6)
Costs of administration of bank accounts	(1)	(1)
Costs of banknote operations	(8)	(9)
Fiduciary activity expenses	(6)	(7)
Other commissions	(18)	(12)
Total fee and commission profit or loss	**909**	**919**

10.8 Operating costs of banks

Operating costs of banks	1 January – 31 March 2023	1 January – 31 March 2022
Consumption of materials and energy	75	33
Third party services	263	207
Taxes and charges	16	15
Employee expenses	831	721
Depreciation of property, plant and equipment	130	128
Amortization of intangible assets	91	109
Other, including:	83	53
- advertising	45	26
- other	38	27
Total administrative expenses	**1,489**	**1,266**

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10.9 Interest expenses

Interest expenses	1 January – 31 March 2023	1 January – 31 March 2022
Term deposits	1,003	47
Current deposits	486	95
Own debt securities issued	300	87
Hedge derivatives	245	64
Loans	16	8
Repurchase transactions	64	40
Bank loans contracted by PZU Group companies	53	14
Leases	11	7
Other	18	6
Total interest expenses	**2,196**	**368**

10.10 Other operating income and expenses

Other operating income and expenses	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Other operating income	**409**	**359**
Revenues on the sales of products, merchandise and services by non-insurance companies	278	251
Revenues from direct claims handling on behalf of other insurance undertakings	38	40
Reversal of provisions	12	2
Reimbursement of the costs of pursuit of claims	14	11
Other	67	55
Other operating expenses	**(1,339)**	**(1,289)**
Levy on financial institutions	(371)	(348)
Expenses of the core business of non-insurance and non-banking companies	(328)	(277)
Direct claims handling expenses on behalf of other insurance undertakings	(41)	(42)
Compulsory payments to insurance market institutions and banking market institutions	(48)	(41)
Bank Guarantee Fund	(249)	(364)
Insurance Guarantee Fund	(14)	(15)
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	(12)	(13)
Expenditures for prevention activities	(18)	(11)
Establishment of provisions	(85)	(29)
Amortization of intangible assets purchased in company acquisition transactions	(19)	(25)
Recognition of impairment losses for non-financial assets	(7)	(36)
Donations	(38)	(28)
Costs of pursuit of claims	(25)	(24)
Costs other than those attributed to the insurance activities	(16)	(6)
Other	(68)	(30)
Total other operating income and expenses	**(930)**	**(930)**

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10.11 Income tax

Total amount of current and deferred tax	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Recognized in the profit and loss account, including:	(835)	(630)
- current tax	(493)	(33)
- deferred tax	(342)	(597)
Recognized in other comprehensive income (deferred tax)	(211)	99
Total	**(1,046)**	**(531)**

Income tax on other comprehensive income items	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Gross other comprehensive income	1,121	(511)
Income tax	(211)	99
Debt instruments	(160)	254
Insurance finance income or expenses	143	(435)
Reinsurance finance income or expenses	3	12
Cash flow hedging	(210)	283
Equity instruments measured at fair value through other comprehensive income	14	(15)
Reclassification of real property from property, plant and equipment to investment property	(1)	-
Net other comprehensive income	**910**	**(412)**

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 in which 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.

10.12 Earnings per share

Earnings per share	1 January – 31 March 2023	1 January – 31 March 2022 (restated)
Net profit attributable to the equity holders of the parent company	1,155	884
Weighted average basic and diluted number of common shares	863,390,463	863,376,993
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(132,537)	(146,007)
Basic and diluted earnings (losses) per common share (in PLN)	1.34	1.02

In the 3-month periods ended, respectively, 31 March 2023 and 31 March 2022, no transactions were made or events occurred which would result in the earnings per share being diluted.

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10.13 Goodwill

Goodwill	31 March 2023	31 December 2022
Pekao [1]	1,715	1,715
LD [2]	516	518
Medical companies	307	307
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	42	42
Other	5	5
Total goodwill	**2,806**	**2,808**

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

10.14 Intangible assets

Intangible assets by type	31 March 2023	31 December 2022
Software, licenses and similar assets	1,585	1,556
Trademarks	523	523
- Pekao	340	340
- other	183	183
Client relations	328	347
- Pekao	266	282
- other	62	65
Intangible assets under development	770	832
Other intangible assets	47	24
Total intangible assets	**3,253**	**3,282**

10.15 Other assets

Other assets	31 March 2023	31 December 2022 (restated)
Deferred IT expenses	232	205
Accrued direct claims handling receivables	44	47
Costs settled over time	165	117
Inventories	46	56
Settlements of real estate tax, tax on means on transport and property tax	48	-
Settlements of payments made to the Company Social Benefit Fund	36	-
Accrued commissions	5	5
Other assets	36	32
Total other assets	**612**	**462**

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10.16 Property, plant and equipment

Property, plant and equipment by category	31 March 2023	31 December 2022
Equipment and machinery	634	629
Means of transport	219	222
Property, plant and equipment under construction	372	405
Real estate	2,463	2,675
Other property, plant and equipment	368	373
Total property, plant and equipment	**4,056**	**4,304**

10.17 Entities measured by the equity method

Associates	31 March 2023	31 December 2022
Krajowy Integrator Płatności SA	49	48
Sigma BIS SA	5	4
RUCH SA	-	-
Associates in total	**54**	**52**

10.18 Assets and liabilities held for sale

Assets held for sale by classification before transfer	31 March 2023	31 December 2022
Groups held for sale	**306**	**302**
Assets	340	335
Investment property	316	316
Receivables	5	4
Other assets	2	-
Cash and cash equivalents	17	15
Liabilities related directly to assets classified as held for sale	34	33
Other liabilities	16	15
Deferred tax liability	18	18
Other assets held for sale	**318**	**319**
Property, plant and equipment	17	18
Investment property	301	301
Assets and groups of assets held for sale	**658**	**654**
Liabilities related directly to assets classified as held for sale	**34**	**33**

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

10.19 Loan receivables from clients

Loan receivables from clients	31 March 2023	31 December 2022
Measured at amortized cost	211,948	212,255
Measured at fair value through other comprehensive income	256	254
Measured at fair value through profit or loss	205	184
Total loan receivables from clients	**212,409**	**212,693**

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Loan receivables from clients	31 March 2023	31 December 2022
Retail segment	**107,159**	**108,537**
Operating loans	195	191
Consumer finance	24,634	24,809
Consumer finance loans	3,969	4,292
Loans to purchase securities	14	14
Overdrafts in credit card accounts	1,090	1,123
Loans for residential real estate	76,187	77,220
Other mortgage loans	621	647
Car financing loans	2	2
Other receivables	447	239
Business segment	**105,250**	**104,156**
Operating loans	35,508	35,005
Car financing loans	1	1
Investment loans	30,230	30,107
Receivables purchased (factoring)	8,556	8,224
Overdrafts in credit card accounts	102	109
Loans for residential real estate	54	59
Other mortgage loans	9,905	9,872
Finance lease	14,990	14,935
Other receivables	5,904	5,844
Total loan receivables from clients	**212,409**	**212,693**

10.20 Financial derivatives

Derivatives	31 March 2023		31 December 2022	
	Assets	Liabilities	Assets	Liabilities
Related to interest rates	**12,873**	**16,373**	**14,426**	**19,625**
Fair value hedging instruments – swap transactions	121	-	125	5
Cash flow hedging instruments – swap transactions	486	4,106	285	5,168
Instruments carried as held for trading, including:	12,266	12,267	14,016	14,452
– forward contracts	40	41	45	36
- swap transactions	12,133	12,124	13,870	14,303
- call options (purchase)	75	86	83	97
- put options (sale)	14	12	15	13
- cap floor options	4	4	3	3
Related to exchange rates	**1,057**	**879**	**1,300**	**896**
Cash flow hedging instruments – swap transactions	18	65	48	1
Instruments carried as held for trading, including:	1,039	814	1,252	895
- forward contracts	426	250	544	322
- swap transactions	583	533	652	529
- call options (purchase)	12	4	28	5
- put options (sale)	18	27	28	39
Related to prices of securities	**25**	**3**	**26**	**3**
- call options (purchase)	24	3	26	2
- forward contracts	1	-	-	1
Related to commodity prices	**339**	**313**	**445**	**432**
- forward contracts	3	3	5	3
- swap transactions	336	310	440	429
Total	**14,294**	**17,568**	**16,197**	**20,956**

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10.21 Assets securing liabilities

Assets securing liabilities	31 March 2023				31 December 2022			
	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	3,190	857	4	4,051	41	879	52	972
Government securities	3,190	857	4	4,051	41	879	52	972
Domestic	3,190	857	4	4,051	41	879	52	972
Fixed rate	3,190	809	3	4,002	41	791	51	883
Floating rate	-	48	1	49	-	88	1	89
Buy-sell-back transactions	15	-	-	15	-	-	-	-
Total assets securing liabilities	**3,205**	**857**	**4**	**4,066**	**41**	**879**	**52**	**972**

10.22 Investment financial assets

Investment financial assets	31 March 2023				31 December 2022			
	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	1,590	873	2,463	n/a	1,648	830	2,478
Participation units and investment certificates	n/a	n/a	4,905	4,905	n/a	n/a	4,876	4,876
Debt securities	101,791	38,642	3,211	143,644	91,605	38,077	2,417	132,099
Government securities	67,989	28,347	2,883	99,219	68,590	26,683	2,160	97,433
Domestic	61,501	24,836	2,283	88,620	62,918	23,973	2,023	88,914
Fixed rate	55,336	14,838	1,832	72,006	58,616	14,984	1,630	75,230
Floating rate	6,165	9,998	451	16,614	4,302	8,989	393	13,684
Foreign	6,488	3,511	600	10,599	5,672	2,710	137	8,519
Fixed rate	6,488	3,511	600	10,599	5,672	2,710	137	8,519
Other	33,802	10,295	328	44,425	23,015	11,394	257	34,666
Fixed rate	27,078	6,230	37	33,345	16,418	7,334	63	23,815
Floating rate	6,724	4,065	291	11,080	6,597	4,060	194	10,851
Other, including:	14,436	-	-	14,436	14,408	-	-	14,408
Buy-sell-back transactions	6,081	-	-	6,081	7,071	-	-	7,071
Term deposits with credit institutions	4,056	-	-	4,056	3,068	-	-	3,068
Loans	4,299	-	-	4,299	4,269	-	-	4,269
Total investment financial assets	**116,227**	**40,232**	**8,989**	**165,448**	**106,013**	**39,725**	**8,123**	**153,861**

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Equity instruments measured at fair value through other comprehensive income	31 March 2023	31 December 2022
PKN Orlen	825	910
Biuro Informacji Kredytowej SA	309	270
Grupa Azoty SA	258	284
PSP sp. z o.o.	82	79
Polimex-Mostostal SA	48	49
Krajowa Izba Rozliczeniowa SA	21	15
Webuild SpA	16	10
Other	31	31
Total equity instruments measured at fair value through other comprehensive income	**1,590**	**1,648**

Exposure to debt securities issued by governments other than that of the Republic of Poland

Carrying amount of debt securities issued by governments other than that of the Republic of Poland	31 March 2023	31 December 2022
Germany	2,586	2,557
USA	2,169	1,226
France	1,837	1,864
Lithuania	724	717
Spain	571	142
Holland	394	-
Latvia	238	180
Rumania	222	209
Belgium	185	-
Indonesia	176	176
Hungry	128	128
Italy	118	114
Ukraine	89	78
Croatia	87	75
Columbia	85	76
Mexico	79	78
Bulgaria	73	78
Saudi Arabia	67	48
Panama	65	66
Peru	59	64
Brazil	50	66
Other	597 [1)]	577 [2)]
Total	**10,599**	**8,519**

[1)] The item “Other” comprises bonds issued by 49 countries towards which the balance sheet liability per country does not exceed PLN 50 million.

[2)] The item “Other” comprises bonds issued by 51 countries.

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

Carrying amount of debt securities issued by corporations, local authorities and the National Bank of Poland	31 March 2023	31 December 2022
K. Financing and insurance activities, including:	31,391	22,256
Foreign banks	8,205	5,864
National Bank of Poland	21,526	14,594
WIG companies – banks	569	562
O. Public administration and defense; compulsory social security, including:	5,346	5,313
National authorities	5,344	5,309
D. Production and supply of electricity, gas, steam, hot water and air for air conditioning systems, including:	1,976	1,914
WIG companies – electricity	1,368	1,308
C. Industrial processing, including:	1,612	1,676
Manufacture and processing of refined petroleum products (including, WIG companies – fuel)	638	707
N. Administrative and support service activities	735	620
E. Water supply; sewage and waste management and remediation activities	693	584
H. Transport and warehouse management	688	679
U. Extraterritorial organizations and bodies	396	-
J. Information and communications	375	365
F. Construction	360	373
R. Accommodation and food service activities (including, WIG companies – Hotels and restaurants) and arts, entertainment and recreation services	297	298
M. Professional, scientific and technical activities	191	187
L. Real estate activities	180	185
B. Mining and quarrying	166	192
G. Wholesale and retail trade; repair of motor vehicles, including motorcycles	19	24
Total	**44,425**	**34 666**

10.23 Receivables

Receivables – carrying amount	31 March 2023	31 December 2022 (restated)
Receivables from direct insurance	130	141
Receivables from sale of securities and margins [1)]	4,798	6,401
Receivables on account of payment card settlements	940	1,358
Trade receivables	509	507
Receivables from the state budget, other than corporate income tax receivables	90	118
Receivables by virtue of commissions concerning off-balance sheet products	164	165
Prevention settlements	40	52
Receivables from direct claims handling on behalf of other insurance undertakings	14	16
Receivables on account of Corporate Income Tax	215	305
Receivables from security and bid deposits	65	64
Interbank and interbranch receivables	49	14
Other	322	278
Total receivables	**7,336**	**9,419**

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

As at 31 March 2023 and 31 December 2022, 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.

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10.24 Expected credit losses and impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	185,358	24,135	12,167	5,154	226,814	182,578	28,470	11,239	5,307	227,594
Recognition of instruments at the time of acquisition, creation, granting	23,609	-	-	52	23,661	19,470	-	-	21	19,491
Changes attributable to measurement, sale, exclusion or expiration of instruments (excluding reclassification)	(20,555)	(2,311)	(476)	(614)	(23,956)	(16,441)	(713)	(232)	(176)	(17,562)
Assets excluded from the statement of financial position	-	-	(561)	(1)	(562)	-	-	(560)	(4)	(564)
Reclassification to basket 1	4,077	(3,858)	(219)	-	-	3,420	(3,327)	(93)	-	-
Reclassification to basket 2	(5,466)	5,632	(166)	-	-	(5,668)	5,882	(214)	-	-
Reclassification to basket 3	(750)	(890)	1,640	-	-	(480)	(910)	1,390	-	-
Other changes, including foreign exchange differences	66	11	151	136	364	151	(21)	83	50	263
End of the period	**186,339**	**22,719**	**12,536**	**4,727**	**226,321**	**183,030**	**29,381**	**11,613**	**5,198**	**229,222**
Expected credit losses										
Beginning of the period	(1,618)	(2,043)	(7,310)	(3,588)	(14,559)	(1,067)	(1,798)	(6,321)	(3,806)	(12,992)
Establishment of allowances for newly acquired, created, granted instruments	(143)	-	-	(23)	(166)	(109)	-	-	(10)	(119)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument (excluding reclassification)	454	(215)	(734)	108	(387)	191	(152)	(381)	60	(282)
Assets excluded from the statement of financial position	-	-	561	1	562	-	-	560	4	564
Reclassification to basket 1	(197)	197	-	-	-	(190)	162	28	-	-
Reclassification to basket 2	111	(147)	36	-	-	70	(186)	116	-	-
Reclassification to basket 3	23	145	(168)	-	-	16	137	(153)	-	-
Other changes, including foreign exchange differences	(17)	41	295	(142)	177	(8)	(3)	(191)	(127)	(329)
End of the period	**(1,387)**	**(2,022)**	**(7,320)**	**(3,644)**	**(14,373)**	**(1,097)**	**(1,840)**	**(6,342)**	**(3,879)**	**(13,158)**
Net carrying amount at the end of the period	**184,952**	**20,697**	**5,216**	**1,083**	**211,948**	**181,933**	**27,541**	**5,271**	**1,319**	**216,064**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	254	-	-	-	254	115	131	-	-	246
Change in measurement	(1)	-	-	-	(1)	1	2	-	-	3
Changes attributable to sale, exclusion or expiration of instruments (excluding reclassification)	-	-	-	-	-	-	(2)	-	-	(2)
Other changes	3	-	-	-	3	(1)	-	-	-	(1)
End of the period	**256**	**-**	**-**	**-**	**256**	**115**	**131**	**-**	**-**	**246**
Expected credit losses										
Beginning of the period	(4)	-	-	-	(4)	(2)	(2)	-	-	(4)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	-	-	-	-	-	1	-	-	1
Other changes	1	-	-	-	1	-	-	-	-	-
End of the period	**(3)**	**-**	**-**	**-**	**(3)**	**(2)**	**(1)**	**-**	**-**	**(3)**

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.

