Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 6 months ended
30 June 2020

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(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated) 3)	1 January – 30 June 2019 (restated) 3)
Gross written premiums	8.1	5,594	11,691	5,938	11,839
Reinsurers' share in gross written premium		(118)	(274)	(137)	(239)
Net written premiums		**5,476**	**11,417**	**5,801**	**11,600**
Movement in net provision for unearned premiums		214	35	(59)	(266)
Net earned premium		**5,690**	**11,452**	**5,742**	**11,334**
Revenue from commissions and fees	8.2	964	1,983	1,032	1,993
Interest income calculated using the effective interest rate	8.3	2,674	5,670	3,110	5,969
Other net investment income	8.4	186	186	71	265
Result on derecognition of financial instruments and investments	8.5	(260)	(185)	54	107
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.6	(1,415)	(2,075)	(733)	(1,075)
Net movement in fair value of assets and liabilities measured at fair value	8.7	1,108	553	93	347
Other operating income	8.8	349	669	301	575
Claims, benefits and movement in technical provisions		(4,117)	(7,608)	(4,013)	(8,124)
Reinsurers' share in claims, benefits and movement in technical provisions		107	317	42	195
Net insurance claims and benefits paid	8.9	**(4,010)**	**(7,291)**	**(3,971)**	**(7,929)**
Fee and commission expenses	8.10	(243)	(478)	(217)	(391)
Interest expenses	8.11	(321)	(806)	(540)	(1,065)
Acquisition expenses	8.12	(812)	(1,647)	(823)	(1,616)
Administrative expenses	8.12	(1,656)	(3,335)	(1,656)	(3,276)
Other operating expenses	8.13	(1,854) 1)	(3,640) 2)	(849)	(2,135)
Operating profit		**400**	**1,056**	**1,614**	**3,103**
Share of the net financial results of entities measured by the equity method		-	(1)	(1)	(3)
Profit before tax		**400**	**1,055**	**1,613**	**3,100**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated) [3]	1 January – 30 June 2019 (restated) [3]
Income tax	8.14	(381)	(747)	(427)	(902)
Net profit on continuing operations		**19**	**308**	**1,186**	**2,198**
Loss on discontinued operations		(4)	(4)	-	-
Net profit, including:		**15**	**304**	**1,186**	**2,198**
- profit attributable to the equity holders of the Parent Company		185	301	734	1,481
- profit (loss) attributed to holders of non-controlling interest		(170)	3	452	717
Weighted average basic and diluted number of common shares	8.15	863,320,531	863,325,925	863,314,163	863,268,725
Basic and diluted profit (loss) per common share (in PLN)	8.15	0.21	0.35	0.85	1.72

[1] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 230 million) and Pekao (PLN 555 million) and intangible assets identified during the acquisition of Alior Bank (PLN 161 million). Additional information on this issue is presented in section 8.16.1.

[2] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million) and intangible assets identified during the acquisition of Alior Bank (PLN 161 million). Additional information on this issue is presented in section 8.16.1.

[3] Information on restatement of data for the period from 1 January to 30 June 2019 is presented in section 4.3.

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated) [1]	1 January – 30 June 2019 (restated) [1]
Net profit		15	304	1,186	2,198
Other comprehensive income	8.14	1,138	1,202	343	466
Subject to subsequent transfer to profit or loss		1,026	1,138	322	376
Valuation of debt instruments		848	445	291	269
Measurement of loan receivables from clients		14	2	8	17
Foreign exchange translation differences		(28)	59	(14)	(12)
Cash flow hedging		192	632	37	102
Not to be transferred to profit or loss in the future		112	64	21	90
Valuation of equity instruments measured at fair value through other comprehensive income		112	64	20	88
Reclassification of real property from property, plant and equipment to investment property		-	-	1	2
Total net comprehensive income		**1,153**	**1,506**	**1,529**	**2,664**
- comprehensive income attributable to equity holders of the Parent Company		779	807	930	1,799
- comprehensive income attributable to holders of non-controlling interest		374	699	599	865

[1] Information on restatement of data for the period from 1 January to 30 June 2019 is presented in section 4.3.

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 June 2020	31 December 2019 (restated) [1]
Goodwill	8.16	2,758	4,034
Intangible assets	8.17	3,027	3,157
Other assets	8.18	537	734
Deferred acquisition costs		1,549	1,574
Reinsurers' share in technical provisions	8.31	1,783	1,856
Property, plant and equipment	8.19	4,185	4,229
Investment property		2,277	1,981
Entities measured by the equity method		6	11
Loan receivables from clients	8.20	196,455	194,868
Financial derivatives	8.21	7,288	3,107
Investment financial assets	8.22	131,617	111,416
Measured at amortized cost		56,852	45,938
Measured at fair value through other comprehensive income		64,798	55,211
Measured at fair value through profit or loss		9,967	10,267
Deferred tax assets		2,478	2,313
Receivables	8.23	5,758	5,737
Cash and cash equivalents		16,240	7,788
Assets held for sale	8.28	687	580
Total assets		**376,645**	**343,385**

Equity and liabilities	Note	30 June 2020	31 December 2019 (restated) [1]
Equity			
Equity attributable to equity holders of the parent		16,976	16,169
Share capital	8.29	86	86
Other capital		16,835	13,036
Retained earnings		55	3,047
Retained profit or loss		(246)	(248)
Net profit		301	3,295
Non-controlling interest		23,818	23,119
Total equity		**40,794**	**39,288**
Liabilities			
Technical provisions	8.31	47,569	47,329
Subordinated liabilities	8.32	6,694	6,700
Liabilities on the issue of own debt securities	8.33	7,686	9,273
Liabilities to banks	8.34	7,912	6,604
Liabilities to clients under deposits	8.35	246,148	218,588
Financial derivatives	8.21	6,658	3,018
Other liabilities	8.36	10,394	10,409
Provisions for employee benefits		583	534
Other provisions	8.37	1,126	867
Deferred tax liability		884	746
Liabilities related directly to assets classified as held for sale	8.28	197	29
Total liabilities		**335,851**	**304,097**
Total equity and liabilities		**376,645**	**343,385**

[1] Information on restatement of data as at 31 December 2019 is presented in section 4.3.

(in millions of PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit			
Note	8.29										2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	45	-	-	-	-	-	41	23	64
Valuation of debt instruments	-	-	-	218	-	-	-	-	-	218	227	445
Measurement of loan receivables from clients	-	-	-	-	-	-	-	-	-	-	2	2
Cash flow hedging	-	-	-	187	-	-	-	-	-	187	445	632
Foreign exchange translation differences	-	-	-	-	-	-	60	-	-	60	(1)	59
Total net other comprehensive income	**-**	**-**	**(4)**	**450**	**-**	**-**	**60**	**-**	**-**	**506**	**696**	**1,202**
Net profit (loss)	-	-	-	-	-	-	-	-	301	301	3	304
Total comprehensive income	**-**	**-**	**(4)**	**450**	**-**	**-**	**60**	**-**	**301**	**807**	**699**	**1,506**
Other changes, including:	**-**	**-**	**2,677**	**(4)**	**620**	**-**	**-**	**(3,293)**	**-**	**-**	**-**	**-**
Distribution of financial result	-	-	2,673	-	620	-	-	(3,293)	-	-	-	-
Transactions with holders of non-controlling interests	-	-		-	-	-	-	-	-	-	-	-
Sale of revalued property and other	-	-	4	(4)	-	-	-	-	-	-	-	-
As at 30 June 2020	**86**	**(7)**	**15,786**	**740**	**296**	**1**	**19**	**(246)**	**301**	**16,976**	**23,818**	**40,794**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)	Equity attributable to equity holders of the parent											
		Other capital						Retained earnings				
	Share capital	Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	**Total**	**Non-controlling interest**	**Total equity**
Note	8.29										2.4	
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	(1)	(8)	-	-	-	-	-	(9)	11	2
Valuation of debt instruments	-	-	-	334	-	-	-	-	-	334	41	375
Measurement of loan receivables from clients		-	-	4	-	-	-	-	-	4	14	18
Cash flow hedging	-	-	-	31	-	-	-	-	-	31	69	100
Foreign exchange translation differences	-	-	-	-	-	-	(5)	-	-	(5)	1	(4)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	1	-	-	-	1	(2)	(1)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	6	-	-	-	-	-	6	-	6
Total net other comprehensive income	**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**-**	**362**	**134**	**496**
Net profit (loss)	-	-	-	-	-	-	-	-	3,295	3,295	1,890	5,185
Total comprehensive income	**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**3,295**	**3,657**	**2,024**	**5,681**
Other changes, including:	**-**	**4**	**454**	**(8)**	**(342)**	**-**	**-**	**(2,521)**	**-**	**(2,413)**	**(1,387)**	**(3,800)**
Distribution of financial result	-	-	444	-	(340)	-	-	(2,522)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	4	-	-	-	-	-	-	-	4	-	4
Transactions with holders of non-controlling interests	-	-	2	-	-	-	-	-	-	2	2	4
Sale of revalued property and other	-	-	8	(8)	(2)	-	-	1	-	(1)	(4)	(5)
As at 31 December 2019	**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**(248)**	**3,295**	**16,169**	**23,119**	**39,288**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)	Equity attributable to equity holders of the parent										**Non-controlling interest**	**Total equity**
		Other capital						Retained earnings				
	Share capital	Treasury stock	Supplemen-tary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit	**Total**		
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	-	75	-	-	-	-	-	75	13	88
Valuation of debt instruments	-	-	-	225	-	-	-	-	-	225	44	269
Measurement of loan receivables from clients	-	-	-	3	-	-	-	-	-	3	14	17
Cash flow hedging	-	-	-	25	-	-	-	-	-	25	77	102
Foreign exchange translation differences	-	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**330**	**-**	**-**	**(12)**	**-**	**-**	**318**	**148**	**466**
Net profit (loss)	-	-	-	-	-	-	-	-	1,481	1,481	717	2,198
Total comprehensive income	**-**	**-**	**-**	**330**	**-**	**-**	**(12)**	**-**	**1,481**	**1,799**	**865**	**2,664**
Other changes, including:	**-**	**3**	**445**	**(4)**	**(340)**	**-**	**-**	**(2,517)**	**-**	**(2,413)**	**(1,385)**	**(3,798)**
Distribution of financial result	-	-	440	-	(340)	-	-	(2,518)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	3	1	-	-	-	-	-	-	4	-	4
Transactions with holders of non-controlling interests	-	-		-	-	-	-	-	-	-	-	-
Other	-	-	4	(4)	-	-	-	1	-	1	-	1
As at 30 June 2019	**86**	**(8)**	**13,105**	**261**	**(322)**	**-**	**(48)**	**(244)**	**1,481**	**14,311**	**21,962**	**36,273**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 June 2020	1 January – 30 June 2019 (restated) [1)]
Profit before tax		1,055	3,100
Adjustments		29,203	(2,951)
Movement in loan receivables from clients		(3,381)	(8,949)
Movement in liabilities under deposits		28,237	5,172
Movement in the valuation of assets measured at fair value		(553)	(347)
Interest income and expenses		(1,342)	(1,254)
Realized gains/losses from investing activities and impairment losses		1,850	910
Net foreign exchange differences		81	(24)
Movement in deferred acquisition expenses		25	(44)
Amortization of intangible assets and depreciation of property, plant and equipment		638	632
Movement in the reinsurers' share in technical provisions		73	126
Movement in technical provisions		240	703
Movement in receivables		446	(74)
Movement in liabilities		(183)	1,479
Cash flow on investment contracts		-	(8)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		63	104
Income tax paid		(1,088)	(1,104)
Other adjustments		4,097	(273)
Net cash flows from operating activities		**30,258**	**149**
Cash flow from investing activities			
Proceeds		383,773	478,255
- sale of investment property		8	6
- proceeds from investment property		118	152
- sale of intangible assets and property, plant and equipment		17	31
- sale of ownership interests and shares		375	1,592
- realization of debt securities		117,153	127,106
- closing of buy-sell-back transactions		155,817	139,570
- closing of term deposits with credit institutions		95,592	192,773
- realization of other investments		13,777	16,119
- interest received		849	859
- dividends received		44	28
- other investment proceeds		23	19

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 30 June 2020	1 January – 30 June 2019 (restated) [1)]
Expenditures		(403,642)	(483,765)
- purchase of investment properties		(60)	(112)
- expenditures for the maintenance of investment property		(79)	(63)
- purchase of intangible assets and property, plant and equipment		(508)	(365)
- purchase of ownership interests and shares		(373)	(1,319)
- purchase of ownership interests and shares in subsidiaries		-	(63)
- decrease in cash due to the sale of entities and change in the scope of consolidation		-	(32)
- purchase of debt securities		(137,056)	(134,866)
- opening of buy-sell-back transactions		(156,385)	(139,195)
- purchase of term deposits with credit institutions		(95,660)	(192,073)
- purchase of other investments		(13,504)	(15,666)
- other expenditures for investments		(17)	(11)
Net cash flows from investing activities		**(19,869)**	**(5,510)**
Cash flows from financing activities			
Proceeds		44,181	64,802
- proceeds from loans and borrowings	8.38	969	758
- proceeds on the issue of own debt securities	8.38	4,098	3,589
- opening of repurchase transactions	8.38	39,114	60,455
Expenditures		(46,220)	(65,542)
- repayment of loans and borrowings	8.38	(759)	(1,858)
- redemption of own debt securities	8.38	(5,739)	(2,722)
- closing of repurchase transactions	8.38	(39,477)	(60,699)
- interest on loans and borrowings	8.38	(57)	(45)
- interest on outstanding debt securities	8.38	(41)	(86)
- expenditures on leases	8.38	(147)	(132)
Net cash flows from financing activities		**(2,039)**	**(740)**
Total net cash flows		**8,350**	**(6,101)**
Cash and cash equivalents at the beginning of the period		7,788	17,055
Movement in cash due to foreign exchange differences		102	(39)
Cash and cash equivalents at the end of the period, including:		16,240	10,915
- restricted cash		37	45

[1)] Information on restatement of data for the period from 1 January to 30 June 2019 is presented in section 4.3.

Supplementary notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2019.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 6 months from 1 January to 30 June 2020.

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

Functional and presentation currency

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

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

FX rates

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

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

Currency	1 January – 30 June 2020	1 January – 30 June 2019	30 June 2020	31 December 2019
Euro	4.4412	4.2880	4.4660	4.2585
British pound	5.0497	4.9130	4.8851	4.9971
Ukrainian hryvnia	0.1532	0.1412	0.1493	0.1602

Going concern assumption

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

Discontinued operations

In the 6-month period ended 30 June 2020, the PZU Group companies did not discontinue any significant type of activity.

Due to the scheduled changes in RUCH's shareholder structure which will result in the loss of the company's status of a subsidiary, the financial result generated by RUCH from the date of obtaining control over the company to the balance sheet date is presented as the result on discontinued operations, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". More information on this matter is presented in section 2.3.1.1.

Seasonal or cyclical business

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

Glossary

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

Names of companies

AAS 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.

Harberton – Harberton sp. z o.o.

LD – Lietuvos Draudimas AB

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PIM – Pekao Investment Management SA.

PKN Orlen – Polski Koncern Naftowy Orlen Spółka Akcyjna.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU LT GD – UAB PZU Lietuva Gyvybes Draudimas.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

RUCH – RUCH Spółka Akcyjna.

Tomma – Tomma Diagnostyka Obrazowa Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

BGK – Bank Gospodarstwa Krajowego.

CGU – cash generating unit.

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

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

PZU standalone financial statements for 2019 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2019 prepared in accordance with PAS, signed by the PZU Management Board on 11 March 2020.

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2020.

NBP – National Bank of Poland;

POCI – Purchased or originated credit-impaired financial assets.

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019 Item 351) and regulations issued thereunder.

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

IASB – International Accounting Standards Board.

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2019.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

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

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

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

2. Information on PZU and the PZU Group

2.1 PZU

The parent company in the PZU Group is PZU – a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24.

PZU has been entered in the National Court Register kept by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under file number KRS 0000009831.

According to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe, the core business of PZU consists of non-life insurance (65.12).

(in millions of PLN)

2.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
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	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Leasing 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 Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Management of pension funds.
16	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
17	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.82% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
19	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.02%	20.02%	Call-center services. https://www.pekaodirect.pl/
20	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.02%	Development activity.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
Consolidated companies – Pekao Group – continued						
21	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
22	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting
23	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
24	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
25	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
26	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
27	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
28	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
29	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
30	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a purchasing platform
31	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
32	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
33	Corsham sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting
34	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
35	Harberton sp. z o.o. [3)]	Warsaw	19.02.2020	31.93%	n/a	Business consulting
36	RBL_VC sp. z o.o. ASI SKA [4)]	Warsaw	17.04.2020	31.93%	n/a	Activity of trusts, funds and similar financial institutions.
37	RUCH SA [5)]	Warsaw	03.06.2020	31.93%	n/a	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
38	Fincores Business Solutions sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Accounting, bookkeeping and auditing activities; tax consultancy. https://ruch.com.pl/o-nas/fincores-business-solutions/
39	RUCH Detal SA	Warsaw	03.06.2020	31.93%	n/a	Retail sale of newspapers and stationery in specialized stores
40	RUCH Marketing sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Public relations and communication activities.
41	RUCH Nieruchomości V sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Renting and operating of own or leased real estate.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
Consolidated companies – PZU Zdrowie Group						
42	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
43	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
44	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/
45	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/
46	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
47	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
48	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. https://www.radom.pzuzdrowie.pl/
49	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
50	FCM Zdrowie sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://fcmzdrowie.pl/
51	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
52	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
53	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
54	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
55	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
56	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
57	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
58	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
59	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
60	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

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
Consolidated companies – other companies – continued						
61	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/
62	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
63	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
64	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
65	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
66	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
67	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
68	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
69	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
70	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
71	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
72	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
73	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
74	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
Consolidated companies – mutual funds						
75	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
76	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
77	PZU FIZ Sektora Nieruchomości [6)]	Warsaw	01.07.2008	n/a	n/a	as above
Consolidated companies – mutual funds – continued						
78	PZU FIZ Sektora Nieruchomości 2 [6)]	Warsaw	21.11.2011	n/a	n/a	as above
79	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
80	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
81	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
82	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
83	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
84	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
85	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
86	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
87	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
88	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
89	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
90	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
91	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2020	31 December 2019	
Associates						
92	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
93	CPF Management [7]	Tortola, British Virgin Islands	07.06.2017	8.01%	8.01%	Consulting and business activity – no business conducted.
94	PayPo sp. z o.o. [8]	Warsaw	15.11.2018	6.39%	6.39%	Financial services. https://paypo.pl/
95	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.

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

2) On 1 March 2019 the company's liquidation process was opened.

3) Additional information is presented in section 2.3.1.2.

4) On 17 April 2020, a new company was entered in the National Court Register, the founders of which are Alior Bank and RBL_VC sp. z o.o. The company's share capital is PLN 50 thousand and is divided into 50,000 registered shares with a par value of PLN 1 each.

5) Additional information is presented in section 2.3.1.1.

6) The funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conduct their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles the number of which as at 30 June 2020 was 18 and 16, respectively (as at 31 December 2019: 18 for each fund).

7) Pekao's associate in which it holds a 40.00% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

8) Alior Bank's associate, in which it holds a 20.00% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

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

The detailed accounting policy pertaining to settlement of acquisition transactions is presented in the consolidated financial statements for 2019.

The changes in the extent of consolidation and in the PZU Group's structure that occurred in the 6-month period ended 30 June 2020 are presented in the following sections.

2.3.1. Acquisitions of companies

2.3.1.1. Ruch SA

On 3 June 2020, Harberton, a wholly-owned subsidiary of Alior Bank and Lurena Investments B.V. with its registered office in the Netherlands, entered into a share purchase agreement under which Harberton acquired 108,824,007 shares in RUCH, representing a 100% stake in the company's share capital, for the price of PLN 1.00. The RUCH shares were acquired within the framework of the company's restructuring process. The restructuring process in RUCH was kicked off with the opening of Accelerated Arrangement Proceedings 1 and 2 (on 7 September 2018 and 7 February 2019, respectively), the assumption of which was to restructure a portion of RUCH's liabilities.

The PZU Group's strategic objective is to smoothly introduce a strategic investor (PKN Orlen) to RUCH to enable the company's continued development and the successful completion of the restructuring processes.

The pursuit of the strategic objective was reflected in the following documents signed on 1 June 2020:

- Shareholder Agreement on RUCH – entered into by and between PKN Orlen, PZU, PZU Życie and Alior Bank. In accordance with this document, PKN Orlen will be the majority shareholder exercising sole control over RUCH. Ultimately, the PZU Group will be a minority shareholder that will not exercise joint control over RUCH;
- Investment Agreement – on the principles of execution of the PZU Group's investment in RUCH shares. Alior Bank, through Harberton, undertook to redeem the existing shares in RUCH SA and to increase the company's share capital.