Debt investment financial assets measured at amortized cost	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	91,515	236	24	63	91,838	73,897	354	35	39	74,325
Recognition of instruments at the time of acquisition, creation, granting	70,460	-	-	-	70,460	2,862	-	-	-	2,862
Change in measurement	120	(2)	-	-	118	248	-	-	-	248
Changes attributable to sale, exclusion or expiration of instruments (excluding reclassification)	(57,593)	(11)	-	-	(57,604)	(2,383)	(37)	-	-	(2,420)
Reclassification to basket 2	(23)	23	-	-	-	(65)	65	-	-	-
Other changes, including foreign exchange differences	368	(3)	-	9	374	178	2	1	4	185
End of the period	**104,847**	**243**	**24**	**72**	**105,186**	**74,737**	**384**	**36**	**43**	**75,200**
Expected credit losses										
Beginning of the period	(87)	(28)	(24)	(53)	(192)	(69)	(8)	(35)	(30)	(142)
Establishment of allowances for newly acquired, created, granted instruments	(8)	-	-	-	(8)	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	3	-	-	1	(1)	4	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	-	-	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	2	(2)	-	-	-
Other changes, including foreign exchange differences	-	-	-	(8)	(8)	-	-	(1)	(11)	(12)
End of the period	**(94)**	**(26)**	**(24)**	**(61)**	**(205)**	**(73)**	**(6)**	**(36)**	**(41)**	**(156)**
Net carrying amount at the end of the period	**104,753**	**217**	**-**	**11**	**104,981**	**74,664**	**378**	**-**	**2**	**75,044**

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

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	38,719	237	-	-	38,956	44,788	251	-	-	45,039
Recognition of instruments at the time of acquisition, creation, granting	279,587	-	-	-	279,587	44,453	-	-	-	44,453
Change in measurement	918	(7)	-	-	911	(1,094)	(4)	-	-	(1,098)
Changes attributable to sale, exclusion or expiration of instruments (excluding reclassification)	(280,095)	(10)	-	-	(280,105)	(48,599)	(5)	-	-	(48,604)
Reclassification to basket 1	3	(3)	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	149	1	-	-	150	295	1	-	-	296
End of the period	**39,281**	**218**	**-**	**-**	**39,499**	**39,843**	**243**	**-**	**-**	**40,086**
Expected credit losses										
Beginning of the period	(45)	(21)	-	-	(66)	(54)	(26)	-	-	(80)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	1	-	-	-	1	2	1	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	2	-	-	-	2
End of the period	**(44)**	**(21)**	**-**	**-**	**(65)**	**(52)**	**(25)**	**-**	**-**	**(77)**

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.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Term deposits with credit institutions	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	2,814	140	136	-	3,090	1,385	-	-	-	1,385
Recognition of instruments at the time of acquisition, creation, granting	18,105	-	-	-	18,105	14,703	-	-	-	14,703
Change in measurement	(2)	-	-	-	(2)	4	-	-	-	4
Change attributable to modification of cash flows concerning the given instrument	-	-	-	-	-	(72)	-	-	-	(72)
Changes attributable to sale, exclusion or expiration of instruments (excluding reclassification)	(17,007)	(104)	(2)	-	(17,113)	(7,201)	-	-	-	(7,201)
Reclassification to basket 2	(108)	108	-	-	-	-	-	-	-	-
Reclassification to basket 3	-	-	-	-	-	(134)	-	134	-	-
Other changes, including foreign exchange differences	-	(4)	1	-	(3)	(3)	-	-	-	(3)
End of the period	**3,802**	**140**	**135**	**-**	**4,077**	**8,682**	**-**	**134**	**-**	**8,816**
Expected credit losses										
Beginning of the period	(1)	(11)	(10)	-	(22)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	(7)	-	-	-	(7)	-	-	-	-	-
Changes attributable to valuation or credit risk level (excluding reclassification)	-	3	-	-	3	(2)	-	(1)	-	(3)
Changes attributable to sale, exclusion or expiration of the instrument	-	5	-	-	5	-	-	-	-	-
Reclassification to basket 2	8	(8)	-	-	-	-	-	-	-	-
Reclassification to basket 3	-	-	-	-	-	1	-	(1)	-	-
End of the period	**-**	**(11)**	**(10)**	**-**	**(21)**	**(2)**	**-**	**(2)**	**-**	**(4)**
Net carrying amount at the end of the period	**3,802**	**129**	**125**	**-**	**4,056**	**8,680**	**-**	**132**	**-**	**8,812**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Loans	1 January – 31 March 2023					1 January – 31 March 2022				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,300	-	-	-	4,300	3,522	75	-	-	3,597
Recognition of instruments at the time of acquisition, creation, granting	622	-	-	-	622	180	-	-	-	180
Change in measurement	34	-	-	-	34	16	1	-	-	17
Changes attributable to sale, exclusion or expiration of instruments (excluding reclassification)	(630)	-	-	-	(630)	(22)	-	-	-	(22)
End of the period	**4,326**	**-**	**-**	**-**	**4,326**	**3,696**	**76**	**-**	**-**	**3,772**
Expected credit losses										
Beginning of the period	(31)	-	-	-	(31)	(5)	(6)	-	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(6)	-	-	-	(6)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	3	-	-	-	3	(2)	1	-	-	(1)
Changes attributable to sale, exclusion or expiration of the instrument	7	-	-	-	7	-	-	-	-	-
End of the period	**(27)**	**-**	**-**	**-**	**(27)**	**(8)**	**(5)**	**-**	**-**	**(13)**
Net carrying amount at the end of the period	**4,299**	**-**	**-**	**-**	**4,299**	**3,688**	**71**	**-**	**-**	**3,759**

Receivables	1 January – 31 March 2023	1 January – 31 December 2022 (restated)
Gross carrying amount		
Beginning of the period	9,859	7,242
Changes in the period	(2,080)	2,617
End of the period	**7,779**	**9,859**
Expected credit losses		
Beginning of the period	(440)	(460)
Changes in the period	(3)	20
End of the period	**(443)**	**(440)**
Net carrying amount at the end of the period	**7,336**	**9,419**

10.25 Fair value

10.25.1. Valuation techniques

10.25.1.1. 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.

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 floating-rate debt instruments, a reference curve reflecting the level of risk-free rates for discounting future flows is built on the basis of the relevant currency swap curve. However, for instruments based on a fixed interest rate – based on the quotes of treasury bonds in the given currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of a given debt instrument, a market sector spread published in news services is added to reflect the pricing of the risk for the relevant sector for the issuer's business sector and its rating.

10.25.1.2. 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 forecast profit or loss of companies or measurement models based on available market data.

10.25.1.3. 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.

10.25.1.4. 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 security deposit 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.

10.25.1.5. 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.

10.25.1.6. Real 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 the 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 the 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.

10.25.1.7. 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 given issue. The individual spread is initially calibrated to the issue price and periodically recalibrated when transaction data is available.

10.25.1.8. 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.

10.25.1.9. 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.

10.25.2. 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 listed quoted 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 many, FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, for which there is a sufficient number of transactions of similar properties in the analyzed market, including free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.
- level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method or the comparative method (if there is no adequate number of transactions of 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 the 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 loans and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation
Investment property and property 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 m2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation
Equity instruments other than those quoted on an active market		Quotations of financial services, current value of future forecast profit or loss of the company or measurement models based on available market data.	

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10.25.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2023				31 December 2022			
	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	24,852	10,321	5,916	41,089	23,429	11,200	5,975	40,604
Equity instruments	1,142	-	448	1,590	1,254	-	394	1,648
Debt securities	23,710	10,321	5,468	39,499	22,175	11,200	5,581	38,956
Investment financial assets and assets securing liabilities measured at fair value through profit or loss	3,108	5,577	308	8,993	2,813	4,951	411	8,175
Equity instruments	631	-	242	873	578	-	252	830
Participation units and investment certificates	228	4,660	17	4,905	215	4,645	16	4,876
Debt securities	2,249	917	49	3,215	2,020	306	143	2,469
Loan receivables from clients	-	-	461	461	-	-	438	438
Measured at fair value through other comprehensive income	-	-	256	256	-	-	254	254
Measured at fair value through profit or loss	-	-	205	205	-	-	184	184
Financial derivatives	-	14,271	23	14,294	-	16,172	25	16,197
Investment property	-	228	2,997	3,225	-	160	2,861	3,021
Liabilities								
Derivatives	-	17,567	1	17,568	-	20,956	-	20,956
Liabilities to members of consolidated mutual funds	-	323	-	323	-	305	-	305
Investment contracts for the client's account and risk (unit-linked)	-	249	-	249	-	238	-	238
Liabilities on borrowed securities (short sale)	396	-	-	396	875	-	-	875

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 31 March 2023	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 comprehen-sive income	through profit or loss	
Beginning of the period	**394**	**5,581**	**252**	**16**	**143**	**25**	**-**	**254**	**184**	**2,861**
Purchase/ opening of the position/ granting	-	114	-	-	425	-	-	-	32	9
Reclassification from Level II [1)]	-	1,093	-	-	32	-	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	-	-	-	132
Profit or loss recognized in the profit and loss account:	-	97	11	1	3	2	1	5	2	(5)
- interest income calculated using the effective interest rate	-	67	-	-	-	-	-	5	2	-
- result on derecognition of financial instruments and investments	-	(2)	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	32	11	1	3	2	1	-	-	(5)
Profits or losses – recognized in other comprehensive income	54	167	-	-	-	-	-	(1)	-	-
Sales/settlements/repayments/conversion	-	(69)	(21)	-	(433)	(4)	-	(2)	(13)	-
Reclassification to Level II	-	(1,515)	-	-	(121)	-	-	-	-	-
End of the period	**448**	**5,468**	**242**	**17**	**49**	**23**	**1**	**256**	**205**	**2,997**

[1)] For information on reclassifications please see section 10.25.6.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in million 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/conversion	-	(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)] For information on reclassifications please see section 10.25.6.

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10.25.4. Assets and liabilities other than those measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2023					31 December 2022				
	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	-	-	212,703	212,703	211,948	-	-	212,467	212,467	212,255
Investment financial assets and assets securing liabilities measured at amortized cost	41,197	50,269	21,466	112,932	119,432	40,218	36,396	20,448	97,062	106,054
Debt securities	41,197	44,711	12,475	98,383	104,981	40,218	32,226	10,170	82,614	91,646
Buy-sell-back transactions	-	2,263	3,833	6,096	6,096	-	2,277	4,794	7,071	7,071
Term deposits with credit institutions	-	3,295	770	4,065	4,056	-	1,893	1,187	3,080	3,068
Loans	-	-	4,388	4,388	4,299	-	-	4,297	4,297	4,269
Liabilities										
Liabilities to banks	-	1,030	5,954	6,984	6,991	-	1,637	6,117	7,754	7,720
Liabilities to clients under deposits	-	-	292,627	292,627	292,656	-	-	278,277	278,277	278,058
Liabilities on the issue of own debt securities [1)]	-	7,824	1,087	8,911	8,798	-	10,315	821	11,136	11,090
Subordinated liabilities [1)]	-	2,849	3,362	6,211	6,206	-	2,788	3,331	6,119	6,184
Liabilities on account of repurchase transactions	-	3,810	19	3,829	3,829	-	930	1	931	931

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

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

In the 3-month period ended on 31 March 2023 and in the 3-month period ended on 31 March 2021, there were no changes in the fair value measurement methodology for financial instruments measured at fair value which would be of significant importance for the consolidated financial statements.

10.25.6. 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 on 31 March 2023, the following reclassifications of assets between fair value levels were made:

- Corporate bonds measured using market price information for comparable financial instruments and corporate and municipal bonds for which the impact of estimated credit parameters did not significantly affect the valuation were reclassified from level III to level II;

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- Corporate bonds for which the impact exerted by the estimated credit parameters on the measurement was significant were reclassified from level II to level III;
- government bonds measured using market quotations were discontinued due to an increase in market activity were reclassified from level II to level I.

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

- Corporate and municipal bonds measured using market price information for comparable financial instruments and corporate and municipal bonds for which the impact of estimated credit parameters did not significantly affect the valuation were reclassified from level III to level II;
- 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 were reclassified from level II to level III;
- government bonds measured using market quotations were discontinued due to an increase in market activity were reclassified from level II to level I.

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

In the 3-month period ended on 31 March 2023, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

10.27 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 shares are fully paid for.

At 31 March 2023 and 31 December 2022

Series/ Issue	Type of shares	Type of preference	Type of limitation in the rights to shares	Number of shares	Value of series/issue at par value (PLN)	Capital coverage	Date of registration	Right to dividend (from the 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	31/03/1999	01/01/1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

10.28 Distribution of the parent company's profit

Information on the distribution of the parent company's profit is presented in section 22.

10.29 Subordinated liabilities

	Par value (in million)	Cur-rency	Interest	Issue/Redemption date	Carrying amount 31 March 2023 (in PLN m)	Carrying amount 31 December 2022 (in PLN m)
Liabilities classified as PZU's own funds						
PZU's subordinated bonds	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,280	2,333
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,298	1,270
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	573	560
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	208	204
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	360	352
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	412	403
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	222	229
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	627	612
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	73	71
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	153	150
Subordinated liabilities					**6,206**	**6,184**

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.