Under the Investment Agreement, contributions to new shares in RUCH and the holding of shares and voting rights at the Shareholder Meeting of RUCH following the share capital increases will be as follows:

- PKN Orlen – 65%;
- PZU – 14.5%;
- PZU Życie – 14.5%
- Alior Bank – 6%.

Ultimately, the PZU Group's stake in RUCH's share capital and the percentage of voting rights at the company's Shareholder Meeting will be 35%.

Since the date of obtaining control, i.e. 3 June 2020, RUCH has been included in the PZU Group's consolidation using the full method. At the same time, pursuant to the provisions of items 7-9 of IFRS 5 and the provisions of the Shareholder Agreement and the Investment Agreement, as at 30 June 2020, the assets and liabilities of RUCH in these condensed interim consolidated financial statements have been classified by the PZU Group as held for sale, while the result for the period from obtaining control over the company to the balance sheet date has been classified as the result on discontinued operations. Information on assets and liabilities held for sale is presented in section 8.28.

2.3.1.2. Harberton sp. z o.o.

On 19 February 2020, Alior Bank acquired 100 shares with a par value of PLN 50 each, representing a 100% stake in Harberton sp. z o.o. from Blackstone sp. z o.o. Holdings sp.k.

(in millions of PLN)

2.3.1.3. Final settlement of the acquisition of Tomma

The final settlement for the acquisition of the stake in Tomma on the date of obtaining control was made on the basis of the data prepared as at 30 November 2019. No material differences in accounting data transpired between 30 November and 9 December 2019 (date of acquisition). During the goodwill calculation:

- fair value measurement of assets and liabilities presented in the financial statements of the acquired entities was performed;
- intangible assets not carried thus far in the acquired entities' financial statements were recognized;
- no contingent liabilities or potential indemnification assets requiring recognition were identified.

The final settlement of the transaction is presented below on the basis of the fair value of the acquired assets and liabilities.

Value of acquired net assets	Carrying amount	Adjustment to fair value	Fair value
Assets	**90**	**64**	**154**
Intangible assets	-	61	61
Property, plant and equipment	73	3	76
Receivables	12	-	12
Other assets	5	-	5
Liabilities	**(87)**	**(12)**	**(99)**
Value of acquired net assets	**3**	**52**	**55**

Calculated goodwill	Preliminary settlement	Adjustment	Final settlement
Consideration transferred	147	33	180
Net value of identifiable assets	(3)	(52)	(55)
Goodwill	**144**	**(19)**	**125**

Historical data as at 31 December 2019 have been appropriately restated, as presented in section 4.3.7.

2.3.2. Transactions under joint control

In the 6-month period ended 30 June 2020, the following business combinations were registered in the PZU Group:

- On January 2, 2020, Centrum Medyczne Medica sp. z o.o. (acquiring company) merged with Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o. (target company).
- On 30 June 2020, PZU Zdrowie SA (acquiring company) merged with Alergo-Med Sp. z o.o. (target company).
- On 30 June 2020, Bonus-Diagnosta sp. z o.o. (acquiring company) merged with Asklepios Diagnostyka sp. z o.o. (target company).

On 29 May 2020, Pekao acquired an organized part of the enterprise of Pekao Investment Banking SA involved in the provision of brokerage services.

The transactions did not affect the consolidated financial statements.

(in millions of PLN)

2.4 Non-controlling interest

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

Name of the entity	30 June 2020	31 December 2019
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%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
AAS Balta	0.01%	0.01%

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

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

Carrying amount of non-controlling interests	30 June 2020	31 December 2019
Pekao Group	19,688	18,683
Alior Bank Group	4,125	4,430
Other	5	6
Total	**23,818**	**23,119**

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

Assets	Pekao Group		Alior Bank Group	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Goodwill	692	692	-	-
Intangible assets	1,745	1,683	467	644
Other assets	90	45	58	35
Property, plant and equipment	2,125	2,112	713	764
Entities measured by the equity method	-	-	5	10
Loan receivables from clients	141,623	139,464	54,690	55,368
Financial derivatives	6,386	2,457	752	508
Investment financial assets	65,300	48,338	17,535	15,996
Measured at amortized cost	21,584	15,743	8,263	5,387
Measured at fair value through other comprehensive income	42,716	31,167	9,127	10,438
Measured at fair value through profit or loss	1,000	1,428	145	171
Deferred tax assets	1,176	1,087	1,257	1,178
Receivables	2,110	1,956	702	667
Cash and cash equivalents	14,000	5,463	1,048	1,319
Assets held for sale	16	16	140	-
Total assets	**235,263**	**203,313**	**77,367**	**76,489**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Equity				
Equity attributable to equity holders of the parent	24,616	23,360	6,060	6,508
Share capital	262	262	1,306	1,306
Other capital	21,840	20,510	5,786	5,637
Retained earnings	2,514	2,588	(1,032)	(435)
Non-controlling interest	11	12	-	-
Total equity	**24,627**	**23,372**	**6,060**	**6,508**
Liabilities				
Subordinated liabilities	2,760	2,764	1,793	1,794
Liabilities on the issue of own debt securities	5,048	6,322	2,637	2,951
Liabilities to banks	7,274	6,097	578	437
Liabilities to clients under deposits	183,395	156,688	63,576	62,433
Derivatives	6,181	2,649	427	369
Other liabilities	4,941	4,576	1,697	1,618
Provisions for employee benefits	404	401	37	29
Other provisions	604	414	396	349
Deferred tax liability	29	30	1	1
Liabilities related directly to assets classified as held for sale	-	-	165	-
Total liabilities	**210,636**	**179,941**	**71,307**	**69,981**
Total equity and liabilities	**235,263**	**203,313**	**77,367**	**76,489**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2020	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	11,691	-	-	10	11,701
Reinsurers' share in gross written premium	(274)	-	-	-	(274)
Net written premiums	**11,417**	**-**	**-**	**10**	**11,427**
Movement in net provision for unearned premiums	35	-	-	1	36
Net earned premium	**11,452**	**-**	**-**	**11**	**11,463**
Revenue from commissions and fees	1,983	(1,381)	(524)	45	123
Interest income calculated using the effective interest rate	5,670	(3,215)	(1,777)	33	711
Other net investment income	186	(123)	79	1	143
Result on derecognition of financial instruments and investments	(185)	(71)	(28)	-	(284)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,075)	830	1,212	-	(33)
Net movement in fair value of assets and liabilities measured at fair value	553	(48)	(136)	-	369
Other operating income	669	(84)	(88)	27	524
Claims, benefits and movement in technical provisions	(7,608)	-	-	(5)	(7,613)
Reinsurers' share in claims, benefits and movement in technical provisions	317	-	-	-	317
Net insurance claims and benefits paid	**(7,291)**	**-**	**-**	**(5)**	**(7,296)**
Fee and commission expenses	(478)	219	261	(2)	-
Interest expenses	(806)	466	298	(9)	(51)
Acquisition expenses	(1,647)	-	-	(47)	(1,694)
Administrative expenses	(3,335)	1,665	765	(16)	(921)
Other operating expenses	(3,640)	949	569 [1)]	1,263 [2)]	(859)
Operating profit (loss)	**1,056**	**(793)**	**631**	**1,301**	**2,195**
Share of the net financial results of entities measured by the equity method	(1)	-	-	-	(1)
Profit (loss) before tax	**1,055**	**(793)**	**631**	**1,301**	**2,194**
Income tax	(747)	285	(44)	-	(506)
Net profit on continuing operations	**308**	**(508)**	**587**	**1,301**	**1,688**
Loss on discontinued operations	(4)	-	4	-	-
Net profit (loss)	**304**	**(508)**	**591**	**1,301**	**1,688**

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

[2)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million). Additional information is presented in section 8.16.1.

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2019 (restated)	**PZU Group**	**Elimination of Pekao's data**	**Elimination of Alior Bank's data**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	11,839	-	-	7	11,846
Reinsurers' share in gross written premium	(239)	-	-	-	(239)
Net written premiums	**11,600**	**-**	**-**	**7**	**11,607**
Movement in net provision for unearned premiums	(266)	-	-	4	(262)
Net earned premium	**11,334**	**-**	**-**	**11**	**11,345**
Revenue from commissions and fees	1,993	(1,375)	(547)	44	115
Interest income calculated using the effective interest rate	5,969	(3,268)	(2,025)	12	688
Other net investment income	265	(129)	(48)	-	88
Result on derecognition of financial instruments and investments	107	(53)	(40)	-	14
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,075)	308	794	-	27
Net movement in fair value of assets and liabilities measured at fair value	347	(38)	(9)	2	302
Other operating income	575	(82)	(77)	19	435
Claims, benefits and movement in technical provisions	(8,124)	-	-	-	(8,124)
Reinsurers' share in claims, benefits and movement in technical provisions	195	-	-	-	195
Net insurance claims and benefits paid	**(7,929)**	**-**	**-**	**-**	**(7,929)**
Fee and commission expenses	(391)	179	212	-	-
Interest expenses	(1,065)	604	388	(9)	(82)
Acquisition expenses	(1,616)	-	-	(40)	(1,656)
Administrative expenses	(3,276)	1,677	767	(17)	(849)
Other operating expenses	(2,135)	995	327	(22)	(835)
Operating profit (loss)	**3,103**	**(1,182)**	**(258)**	**-**	**1,663**
Share of the net financial results of entities measured by the equity method	(3)	-	-	-	(3)
Profit (loss) before tax	**3,100**	**(1,182)**	**(258)**	**-**	**1,660**
Income tax	(902)	382	148	-	(372)
Net profit (loss)	**2,198**	**(800)**	**(110)**	**-**	**1,288**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 June 2020	1 January – 30 June 2019 (restated)	1 January – 30 June 2020	1 January – 30 June 2019
Net profit	508	800	(591)	110
Other comprehensive income	749	176	144	10
Subject to subsequent transfer to profit or loss	740	162	120	22
Valuation of debt instruments	306	65	(26)	3
Measurement of loan receivables from clients	2	17	-	-
Cash flow hedging	432	80	147	19
Foreign exchange translation differences	-	-	(1)	-
Not to be transferred to profit or loss in the future	9	14	24	(12)
Valuation of equity instruments	9	14	24	(12)
Total net comprehensive income	**1,257**	**976**	**(447)**	**120**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 June 2020	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2019
Net cash flows from operating activities	27,422	(2,685)	1,648	2,275
Net cash flows from investing activities	(17,344)	(5,937)	(1,549)	(1,195)
Net cash flows from financing activities	(1,592)	(252)	(394)	(275)
Total net cash flows	**8,486**	**(8,874)**	**(295)**	**805**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 June 2020	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2019
Date of ratifying the dividend	-	26 June 2019	-	-
Record date	-	10 July 2019	-	-
Dividend payment date	-	30 July 2019	-	-
Dividend per share (PLN)	-	6.60	-	-
Dividend due to the PZU Group	-	347	-	-
Dividend due to non-controlling shareholders	-	1,385	-	-

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

3.1 Composition of the parent company's Management Board

From 1 January 2020, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Aleksandra Agatowska – Member of the PZU Management Board;
- Adam Brzozowski – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Elżbieta Häuser-Schöneich – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

On 19 February 2020, Aleksandra Agatowska tendered her resignation as a PZU Management Board Member, effective on the same date.