10.30 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 March 2023	31 December 2022
Bonds	4,093	3,488
Certificates of deposit	3,824	6,646
Covered bonds	881	956
Total liabilities from own debt securities	**8,798**	**11,090**

10.31 Liabilities to banks

Liabilities to banks	31 March 2023	31 December 2022
Current deposits	861	855
One-day deposits	188	868
Term deposits	642	508
Loans received	5,094	5,271
Other liabilities	206	218
Total liabilities to banks	**6,991**	**7,720**

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10.32 Liabilities to clients under deposits

Liabilities to clients under deposits	31 March 2023	31 December 2022
Current deposits	210,488	206,298
Term deposits	81,139	70,655
Other liabilities	1,029	1,105
Total liabilities to clients under deposits	**292,656**	**278,058**

10.33 Other liabilities

Other liabilities	31 March 2023	31 December 2022 (restated)
Liabilities measured at fair value	**968**	**1,418**
Liabilities on borrowed securities (short sale)	396	875
Investment contracts for the client's account and risk (unit-linked)	249	238
Liabilities to members of consolidated mutual funds	323	305
Accrued expenses	**1,498**	**1,269**
Accrued expenses of agency commissions	7	8
Accrued payroll expenses	896	726
Other	595	535
Deferred revenue	**348**	**346**
Other liabilities	**13,395**	**11,592**
Liabilities on account of repurchase transactions	3,829	931
Lease liabilities	1,310	1,296
Liabilities due under transactions on financial instruments	1,960	2,283
Liabilities to banks for payment documents cleared in interbank clearing systems	1,724	2,331
Liabilities on direct insurance	544	462
Liabilities on account of payment card settlements	693	923
Regulatory settlements	533	573
Liabilities for contributions to the Bank Guarantee Fund	988	738
Estimated non-insurance liabilities	114	162
Liabilities to employees	134	116
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	35	27
Trade liabilities	404	486
Current income tax liabilities	212	328
Liabilities on account of employee leaves	190	162
Liabilities to the state budget other than for income tax	168	153
Liabilities on account of donations	9	13
The PZU Group banks' liabilities from insurance of bank products offered to the bank's customers	19	14
Insurance Guarantee Fund	14	14
Liability for the refund of loan costs	141	132
Liabilities for direct claims handling	33	32
Other	341	416
Total other liabilities	**16,209**	**14,625**

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10.34 Provisions

Movement in provisions in the period ended 31 March 2023	Beginning of the period	Increase	Decrease	Reversal	End of the period
Provisions for guarantees and sureties given	514	113	-	(205)	422
Provision for retirement severance pays	265	8	(3)	-	270
Provision for disputed claims and potential liabilities	88	5	(2)	(4)	87
Provision for potential refunds of borrowing costs	127	-	(18)	-	109
Provision for legal risk pertaining to mortgage loans in Swiss francs	479	73	(4)	(2)	546
Provisions for refunds to clients of increased mortgage loan margins before the mortgage is established	123	-	(6)	(2)	115
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	39
Provision for restructuring costs	21	-	(1)	-	20
Provision for post-mortem benefits	25	-	-	-	25
Other	30	6	-	(4)	32
Total provisions	**1,711**	**205**	**(34)**	**(217)**	**1,665**

Movement in provisions in the period ended 31 March 2022	Beginning of the period	Increase	Decrease	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**

Provision for potential refunds of borrowing costs

PZU Group monitors on an ongoing basis the value of estimated prepayments of consumer loans and mortgage loans made before 11 September 2019, the date of publication of the CJEU judgment in Case C-383/18.

The amount of the provision represents the best possible estimate based on the historically observed trend of the amount of loan cost refunds resulting from incoming complaints and takes into account the scenario of possible evolution of the market practice or the position of the regulator.

The estimates require adoption of expert assumptions and involve uncertainty. For this reason the provision amount will be subject to updates in the next periods, depending on the trend regarding the amounts to be refunded.

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

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

The CJEU ruling provides general guidance for Polish ordinary courts. The ultimate resolutions made by Polish courts will be based on EU regulations interpreted in accordance with the CJEU judgment, taking into consideration the national laws and analysis of the individual circumstances of each case. The line of rulings in cases involving mortgage loans in Swiss francs has formed in an unfavorable way, resulting in judgments by the courts establishing the invalidity of loan agreements and ordering borrowers to repay the benefits they have fulfilled. So far, there has been no resolution of the full panel of the Civil Chamber of the Supreme Court addressing the issues covered by the request of the First President of the Supreme Court, 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 conditions 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's ruling on the above issues may have a significant impact on the further development of the line of judicial rulings in the context of the last three issues, as the remaining issues have been prejudged by preliminary rulings issued by the CJEU. It should also be noted that it is uncertain if and when the Civil Chamber in its full composition will adopt a resolution on the aforementioned legal questions.

An important ruling on Swiss franc mortgages is the CJEU's September 8, 2022 judgment in the combined cases C-80/21 to C-82/21, in which the CJEU answered the requests for a preliminary ruling questions made by the Warsaw-Śródmieście District Court in Warsaw. The CJEU stated:

- a national court may not declare unfair the entirety of a contract term, but only its element that make it unfair, if such removal would amount to a change of the content of the term that would affect its essence. This means that, in principle, the national court is limited to determining the unfairness of the entire contract term;
- if the national court determines that a contract term is unfair, which in a given case results in the possibility of continuing to maintain the validity of the entire contract despite the exclusion of the unfair terms, the national court may not replace these terms with a supplementary provision of national law. This means that in such a case the national court cannot apply the provisions of the Civil Code on converting installments using the average exchange rate of the National Bank of Poland;
- the national court, having found a contract term to be unfair, is not authorized to change the content of the term in order to maintain the validity of the contract, which cannot remain in force after the removal of the term, if the consumer in question has been informed of the consequences of the invalidity of the contract and has agreed to the consequences thereof. This means that if the consumer has agreed to the consequences of the invalidity of the contract (having been informed of them), the national court by a ruling cannot change the content of such a term, but must declare it invalid;
- the running of the 10-year statute of limitations for a consumer's claim for repayment of paid installments cannot begin from the time of delivery of each performance under the contract (repayment of each installment), even if the consumer was not able to assess the unfairness of the contract term on his own or did not become aware of the unfairness of the term, and without taking into account that the loan agreement provided for a much longer (30-year) repayment period. This means that the running of the 10-year statute of limitations for a consumer's claim for repayment of installments does not start from the date of repayment of each installment. In practice, it should be assumed that no consumer's claims for refund of paid installments are time-barred.

The CJEU, however, still has not ruled on the requests for preliminary rulings concerning the statute of limitations for the bank's claim against the consumer (for the return of the paid out principal, or for remuneration, if any, for the use of the principal), as well as whether the bank is entitled to a claim for remuneration for the use of principal at all. The CJEU will probably not rule on these issues before the middle of 2023 at the earliest.

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On 16 February 2023, the Advocate General of the CJEU issued an opinion under Article 252 of the Treaty on the Functioning of the European Union in case C-520/21 in proceedings in which the Warsaw-Śródmieście District Court, 1st Civil Division, submitted a request for a preliminary ruling from the CJEU, in which the CJEU would take a position on the question, whether, where a loan agreement concluded by a bank and a client is invalid from the outset due to the inclusion in it of unfair contractual terms, the parties, in addition to the return of the money paid in performance of the agreement (the bank – the loan principal, the client – the installments, fees, commissions and insurance premiums) and statutory interest for delay from the time of the demand for payment, may also claim any other benefits.

In the above opinion, the Advocate General of the CJEU concluded that Articles 6(1) and 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts should be interpreted as follows:

- the aforementioned provisions do not preclude the judicial interpretation of national law, according to which, if a loan agreement concluded by a client and a bank is deemed to be invalid from the outset due to the inclusion in it of unfair contractual terms, the client, in addition to the return of the money paid on the basis of the agreement and the payment of statutory interest for delay from the time of the demand for payment, may, following such recognition, also demand additional benefits from the bank. In doing so, it is up to the national court to determine, in light of national law, whether clients have the right to assert such claims and, if so, to rule on their merits;
- the aforementioned provisions do preclude the judicial interpretation of national law, according to which, if a loan agreement concluded by a client and a bank is deemed to be invalid from the outset due to the inclusion in it of unfair contractual terms, the bank, in addition to the return of the money paid on the basis of the agreement and the payment of statutory interest for delay from the time of the demand for payment, may, following such recognition, also demand additional benefits from the bank.

As of 31 March 2023, there were 3,562 individual lawsuits pending against PZU Group relating to foreign currency mortgage loans that were granted in the preceding years with the total litigation value of PLN 1,192 million (as of 31 December 2022: 2,989 cases with the litigation value of PLN 998 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

In the first quarter of 2023, PZU Group received 283 unfavorable court judgments in cases filed by borrowers, including 38 final judgments, and 9 favorable judgments, including 1 final judgments (in 2022: 580 unfavorable court judgments, including 97 final judgments, and 24 favorable court judgments, including 5 final judgments).

The calculation of the provision at 31 March 2023 was based on the assumptions and methodology similar to those presented in the consolidated financial statements of PZU Group for 2022.

The determination of the level of the provision requires each time a number of expert assumptions based on professional judgment.

New rulings and the possible sectoral solutions which will appear in the Polish market for mortgage loans may have impact on the amount of the provision established by 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 tables below present the amounts of the provisions for individual court cases in which 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 2023	31 December 2022
Impairment losses for loan receivables from clients	1,769	1,824
individual provision	424	394
portfolio provision	1,345	1,430
Other provisions	546	479
individual provision	223	182
portfolio provision	323	297
Total	**2,315**	**2,303**

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Consolidated profit and loss account line items	1 January – 31 March 2023	1 January – 31 March 2022
Movement in allowances for expected credit losses and impairment losses on financial instruments	27	(31)
Other net investment income	26	-
Other operating expenses	(73)	(7)
Total	**(20)**	**(38)**

Provision for refunds to clients of increased mortgage loan margins before the mortgage is established

The provision was established in connection with the entry into force of the Act of 5 August 2022 amending the Act on Mortgage Loan and Supervision of Mortgage Loan Intermediaries and Agents and the Act amending the Act on Personal Income Tax, the Act on Corporate Income Tax and Certain Other Acts.

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, 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 the decision of the UOKiK President to the Court of Competition and Consumer Protection and received a response from the UOKiK President, in which he requested that the appeal be dismissed in its entirety.

10.35 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 31 March 2023	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,271	(170)	3	(10)	-	5,094
Liabilities on the issue of debt securities	11,090	(2,277)	-	(1)	(14)	8,798
Bonds	3,488	615	(8)	(2)	-	4,093
Certificates of deposit	6,646	(2,826)	8	2	(6)	3,824
Covered bonds	956	(66)	-	(1)	(8)	881
Subordinated liabilities	6,184	(53)	75	-	-	6,206
Liabilities on account of repurchase transactions	931	2,898	19	-	(19)	3,829
Lease liabilities	1,296	(76)	26	-	64	1,310
Total	**24,772**	**322**	**123**	**(11)**	**31**	**25,237**

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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**

11. Financial assets constituting collateral for liabilities and contingent liabilities

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

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2023	31 December 2022
Carrying amount of financial assets pledged as collateral for liabilities	15,070	13,267
Repurchase transactions	4,018	931
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	951	962
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	417	415
Coverage of liabilities to be paid to the resolution fund (BFG)	747	739
Lombard and technical credit	5,956	6,483
Other loans	251	317
Issue of covered bonds	962	1,262
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	36	36
Derivative transactions	1,705	2,094
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	27	28
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**15,070**	**13,267**

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12. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2023	31 December 2022
Contingent assets, including:	5	6
- guarantees and sureties received	5	6
Contingent liabilities	82,297	80,676
- for renewable limits in settlement accounts and credit cards	4,970	4,829
- for loans in tranches	55,899	53,634
- guarantees and sureties given	8,235	8,521
- disputed insurance claims	892	933
- other disputed claims	391	187
- other, including:	11,910	12,572
- guaranteeing securities issues	3,759	4,158
- factoring	6,879	7,192
- intra-day limit	436	449
- letters of credit and commitment letters	686	688
- other	150	85

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

In the 3-month periods ended, respectively, on 31 March 2023 and 31 March 2022, neither PZU nor its subsidiaries granted any surety for a loan or borrowing or any guarantee to any single entity or any subsidiary of such an entity, with regard to which the total amount of outstanding sureties or guarantees would be significant.

13. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2023, gross insurance revenue was PLN 6,401 million, as compared to PLN 5,999 million in the corresponding period of the preceding year (an increase by PLN 402 million, i.e.: +6.7% (+PLN 284 million after reinsurance premium allocation). The increase concerned primarily:

- Mass non-life insurance segment (+PLN 236 million of gross revenue, +PLN 228 million after reinsurance premium allocation), including an increase in the amortization of liabilities (LRC) as a consequence of higher sales, mainly, of Auto Casco insurance products (an increase in the average premium) and, to a lesser degree, civil liability insurance products (mainly in the LINK4 portfolio) and non-motor insurance products. The effect on the Auto Casco and motor third party liability insurance portfolios was driven by a higher number of contracts made (resulting from the availability of vehicles greater than in the preceding year). The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (changes in the mix of sales channels);
- Corporate non-life insurance segment (+PLN +150 million of gross revenue, +PLN +44 million after reinsurance premium allocation), including an increase in the amortization of liabilities (LRC) as a consequence of a higher sales, mainly, of Auto Casco insurance products (an increase in the average premium driven by a higher number of contracts made as a result of recovery in the highly competitive lease market) and, to a lesser degree, non-motor insurance products. The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (changes in the mix of sales channels);
- insurance products in the Baltic countries segment (+PLN 119 million of gross revenues, +PLN 116 million after reinsurance premium allocation) as a result of higher sales in non-life insurance segment, including motor third party liability and auto casco insurance products (higher fees in the region), as well as health and property insurance products.

The increases were partially offset by lower sales in the group and individually continued life insurance segment (-PLN 102 million of gross revenues) as a result of lower level of premiums required to cover expected claims and benefits, mainly, as a consequence of the expected lower mortality ratios, similar to those before the COVID-19 pandemics, which was partially offset by higher sales intended for the coverage of higher acquisition expenses – an impact of increasing share of remuneration for intermediaries and an increase in the contractual service margin allocated to the first quarter mainly due to the expected lower mortality rate.

Insurance service expenses were PLN 6,526 million, i.e. increased by PLN 1,502 million, i.e. by 29.9%, as compared to the corresponding period of the previous year. Expenses adjusted for the amounts recoverable from reinsueres increased by PLN 289 million, and this resulted from:

- higher administrative expenses attributable to the insurance activities in the insurance business segments in Poland due to an increase in personnel costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools);
- in the mass non-life insurance segment, higher liabilities from the current year's claims, higher expenses, including acquisition costs (an impact of growing share of multi-agency and dealer channel in the portfolio) and recognition of the loss component on profit or loss for the cohort of contracts from the first quarter of 2023, as a consequence of the increase in claims inflation, with both motor and non-motor losses continuing to be positive;
- in the corporate non-life insurance segment, lower y/y net liabilities for the current year's claims and acquisition expenses;
- higher liabilities for the current year's claims in the Baltic region segment, administrative expenses attributable to the insurance activities;
- lower claims and benefits in the group and individually continued life insurance segment as a result of a decline in the mortality rates following the COVID-19 pandemics;
- lower amortization of acquisition expenses in the individual protection life insurance segment with an equalized level of claims and benefits and with a loss component.

The finance revenue and expenses on the insurance activities in the first quarter of 2023 were -PLN 475 million, as compared to -PLN 42 million in the corresponding period of 2022 (and together with the finance revenue and expenses on the reinsurance activities, respectively, -PLN 461 million and -PLN 32 million). The increase in expenses was triggered, in particular, by fluctuations in the interest rates which resulted in the discount period being shortened, and in the investment insurance segment, by an increase in the value of investments at the risk of policyholders.

Investment income together with interest expense in the first quarter of 2023 and in the first quarter of 2022 was, respectively, PLN 4,527 million and PLN 2,827 million. Investment income increased excluding banking activities[1]. It was higher than in the first quarter of 2022 mainly as a result of better performance on the portfolio of assets covering investment products as well as on floating rate instruments due to higher interest rates in Poland. Better performance on the portfolio of assets covering investment products did not affect the PZU Group's total net profit, as it was offset by the movement in liabilities from insurance contracts.

At the same time, revenues from deposits held as part of the banking activities increased. The increase resulted, in particular, from higher interest income generated by both banks due to the increases in interest rates in 2022.

In the first quarter of 2023, the balance of other operating revenues and expenses was negative and amounted to PLN 930 million (as compared to PLN 930 million in the first quarter of 2022). The operating revenues and expenses were affected by the following factors:

- lower fees payable to BFG – a drop from PLN 364 million in the first quarter of 2022 to PLN 249 million in 2023;
- levy on financial institutions – on the PZU Group's operations (including both the insurance activities and the banking activities) in the first quarter of 2023 was PLN 371 million, as compared to PLN 348 million in the corresponding period of the preceding year. A higher tax levy was imposed, in particular, on the banking activities and resulted from an increase in the assets subject to taxation;
- the provision for a legal risk relating to mortgage loans in foreign currencies was established in PLN 72 million (the total impact on other operating expenses of this provision at Pekao and Alior Bank was PLN 73 million in the first quarter of 2023 against PLN 7 million in the same period of 2022).

The operating profit for the first quarter of 2023 was PLN 3,410 million and was higher by PLN 1,033 million (+43.5%) than the operating profit for the corresponding period of the preceding year. This was caused in particular by the following factors:

[1] Banking activities: data of Pekao and Alior Bank.