On 12 March 2020, Paweł Surówka tendered his resignation in consultation with the Supervisory Board from serving in the capacity of President of the PZU SA Management Board as of the same date.

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Beata Kozłowska-Chyła to the PZU Management Board and entrust her with discharging the function of the President of the PZU Management Board provided that she obtains the consent of KNF. Until the consent of KNF referred to above is obtained, Beata Kozłowska-Chyła has been entrusted with serving as the acting President of the Management Board to the extent permissible by the pertinent regulations. The resolution came into force upon its adoption. This appointment took place on 12 March 2020 for a joint term of office spanning the three full financial years from 2020 to 2022.

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Małgorzata Kot to the PZU Management Board and entrust her with discharging the function of a PZU SA Management Board Member. The resolution came into force upon its adoption, and the appointment was to take place for a joint term of office spanning the three full financial years from 2020 to 2022, with effect from 1 June 2020. On 15 April 2020, the PZU Supervisory Board adopted a resolution repealing the resolution of 12 March 2020 to appoint Małgorzata Kot to the PZU Management Board.

On 15 April 2020, the PZU Supervisory Board adopted a resolution to appoint Ernest Bejda to the PZU Management Board and entrust him with discharging the function of a PZU SA Management Board Member. The resolution came into force upon its adoption. This appointment Took place with effect as of 4 May 2020 for a joint term of office spanning the three full financial years from 2020 to 2022.

From 4 May 2020 to the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Beata Kozłowska-Chyła – Acting President of the PZU Management Board;
- Ernest Bejda – Member of the PZU Management Board;
- Adam Brzozowski – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Elżbieta Häuser-Schöneich – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

3.2 Composition of the parent company's Supervisory Board

From 1 January 2020, the PZU Supervisory Board consisted of the following persons:

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

On 21 April 2020, Mr. Alojzy Nowak tendered his resignation from serving in the capacity of PZU SA Supervisory Board Member as of 21 April 2020.

On 28 April 2020, Robert Śnitko was elected the Secretary of the PZU Supervisory Board.

On 26 May 2020, the PZU Shareholder Meeting appointed Józef Wierzbowski to the PZU Supervisory Board. The resolution came into force upon its adoption.

From 26 May 2020 to the date of conveying this periodic report, the PZU Supervisory Board consisted of the following persons:

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

(in millions of PLN)

3.3 PZU Group Directors

Apart from Management Board Members, key managers in the PZU Group also comprise PZU Group Directors.

From 1 January 2020, the following persons were PZU Group Directors:

- Adam Brzozowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Roman Pałac (PZU).

On 13 March 2020, Roman Pałac was dismissed from the position of PZU Group Director.

In 2020, appointed to the position of PZU Group Director were Aleksandra Agatowska (as of 20 February 2020), Małgorzata Kot (as of 16 April 2020) and Ernest Bejda (as of 4 May 2020).

As at the date of conveying this periodic report the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Adam Brzozowski (PZU Życie);
- Małgorzata Kot (PZU);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU).

4. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2019.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2019, except for the changes described in sections 4.1 and 4.2.

4.1 Amendments to the applied IFRS

4.1.1. Standards, interpretations and amended standards effective from 1 January 2020

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

Standard/interpretation	Approving regulation	Comments
Amendments to the framework	2019/2075	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Additionally, they contain explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements. The amendments did not have a significant influence on the PZU Group's consolidated financial statements.

Standard/interpretation	Approving regulation	Comments
Amendments to IAS 1 and IAS 8 – definition of materiality	2019/2104	According to the new definition, information is material if one may justifiably expect that if it is overlooked, distorted or concealed this may affect the decisions made by the main users of financial statements on the basis of these financial statements. The change did not exert a significant influence on the PZU Group's consolidated financial statements.
Amendments to IFRS 9 and IFRS 7 – reform of the interest rate benchmarks	2020/34	This amendment requires the preparation of qualitative and quantitative disclosures to enable users of financial statements to understand how the entity's hedging relationships are affected by uncertainty arising from the benchmark interest rate reform. The amendments introduce temporary exceptions from applying specific hedge accounting requirements in such a way that the reform of interest rate benchmarks does not result in the termination of hedge relations. The key exceptions apply to the requirements that the cash flows are "highly probable", risk components, prospective assessments, retrospective effectiveness assessments and reclassification of the cash flow hedge provision. The PZU Group applied an exemption resulting from the amended standards and did not verify the effectiveness of the hedging relationships.
Amendment to IFRS 3 – Business combinations	2020/551	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments did not affect the PZU Group's consolidated financial statements.

4.1.2. Standards, interpretations and amended standards not yet effective

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

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

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or, if possible, by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. On 25 June 2020, the IASB published amendments to IFRS 17, the most important of which was to defer the implementation of the standard until 1 January 2023. In addition to the detailed clarifications on distinct types of insurance contracts, the amendment also introduced the possibility of modifying actuarial estimates related to the implementation of IFRS 17 in subsequent interim financial statements or in the annual report (requirement of consistent application at the reporting entity's level) and simplified the principles of presenting contracts in the statement of financial position, permitting the aggregation of assets or liabilities at the portfolio level rather than for separate contract groups. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group works, among others, on: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • selection of a system to support the reporting process in accordance with the requirements of IFRS 17. As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not affect the PZU Group's consolidated financial statements.
Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic	28 May 2020	1 June 2020	This amendment permits the accounting treatment of all changes in lease payments arising from facilities provided to the lessee as if they did not constitute a modification of the lease, without making the judgments required by the standard. The payment modifications in question must be a direct consequence of the COVID-19 pandemic. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendments to IFRS 3	14 May 2020	1 January 2022	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The amendment will not affect the PZU Group's consolidated financial statements.
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	14 May 2020	1 January 2022	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendment to IAS 37 – Onerous contracts – costs of fulfilment of contractual obligations	14 May 2020	1 January 2022	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor; and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendments to IFRS 2018-2020	14 May 2020	1 January 2022	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
Amendments to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9	25 June 2020	1 January 2021	The amendment has extended the temporary exemption from the application of IFRS 9 by two years (postponing the expiration date of the exemption from the annual periods beginning on 1 January 2021 to the annual periods beginning on or after 1 January 2023 – in compliance with the effective date of IFRS 17 'Insurance contracts'), while leaving the option of an earlier implementation. The amendment is a consequence of the amendments to IFRS 17 published on 25 June 2020. It will not apply to the PZU Group due to the implementation of IFRS 9 at the beginning of 2018.

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

4.2 Application of estimates and assumptions

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

4.2.1. Impairment and expected credit losses

4.2.1.1. Loan receivables from clients

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

The PZU Group has modified its approach to the calculation of expected credit losses by adopting solutions appropriate for the specific nature of each relevant entity. Due to the unprecedented nature of the current situation and the absence of similar experiences from the past, the calculation of expected credit losses is subject to additional uncertainty, and the adopted expert assumptions may be modified in subsequent periods.

The expected deterioration of the macroeconomic situation was reflected in a modification of the risk parameters (PD – probability of default, and LGD – loss given default) applied in the calculation of expected credit losses based on an analysis of historical data, backed up with expert assessment (due to the unique nature of the current situation).

The PZU Group did not change its approach to identifying significant deteriorations in credit risk, constituting the basis for classifying exposures into basket 2. However, the relevant criteria are applied in a manner commensurate with the current situation, in accordance with the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" (EBA/GL/2020/02) of 2 April 2020 (as amended). According to these guidelines, the granting of a loan moratorium period or other mitigation measures for the COVID-19 pandemic does not automatically reclassify exposures to basket 2. However, such reclassification may be triggered by an increase in credit risk arising from problems experienced by a specific debtor.

The cost of allowances for possible credit losses and impairment losses on loan receivables from clients in H1 2020 was PLN 1,794 million. According to the PZU Group's estimates, a portion of this amount is associated with the COVID -19 pandemic, and its causes include the deterioration of the PD and LGD parameters, an increase in impairment losses due to reclassification to basket 2 triggered by industry reviews and similar activities, and an increase in impairment losses due to a drop in potential future recoveries. The total impact of the aforedescribed circumstances on the value of allowances and impairment losses is estimated at approximately PLN 964 million. It should be noted that some of the risks (including the reclassification of exposures due to industry reviews or the increase in impairment losses due to the smaller potential future recoveries) would have materialized irrespective of the COVID-19 pandemic. Accordingly, the magnitude of the said impact is an approximation, because it is not always possible to determine whether the increase in impairment losses resulted from the COVID-19 pandemic or from circumstances that would have occurred independently.

Detailed information on the movement in impairment losses is presented in section 8.24.

4.2.1.2. Investment financial assets and receivables

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

In addition, the Management Board has carried out an analysis of the impact of COVID-19 on the assumptions made for the calculation of impairment losses on insurance receivables (such as the age structure depending on the past due period, uncollectibility ratios). As a result of the analysis, it has been concluded that the COVID-19 pandemic did not have significant negative impact on these ratios and the impairment losses on insurance receivables remain adequate.

The value of impairment losses on investment financial assets and receivables stood at PLN 56 million in H1 2020, compared to their decrease by PLN 26 million in the corresponding period of 2019.

Detailed information on the movement in impairment losses is presented in section 8.24.

Information on the exposure to credit risk is presented in section 8.27.

4.2.2. Goodwill

Detailed information on the uncertainty factors, analyses of the grounds for impairment and the conducted goodwill impairment tests is presented in section 8.16.1.

4.2.3. Technical provisions

The PZU Group has analyzed the risks resulting from the impact of the COVID-19 pandemic on the business of the PZU Group's insurance companies. These include, among others, lapses, lower insurance sales, higher bankruptcy rate, risk of loss of job, or material changes in the loss ratios. As regards non-life insurance, these risks may pertain to the largest extent to commercial credit insurance, financial guarantees, job loss or loss of profit insurance, or motor insurance. As a result of the analysis, the PZU Group did not introduce any major changes to the applied approach or, as a consequence, to the level of technical provisions in non-life insurance.

In the area of life insurance, the PZU Group analyzes the reported claims on a monthly basis in order to identify any changes caused by the pandemic. As a result of such analyses, the PZU Group found the amount of provisions for outstanding claims and benefits (IBNR) as at 30 June 2020 to be adequate.

Changes in estimates and assumptions in life insurance

The amount of the life insurance provision corresponds to the value of liabilities under insurance contracts concluded. It is calculated as the difference between the present value of expected benefits and the present value of expected premiums. The calculation of provisions takes into account all the benefits and premiums provided for in contracts as contractual liabilities and receivables, regardless of whether a contract is performed by the policyholder until the end of the agreed term or terminated by the policyholder. The assumptions made for the frequency of events covered by insurance, i.e. mortality, morbidity and accident rate, are determined based on publicly available statistics, such as the Polish Life Expectancy Tables in Poland or based on own statistics developed using historical data on particular groups of products in the portfolio.

The assumptions used to calculate life insurance provisions are determined separately for each insurance product at the time the premium tariffs are adopted and sales of the product are launched (lock-in assumptions). Such assumptions are subject to natural uncertainty resulting from the long term of the projection. However, these assumptions are verified for adequacy every year. The data are subjected to an analysis in particular in terms of the behavior of the whole portfolio, as opposed to various distinct cases. If it is found that an assumption is inadequate, it is verified and adjusted, which leads directly to a change in the value of liabilities presented in the consolidated financial statements.

In June 2020, the PZU Group revised some of its assumptions applied for the calculation of provisions in life insurance.

(in millions of PLN)

The decline in bond yields caused by the interest rate cuts suppresses the projected rates of return on assets covering the provisions. Accordingly, a decision was made by the PZU Group to decrease the technical rate for the continued and group insurance portfolio to 1.5% (from the technical rates used previously, of between 1.5% and 3%, depending on the date of execution or modification of the policy).

In the calculation of its technical provisions, the PZU Group applies the Polish Life Expectancy Tables or other publicly available statistics, among other sources. For the group and continued insurance portfolio, the calculation of provisions also makes use of assumptions regarding the probability of the insured having co-insureds (spouse, parents and in-laws). These assumptions, due to their long-term nature, are subject to natural uncertainty as to the actual evolution of the portfolio. In recent years, the PZU Group has witnessed a growing mismatch in terms of these assumptions between the actually disbursed benefits and the benefits forecasted based on the adopted assumptions. This mismatch has been caused by a general decrease in mortality and an increase in life expectancy. For this reason, a decision was made to align the assumptions with the observed demographic situation.

For the mortality rate, the Polish Life Expectancy Tables from 2018 were used with additional mark-ups for the main insured (depending on the age of the insured). The probabilities of the insureds having co-insureds were also updated.

The PZU Group also modified its method of calculating provisions for the group insurance portfolio and applied an individual approach to them instead of the hypothetical portfolio structure used previously.

The effect of the modified assumptions on the technical provisions in life insurance as at 30 June 2020 is presented in the following table.

Impact of the changed assumptions on the value of provisions in life insurance	30 June 2020
Continued insurance portfolio	
Value of provisions according to the previous calculation rules	12,772
Impact of the change in the technical rate	2,473
Impact of the changed assumptions on mortality and probabilities of the insured having co-insureds	(2,523)
Value of provisions according to the new assumptions	12,722
Group insurance portfolio	
Value of provisions according to the previous calculation rules	73
Impact of the change in the method to the individual approach	34
Impact of the change in the technical rate	39
Impact of the changed assumptions on mortality and probabilities of the insured having co-insureds	(29)
Value of provisions according to the new assumptions	117

The following tables depict the impact of possible further changes in the assumptions on the PZU Group's net financial result and equity.

Life insurance products excluding annuity products

Impact of the change in assumptions in life insurance, excluding provisions in annuity products, on the net financial result and equity	30 June 2020	31 December 2019
Technical rate - decrease by 1.0 p.p.	(2,554)	(1,976)
Mortality at 110% of the assumed rate	(787)	(850)
Morbidity and accident rate – 110% of the assumed rate	(143)	(138)

(in millions of PLN)

Effects of lapses in life insurance

Calculation of mathematical technical provisions for life insurance does not include the risk of lapses (resignations). The effects of hypothetical lapses 10% of all life insurance customers are presented below.

Item in financial statements	30 June 2020	31 December 2019
Movement in technical provisions	2,179	2,186
Claims and benefits paid	(824)	(835)
Movement in deferred acquisition expenses	(6)	(12)
Profit/loss before tax	1,349	1,339
Net financial result and equity	1,093	1,085

4.2.4. Provision for potential refunds of borrowing costs

As at 30 June 2020, the PZU Group revalued its provision for potential refunds of borrowing costs. The revaluation was based on the most recent data on incoming complaints and refund amounts. Additional information on this matter is presented in section 8.37.

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

As at 30 June 2020, the PZU Group assessed the probability of the impact of the legal risk related to CHF mortgage loans on its future expected cash flows from its loan exposures and on the probability of cash outflows.

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

More information on this matter is presented in section 8.37.

4.3 Explanation of differences between the 2019 annual consolidated financial statements and these consolidated financial statements

To reflect better the economic nature of the transactions, the presentation changes described in sections 4.3.1-4.3.3 and 4.3.5-4.3.6 were made. Due to the final settlement of the acquisition of Tomma shares, the comparative data were transformed, as described in section 4.3.4.

4.3.1. Change in the presentation of interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate, previously presented in "Net investment income" was spun off to a separate line item of the consolidated profit and loss account.

4.3.2. Change in the presentation of impairment losses for guarantees and sureties given

The establishments and derecognitions of the provision for guarantees and sureties given, presented previously in a split layout under other operating expenses and other operating income, respectively, are presented in the net amount under "Movement in allowances for expected credit losses and impairment losses on financial instruments".

4.3.3. Change in the presentation of the measurement of loan receivables from clients measured at fair value through other comprehensive income

The measurement of loans at fair value through other comprehensive income, presented in the consolidated financial statements for 2019 under "Valuation of debt instruments measured at fair value through other comprehensive income" has been spun off separated into a separate item of other comprehensive income.

4.3.4. Settlement of the Tomma acquisition

In connection with the final settlement of the acquisition of the shares in Tomma, a retroactive restatement of data as at 31 December 2019 has been performed. More information on this matter is presented in section 2.3.1.3.

4.3.5. Change in the presentation of financial liabilities

Subordinated liabilities, liabilities on the issue of own debt securities, liabilities towards banks, liabilities towards clients on account of deposits and negative measurement of derivative instruments in the consolidated financial statements for 2019 are presented under "Financial liabilities". In order to improve the usefulness of the financial statements, these liabilities are presented in the condensed interim consolidated financial statements under separate items of the statement of financial position.

4.3.6. Change in the presentation of expenditures on leases

Expenditures on leases are presented in cash flows from financing activities, like in the consolidated financial statements for 2019, rather than investing activities.

(in millions of PLN)

4.3.7. Impact exerted by the differences on the consolidated financial statements

The following tables present the impact of the aforementioned changes on the individual items of the consolidated financial statements.

Consolidated profit and loss account	1 April – 30 June 2019 (historical)	4.3.1	4.3.2	1 April – 30 June 2019 (restated)
Interest income calculated using the effective interest rate	n/a	3,110	-	3,110
Other net investment income	n/a	71	-	71
Net investment income	3,181	(3,181)	-	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(704)	-	(29)	(733)
Other operating income	388	-	(87)	301
Other operating expenses	(965)	-	116	(849)
Net profit, including:	**1,186**	**-**	**-**	**1,186**
- profit attributable to the equity holders of the Parent Company	734	-	-	734
- profit (loss) attributed to holders of non-controlling interest	452	-	-	452

Consolidated profit and loss account	1 January – 30 June 2019 (historical)	4.3.1	4.3.2	1 January – 30 June 2019 (restated)
Interest income calculated using the effective interest rate	n/a	5,969	-	5,969
Other net investment income	n/a	265	-	265
Net investment income	6,234	(6,234)	-	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,043)	-	(32)	(1,075)
Other operating income	757	-	(182)	575
Other operating expenses	(2,349)	-	214	(2,135)
Net profit, including:	**2,198**	**-**	**-**	**2,198**
- profit attributable to the equity holders of the Parent Company	1,481	-	-	1,481
- profit (loss) attributed to holders of non-controlling interest	717	-	-	717

Consolidated statement of comprehensive income	1 April – 30 June 2019 (historical)	4.3.3	1 April – 30 June 2019 (restated)	1 January – 30 June 2019 (historical)	4.3.3	1 January – 30 June 2019 (restated)
Net profit	1,186	-	1,186	2,198	-	2,198
Other comprehensive income	343	-	343	466	-	466
Subject to subsequent transfer to profit or loss	322	-	322	376	-	376
Valuation of debt instruments	299	(8)	291	286	(17)	269
Measurement of loan receivables from clients	n/a	8	8	n/a	17	17
Total net comprehensive income	**1,529**	**-**	**1,529**	**2,664**	**-**	**2,664**

(in millions of PLN)

Assets	31 December 2019 (historical)	4.3.4	4.3.5	31 December 2019 (restated)
Goodwill	4,053	(19)	-	4,034
Intangible assets	3,096	61	-	3,157
Property, plant and equipment	4,226	3	-	4,229
Total assets	**343,340**	**45**	**-**	**343,385**