- Higher profitability on the operating activities in the corporate non-life insurance segment (+PLN 42 million) as a result of better performance on investments (increases in revenues on the variable coupon instruments triggered by increases in interest rates, in particular, in the debt and money market portfolios), and also better performance on insurance services (higher sales dynamics, mainly sales of auto casco insurance products);
- Better performance on the operating activities of the individual protection life insurance business, as a result, mainly, of changes in financial revenues and expenses, and also better performance on insurance activities;
- Lower profitability of mass non-life insurance business (-PLN 17 million), including primarily motor insurance products, partially mitigated by higher profitability on investments allocated to this business;
- Better performance in foreign insurance segments, including mainly of Baltic region companies (+PLN 80 million y/y) due to higher revenues from insurance contracts as a result of higher sales of motor insurance, health insurance, reversal of the previous years' equalization reserve, partially offset by higher liabilities on claims in the current year;
- Higher performance on operating activities of the investment business due to higher revenues from money market instruments as a result of higher interest rates in Poland and due to higher profitability on real estate portfolio caused by a higher level of income on swap points on currency hedging instruments, as well as by increases in rental income;
- Higher earnings in the banking segment (+PLN 902 million), in particular, due to an increase in the interest income as a result of increases in interest rates in 2022 and lower mandatory payments to the BFG partially offset by higher bank operating costs, mainly at Pekao due to the indexation of salaries and higher real property maintenance costs.

The net profit was higher by PLN 841 million (+48.4%) than that for the first quarter of 2022 and amounted to PLN 2,577 million. The net profit attributable to the parent company's shareholders was PLN 1,155 million compared to PLN 884 million in 2022 (an increase by 30.7%).

The consolidated equity according to IFRS at 31 March 2023 was PLN 52,016 million, as compared to PLN 46,367 million at 31 March 2022. The increase resulted from an increase in equity attributable to equity shareholders of the parent company and an increase in non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2023 to 31 March 2023 was 17.2% and was higher by 1.9 p.p. than that for the previous year. The adjusted return on equity attributable to the parent company (aROE[3]) for the period from 1 January 2023 to 31 March 2023 was 18.9% and was higher by 3.4 p.p. than a year ago. The consolidated equity increased by PLN 3,487 million, as compared to the consolidated equity at 31 December 2022. As compared to theyearend 2022, the non-controlling interests increased by PLN 2,419 million to PLN 24,682 million, which resulted from both an increase in the valuation of debt instruments measured at fair value through other comprehensive income and an increase in the profit attributed to shareholders holding non-controlling interests in the amount of PLN 1,422 million (generated by Alior Bank and Bank Pekao). The equity attributable to equity holders of the parent company increased by PLN 1,068 million as compared to the yearend 2022 – as the effect of :

- an increase in the valuation of debt instruments measured at fair value through other comprehensive income,
- an increase in the net profit attributable to the parent company for in the first quarter of 2023 in the amount of PLN 1,155 million.

The aforementioned increases partially offset by a negative effect of a change in discount rates for the valuation of insurance liabilities due to a decrease in the discount curve.

The total of equity and liabilities at 31 March 2023 was higher by PLN 16,367 than at 31 December 2022 and amounted to PLN 445,545 million. The increase resulted primarily from an increase in the liabilities towards clients from deposits (+PLN 14,598 million), and liabilities on repurchase transactions (+PLN 2,898 million), and also liabilities from insurance contracts (+PLN 2,877 million).

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[2] Annual ratio used as Alternative Performance Measures (APM) within the meaning of the ESMA's Guidelines on Alternative Performance Measures (ESMA 2015/1415).

3. aROE – adjusted return on equity, calculated on a capital basis excluding cumulative other comprehensive income relating to insurance and reinsurance financial income and expenses. Annual ratio used as Alternative Performance Measurement (APM) within the meaning of ESMA's Alternative Performance Measurement Guidelines (ESMA 2015/1415).

The investment portfolio (investment financial assets, assets securing liabilities, investment properties and financial derivatives) at 31 March 2023 totaled PLN 187,033 million and was higher by PLN 12,982 million, as compared to that at the end of the preceding year. The increase in investments was mainly related to the banking activities including debt instruments at Pekao. The investment portfolio, excluding banks, increased due to inflow of premiums as a result of the growth in business, as well as the profit or loss on investments. At 31 March 2023 loan receivables from clients were PLN 212,409 million, as compared to PLN 212,693 million at 31 December 2022.

The largest liabilities at 31 March 2023 were liabilities to clients under deposits. Their increase by PLN 14,598 million to PLN 292,656 million resulted from an increase in liabilities towards clients from both current and term deposits.

The liabilities from insurance contracts at the end of the first quarter of 2023 were PLN 40,292 million and constituted 9.0% of the total equity and liabilities. As compared to the liabilities at the end of 2022, they increased by PLN 2,877 million. The increase was related, among many, to an increase in the estimate of BEL on claims of significant single value, without having a major impact on profits due to the intense reinsurance coverage and an increase in the measurement of liabilities due to the a decrease in interest rates.

14. Capital management

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

In keeping with the Policy, PZU Group endeavors to:

- manage capital effectively by optimizing the use 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 the organic growth and acquisitions;
- ensure sufficient financial means to cover the PZU Group's liabilities towards its clients.

The capital management policy is based on the following principles:

- The PZU Group's capital (including the excess capital) shall be managed by PZU;
- The target solvency ratios shall not exceed the level of 200% for PZU Group, PZU and PZU Życie (according to Solvency II);
- The PZU Group's financial leverage ratio shall not be higher than 25%;
- Funds shall be made available for development and acquisitions;
- The financial conglomerate's surplus own funds shall be kept above the capital adequacy requirements;
- PZU shall not issue new shares for the duration of the Policy.

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

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

- PZU Group shall endeavor to manage capital effectively and maximize the return on equity for the PZU's shareholders, in particular, by maintaining security and capital resources for strategic growth objectives through acquisitions;
- The dividend proposed by the Management Board of PZU, paid for a given financial year, is calculated on the basis of the PZU Group's consolidated financial profit attributable to equity holders of the parent company, and:
  - no more than 20% shall be allocated to the retained earnings (supplementary capital) for objectives relating to organic growth and innovations, as well as implementation of growth initiative;
  - no more than 50% is distributed in the form of the annual dividend;
  - the remaining part of the profit shall be distributed in the form of the annual dividend or increase the retained earnings (supplementary capital) if significant expenditure is incurred when implementing the PZU Group Strategy, including in particular, for mergers and acquisitions;

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Subject to the following:

- According to the plans of the Management Board of PZU and the risk and solvency self-assessment of the parent company, the own funds of the parent company and PZU Group following the declaration of distribution or the payment of dividend shall remain at the level that ensures fulfilment of requirements under the capital policy;
- A decision on dividend distribution shall be made taking into account recommendations put forward by the supervisory body.

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 para. 1 of the Insurance Activity Act, PZU Group is obliged 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 report for 2022 published on 11 May 2023 is available online at https://www.pzu.pl/relacje-inwestorskie/raporty?queries%5Byear%5D=2022. Pursuant to Article 290 para. 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is to be 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 2022 solvency and financial condition report, was 240%.

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

15. Segment reporting

15.1 Reporting segments

15.1.1. Key classification criterion

Operating segments are components of an entity for which separate financial information is available and which are subject to regular assessment by the CODM (and in practice by the Management Board of PZU) in the area of the allocation of resources and the assessment of financial performance.

The key segment classification of PZU Group is based on such criteria as a nature of business activities, product groups, client groups and regulatory environment. Individual segments have been described in the table below.

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	IFRS	An extensive variety of property insurance products, civil liability and motor insurance products tailored to the customer's needs, entailing individual underwriting offered to large business entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of the products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	IFRS	An extensive variety of property, accident, civil liability and motor insurance products offered to individual clients and entities forming part of the small and medium enterprise sector by PZU and Link4.	As above.

Segment	Accounting standards	Segment description	Aggregation criteria
Group and individually continued insurance (life insurance)	IFRS	Group insurance products offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons with a legal relationship with the policyholder (e.g. employer, trade union) accede to the insurance product granted and individually continued insurance products under which the policyholder acquires the right to individual continuation during the group phase. The PZU Życie's product range covers a wide range of protection, investment (but not investment contracts) and health insurance products.	No aggregation.
Individual protective insurance products (life insurance)	IFRS	Insurance products offered by PZU Życie to individual clients, under which the insurance contract pertains to a specific insured and the insured concerned is subject to individual underwriting. The PZU Życie's product range covers a wide range of protection and health insurance products.	No aggregation.
Life i investment insurance	IFRS	Unit-linked insurance products with a significant insurance risk (investment agreements that are not investment contracts).	No aggregation.
Investments	IFRS	This segment includes investments of own funds understood as a surplus of investments over the level allocated for the purpose of covering the insurance liabilities of PZU and PZU Życie.	The aggregation was effected because of the similar surplus-based nature of revenues.
Banking activities	IFRS	A wide range of banking products offered both to corporate and individual clients by Pekao Group and by Alior Bank Group.	The aggregation was carried out due to the similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PSR	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 the similarity of products and services offered by the companies and the similar regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to the similarity of the regulatory environment of their operations.
Investment contracts	IFRS	PZU Życie products that do not transfer any significant insurance risk within the meaning of IFRS 17 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed return and some unit-linked products).	No aggregation.
Other	PAS/IFRS	Other products and services not classified into any of the aforementioned segments.	

15.1.2. Information on geographic areas

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

- Poland;
- Baltic states;
- Ukraine.

15.2 Segment's measure of profit

The PZU Group's fundamental measure of profit is the operating profit.

15.3 Simplifications in the segment note

The segment note applies certain simplifications applicable for in accordance with IFRS 8 (Operating Segments:

- deviation from the presentation of data on allocation of all assets and liabilities to individual segments – results from non-preparation and non-presentation of such data to the Management Board PZU. Key information provided to the Management Board of PZU comprises data on performance of individual segments, on the basis of which managerial decisions. The analysis of assets and liabilities allocated to segments is limited primarily to the monitoring of regulatory requirements;
- Presentation of the net profit or loss 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;
- non-allocation of other revenues and costs to the segment named "investments", besides those 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.

15.4 Quantitative date

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1 January – 31 March 2023	Corporate insurance	Mass insurance	Group and indivi-dually continued insurance	Individual protec-tive insurance	Life invest-ment insurance	Baltic States	Ukraine	Invest-ment contracts	Invest-ments	Banking activities	Pension	Other	Total
Insurance service result before reinsurance	(895)	403	203	67	-	85	12	-	-	-	-	-	(125)
Insurance revenue	960	2,814	1,823	155	10	586	53	-	-	-	-	-	6,401
Amortization of liabilities for remaining coverage (PAA)	820	2,188	-	-	-	477	36	-	-	-	-	-	3,521
Expected claims and benefits (GMM, VFA)	-	-	1,189	35	1	3	8	-	-	-	-	-	1,236
Expected expenses(GMM, VFA)	-	-	219	21	(1)	2	-	-	-	-	-	-	241
Release of the contractual service margin (GMM, VFA)	-	-	294	53	5	3	-	-	-	-	-	-	355
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	31	4	5	1	-	-	-	-	-	-	41
Recovery of insurance acquisition cash flows	140	626	109	45	1	100	9	-	-	-	-	-	1,030
Other income	-	-	(19)	(3)	(1)	-	-	-	-	-	-	-	(23)
Insurance service expenses	(1,855)	(2,411)	(1,620)	(88)	(10)	(501)	(41)	-	-	-	-	-	(6,526)
Claims incurred in the period (without the investment component)	(446)	(1,642)	(1,302)	(21)	(7)	(383)	(25)	-	-	-	-	-	(3,826)
Expenses incurred in the period	(53)	(219)	(200)	(21)	(2)	(62)	(7)	-	-	-	-	-	(564)
Run-off of claim reserves from prior years	(1,216)	105	-	-	-	44	-	-	-	-	-	-	(1,067)
Amortization of loss component	41	130	93	2	3	39	-	-	-	-	-	-	308
Recognition of the loss component	(41)	(159)	(102)	(3)	(3)	(39)	-	-	-	-	-	-	(347)
Amortization of insurance acquisition cash flows	(140)	(626)	(109)	(45)	(1)	(100)	(9)	-	-	-	-	-	(1,030)
Net expenses from reinsurance contracts held	1,020	(40)	-	-	-	(3)	2	-	-	-	-	-	979
Allocation of reinsurance premiums	(319)	(40)	-	-	-	(7)	-	-	-	-	-	-	(366)
Amounts recoverable from reinsurers, including:	1,339	-	-	-	-	4	2	-	-	-	-	-	1,345
Incurred claims	93	5	-	-	-	4	2	-	-	-	-	-	104
Incurred expenses	12	1	-	-	-	-	-	-	-	-	-	-	13
Run-off of claim reserves from prior years	1,234	(6)	-	-	-	-	-						1,228
Insurance service result	**125**	**363**	**203**	**67**	**-**	**82**	**14**	**-**	**-**	**-**	**-**	**-**	**854**
Insurance finance income or expenses	(36)	(80)	(123)	(22)	(205)	(9)	-	-	-	-	-	-	(475)
Reinsurance finance income or expenses	11	3	-	-	-	-	-	-	-	-	-	-	14
Investment income	83	197	199	28	212	12	15	-	129	5,850	4	(6)	6,723

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1 January – 31 March 2023	Corporate insurance	Mass insurance	Group and indivi-dually continued insurance	Individual protec-tive insurance	Life invest-ment insurance	Baltic States	Ukraine	Invest-ment contracts	Invest-ments	Banking activities	Pension	Other	Total
Fee and commission result	-	-	-	-	-	-	-	1	23	884	34	(33)	909
Operating costs of banks	-	-	-	-	-	-	-	-	-	(1,534)	-	45	(1,489)
Interest expenses	-	-	-	-	-	-	-	-	(55)	(2,154)	-	13	(2,196)
Other operating income and expenses	-	-	-	-	-	-	-	-	(25)	(628)	(6)	(271)	(930)
Operating profit	**183**	**483**	**279**	**73**	**7**	**85**	**29**	**1**	**72**	**2,418**	**32**	**(252)**	**3,410**

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1 January – 31 March 2022	Corporate insurance	Mass insurance	Group and indivi-dually continued insurance	Individual protec-tive insurance	Life invest-ment insurance	Baltic States	Ukraine	Invest-ment contracts	Invest-ments	Banking activities	Pension	Other	Total
Insurance service result before reinsurance	202	427	247	53	2	28	16	-	-	-	-	-	975
Insurance revenue	810	2,578	1,925	145	6	467	68	-	-	-	-	-	5,999
Amortization of liabilities for remaining coverage (PAA)	693	2,031	-	-	-	374	44	-	-	-	-	-	3,142
Expected claims and benefits (GMM, VFA)	-	-	1,341	34	-	3	11	-	-	-	-	-	1,389
Expected expenses (GMM, VFA)	-	-	206	23	(1)	2	-	-	-	-	-	-	230
Release of the contractual service margin (GMM, VFA)	-	-	257	33	3	1	-	-	-	-	-	-	294
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	36	4	4	1	-	-	-	-	-	-	45
Recovery of insurance acquisition cash flows	117	547	102	53	-	86	13	-	-	-	-	-	918
Other income	-	-	(17)	(2)	-	-	-	-	-	-	-	-	(19)
Insurance service expenses	(608)	(2,151)	(1,678)	(92)	(4)	(439)	(52)	-	-	-	-	-	(5,024)
Claims incurred in the period (without the investment component)	(528)	(1,596)	(1,394)	(20)	(8)	(327)	(29)	-	-	-	-	-	(3,902)
Expenses incurred in the period	(38)	(193)	(172)	(18)	4	(53)	(10)	-	-	-	-	-	(480)
Run-off of claim reserves from prior years	80	172	-	-	-	30	-	-	-	-	-	-	282
Amortization of loss component	27	78	130	10	1	49	-	-	-	-	-	-	295
Recognition of the loss component	(32)	(65)	(140)	(11)	(1)	(52)	-	-	-	-	-	-	(301)
Amortization of insurance acquisition cash flows	(117)	(547)	(102)	(53)	-	(86)	(13)	-	-	-	-	-	(918)
Net expenses from reinsurance contracts held	(85)	(11)	-	-	-	(25)	5	-	-	-	-	-	(116)
Allocation of reinsurance premiums	(213)	(32)	-	-	-	(4)	1	-	-	-	-	-	(248)
Amounts recoverable from reinsurers, including:	128	21	-	-	-	(21)	4	-	-	-	-	-	132
Incurred claims	131	7	-	-	-	3	4	-	-	-	-	-	145
Incurred expenses	3	-	-	-	-	-	-	-	-	-	-	-	3
Run-off of claim reserves from prior years	(6)	14	-	-	-	(24)	-						(16)
Insurance service result	**117**	**416**	**247**	**53**	**2**	**3**	**21**	**-**	**-**	**-**	**-**	**-**	**859**
Insurance finance income or expenses	(21)	(66)	(109)	(61)	206	9	-	-	-	-	-	-	(42)
Reinsurance finance income or expenses	7	3	-	-	-	-	-	-	-	-	-	-	10
Investment income	38	147	134	30	(201)	(7)	1	-	47	2,999	1	6	3,195