Equity and liabilities	31 December 2019 (historical)	4.3.4	4.3.5	31 December 2019 (restated)
Total equity	**39,288**	**-**	**-**	**39,288**
Liabilities				
Technical provisions	47,329	-	-	47,329
Subordinated liabilities	n/a	-	6,700	6,700
Liabilities on the issue of own debt securities	n/a	-	9,273	9,273
Liabilities to banks	n/a	-	6,604	6,604
Liabilities to clients under deposits	n/a	-	218,588	218,588
Financial derivatives	n/a	-	3,018	3,018
Other liabilities	8,069	33	2,307	10,409
Provisions for employee benefits	534	-	-	534
Other provisions	867	-	-	867
Deferred tax liability	734	12	-	746
Financial liabilities	246,490	-	(246,490)	n/a
Liabilities related directly to assets classified as held for sale	29	-	-	29
Total liabilities	**304,052**	**45**	**-**	**304,097**
Total equity and liabilities	**343,340**	**45**	**-**	**343,385**

Consolidated cash flow statement	1 January – 30 June 2019 (historical)	4.3.6	1 January – 30 June 2019 (restated)
Cash flow from investing activities	(5,642)	132	(5,510)
Expenditures	(483,897)	132	(483,765)
- expenditures on leases	(132)	132	-
Cash flows from financing activities	(608)	(132)	(740)
Expenditures	(65,410)	(132)	(65,542)
- expenditures on leases	-	(132)	(132)
Total net cash flows	**(6,101)**	**-**	**(6,101)**

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

In the 6-month period ended 30 June 2020, the following material events occurred that resulted in a significant change to the structure of financial statement line items:

- as a result of the impairment tests carried out, the PZU Group made a decision to recognize impairment losses on: goodwill resulting from the acquisition of Alior Bank, goodwill resulting from the acquisition of Pekao and intangible assets identified as a result of the acquisition of Alior Bank (for additional information, see section 8.16.1);
- deteriorated situation on the financial market due to the COVID-19 pandemic causing an increase in allowances for expected credit losses on loan receivables from clients (for additional information, see section 13);

(in millions of PLN)

- changes in estimates and assumptions in life insurance – change in the technical rate, update of assumptions on mortality and probabilities of the insureds having co-insureds (spouse, parents or parents-in-law) – for additional information, see section 4.2.3.

6. Corrections of errors from previous years

During the 6-month period from 1 January to 30 June 2020, no corrections of errors were made from previous years.

7. Material events after the end of the reporting period

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

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premiums in non-life insurance	3,458	7,339	3,798	7,607
In direct insurance	3,454	7,334	3,804	7,607
In indirect insurance	4	5	(6)	-
Gross written premiums in life insurance	2,136	4,352	2,140	4,232
Individual insurance premiums	381	838	401	760
Individually continued insurance premiums	513	1,024	506	1,011
Group insurance premiums	1,242	2,490	1,233	2,461
Total gross written premiums	**5,594**	**11,691**	**5,938**	**11,839**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Accident and sickness insurance (group 1 and 2)	215	452	175	357
Motor third party liability insurance (group 10)	1,309	2,699	1,468	2,903
Other motor insurance (group 3)	850	1,824	977	1,982
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	24	62	25	45
Insurance against fire and other property damage (groups 8 and 9)	695	1,478	771	1,511
TPL insurance (groups 11, 12, 13)	199	439	199	437
Credit and suretyship (groups 14, 15)	20	40	23	43
Assistance (group 18)	102	253	133	259
Legal protection (group 17)	3	6	3	6
Other (group 16)	37	81	30	64
Total	**3,454**	**7,334**	**3,804**	**7,607**

(in millions of PLN)

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Banking activity	826	1,667	861	1,664
Margin on foreign exchange transactions with clients	173	356	204	388
Brokerage fees	39	72	26	52
Fiduciary activity	16	30	15	30
Payment card and credit card services	215	446	232	439
Fees on account of insurance intermediacy activities	19	36	17	36
Credits and loans	98	189	98	190
Bank account-related services	111	215	103	204
Transfers	62	128	78	153
Cash operations	18	39	24	47
Receivables purchased	12	25	13	23
Guarantees, letters of credit, collections, promises	19	38	18	38
Commissions on leasing activity	13	29	12	25
Other commission	31	64	21	39
Revenue and payments received from funds and mutual fund management companies	111	241	128	252
Pension insurance	26	73	35	69
Other	1	2	8	8
Total revenue from commissions and fees	**964**	**1,983**	**1,032**	**1,993**

8.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Loan receivables from clients	1,989	4,229	2,326	4,559
Debt securities measured at fair value through other comprehensive income	264	533	289	495
Debt securities measured at amortized cost	326	647	351	616
Buy-sell-back transactions	6	24	20	35
Term deposits with credit institutions	11	30	25	53
Loans	49	132	60	126
Receivables purchased	24	58	28	62
Receivables	1	1	-	1
Cash and cash equivalents	4	16	11	22
Interest income calculated using the effective interest rate, total	**2,674**	**5,670**	**3,110**	**5,969**

(in millions of PLN)

8.4 Other net investment income

Other net investment income	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Hedge derivatives	92	161	78	137
Dividend income, including:	42	43	28	29
Investment financial assets measured at fair value through profit or loss	15	16	6	7
Investment financial assets measured at fair value through other comprehensive income	27	27	22	22
Foreign exchange differences	19	(81)	(72)	24
Income on investment property	56	111	68	133
Investment property maintenance expenses	(23)	(45)	(31)	(58)
Investment activity expenses	(6)	(13)	(6)	(12)
Other	6	10	6	12
Other net investment income, total	**186**	**186**	**71**	**265**

8.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Investment financial assets	(36)	33	57	147
Debt instruments measured at fair value through other comprehensive income	22	94	26	56
Financial instruments measured at fair value through profit or loss	(61)	(95)	27	78
Equity instruments	(32)	(54)	(1)	3
Participation units and investment certificates	(24)	(74)	24	44
Debt instruments	(5)	33	4	31
Instruments measured at amortized cost	3	34	4	13
Loan receivables from clients measured at amortized cost	(1)	2	12	19
Derivatives	(205)	(160)	(3)	(1)
Short sale	5	6	2	-
Receivables	(25)	(68)	(14)	(58)
Investment property	2	2	-	-
Result on derecognition of financial instruments and investments, total	**(260)**	**(185)**	**54**	**107**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated)	1 January – 30 June 2019 (restated)
Investment financial assets	8	(26)	(15)	26
Debt instruments measured at fair value through other comprehensive income	(8)	(28)	(3)	4
Instruments measured at amortized cost	16	2	(12)	22
- debt instruments	17	6	(13)	(9)
- term deposits with credit institutions	-	-	(1)	(1)
- loans	(1)	(4)	2	32
Loan receivables from clients	(1,232)	(1,794)	(669)	(1,066)
Measured at amortized cost	(1,229)	(1,789)	(671)	(1,048)
Measured at fair value through other comprehensive income	(3)	(5)	2	(18)
Guarantees and sureties given	(170)	(225)	(29)	(32)
Receivables	(21)	(30)	(17)	-
Associates	-	-	(3)	(3)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(1,415)**	**(2,075)**	**(733)**	**(1,075)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Investment financial instruments measured at fair value through profit or loss	537	262	(64)	309
Equity instruments	152	(1)	(12)	84
Debt securities	(43)	206	(105)	32
Participation units and investment certificates	428	57	53	193
Derivatives	410	107	215	121
Measurement of liabilities to members of consolidated mutual funds	(9)	1	(1)	(4)
Investment contracts for the client's account and risk (unit-linked)	(19)	11	(1)	(6)
Investment property	194	174	(60)	(72)
Loan receivables from clients	(5)	(2)	4	(1)
Net movement in fair value of assets and liabilities measured at fair value, total	**1,108**	**553**	**93**	**347**

(in millions of PLN)

8.8 Other operating income

Other operating income	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated)	1 January – 30 June 2019 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	153	322	148	293
Revenues from direct claims handling on behalf of other insurance undertakings	36	90	58	109
Reversal of provisions	601[1]	611[1]	6	6
Reimbursement of the costs of pursuit of claims	11	22	10	21
Reinsurance commissions and profit participation	18	32	14	29
Indemnity received	3	5	5	13
Interest for late payment of amounts due under direct insurance and outward reinsurance	14	33	9	16
Other	54	104	51	88
Other operating income, total	**349**	**669**	**301**	**575**

[1] including PLN 57 million of the derecognized provision for UOKiK. More information on this matter is presented in section 18.2.

8.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Claims, benefits and movement in technical provisions	**4,117**	**7,608**	**4,013**	**8,124**
In non-life insurance	2,223	4,584	2,386	4,709
- claims and benefits	1,710	3,661	2,119	3,960
- movement in technical provisions	331	527	53	335
- claims handling expenses	182	396	214	414
In life insurance	1,894	3,024	1,627	3,415
- claims and benefits	1,404	3,044	1,495	3,111
- movement in technical provisions	455	(90)	99	238
- claims handling expenses	35	70	33	66
Reinsurers' share in claims, benefits and movement in technical provisions	**(107)**	**(317)**	**(42)**	**(195)**
In non-life insurance	(107)	(317)	(42)	(195)
Total net insurance claims and benefits	**4,010**	**7,291**	**3,971**	**7,929**

8.10 Fee and commission expenses

Fee and commission expenses	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Costs of card and ATM transactions, including card issue costs	155	306	139	239
Commissions on acquisition of banking clients	31	55	22	41
Fees for the provision of ATMs	10	22	11	21
Costs of awards to banking clients	3	8	4	8
Costs of bank transfers and remittances	8	19	11	21
Additional services attached to banking products	5	11	7	13
Brokerage fees	7	11	4	8
Costs of administration of bank accounts	1	2	1	2
Costs of banknote operations	2	6	3	7
Fiduciary activity expenses	6	10	4	9
Other commission	15	28	11	22
Total fee and commission expenses	**243**	**478**	**217**	**391**

(in millions of PLN)

8.11 Interest expenses

Interest expenses	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Term deposits	127	327	255	504
Current deposits	81	219	135	268
Own debt securities issued	90	192	111	220
Hedge derivatives	2	4	2	3
Loans	1	3	3	5
Repurchase transactions	1	12	11	21
Bank loans contracted by PZU Group companies	9	21	9	16
Leases	5	15	7	14
Other	5	13	7	14
Total interest expenses	**321**	**806**	**540**	**1,065**

8.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Consumption of materials and energy	36	83	44	89
Third party services	386	770	402	786
Taxes and charges	35	67	28	56
Employee expenses	1,208	2,457	1,208	2,382
Depreciation of property, plant and equipment	158	311	152	306
Amortization of intangible assets	100	193	94	188
Other, including:	714	1,535	811	1,609
- commissions in insurance activities	557	1,198	629	1,251
- advertising	49	97	67	129
- remuneration of group insurance administrators in work establishments	52	103	52	103
- other	56	137	63	126
Movement in deferred acquisition expenses	48	32	(13)	(44)
Administrative, acquisition and claims handling expenses, total	**2,685**	**5,448**	**2,726**	**5,372**

(in millions of PLN)

8.13 Other operating expenses

Other operating expenses	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated)	1 January – 30 June 2019 (restated)
Impairment of goodwill created as a result of the acquisition of Alior Bank [1)]	230	746	-	-
Impairment of goodwill created as a result of the acquisition of Pekao [1)]	555	555	-	-
Levy on financial institutions	305	596	284	569
Expenses of the core business of non-insurance and non-banking companies	185	400	188	358
Direct claims handling expenses on behalf of other insurance undertakings	39	95	60	113
Compulsory payments to insurance market institutions and banking market institutions	24	77	35	82
Bank Guarantee Fund	67	406	32	547
Insurance Guarantee Fund	15	31	17	34
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	1	17	1	19
Expenditures for prevention activity	15	29	6	19
Establishment of provisions	123	271	109	119
Amortization of intangible assets purchased in company acquisition transactions	46	90	58	116
Recognition of impairment losses for non-financial assets	164 [2)]	170 [2)]	2	4
Donations	2	28	-	23
Late interest, penalties, indemnities	4	9	3	8
Costs of pursuit of claims	18	45	19	38
Other	61	75	35	86
Other operating expenses, total	**1,854**	**3,640**	**849**	**2,135**

[1)] More information on this matter is presented in section 8.16.1.