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1 January – 31 March 2022	Corporate insurance	Mass insurance	Group and indivi-dually continued insurance	Individual protec-tive insurance	Life invest-ment insurance	Baltic States	Ukraine	Invest-ment contracts	Invest-ments	Banking activities	Pension	Other	Total
Fee and commission result	-	-	-	-	-	-	-	1	21	890	41	(34)	919
Operating costs of banks	-	-	-	-	-	-	-	-	-	(1,339)	-	73	(1,266)
Interest expenses	-	-	-	-	-	-	-	-	(27)	(343)	-	2	(368)
Other operating income and expenses	-	-	-	-	-	-	-	-	(21)	(691)	(5)	(213)	(930)
Operating profit	**141**	**500**	**272**	**22**	**7**	**5**	**22**	**1**	**20**	**1,516**	**37**	**(166)**	**2,377**

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Geographical structure	1 January – 31 March 2023					1 January – 31 March 2022				
	Poland	Baltic States	Ukraine	Not allocated	Consolidated value	Poland	Baltic States	Ukraine	Not allocated	Consolidated value
Insurance revenue	5,762	586	53	-	6,401	5,464	467	68	-	5,999
Fee and commission result	909	-	-	-	909	919	-	-	-	919
Investment profit or loss [1]	6,696	12	15	-	6,723	3,201	(7)	1	-	3,195

The sum of the following items of 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”, “Net movement in fair value of assets and liabilities measured at fair value”.

Geographical structure	31 March 2023					31 December 2022				
	Poland	Baltic States	Ukraine [1]	Not allocated	Consolidated value	Poland	Baltic States	Ukraine [1]	Not allocated	Consolidated value
Non-current assets other than financial assets [2]	6,976	330	3	-	7,309	7,264	319	3	-	7,586
Deferred tax assets	2,802	6	-	-	2,808	3,092	6	-	-	3,098
Assets	443,109	3,304	364	(1,232)	445,545	426,846	3,208	356	(1,232)	429,178

[1] Assets of companies based in Ukraine, adjusted by mutual interests between them.

[2] The sum of the following items of the consolidated statement of financial position: “Intangible assets”, “Property, plant and equipment”.

15.5 Information on key customers

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

16. Commentary to segment reporting and investing activities

16.1 Corporate insurance– non-life insurance

In the first quarter of 2023, revenues from insurance contracts in the corporate insurance segment increased as compared to the first quarter of 2022 by PLN 150 million, i.e.: +18.5 y/y (+PLN 44 million y/y after reinsurance premium allocation). The increase resulted from an increase in the amortization of liabilities (LRC) as a consequence of a higher sales, mainly, of Auto Casco insurance products, and to a lesser degree from an increase in non-motor insurance products. In Auto Casco, it is mainly the impact of an increase in the average premium resulting from the increasing value of vehicles (which translates into an increase in the sums insured), and of tariff changes. The effect was intensified by the higher number of contracts which in turn was affected by the recovery in the highly competitive lease market. The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (changes in the sales distribution channels).

Insurance service expenses adjusted by amounts recoverable from reinsurers increased by PLN 36 million y/y (+7.5% y/y) which together with an increase in the net revenues from insurance contracts by 7,4% y/y resulted in the profitability measured by the mixed ratio (COR) increasing by 0.1 percentage point. An increase in the net insurance service expenses is a result of:

- Lower net liabilities (y/y) for the current year’s claims and higher expenses, including acquisition expenses and administrative expenses attributable to the insurance activities. The increase in administrative expenses results primarily from higher personnel costs and in real estate costs;
- release of a lower y/y net excess of prior years' claims reserves over the current projected value of payouts (includes the one-off effect of reinsurance cession event in claims with an impact of about PLN 28.5 million on the result).

An increase by PLN 45 million in the investment income, as compared to the corresponding period of the previous year, was triggered in particular by an increase in revenues from floating rate instruments due to higher interest rates in Poland, in particular, in debt and money market portfolios.

The finance income and expenses on insurance activities (after reinsurance allocation) were -PLN 25 million, which translates into an increase in expenses by PLN 11 million y/y triggered mainly by fluctuations in interest rates.

After the first quarter of 2023, the segment achieved an PLN 895 million gross loss from insurance services, which was affected by an increase of more than PLN 1.2 billion in the claim reserve from previous years (a claim by a customer from the fuel industry), but due to the high level of reinsurance (more than 98%) without a significant impact on the result from net insurance services, which amounted to PLN 125.0 million.

In the first quarter of 2023, the corporate insurance segment (property and personal insurance) achieved PLN 183 million in operating profit, an increase by 29.8% year-on-year. The increase resulted primarily from better performance on investments and a simultaneous increase in the net insurance service result.

16.2 Mass insurance – non-life insurance

In the first quarter of 2023, revenues from insurance contracts in the mass insurance segment increased as compared to the first quarter of 2022 by PLN 236 million, i.e.: +9.2 y/y (+PLN 228 million y/y after reinsurance premium allocation). The increase resulted from an increase in the amortization of liabilities (LRC) as a consequence of a higher sales in the second half of 2022, mainly, of Auto Casco insurance products, and of third party liability insurance products (mainly in the LINK4 portfolio) and of non-motor insurance products. In Auto Casco, it is mainly the impact of an increase in the average premium resulting from the increasing value of vehicles (which translates into an increase in the sums insured), and of tariff changes. The effect on the Auto Casco and motor third party liability insurance portfolios was driven by a higher number of contracts made (resulting from the availability of vehicles greater than in the preceding year). The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (changes in the mix of the sales distribution channels).

Insurance service expenses adjusted by amounts recoverable from reinsurers increased by PLN 281 million y/y (+13.2% y/y) which together with an increase in the net revenues from insurance contracts by 9,0% y/y resulted in the profitability measured by the mixed ratio (COR) increasing by 3.3 percentage points. An increase in the net insurance service expenses is a product of:

- higher liabilities (y/y) for the current year's claims and expenses, including acquisition expenses (an impact of growing share of multi-agency and dealer channel in the portfolio) and administrative expenses attributable to the insurance activities. The increase in administrative expenses results primarily from higher personnel costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools);
- Recognition of the loss component, mainly for the cohort of contracts from Q1 2023, including on the inward reinsurance portfolio with PZU Group companies as a consequence of the increase in claims inflation. The total surplus of the loss component over depreciation from the opening balance amounted to PLN 29 million, with the continued positive performance of both motor and non-motor insurance;
- release of a lower y/y net excess of prior years' claims reserves over the current projected value of payouts.

An increase by PLN 50 million in the investment income, as compared to the corresponding period of the previous year, was triggered in particular by an increase in revenues from floating rate instruments due to higher interest rates in Poland, in particular, in debt and money market portfolios.

The finance income and expenses on insurance net were -PLN 77 million, which translates into an increase in expenses by PLN 14 million y/y triggered mainly by fluctuations in interest rates.

A drop in the operating profit in the mass insurance segment by PLN 17 million (-3.4% y/y), as compared to the first quarter of 2022 was mainly caused by deterioration in the profitability on insurance services, mainly motor insurance products partially mitigated by improvement in the investment income allocated to the segment.

16.3 Group and individually continued insurance – life insurance

In the first quarter of 2023, revenues from insurance contracts in the group and individually continued insurance segment decreased as compared to the first quarter of 2022 by PLN 102 million, i.e.: -5.3% y/y . The lower revenues are a product of:

- a lower premium required to cover expected claims and benefits, due to the assumed high level of expected claims in 2022, which was not reflected in the actual level of realized claims - refers to annual renewable group contracts. The change in the level of claims and benefits mainly as a consequence of the lower mortality in connection with the COVID-19 pandemic recovery (in line with the frequency of deaths in Poland already reflected in the PZU's current portfolio);
- higher revenues to cover higher acquisition expenses – the impact of the increasing share of remuneration for intermediaries;
- higher contractual service margin attributed to the first quarter mainly due to the expected lower mortality.

Insurance service expenses adjusted by amounts recoverable from reinsurers decreased by PLN 58 million y/y (-3.5% y/y) which together with a decrease in the net revenues from insurance contracts by 5,3% y/y resulted in the profitability measured by the ratio of insurance service result to revenues from insurance contracts decreasing by 1.7 percentage points. A decrease in the net insurance service expenses is a product of:

- lower claims and benefits as a result of the post-pandemic (COVID-19) mortality decline (portfolio particularly vulnerable to an impact of the increased pandemic and civilization disease mortality – the ageing of the portfolio);
- higher administrative expenses as a result of higher personnel costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools);

An increase by PLN 65 million in the investment income, as compared to the corresponding period of the previous year, was triggered in particular by an increase in revenues from floating rate instruments due to higher interest rates in Poland, in particular, in debt and money market portfolios.

The finance income and expenses on insurance were -PLN 123 million, which translates into an increase in expenses by PLN 14 million y/y triggered mainly by fluctuations in interest rates.

The increase y/y in the operating profit in the group and individually continued insurance segment by PLN 7 million (+2.6% y/y) was mainly caused by the impact of a higher investment income allocated to the segment. Effect partially offset by decline in profitability from insurance services result and increase in finance expenses from insurance.

16.4 Individual protective insurance products – life insurance

In the first quarter of 2023, revenues from insurance contracts in the Individual protective insurance segment increased as compared to the first quarter of 2022 by PLN 10 million, i.e.: +6.9 y/y (+PLN 10 million y/y after reinsurance premium allocation). Within revenues, there was a higher y/y increase in the contractual service margin, mainly as a consequence of the observed demographic changes, including lower mortality rates. The effect was partially offset by a lower level of premiums written to cover acquisition expenses with an stable level of the expected claims and benefits – an impact of a decrease in the bancassurance portfolio and an increase in the endowment insurance (Type J) in own channels.

Insurance service expenses adjusted by amounts recoverable from reinsurers decreased by PLN 4 million (-4.3% y/y) which together with an increase in the net revenues from insurance contracts by 6,9% y/y resulted in the profitability measured by the ratio of insurance result to revenues from insurance contracts increasing by 6.7 percentage points. An decrease in the net insurance service expenses is a product of:

- higher administrative expenses as a result of higher personnel costs and real estate expenses;
- lower amortization of acquisition expenses.

The investment result was slightly lower than in the comparable period of the preceding year (-PLN 2 million) as a result of the lower level of assets in the portfolio to cover liabilities by PLN 0.1 billion y/y.

The finance income and expenses on insurance were -PLN 22 million, which results from an decrease in expenses by PLN 39 million y/y.

The increase in the operating profit in the individual protection insurance business by PLN 51 million, i.e. almost double than in the first quarter of 2022, was a result, mainly, of changes in finance incomeand expenses, and also better performance on insurance services result and stable investments income allocated to the segment.

16.5 Life investment insurance

In the first quarter of 2023, the investment life insurance segment reported an operating profit of PLN 7 million, keeping the y/y profit at a level similar to those reported in the past. The lack of significant y/y deviations is a result of an increase in sales of a new endowment insurance product with the guaranteed sum assured marketed in the second half of 2022, and of lower fees charged to customers as a consequence of lower insurance equity funds.

The investment income was PLN 212 million, as compared to the investment loss generated in the previous year (-PLN 201 million), in particular, on the PPE and IKE products. However, the increase in the investment income had no effect on the PZU Group's total net profit, as it is offset by a change in the level of liabilities from insurance contracts (an increase y/y in finance expenses on insurance activities by PLN 411 million).

16.6 Baltic States

As part of the Baltic operations, 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 measured by the gross written premium at the end of February 2023 was 27.6%, while the life insurance market share was 6.6%. At the end of March 2023, the share in the Estonian non-life insurance market was 15.2%. At the end of 2022, the share in the Latvian non-life insurance market was 29.3%.

On account of its activity in the Baltic states, PZU Group generated at the end of the first quarter of 2023, the operating profit of PLN 85 million compared with PLN 5 million at the end of March 2022.

The result was driven by the following factors:

- an increase by PLN 119 million in revenues from insurance contracts (by PLN 116 million after reinsurance premium allocation) triggered by higher sales. Sales higher by PLN 139 million were generated in the non-life insurance segment chiefly as a result of a considerable growth in sales of motor third party and auto casco insurance (by 26.1% y/y in the functional currency) due to an increase of tariffs in the region and health insurance (by 37.2% y/y in the functional currency) owning to the increase in the number of policies, and property insurance (by 24.2% y/y in the functional currency) resulting, in particular, from new significant contracts being made. In life insurance, sales climbed PLN 2 million;
- an increase by PLN 62 million in the insurance service expenses (by PLN 37 million after inclusion of amounts recoverable from reinsurers) which a product of:
  - an increase in the liabilities for the current year's claims (by PLN 75 million y/y, and by PLN 74 million with the liabilities to reinsurers), including administrative expenses attributed to the insurance activities by PLN 9 million,
  - release of higher excess net loss reserves from previous years over the current projected value of payouts;,
  - change of a loss component with an effect on the insurance service result PLN 13 million as a product of the recognition of a new loss component lower by PLN 11 million as compared to the corresponding period of the preceding year, and of changes in assumptions for active cohorts from the preceding years having an effects on the profit in the amount of PLN +2 million y/y,
  - an increase in the amortization of acquisition expenses by PLN 13 million;
- a decrease in finance income and expenses by PLN 18 million in the insurance business as a result of fluctuations in the interest rates;
- an increase in the investment result by PLN 19 million.

16.7 Ukraine

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

As a result of the outbreak of the war, operational activities since 24 February 2022, have been carried out by both companies on a very limited basis. In the areas affected by hostilities, all outlets are closed. Clients can buy selected groups of insurance remotely. Products available for sale include compulsory insurance: Green Card and motor TPL, as well as some voluntary insurance: motor MOD and travel. In life insurance, sales processes for new business have been halted, and as of 1 March 2022, the possibility to make changes to existing contracts has also been halted – no indexation, and no increase in the sum insured.

The share in the Ukrainian non-life insurance market measured by the gross written premium stood at 3.7% at the end of 2022, while the share in the life insurance market was 8.2%.

The Ukraine segment closed the first quarter 2023 with an operating profit of PLN 29 million, compared to a PLN 22 million profit at the end of March of the previous year.