[2)] Including impairment losses on intangible assets identified during the acquisition of Alior Bank (PLN 161 million). More information on this matter is presented in section 8.16.1.

8.14 Income tax

Total amount of current and deferred tax	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Recognized through profit or loss, including:	(381)	(747)	(427)	(902)
- current tax	(499)	(984)	(482)	(836)
- deferred tax	118	237	55	(66)
Recognized in other comprehensive income (deferred tax)	(275)	(269)	(84)	(112)
Total	**(656)**	**(1,016)**	**(511)**	**(1,014)**

Income tax on other comprehensive income items	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross other comprehensive income	1,413	1,471	427	578
Income tax	(275)	(269)	(84)	(112)
Debt instruments	(200)	(105)	(68)	(63)
Loan receivables from clients	(4)	(1)	(2)	(4)
Cash flow hedging	(45)	(148)	(9)	(24)
Equity instruments measured at fair value through other comprehensive income	(26)	(15)	(5)	(21)
Net other comprehensive income	**1,138**	**1,202**	**343**	**466**

(in millions of PLN)

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

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

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

On 3 April 2019, PZU Finance AB (publ.) appealed against an individual tax ruling issued by the Swedish Tax Rulings Board to the Supreme Court of Administration (*Högsta förvaltningsdomstolen*). On 4 May 2020, the Supreme Administrative Court repealed the individual tax ruling in question and rejected the petition submitted by PZU Finance AB (publ), 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. Due to the rejection of the petition, the company will be able to apply to the Swedish administrative court of first instance.

Due to the uncertainty surrounding the outcome of the tax issue in question, as at 30 June 2020, the PZU Group showed a provision for tax risks in the amount of PLN 85 million (as at 31 December 2019, it was posted as a liability of PLN 79 million).

8.15 Earnings per share

Earnings per share	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Net profit attributable to the equity holders of the parent company	185	301	734	1,481
Weighted average basic and diluted number of common shares	863,320,531	863,325,925	863,314,163	863,268,725
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(202,469)	(197,075)	(208,837)	(254,275)
Basic and diluted earnings (losses) per common share (in PLN)	0.21	0.35	0.85	1.72

In the 6-month periods ended 30 June 2020 and 30 June 2019, there were no transactions or events resulting in the dilution of earnings per share.

(in millions of PLN)

8.16 Goodwill

Goodwill	30 June 2020	31 December 2019 (restated)
Pekao [1)]	1,714	2,269
LD [2)]	494	471
Medical companies	284	284
Alior Bank [3)]	-	746
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	40	38
Other	5	5
Total goodwill	**2,758**	**4,034**

[1)] Includes goodwill on acquisition of PIM. As a result of the impairment tests carried out, the PZU Group made a decision to recognize an impairment loss on goodwill resulting from the acquisition of Pekao in the amount of PLN 555 million.

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

[3)] As a result of the impairment tests carried out, the PZU Group made a decision to recognize an impairment loss on goodwill resulting from the acquisition of Alior Bank in the amount of PLN 746 million.

8.16.1. Testing for impairment

In connection with the COVID-19 pandemic, an in-depth analysis of indications of impairment on all CGUs was carried out. The analysis covered, among others: execution of ongoing financial plans, sales and profitability change rates, adjustments to financial plans taking into account the deterioration of prospects for the activity and changed cost of capital. The analysis did not demonstrate the existence of indications of impairment or, consequently, the need to carry out tests as at 30 June 2020 for insurance and medical undertakings.

In connection with a series of the interest rate cuts by NBP and the increase of credit risk in banking activity, a conclusion was drawn that there are indications of impairment of Pekao and Alior Bank, as a result of which tests for impairment of goodwill in these entities were carried out as at 30 June 2020.

The test carried out as at 30 June 2020 for Pekao showed that an impairment had occurred and, consequently, an impairment loss on goodwill was recognized in the amount of PLN 555 million. The impairment loss was recognized through profit or loss under other operating expenses and was charged to the net financial result attributable to the owners of the parent company in the amount of PLN 555 million.

The test carried out for Alior Bank showed certain shortages which resulted in the need to recognize an impairment loss on goodwill in the amount of PLN 746 million (in Q2, an additional impairment loss of PLN 230 million was recognized, on top of the PLN 516 million impairment loss recognized in Q1) along with an impairment loss on intangible assets in the form of the value of the trademark and relations with clients in the amount of PLN 161 million. The impairment was caused by the significant deterioration of the business conditions in the banking sector, driven down by the interest rate cuts announced by the Monetary Policy Council, higher credit risk and additional allowances for expected credit losses due to the economic slowdown. As a result of the recognized impairment losses, the carrying amount of the company's goodwill, trademark and relations with clients as at 30 June 2020 was reduced to zero. The impairment losses are recognized through profit or loss under other operating expenses. The total impact on the net financial result attributable to the owners of the parent company of the impairment losses on all the said assets related to Alior Bank recognized in H1 2020 stood at PLN 788 million (PLN 272 million in Q2 2020).

Pekao and Alior Bank goodwill impairment tests

The recoverable amount was determined on the basis of value in use using the discounted cash flow method. For the needs of the test, financial projections for 2020-2026 were used. Extension of the projections to a period exceeding 5 years made it possible to fully reflect the impact of the assumed macroeconomic changes on the situation of the banks. Considering the uncertainty pertaining to the duration of the pandemic and its impact on the economy, the value in use was estimated for a number of scenarios, which reflected different future levels of interest rates, costs of risk and operating expenses, including the costs of refund of commissions in connection with the CJEU judgment of 11 September 2019. The value in use was estimated as the average value weighted by the probability of the scenarios. Due to the high uncertainty, the estimates may be subject to significant changes in the future, as we gather knowledge regarding further development of the situation.

(in millions of PLN)

The value in use was determined using a discount rate of 8.7% and a 3.5% growth rate after the projection period.

The most significant assumption affecting future cash flows is the level of future interest rates. For the purposes of the test, it was assumed that the NBP reference rate would remain at the current level at least until the end of 2022, following which, depending on the scenario, it would change by 0.0-1.4 p.p. Scenarios assuming further interest rate cuts were not tested as they were deemed unlikely to occur and, in the event of their occurrence, likely to exert only a limited impact on the results.

An increase in the discount rate to 10.6% would result in an impairment loss that would bring down Pekao's goodwill to zero. A decrease in the growth rate after the forecast period by 1 p.p. would increase the impairment loss on Pekao's goodwill by PLN 194 million.

8.17 Intangible assets

Intangible assets by type groups	30 June 2020	31 December 2019 (restated)
Software, licenses and similar assets	1,407	1,278
Trademarks	518	613
- Pekao	340	340
- Alior Bank [1)]	-	100
- other	178	173
Client relations	647	797
- Pekao	552	626
- Alior Bank [1)]	-	69
- other	95	102
Intangible assets under development	438	452
Other intangible assets	17	17
Total intangible assets	**3,027**	**3,157**

[1)] The impairment losses on Alior Bank's trademark and relations with clients were recognized as a result of the impairment tests referred to in section 8.16.1.

8.18 Other assets

Other assets	30 June 2020	31 December 2019
Reinsurance settlements	57	279
Estimated salvage and subrogation	143	182
Deferred IT expenses	86	79
Accrued direct claims handling receivables	42	58
Costs settled over time	104	75
Inventories	25	36
Payments for taxes on property, means of transport and land	21	-
Payments for the costs of the allowance to the Company Social Benefit Fund	24	-
Accrued commissions	13	14
Other assets	22	11
Total other assets	**537**	**734**

(in millions of PLN)

8.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 June 2020	31 December 2019 (restated)
Plant and machinery	623	541
Means of transport	189	179
Property, plant and equipment under construction	180	257
Real property	2,856	2,921
Other property, plant and equipment	337	331
Total property, plant and equipment	**4,185**	**4,229**

8.20 Loan receivables from clients

Loan receivables from clients	30 June 2020	31 December 2019
Measured at amortized cost	194,709	193,244
Measured at fair value through other comprehensive income	1,532	1,381
Measured at fair value through profit or loss	214	243
Total loan receivables from clients	**196,455**	**194,868**

Loan receivables from clients	30 June 2020	31 December 2019
Retail segment	**108,067**	**105,912**
Operating loans	269	234
Consumer finance	28,537	29,416
Consumer finance loans	3,054	2,778
Loan to purchase securities	53	65
Overdrafts in credit card accounts	968	1,087
Loans for residential real estate	74,116	71,301
Other mortgage loans	795	807
Other receivables	275	224
Business segment	**88,388**	**88,956**
Operating loans	29,806	32,760
Car financing loans	4	11
Investment loans	27,544	26,820
Receivables purchased (factoring)	6,845	6,524
Overdrafts in credit card accounts	56	71
Loans for residential real estate	244	190
Other mortgage loans	9,930	9,278
Finance leases	11,547	10,985
Other receivables	2,412	2,317
Total loan receivables from clients	**196,455**	**194,868**

(in millions of PLN)