Factors affecting this segment's performance:

- a decrease by PLN 15 million in revenues from insurance contracts (by PLN 16 million after reinsurance premium allocation) triggered by lower sales. Sales in the segment dropped by PLN 14 million (i.e. 22.8% y/y, and in the functional currency by 7.4% y/y). Since the outbreak of the war on 24 February 2022, the PZU Ukraine's sales processes have been conducted on a limited basis. Offices are closed wherever hostilities are ongoing. Sales are conducted both in the area of renewals and new business in three main business lines: motor TPL, MOD and Green Card, property insurance and personal insurance. Non-life and other personal insurance sales declined by PLN 7 million, with a 0.8% y/y increase in the functional currency, mainly as a result of increases in sales of Green Card insurance (by 45.3% y/y) and motor third-party liability and auto casco insurance (in total by 28.1% y/y). Sales in other business lines dropped. Sales of life insurance products decreased by PLN 7 million (i.e. by 38.9% y/y, and in the functional currency by 26.7% y/y);
- a decrease by PLN 11 million in the insurance service expenses (by PLN 9 million after inclusion of amounts recoverable from reinsurers) which a product of:
- a decrease in the liabilities for the current year's claims (by PLN 7 million y/y, and by PLN 4 million with the liabilities to reinsurers), including administrative expenses attributed to the insurance activities by PLN 1 million;
- a decrease in the amortization of acquisition expenses by PLN 4 million;
- an increase in the investment result by PLN 14 million.

16.8 Investment contracts

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

In the first quarter of 2023, the investment contract segment reported sales of the PZU Bezpieczny Zysk life and endowment insurance, marketed in the second half of 2023, offered in the PZU branches both in the form of insurance contracts and investment contracts.

At the same time, sales of new products did not offset cancellations in the unit-linked portfolio that are investment contracts, which resulted in the operating profit remaining flat y/y.

16.9 Investments

The investment segment includes deposits of free funds of PZU and PZU Life understood as a surplus of the deposit portfolio over the level allocated to cover insurance liabilities. In the first quarter of 2023, the profit in the investment segment increased, as compared to the first quarter of 2022, by PLN 82 million, which was triggered by:

- higher income on the real estate portfolio due to higher revenues from swap points on the currency hedging instruments, as well as rental income;
- higher income on money market instruments as a result of higher interest rates in Poland;

- negative performance on the private equity portfolio as a result of the downturn in the technology market, in which the portfolio funds are primarily invested;
- higher result on the government bond portfolio due to the interest rate shift;
- higher allocation to insurance segments.

Higher investment profit was accompanied by higher interest expenses (by PLN 28 million y/y) as a result of higher interest rate level in Poland.

16.10 Banking activities

The banking activity segment consists of the following groups: Pekao and Alior Bank.
After the first quarter of 2023, the banking activity segment generated PLN 2,418 million in operating profit (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies an increase by PLN 902 million as compared to the corresponding period of 2022. The higher profit was mainly related to higher interest income resulting from increases in interest rates.

In the first quarter of 2023, Pekao contributed PLN 1,910 million to the operating profit (without amortization of intangible assets acquired as part of the acquisition transaction) in the “Banking activities” segment, while the Alior Bank’s contribution was PLN 508 million.

The key element of the segment’s income is the investment result for 2023, which was PLN 5,850 million, i.e. increased by PLN 2,851 million, i.e. by 95%. Investment income consists of interest income , dividend revenue, the trading result and the result on impairment losses. The segment income was positively impacted by higher interest income due to a series of interest rate hikes initiated in October 2021.

At the end of the first quarter of 2023, the loan receivables portfolio at the two banks increased by 0.1% compared to the end of 2022, and the increase in the interest income y/y was mainly due to the interest rate hikes. In the first quarter of 2023, the cost of allowances for expected credit losses and impairment losses on financial instruments totaled PLN 105 million at Pekao and PLN 251 million at Alior Bank, and was lower y/y by PLN 29 million and PLN 20 million, respectively.

The profitability of banks that form part of PZU Group in the first quarter of 2023, measured by the net interest margin ratio for Pekao and Alior Bank was 4.15% and 5.81%, respectively. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks recorded an increase in interest margins due to a series of interest rate hikes initiated in October 2021 and continued in 2022.

The fee and commission result in the banking activity segment was PLN 884 million and was by 1% lower than in the corresponding period of the preceding year. A decrease in relation to 2022 was mainly caused by high margins on foreign exchange transactions made with clients last year due to the increased activity of clients in the foreign exchange market after the outbreak of war.

The total operating expenses were PLN 1,534 million and consisted of the Pekao operating expenses amounting to PLN 1,090 million and of the Alior Bank operating expenses of PLN 444 million. The increase by 15% y/y was caused mainly by higher personnel costs (indexation of salaries) and higher real estate maintenance expenses due to higher electricity prices.

In addition, other contributors to the operating result included other operating income and expenses, where the main components were the BFG fees (PLN 249 million) and the levy on other financial institutions (PLN 285 million). As a result the cost/income ratio stood at 32% for both banks. This ratio was 31% for Pekao and 33% for Alior Bank.

16.11 Pension insurance

Revenue on core business in the pension insurance segment after the first quarter of 2023 and after the first quarter of 2022 was PLN 38 million and PLN 42 million, respectively. The PLN 4 million decrease in revenues was mainly caused by the increase in revenues on the surplus in payments to the Guarantee Fund at KDPW. The negative result of other income and expenses increased by PLN 1 million y/y (20.0%). The was primarily a result of higher operating expenses. At the end of the first quarter of 2023, the total net asset value of all open-end pension funds on the market was PLN 160.1 billion, i.e. increased by 2.4%. The increase in assets was attributable to the positive performance of the funds, which averaged a return of 3.0% after the first quarter of 2023. In this period, the assets of OFE PZU increased by 2.1%, up to PLN 21.6 billion. In the period from January to March 2023, the return on OFE PZU was 2.3%, which resulted from the good economic situation in the domestic stock market in the first months of 2023.

17. Impact of non-recurring events on operating results

In the first quarters of 2022 and 2023, no non-recurring events occurred that would have an impact on the operating profit of PZU Group.

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

18.1 Macroeconomic environment

18.1.1. Gross domestic product

In the fourth quarter of 2022, GDP growth slowed to 2.3% y/y from 3.9% in the third quarter. The deceleration in GDP growth was primarily the result of a marked reduction in the contribution of consumption (both public and household consumption) and a change in inventories. Household consumption in the fourth quarter also decreased by 1.1% y/y, and public spending in the real terms was by 8.7% lower than a year ago). Investment growth, however, accelerated – to 5.4% y/y in the fourth quarter (vs. 2.5% y/y a quarter earlier). The contribution of changes in inventories to GDP growth also dropped in the fourth quarter of the preceding year, down to 1.7 percentage points (as compared to 2 percentage points in the third quarter of the preceding year). The contribution of net exports, however, improved, adding 1.7 percentage points to GDP (as compared to 0.8 percentage points in the third quarter).

Preliminary economic activity data in the first quarter of 2023 points to a slight decline in GDP y/y. This results from the fact that the base was higher a year ago. Industrial production sold was by 0.6% higher in the first quarter than a year ago, as compared to an increase by 4.6% y/y a quarter earlier. Retail sales in the first quarter of this year declined by 3.5% y/y, as compared to the corresponding period of the preceding year, following a 0.1% increase in the preceding quarter. The growth rate of construction and assembly production increased slightly and in the first quarter 2023 was on average by 2.4% higher than a year ago, as compared to a 2.3% increase in the fourth quarter of 2022.

18.1.2. Labor market and consumption

In the first quarter of this year, average monthly nominal gross wages in the corporate sector rose by 13.3% y/y (as compared to 12% y/y in the fourth quarter of last year). With a high increase in consumer prices, however, the purchasing power of the salary thus defined was by 3% lower than a year ago.

Average employment in the corporate sector increased by 0.9% y/y in the first quarter of this year (following a 2.9% y/y increase in the fourth quarter of the preceding year). In March, the registered unemployment rate was 5.4% (0.4 percentage point lower than a year ago and 0.2 percentage point higher than at the end of 2022). In March 2023, the seasonally adjusted rate of economic unemployment (according to Eurostat, using a harmonized methodology for EU countries) stood at 2.8%, clearly below the European Union average (6.0%) and the euro zone (6.5%).

Consumer sentiment improved in the first quarter of this year, although the improvement was still relatively insignificant in the context of historical data. In the first quarter of this year, a decline in consumers' purchasing power in real terms and a high baseline contributed to a slowdown in retail sales growth. Consumers mainly reduced demand for durable goods. It is also likely that the growth rate of household consumption has decreased.

18.1.3. Inflation, monetary policy, interest rates

At the end of the first quarter 2023 price growth for goods and consumption services was 16.1% y/y (as compared to 16.6% y/y in December 2022). Inflation in m/m terms was still high, but inflationary pressure eased month by month from 2.5% m/m in January this year to 1.1% m/m in March. The passing on of rising producer costs to final prices of goods and services for households was supported by a favorable labor market situation.

A declining, although still high CPI inflation keeping away from the NBP's inflation target (2.5%) was accompanied by the stabilization of interest rates by the Monetary Policy Council at their levels as at the end of 2022. The NBP reference rate at the end of the first quarter 2023 was 6.75%.

18.1.4. Public finance

As notified, the deficit in the government and local government sector in 2022 stood at 3.7% of GDP, and the sector's debt at 49.1% of GDP.

The government's actions aimed to mitigate the effects of inflation and changes in the tax system (among many, a reduction in the PIT rate from 17% to 12%) were a significant burden to the government and local government sector in 2022. In addition, the public finance sector also bore the cost of supporting refugees from Ukraine. On the other hand, the high growth rate of prices and nominal GDP contributed to the improvement in the profitability of the sector.

18.1.5. Situation on financial markets

The situation in financial markets in the first quarter of 2023 was mainly influenced by expectations of a halt to rate hikes by the Fed and expectations of a slowdown in the pace of monetary tightening by the ECB. The market situation was influenced by concerns about the emergence of a recession in the USA, falling commodity prices and concerns about the state of the banking sector in the USA and Europe. The conflict in Ukraine had a gradually diminishing impact on the valuation of commodities and financial instruments.

18.1.5.1. Bond market

In the first quarter of 2023, the entire Polish yield curve fell. Yields on 1-year bonds were reduced from 6.54%, at the end of 2022, to 6.14% at the end of March 2023, 2-year bonds from 6.73% to 6.05%, 5-year bonds from 6.88% to 5.98%, and 10-year bonds from 6.88% to 6.07% (Refinitiv Datastream data). The 10-year German bond spread, which stood at 432 bp at the end of 2022, fell to 376 bp at the end of March 2023 (Refinitiv Datastream data). A reduction in yields on Polish government bonds was related to the significant reduction in commodity prices and the expected decline in the dynamics of annual inflation. The NBP reference rate between the end of 2022 and the end of March 2023 remained unchanged.

Declines in Polish bond yields were also supported by the situation in the underlying markets. Faced with a reduction in commodity prices and signs of a weakening economy overseas, markets began to discount future rate cuts, although the Fed continued to tighten the monetary policy. The problems of US banks reinforced expectations for the Fed to begin a cycle of reductions in the second half of 2023. In view of weakening inflationary pressures, market valuations of future ECB rates also declined, discounting its less aggressive nature in the following months of 2023.

18.1.5.2. Equity market

Perturbations in the US and European banking sectors have stopped for a while the rebound in stock markets related to expectations that the Fed and the ECB would decide to stop the rate hikes this year. For the quarter as a whole, the stock indices on the Warsaw Stock Exchange did not experience significant changes. The WIG index rose by 2.0%, and the WIG20 index fell by 1.9% (WSE, Refinitiv Datastream data).

18.1.5.3. Currency market

The euro to PLN exchange rate declined marginally, from 4.69 at the end of 2022 to 4.68 at the end of the first quarter of 2023 (Refinitiv Eikon). Although the euro exchange rate reached PLN 4.79 in February, the increasing likelihood that the Fed would stop rate hikes and the improved investor sentiments towards countries in our region helped to strengthen the Polish zloty at the end of the first quarter of 2023.

The euro to USD exchange rate moved from 1.07 at the end of 2022 to 1.08 at the end of March 2023 (Refinitiv Eikon data). The weakening of the dollar is a consequence of the deterioration in the outlook for the US economy in response to the strong rate hikes, and the improvement in the European economy, due to reductions in commodity prices (including energy prices), and also the consequent fall in the long-term rate differential (between the USD and the EUR). The decline in the dollar's attractiveness in global markets has also been reflected in the US currency's exchange rate into PLN, which fell from 4.38 at the end of December 2022 to 4.31 (Refinitiv Eikon data) at the end of March 2023. The Swiss franc to PLN exchange rate moved from 4.72 at the end of 2022 to 4.71 at the end of the first quarter of 2023. (Refinitiv Eikon data).

18.2 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 and also banking sector), the key factors which will shape the environment in which the Group will operate and which may have a direct impact on the development and performance of the Group in the medium term, in particular in 2023, may be divided into the following three categories:

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

Macroeconomic and geopolitical factors

The growth rate, level and structure of the key macroeconomic factors in Poland and abroad (GDP, inflation and interest rates) translate both into the growth rate of business in all sectors in which the PZU Group operates and into the profitability. They determine, indirectly or directly, albeit with a certain 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. In addition, they have an impact on non-life insurance loss ratios and on the investment result. They also shape the fund management results and key measures that affect the performance of the banking sector (interest margin and costs of risk).

In 2023, the armed conflict between Russia and Ukraine continues to pose a particular threat which materializes primarily through an increase of the level of uncertainty and a risk of further supply shocks in the food, gas and oil markets (and, to a lesser extent, through 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 even further. Increased uncertainty may, in turn, exacerbate sentiments among investors.

The increase in risk aversion, on a regional and global level, due to the Russia-Ukraine conflict may result in outflow of foreign capital, further decreases in stock market indices, or continuation of the depreciation of the Polish zloty. It may also work to further increase bond yields, although the actions in the monetary policy will also be important in this case. If the NBP decides that there is still a serious risk of rising inflation in the medium term, the MPC may decide to raise interest rates again, which would depress the forecast demand in the economy even further. 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 resumption of the state of the COVID-19 pandemic in Poland and the scale of constraints affecting business activity as a result of introduction of 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 post-sales services.

A risk factor, which may cause a weakening of economic activity in Poland, as well as in other countries, is a possible resurgence of the tensions in supply chains and transport and the related further pressure on the prices of raw materials, components and finished products. This generates pressure on the costs of property claims that premium increases may not be able to keep up with.

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 is also a risk factor. Inflation causes future claims paid under the policies issued to rise. It also creates a problem for customers affected by depreciation of insurance benefits in long-term products.

In addition, in the conditions of relatively sound situations in the labor market, there is a risk that the central banks' further response to the "stubbornness" of inflation will prove too strong, causing an excessive cooling of the economy leading even to a global recession. In turn, too weak a response from central banks could mean an extended period of high inflation.

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 an adverse impact on the sector's performance (by affecting the banks' net interest income), which was felt in 2021. 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 yields on market-priced bonds in the portfolios of banks and insurers results in a reduction in their face value. The effects of this for insurance companies depend on the difference in the durations of assets and liabilities. On the other hand, administrative measures aimed at mitigating the cost of rate increases to households (such as the so-called moratorium periods) will lead to reduction in the banking sector's profits.

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 war between Russia and Ukraine and concerns about a global slowdown in economic activity, 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 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 an increase in the loss ratio on the financial insurance portfolio as well as in further weakening of the growth rate of new mortgage loans and also in the weakening of the growth rate of consumer loans.

19. Management Board's position on previously published forecasts

PZU did not publish standalone or consolidated forecasts.

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

In the 3-month period ended 31 March 2023, PZU did not issue, redeem or repay any debt or equity securities.

21. Default or breach of essential provisions of loan agreements

In the 3-month period ended 31 March 2023, PZU and its subsidiaries did not fail to repay any loan and did not breach any of the essential provisions of loan agreements, and therefore there was no need for any corrective measure to be adopted before the end of the reporting period.

22. Distribution of the parent company's profit and dividend

The profit shown in the parent company's standalone financial statements prepared in accordance with PAS is subject to distribution.

On 4 May 2023, the Management Board of PZU proposed to the GMS of PZU to distribute the PZU's net profit for the year ended 31 December 2022, in the amount of PLN 1,637 million, plus the amount of PLN 1,296 million transferred from the supplementary capital recognized as a result of allocation to the supplementary capital of the net profit for the year ended 31 December 2021, i.e. in the total amount of PLN 2,933 million, as follows:

- PLN 2,072 million (i.e. PLN 2.40 per share) to dividends;
- PLN 854 million to the supplementary capital;
- PLN 7 million to the Company Social Benefits Fund.

The Management Board of PZU has also requested that the dividend date be set at 7 September 2023 and the dividend payment date at 28 September 2023.

The proposed profit distribution is in line with the PZU Group's Capital and Dividend Policy for 2021-2024 adopted on 24 March 2021, and takes into account recommendations contained in the FSA's position on the dividend policy in 2023 of 6 December 2022.

23. 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, foreign currency 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 usually no particular case is of significant importance to PZU Group.

The majority of disputes involving the PZU Group companies are carried out with participation of the following 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 2023, the total value of the disputes in all 247,253 cases (265,937 cases at 31 December 2022) pending before courts, arbitration bodies and public administration authorities in which the PZU Group entities participate, was PLN 9,602 million (PLN 9,033 million at 31 December 2022). This amount included PLN 6,068 million (PLN 5,586 million at 31 December 2022) of liabilities and PLN 3,534 million (PLN 3,447 million as at 31 December 2022) of accounts receivable of the PZU Group companies.

In the 3-month period ended 31 March 2023 and by the date of signing of the condensed interim consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, arbitration body or public administration authority, concerning liabilities or receivables of PZU or any of its direct or indirect subsidiaries, the single value of which would be significant, save for the cases described in the sections below.

23.1 Resolutions of the Ordinary General Meeting of Shareholders of PZU on distribution of the net profit for 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 General Meeting of Shareholders of PZU distributed the 2006 net profit of PLN 3,281 million as follows:

- PLN 3,261 million to the supplementary capital;
- PLN 20 million 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 General Meeting of Shareholders 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 General Meeting of Shareholders 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 General Meeting of Shareholders 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 General Meeting of Shareholders be repealed. According to the plaintiff, the value of the litigation was 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 carry out 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 the costs of the trial. 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 admitting evidence in the form of an opinion of a scientific institute to determine the amount of the damage sustained by MSC and J.P. Morgan, in the form of loss of profit, as a result of the adoption of Resolution No. 8/2007 by the PZU Ordinary Shareholder Meeting on 30 June 2007, excluding from distribution the profit for the 2006 financial year and the non-payment of this profit in 2007.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2023, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary General Meeting of Shareholders on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

23.2 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 with a final 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).

23.3 Class action against Alior Bank

Alior Bank is a defendant in one class action case (suit was filed on 5 March 2018) brought by an individual representing a group of 84 natural and legal persons and 3 individual cases 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. On 8 March 2023, the Regional Court in Warsaw issued a decision determining the composition of the class. This decision is not final as at the date of signing the condensed interim consolidated financial statements. The value of the subject matter of the extended action amounts to approximately PLN 104 million.

The lawsuits were filed to establish liability (not for payment, i.e. damages), so PZU Group does not expect any cash outflow from these proceedings other than litigation costs, which it estimates at PLN 600 thousand.

Alior Bank is also a defendant in 123 cases brought by purchasers of the Funds' investment certificates for payment (damages). The total value of the subject matter of litigation in these cases is PLN 42 million.

In the opinion of the PZU Group, each payment case requires an individual approach. The final value of the investment certificates will be determined upon completion of the liquidation. After analysis and selection of cases, those were singled out in which specific risk factors justify the creation of a provision. Its calculation also took into account the possible increase in the scale of the lawsuits. The total value of the provision at 31 March 2023 was PLN 20 million.

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

On 6 August 2019, the 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, the KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Provincial Administrative Court in Warsaw. On 17 June 2020, the Provincial 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. The 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.

24. 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

A- / Stable

Last affirmation and outlook

On 24 Abril 2023, S&P affirmed the PZU's financial strength rating and credit rating at A- / stable.

Last change and outlook

On 6 Abril 2020, S&P changed the PZU outlook from positive to stable. The PZU rating remained at A-.

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

Company name	Rating and outlook	Last change	Previous rating and outlook	Date of 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

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Poland's rating

On 17 February 2023, the rating agency S&P announced its decision to maintain Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency and A/A-1 for long- and short-term liabilities in domestic currency, respectively. and short-term liabilities in domestic currency. The rating outlook remained stable.

The agency lowered its growth forecast for Poland for 2023 to 0.9 per cent, justifying this by the continuing economic effects of Russia's aggression against Ukraine. However, the agency's analysts expect Poland to be able to withstand most macroeconomic shocks related to the war over the next two years. This resilience is due to Poland's competitive and diversified economy, flexible labor and product markets and an educated workforce. They also see Poland's membership of the EU and NATO as a positive factor, as well as relatively secure energy supply prospects, thanks to the government's efforts to minimize energy imports from Russia. In addition, they found support for the ratings in reasonable levels of public and private debt, access to broad non-debt financing, including transfers from the EU and a relatively deep domestic capital market. On the other hand, moderate income levels and unfavorable demographic trends affecting labor supply and public finances are, in their view, a constraint on the ratings.

25. Related party transactions

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

In the 3-month period ended 31 March 2023, neither PZU nor its subsidiaries made any transaction with their related parties that were of key significance individually or collectively and were made on terms other than based on the arm's length principle.

25.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2023 and at 31 March 2023		1 January – 31 March 2022 and at 31 March 2022	
	Key management	Other related parties [1]	Key management	Other related parties [1]
Insurance revenue	-	-	-	1
Other income	-	-	-	-
Expenses	-	5	-	3
Investment financial assets	-	-	-	3
Loan receivables from clients	-	-	1	-
Receivables	-	1	-	-
Liabilities under deposits	3	43	2	6
Other liabilities	-	3	-	3
Contingent assets	-	-	-	-
Contingent liabilities	-	2	-	-

[1] Associates measured at 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.

26. Other information

26.1 Inspections by the KNF Office

26.1.1. PZU

Between 11 January and 10 March 2022, the FSA carried out an audit of PZU's operations and assets with regard to the solvency capital requirement. On 4 April 2022, PZU received the audit report, to which it submitted reservations, additional explanations and documents on 15 April 2022. On 8 June 2022, PZU received 2 recommendations following the audit, which were implemented starting with the reports prepared as at 31 December 2022, which PZU reported on 6 February 2023.

26.1.2. PZU Życie

In the period from 22 August to 21 October 2022, KNF inspected PZU Życie's compliance with the law in terms of the use of insurance agents and agents offering supplementary insurance. On 22 December 2022, PZU Życie submitted comments to the FSA's report on audit carried out on 13 December 2022. Following the FSC's response of 4 January 2023, PZU Życie provided additional explanations on 20 January, 22 and 23 February 2023. On 20 March 2023, PZU Życie received a recommendation regarding PZU Życie's supervision of the agent's activities regarding the process of determining the customer's needs and requirements. The deadline for implementation of the recommendation is 31 December 2023.

Between 10 January and 10 March 2023, the FSA carried out an audit at PZU Życie on the preparation of financial statements for solvency purposes and the valuation of assets and liabilities for solvency purposes. On 4 May 2023, PZU Życie received the minutes following the audit, to which it submitted comments on 17 May 2023.

26.2 Tax liability in Sweden

ZU 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 foreign exchange 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 foreign exchange differences arising on repayment of the loan should be subject to taxation, while the FX differences arising on repayment of the bonds are not subject to taxation. In the PZU Group's opinion, the Board's interpretation would mean that a different approach is applied in Sweden to companies reporting in euros than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of Article 63 of the Treaty on the Functioning of the European Union (TFEU) on the need to ensure the free movement of capital in the European Union or Articles 49 and 54 TFEU on the freedom of establishment.

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

At the same time, on 27 August 2020, PZU Finance AB submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB received the tax decision from the tax office confirming that the tax was calculated correctly. The decision was not final. Due to the pursuit of the goals for which the company was established, on 4 May 2021, the General Meeting of Shareholders decided to commence the liquidation procedure of PZU Finance AB. On 23 June 2021, PZU Finance AB received a preliminary decision, and on 21 December 2021 a final negative decision of the tax office regarding the adjustment of its tax settlement for 2019. Accordingly, the PZU Group recognized, as at 31 December 2021, a current income tax liability of PLN 72 million (SEK 159 million). On 21 January 2022, PZU made a payment of SEK 159 million (SEK 155 million of the base amount and SEK 4 million of interest due) directly to the Swedish tax authority. On 10 November 2022, under the applicable tax appeal procedure, PZU Finance AB filed a lawsuit with the Stockholm Administrative Court regarding the tax redetermination for 2019.

26.3 UOKiK proceedings against Alior Bank

On 27 September 2019, the President of the Office of Competition and Consumer Protection (UOKiK) issued a decision to initiate proceedings against Alior Bank for recognizing the provisions of a contract template as abusive (ref. no. RPZ.611.4.2019.PG) pertaining to 11 clauses (the so-called modification clauses) included in the contract templates used by Alior Bank on the basis of which Alior Bank made unilateral changes to the contracts concluded with consumers. The UOKiK President challenged the wording of the provisions in question as, among other things, vague and not allowing consumers to verify the occurrence of the prerequisites for the change being made. Alior Bank was in correspondence with the UOKiK President on the matter and submitted a plan to remove the ongoing effects of the violation from its contracts with clients. If the plan is accepted by the UOKiK President, it will be possible to conduct further discussions on the adjustment of the challenged modification clauses to the UOKiK President’s expectations.

As at 31 March 2023, the PZU Group has not identified any grounds for recognizing provisions for the above case.

The UOKiK conducts the investigation proceedings (ref. no. RWR.405.4.2021.ET) in order to preliminarily determine of whether Alior Bank's actions taken after consumers reported unauthorized payment transactions, as referred to in the Payment Services Act of 19 January 2011, may justify the initiation of proceedings for practices violating the collective interests of consumers or proceedings for recognition of the provisions of the model contract as prohibited. The proceedings “concerning the case” are pending. Alior Bank is not a party to these proceedings, but it has provided the documents and information requested by the UOKiK. As at the date of signing the consolidated financial statements, Alior Bank had not received any correspondence from the UOKiK expressing the authority's reservations against Alior Bank in connection with the practice adopted. The UOKiK informed in reports about the initiation of proceedings for practices infringing the collective interests of consumers against 9 other banks, whose practice was verified in explanatory proceedings analogous to those conducted against Alior Bank. As Alior Bank applies a similar practice to the one questioned in the case against the 9 banks, it is expected that Alior Bank will also receive a decision on the initiation of proceedings for practices infringing the collective interests of consumers. At this point, it is not possible to estimate the effects of these potential proceedings on Alior Bank, in particular, with regard to the manner in which the UOKiK expects Alior Bank to remedy the effects of the infringement and whether a fine would be imposed on Alior Bank. In order to make such estimates, it would be necessary to read the justification for the decision to initiate proceedings. Furthermore, the UOKiK allegations raise doubts throughout the banking sector as to their compliance with European law. The provisions of the Payment Services Act referred to by the UOKiK in the context of these allegations do not fully reflect the directive that they implement. This has resulted in numerous requests being submitted to the UOKiK by the Association of Polish Banks, as well as in the introduction by the Ministry of Finance of a proposal to align these regulations with the provisions of the aforementioned directive in the draft amendment to the Payment Services Act. In Alior Bank's opinion, the amounts arising from the notifications made up to date, in the event of a negative opinion of the UOKiK, will be recoverable before courts. As at 31 March 2023, Alior Bank maintained the provision in the amount of PLN 2 million.

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

In December 2021 Alior Bank and Alior Leasing sp. z o.o. received repeated (new) summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw on account of the management plan. Based on the legal opinions obtained, the PZU Group assesses that the probability of the revoked members of Alior Leasing's Management Board successfully obtaining benefits under the management program through the court is less than 50%. Therefore, as at 31 March 2023, PZU Group has not recognized any provision in that respect.

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

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.

26.5 Conflict in Ukraine

Due to the Russian Federation's invasion of Ukraine and the armed conflict lasting since 24 February 2022, PZU's Management Board assessed the impact of this situation on the PZU Group's operations, business continuity, financial position and going concern.

At 31 March 2023, the total net assets (assets less liabilities and adjusted for mutual interests between PZU Ukraine and PZU Ukraine Life) of the three companies operating in Ukraine (PZU Ukraine, PZU Ukraine Life and LLC SOS Services Ukraine) amounted to PLN 38 million (at 31 December 2022: PLN 25 million).

Consolidated assets (after excluding mutual interests between PZU Ukraine and PZU Ukraine Life) of these companies amounted to PLN 364 million (at 31 December 2022: PLN 357 million), including, among others:

- investment financial assets of PLN 219 million (at 31 December 2022: PLN 207 million), of which PLN 89 million (at 31 December 2022: PLN 78 million) are instruments issued by the Ukrainian government, and PLN 130 million (at 31 December 2021: PLN 129 million) are term deposits;
- reinsurance contract assets are PLN 54 million (at 31 December 2022: PLN 42 million), of which PLN 34 million (at 31 December 2022: PLN 31 million) was the share of PZU.

The companies' liabilities amounted to PLN 326 million (at 31 December 2022: PLN 332 million), including:

- liabilities from insurance contracts were PLN 315 million (at 31 December 2022: PLN 322 million);
- other liabilities were PLN 11 million (at 31 December 2022: PLN 10 million).

With martial law in effect throughout Ukraine as of 24 February 2022, and active hostilities carried out in the east and south of the country, as well as the risk of airstrikes conducted throughout the territory, Ukrainian companies in PZU Group are working with wartime considerations in mind.

One of the wartime regulations introduced by the NBU on 24 February 2022 concerned the prohibition of international fund transfers from Ukraine. At the end of 2022, this ban was relaxed as it was not possible for insurance companies to make international reinsurance payments to non-residents.

On 14 February 2023, the NBU Resolution of 10 February 2023 came into force, under which insurers may regulate international reinsurance obligations (with the exception of compulsory third-party liability insurance for motor vehicle owners), after verification and inclusion in the list of insurers authorized to perform reinsurance operations with foreign reinsurers. By a decision of the NBU dated 13 March 2023, PZU Ukraine was included in the list of authorized insurers.

Martial law was extended until 18 August 2023.

Two rating agencies have revised the Ukraine's ratings in 2023. The current ratings are as follows:

- from 6 April 2023, the rating agency S&P Global Ratings downgraded Ukraine's long-term and short-term foreign currency sovereign ratings to CCC/C from CCC+/C, respectively, and changed the outlook from stable to negative;
- from 17 August 2022, according to Fitch Ratings, the rating for long-term and short-term foreign currency liabilities (affirmed on 20 January 2023) is CC/C;
- from 10 February 2023, according to Moody's Investors Service, the long-term foreign currency and hryvnia ratings of the Government of Ukraine, as well as the rating of unhedged foreign currency debt, were downgraded to Ca from Caa3 and the outlook was changed from negative to stable.

As of the date of signing the condensed interim consolidated financial statements, the determination of the possibility of maintaining business continuity (materialization of the risk of full loss of operating capacity) of the Ukrainian companies in PZU Group is subject to uncertainty due to the possibility of, among other things:

- long-term continuation and escalation of hostilities (approximately 20% of Ukraine is subject to war);
- continuation of long-range weapons fire on civilian and military facilities, including critical infrastructure facilities, leading to significant civilian casualties and disruption of utility services such as energy, heating and water supply ;
- devastation of critical infrastructure, communications and Internet access;
- lack of access to key systems, including by destroying the companies' physical infrastructure;
- cessation of the handling of all internal money transfers by the Ukrainian banking system;
- unavailability of employees.

The PZU Group analyzes the developments on an ongoing basis and examines forward-looking scenarios for the run of events. Due to the situation in Ukraine, the valuation of assets and liabilities (especially technical provisions) of Ukrainian companies requires a number of assumptions be made and is subject to significant uncertainty.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

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

1. Interim balance sheet

ASSETS	31 March 2023	31 December 2022	31 March 2022
I. Intangible assets, including:	303,373	297,878	292,008
- goodwill	-	-	-
II. Investments	42,452,318	40,164,786	38,981,719
1. Real estate	279,853	282,935	294,118
2. Investments in related parties, including:	15,837,476	14,591,047	14,487,353
- investments in related parties measured by the equity method	15,375,728	14,118,751	13,795,558
3. Other financial investments	26,334,989	25,290,804	24,200,248
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,725,894	2,526,929	2,415,992
1. Receivables from direct insurance	1,789,801	1,917,402	1,458,348
1.1. From subordinated entities	2,909	2,777	7,743
1.2. From other entities	1,786,892	1,914,625	1,450,605
2. Reinsurance receivables	367,427	172,788	258,701
2.1. From subordinated entities	312,754	139,416	227,972
2.2. From other entities	54,673	33,372	30,729
3. Other receivables	568,666	436,739	698,943
3.1. Receivables from the state budget	196,577	31,846	97,409
3.2. Other receivables	372,089	404,893	601,534
a) from subordinated entities	35,752	30,564	79,259
b) from other entities	336,337	374,329	522,275
V.Other assets	308,780	264,576	403,735
1. Property, plant and equipment	128,609	133,856	114,782
2. Cash	180,171	130,720	288,953
3. Other assets	-	-	-
VI. Prepayments and accruals	3,144,192	2,680,863	2,823,799
1. Deferred tax assets	-	-	-
2. Capitalized acquisition costs	1,967,066	1,756,710	1,802,084
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	1,177,126	924,153	1,021,715
VII. Unpaid share capital	-	-	-
VIII. Treasury shares	-	-	-
Total assets	**48,934,557**	**45,935,032**	**44,917,253**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	31 March 2023	31 December 2022	31 March 2022
I. Equity	17,585,961	15,824,143	15,569,777
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	7,694,696	7,694,696	7,347,497
3. Revaluation reserve	7,206,180	6,406,321	6,095,462
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	1,636,774	-	2,028,335
6. Net profit (loss)	961,959	1,636,774	12,131
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,279,507	2,333,305	2,265,710
III. Technical provisions	29,724,184	27,570,942	25 765 399
IV. Reinsurers' share in technical provisions (negative figure)	(4,596,568)	(3,657,686)	(2 152 277)
V. Estimated salvage and subrogation (negative figure)	(92,588)	(104,005)	(89,527)
1. Gross estimated salvage and subrogation	(96,704)	(107,805)	(91,817)
2. Reinsurers' share in estimated salvage and subrogation	4,116	3,800	2,290
VI. Other provisions	915,277	615,028	731,950
1. Provisions for pension benefits and other compulsory employee benefits	54,795	43,513	64,001
2. Deferred tax liability	841,921	554,443	652,142
3. Other provisions	18,561	17,072	15,807
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,767,129	1,449,961	1,688,568
1. Liabilities on direct insurance	433,871	448,296	422,662
1.1. To subordinated entities	7,348	11,974	4,788
1.2. To other entities	426,523	436,322	417,874
2. Reinsurance liabilities	604,662	193,348	267,363
2.1. To subordinated entities	27,703	16,668	21,929
2.2. To other entities	576,959	176,680	245,434
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-
4. Liabilities to credit institutions	-	-	5,097
5. Other liabilities	595,375	699,867	864,990
5.1. Liabilities to the state budget	32,314	96,992	36,991
5.2. Other liabilities	563,061	602,875	827,999
a) to related entities	80,777	68,133	183,594
b) to other entities	482,284	534,742	644,405
6. Special-purpose funds	133,221	108,450	128,456
IX. Prepayments and accruals	1,351,655	1,903,344	1,137,653
1. Accrued expenses	1,096,821	1,653,158	925,649
2. Negative goodwill	-	-	-
3. Deferred income	254,834	250,186	212,004
Total equity and liabilities	**48,934,557**	**45,935,032**	**44,917,253**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim balance sheet (continued)

	31 March 2023	31 December 2022	31 March 2022
Carrying amount	17,585,961	15,824,143	15,569,777
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	20.37	18.33	18.03
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (in PLN)	20.37	18.33	18.03

2. Interim statement of off-balance sheet line items

Off-balance sheet line items	**31 March 2023**	**31 December 2022**	**31 March 2022**
1. Contingent receivables, including:	2,912,335	3,045,272	3,676,824
1.1. Guarantees and sureties received	2,525	2,718	2,392
1.2. Other [1]	2,909,810	3,042,554	3,674,432
2. Contingent liabilities, including:	1,300,906	1,144,871	1,164,097
2.1. Guarantees and sureties given	6,089	9,082	93,737
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	231,060	233,081	145,327
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**4,444,301**	**4,423,224**	**4,986,248**

[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.

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	**1 January – 31 March 2023**	**1 January – 31 March 2022**
I. Premiums (1-2-3+4)	3,250,726	3,000,226
1. Gross written premium	4,442,851	3,927,443
2. Reinsurers' share in written premium	131,166	96,657
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	853,745	701,022
4. Reinsurers' share in the movement in provision for unearned premiums	(207,214)	(129,538)
II. Net investment income (including costs) transferred from the general profit and loss account	63,157	58,728
III. Other net technical income	60,155	30,639
IV. Claims and benefits (1+2)	2,020,250	1,877,875
1. Net claims and benefits paid	1,852,817	1,762,615
1.1. Gross claims and benefits paid	1,919,338	1,806,734
1.2. Reinsurers' share in claims and benefits paid	66,521	44,119
2. Movement in provision for outstanding claims and benefits, net of reinsurance	167,433	115,260
2.1. Movement in provision for outstanding claims and benefits, gross	1,315,088	235,006
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	1,147,655	119,746
V. Movement in other technical provisions, net of reinsurance	-	-
1. Movement in other technical provisions, gross	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts with the movement in provisions	(2,405)	1,013
VII. Insurance activity expenses	976,489	823,507
1. Acquisition expenses, including:	792,574	673,970
- movement in capitalized acquisition costs	(210,355)	(200,861)
2. Administrative expenses	214,785	172,923
3. Reinsurance commissions and profit participation	30,870	23,386
VIII. Other net technical charges	111,969	101,772
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**267,735**	**285,426**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2023	1 January – 31 March 2022
I. Technical result of non-life insurance or life insurance	267,735	285,426
II. Investment income	193,623	186,534
1. Investment income on real estate	1,059	1,617
2. Investment income from related parties	5,182	5,129
2.1. On ownership interests or shares	-	-
2.2. On borrowings and debt securities	5,356	4,896
2.3. On other investments	(174)	233
3. Other financial investment income	173,602	142,207
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	244	265
3.2. On debt securities and other fixed income securities	137,435	129,802
3.3. On term deposits with credit institutions	2,768	31
3.4. On other investments	33,155	12,109
4. Gain on revaluation of investments	-	-
5. Gain on realization of investments	13,780	37,581
III. Unrealized investment gains	87,532	124,866
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V.Investment activity expenses	21,170	89,616
1. Real estate maintenance expenses	4,488	571
2. Other investment activity expenses	8,185	7,816
3. Loss on revaluation of investments[1)]	-	-
4. loss on realization of investments	8,497	81,229
VI. Unrealized investment losses	58,867	58,267
VII. Net investment income after including costs transferred to the revenue account of non-life insurance	63,157	58,728
VIII. Other operating income	63,422	64,315
IX. Other operating expenses	172,253	145,405
X.Operating profit (loss)	296,865	309,125
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	738,674	(221,055)
XIV. Gross profit (loss)	1,035,539	88,070
XV. Income tax	73,580	75,939
a) current part	(148,233)	(126,167)
b) deferred part	221,813	202,106
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**961,959**	**12,131**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

	1 January – 31 March 2023	1 January – 31 March 2022
Net profit (loss) (annualized) [1)]	3,901,278	49,198
Weighted average number of common shares	863,523,000	863,523,000
Profit (loss) per common share (in PLN)	1.11	0.01
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted profit (loss) per common share (in PLN)	1.11	0.01

[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 2023	1 January – 31 December 2022	1 January – 31 March 2022
I. Equity at the beginning of the period (opening balance)	15,824,143	15,776,367	15,776,367
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (opening balance), after adjustments to ensure comparability	15,824,143	15,776,367	15,776,367
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	7,694,696	7,347,436	7,347,436
2.1. Change in supplementary capital	-	347,260	61
a) increases (by virtue of):	-	1,297,135	61
- distribution of profit (above the statutorily required amount)	-	1,295,995	-
- from revaluation reserve – by sale and liquidation of fixed assets	-	1,140	61
b) decreases	-	949,875	-
2.2. Supplementary capital at the end of the period	7,694,696	7,694,696	7,347,497
3. Revaluation reserve at the beginning of the period	6,406,321	6,314,244	6,314,244
- changes in the accepted accounting principles (policy)	-	-	-

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2023	1 January – 31 December 2022	1 January – 31 March 2022
3.a. Revaluation reserve at the beginning of the period (opening balance), after adjustments to ensure comparability	6,406,321	6,314,244	6,314,244
3.1. Change in the revaluation reserve	799,859	92,077	(218,782)
a) additions (by virtue of):	930,832	904,081	227,497
- valuation of financial investments measured by the equity method	516,907	314,344	96,680
- valuation of financial investments classified to the portfolio of financial assets held for sale	360,212	549,693	96,080
- valuation of financial investments held for hedge accounting	53,705	34,479	29,250
- disposal of instruments held for sale	8	5,565	5,487
b) reductions (by virtue of)	130,973	812,004	446,279
- valuation of financial investments measured by the equity method	112	123,469	50,421
- valuation of financial investments classified to the portfolio of financial assets held for sale	130,718	669,704	372,652
- valuation of financial investments held for hedge accounting	-	-	15,025
- disposal of instruments held for sale	143	17,691	8,120
- disposal of fixed assets	-	1,140	61
3.2. Revaluation reserve at the end of the period	7,206,180	6,406,321	6,095,462
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	1,636,774	2,028,335	2,028,335
5.1. Retained earnings at the beginning of the period	1,636,774	2,028,335	2,028,335
a) changes in the accepted accounting principles (policy)	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	1,636,774	2,028,335	2,028,335
a) increases	-	949,875	-
b) decreases	-	2,978,210	-
- transfers to supplementary capital	-	1,295,995	-
- disbursement of dividends	-	1,675,235	-
- transfers/charges to the Company Social Benefit Fund	-	6,980	-
5.3. Retained earnings at the end of the period	1,636,774	-	2,028,335
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting principles (policy)	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	1,636,774	-	2,028,335

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2023	1 January – 31 December 2022	1 January – 31 March 2022
6. Net profit or loss	961,959	1,636,774	12,131
a)net profit	961,959	1,636,774	12,131
b)net loss	-	-	-
c) charges to profit	-	-	-
II. Equity at the end of the period (closing balance)	**17,585,961**	**15,824,143**	**15,569,777**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2023	1 January – 31 December 2022	1 January – 31 March 2022
A.Cash flows from operating activities			
I. Proceeds	4,586,345	16,090,563	4,123,197
1. Proceeds on direct activity and inward reinsurance	4,355,123	14,812,738	3,822,908
1.1. Proceeds on gross premiums	4,249,366	14,440,245	3,746,316
1.2. Proceeds on subrogation, salvage and claim refunds	87,601	310,343	56,737
1.3. Other proceeds on direct activity	18,156	62,150	19,855
2. Proceeds from outward reinsurance	99,523	417,372	97,184
2.1. Payments received from reinsurers for their share of claims paid	59,528	240,217	43,984
2.2. Proceeds on reinsurance commissions and profit participation	39,995	173,998	50,482
2.3. Other proceeds from outward reinsurance	-	3,157	2,718
3. Proceeds from other operating activity	131,699	860,453	203,105
3.1. Proceeds for acting as an emergency adjuster	70,832	424,786	106,438
3.2. Disposal of intangible assets and property, plant and equipment other than investments	9	1,652	952
3.3. Other proceeds	60,858	434,015	95,715
II. Expenditures	3,931,814	14,561,574	3,679,586
1. Expenditures on direct activity and inward reinsurance	3,090,572	11,751,182	2,888,090
1.1. Gross premium refunds	120,433	323,958	66,789
1.2. Gross claims and benefits paid	1,762,436	6,871,398	1,653,690
1.3. Acquisition expenditures	596,040	2,095,324	515,669
1.4. Administrative expenditures	387,351	1,751,069	434,880
1.5. Expenditures for claims handling and pursuit of subrogation	71,518	290,713	72,583
1.6. Commissions paid and profit-sharing on inward reinsurance	100,114	242,682	84,831
1.7. Other expenditures on direct activity and inward reinsurance	52,680	176,038	59,648
2. Expenditures on outward reinsurance	460,643	1,135,355	458,634
2.1. Premiums paid for reinsurance	454,912	1,115,978	458,633
2.2. Other expenditures on outward reinsurance	5,731	19,377	1
3. Expenditures on other operating activity	380,599	1,675,037	332,862
3.1. Expenditures for acting as an emergency adjuster	32,375	219,727	67,560
3.2. Purchase of intangible assets and property, plant and equipment other than investments	35,841	110,425	18,527
3.3. Other operating expenditures	312,383	1,344,885	246,775
III. Net cash flows from operating activities (I-II)	**654,531**	**1,528,989**	**443,611**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2023	1 January – 31 December 2022	1 January – 31 March 2022
B.Cash flows from investing activity			
I. Proceeds	36,464,003	104,089,320	19,056,818
1. Sale of real estate	-	6,844	591
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	699	55,538	46,565
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	343,436	1,148,141	193,083
6. Liquidation of term deposits with credit institutions	6,825,534	20,978,955	2,778,685
7. Realization of other investments	29,213,352	80,454,839	15,980,462
8. Proceeds from real estate	221	710	167
9. Interest received	80,761	560,305	56,965
10. Dividends received	-	883,146	-
11. Other investment proceeds	-	842	300
II. Expenditures	36,970,608	103,701,952	19,111,595
1. Purchase of real estate	16	34	265
2. Purchase of ownership interests and shares in related parties	-	171,850	70,494
3. Purchase of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	20,237	980,675	82,818
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	40,005	40,000
5. Purchase of debt securities issued by other entities	973,770	432,416	69,818
6. Purchase of term deposits with credit institutions	6,801,397	21,002,554	2,746,777
7. Purchase of other investments	29,167,206	81,051,922	16,081,472
8. Expenditures to maintain real estate	2,945	1,893	14,624
9. Other expenditures for investments	5,037	20,603	5,327
III. Net cash flows from investing activities (I-II)	**(506,605)**	**387,368**	**(54,777)**

Condensed Interim Consolidated Financial Statements for a 3-month period ended 31 March 2023 (in thousand PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2023	1 January – 31 December 2022	1 January – 31 March 2022
C.Cash flows from financing activities			
I. Proceeds	48,757	2,848,029	1,559,888
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	48,757	2,848,029	1,559,888
3. Other financial proceeds	-	-	-
II. Expenditures	151,873	4,774,164	1,802,488
1. Dividends	1	1,675,235	-
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	48,766	3,017,655	1,779,236
5. Interest on loans and borrowings and issued debt securities	103,106	81,274	23,252
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(103,116)**	**(1,926,135)**	**(242,600)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**44,810**	**(9,778)**	**146,234**
E. Balance sheet change in cash, including:	49,451	(15,115)	143,118
- movement in cash due to foreign exchange differences	4,641	(5,337)	(3,116)
F. Cash at the beginning of the period	130,720	145,835	145,835
G. Cash at the end of the period (F+/-E), including:	180,171	130,720	288,953
- restricted cash	67,237	37,578	72,118

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 2022.

9. Changes in accounting policies

In the 3-month period ended 31 March 2023, no changes were made to the accounting principles (policy).

Signatures of the Management Board Members of PZU:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 24 May 2023