8.21 Financial derivatives

Derivatives	30 June 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**6,404**	**5,876**	**2,402**	**2,483**
Fair value hedging instruments – SWAP transactions	-	209	1	161
Cash flow hedging instruments – SWAP transactions	1,297	730	459	479
Instruments held for trading, including:	5,107	4,937	1,942	1,843
- FRA transactions	-	11	-	-
- SWAP transactions	5,099	4,924	1,933	1,841
- call options (purchase)	4	1	2	1
- put options (sale)	4	1	7	1
Foreign exchange derivatives	**557**	**507**	**540**	**420**
Cash flow hedging instruments – SWAP transactions	107	131	83	25
Instruments held for trading, including:	450	376	457	395
- forward contracts	163	175	170	169
- SWAP transactions	205	111	192	133
- call options (purchase)	56	20	49	19
- put options (sale)	26	70	46	74
Equity derivatives – held for trading	**98**	**63**	**119**	**72**
- call options (purchase)	98	63	118	4
- put options (sale)	-	-	1	68
Commodity derivatives – held for trading	**229**	**212**	**46**	**43**
- forward contracts	23	12	7	5
- SWAP transactions	39	38	14	14
- call options (purchase)	33	5	21	4
- put options (sale)	134	157	4	20
Total derivatives	**7,288**	**6,658**	**3,107**	**3,018**

(in millions of PLN)

8.22 Investment financial assets

Investment financial assets	30 June 2020				31 December 2019			
	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss	Total
Equity instruments	n/a	523	803	1,326	n/a	518	845	1,363
Participation units and investment certificates	n/a	n/a	4,769	4,769	n/a	n/a	4,820	4,820
Debt securities	46,840	64,275	4,395	115,510	35,930	54,693	4,602	95,225
Government securities	39,936	43,639	4,278	87,853	29,187	37,476	4,393	71,056
Domestic	39,729	41,296	4,130	85,155	28,985	35,373	4,255	68,613
Fixed rate	36,531	33,558	2,723	72,812	25,785	22,820	3,054	51,659
Floating rate	3,198	7,738	1,407	12,343	3,200	12,553	1,201	16,954
Foreign	207	2,343	148	2,698	202	2,103	138	2,443
Fixed rate	207	2,343	148	2,698	202	2,103	138	2,443
Other	6,904	20,636	117	27,657	6,743	17,217	209	24,169
Fixed rate	1,327	13,168	38	14,533	892	9,032	40	9,964
Floating rate	5,577	7,468	79	13,124	5,851	8,185	169	14,205
Other, including:	10,012	-	-	10,012	10,008	-	-	10,008
Buy-sell-back transactions	4,644	-	-	4,644	4,064	-	-	4,064
Term deposits with credit institutions	1,125	-	-	1,125	1,454	-	-	1,454
Loans	4,243	-	-	4,243	4,490	-	-	4,490
Investment financial assets, total	**56,852**	**64,798**	**9,967**	**131,617**	**45,938**	**55,211**	**10,267**	**111,416**

Equity instruments measured at fair value through other comprehensive income	30 June 2020	31 December 2019
Grupa Azoty SA	221	232
Biuro Informacji Kredytowej SA	177	177
PSP sp. z o.o.	51	50
Polimex-Mostostal SA	34	29
Krajowa Izba Rozliczeniowa SA	15	14
Other	25	16
Equity instruments measured at fair value through other comprehensive income, total	**523**	**518**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	30 June 2020	31 December 2019
Lithuania	862	756
Romania	176	134
Latvia	155	149
Croatia	148	132
Ukraine	131	130
Indonesia	113	86
Columbia	87	83
Brazil	82	80
Russia	81	70
Panama	80	74
Bulgaria	79	74
Hungary	63	57
Philippines	58	59
Peru	57	45
Uruguay	55	50
South Africa	53	52
Dominican Republic	52	56
Other	366 [1)]	356 [2)]
Total	**2,698**	**2,443**

[1)] The line item “Other” includes bonds issued by 44 countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million.
[2)] The line item “Other” includes bonds issued by 42 countries.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations and local government units	30 June 2020	31 December 2019
National Bank of Poland	8,872	4,815
Domestic local governments	5,889	6,199
Foreign banks	5,266	4,717
Companies from the WIG-Energy Index	1,899	2,375
Manufacturing	841	1,163
Financial and insurance services	748	761
Energy and fuel sector companies (including: Companies from the WIG-Fuels Index)	646	651
Transportation and storage	588	615
Companies from the WIG-Banks Index	558	558
Construction and real estate market service	523	479
Public utility services	412	410
Arts, entertainment and recreation (including: WIG | hotels and restaurants)	332	315
Mining and quarrying (including companies included in the WIG-Mining index)	319	353
Information and communication (including: WIG | Telecommunications)	306	201
Other professional, scientific and technical activity	187	410
Other	271	147
Total	**27,657**	**24,169**

(in millions of PLN)

8.23 Receivables

Receivables – carrying amount	30 June 2020	31 December 2019
Receivables on direct insurance, including:	2,524	2,727
- receivables from policyholders	2,313	2,591
- receivables from insurance intermediaries	100	112
- other receivables	111	24
Reinsurance receivables	70	58
Other receivables	3,164	2,952
- receivables from disposal of securities and margins [1]	1,558	1,065
- receivables on account of payment card settlements	593	937
- trade receivables	256	249
- receivables from the state budget, other than corporate income tax receivables	125	169
- receivables by virtue of commissions concerning off-balance sheet products	210	153
- prevention settlements	41	47
- receivables from direct claims handling on behalf of other insurance undertakings	18	26
- receivables for acting as an emergency adjuster	12	13
- receivables on account of Corporate Income Tax	47	28
- receivables from security and bid deposits	40	39
- interbank and interbranch receivables	24	35
- refund from the Guarantee Fund of the National Depository for Securities	18	-
- other	222	191
Total receivables	**5,758**	**5,737**

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

As at 30 June 2020 and 31 December 2019, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

(in millions of PLN)

8.24 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 30 June 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	170,284	17,609	10,980	6,054	204,927	159,612	16,069	7,855	7,165	190,701
Recognition of instruments at the time of acquisition, creation, granting	27,966	62	-	-	28,028	58,360	-	-	5	58,365
Change attributable to modification of cash flows concerning the given instrument	(9)	-	-	-	(9)	(2)	-	-	-	(2)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(22,567)	(1,462)	(812)	(279)	(25,120)	(39,687)	(1,855)	(511)	(1,116)	(43,169)
Assets written down from the balance sheet	-	-	(687)	(30)	(717)	-	(50)	(1,015)	-	(1,065)
Reclassification to basket 1	4,139	(4,096)	(43)	-	-	6,125	(6,064)	(61)	-	-
Reclassification to basket 2	(13,753)	14,164	(411)	-	-	(11,063)	11,380	(317)	-	-
Reclassification to basket 3	(1,082)	(1,562)	2,644	-	-	(2,789)	(1,997)	4,786	-	-
Other changes, including foreign exchange differences	260	12	178	3	453	(272)	126	243	-	97
End of the period	**165,238**	**24,727**	**11,849**	**5,748**	**207,562**	**170,284**	**17,609**	**10,980**	**6,054**	**204,927**
Expected credit losses										
Beginning of the period	(800)	(1,321)	(5,247)	(4,315)	(11,683)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Establishment of allowances for newly acquired, created, granted instruments	(225)	(1)	-	-	(226)	(815)	-	-	(3)	(818)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	207	(425)	(1,253)	99	(1,372)	1,007	(501)	(2,186)	452	(1,228)
Assets written down from the balance sheet	-	-	687	30	717	-	50	1,015	-	1,065
Reclassification to basket 1	(240)	222	18	-	-	(371)	347	24	-	-
Reclassification to basket 2	108	(215)	107	-	-	134	(238)	104	-	-
Reclassification to basket 3	62	262	(324)	-	-	132	224	(356)	-	-
Other changes, including foreign exchange differences	(3)	(133)	(149)	(4)	(289)	(17)	(14)	(247)	37	(241)
End of the period	**(891)**	**(1,611)**	**(6,161)**	**(4,190)**	**(12,853)**	**(800)**	**(1,321)**	**(5,247)**	**(4,315)**	**(11,683)**
Net carrying amount at the end of the period	**164,347**	**23,116**	**5,688**	**1,558**	**194,709**	**169,484**	**16,288**	**5,733**	**1,739**	**193,244**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 30 June 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	772	609	-	-	1,381	1,511	-	-	-	1,511
Recognition of instruments at the time of acquisition, creation, granting	99	-	-	-	99	571	-	-	-	571
Change in measurement	(16)	80	-	-	64	-	(6)	-	-	(6)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(3)	(8)	-	-	(11)	(686)	(16)	-	-	(702)
Reclassification to basket 2	(138)	138	-	-	-	(624)	624	-	-	-
Other changes	3	(4)	-	-	(1)	-	7	-	-	7
End of the period	**717**	**815**	**-**	**-**	**1,532**	**772**	**609**	**-**	**-**	**1,381**
Expected credit losses										
Beginning of the period	(4)	(17)	-	-	(21)	(14)	-	-	-	(14)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	(2)	-	-	(4)	2	(9)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	3	-	-	-	3
Reclassification to basket 2	1	(1)				8	(8)	-	-	-
Other changes	1	(1)	-	-	-	(1)	-	-	-	(1)
End of the period	**(5)**	**(21)**	**-**	**-**	**(26)**	**(4)**	**(17)**	**-**	**-**	**(21)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January – 30 June 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	35,614	368	34	-	36,016	34,657	35	33	2	34,727
Recognition of instruments at the time of acquisition, creation, granting	16,685	-	-	-	16,685	9,538	-	-	-	9,538
Change in measurement	439	-	-	-	439	683	-	-	-	683
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(6,305)	(14)	-	-	(6,319)	(9,112)	-	-	(2)	(9,114)
Reclassification to basket 1 [1)]	312	(312)	-	-	-	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	(332)	332	-	-	-
Other changes, including foreign exchange differences	101	(1)	-	-	100	180	1	1	-	182
End of the period	**46,846**	**41**	**34**	**-**	**46,921**	**35,614**	**368**	**34**	**-**	**36,016**
Expected credit losses										
Beginning of the period	(33)	(19)	(34)	-	(86)	(35)	(7)	(33)	-	(75)
Establishment of allowances for newly acquired, created, granted instruments	(12)	-	-	-	(12)	(6)	-	-	-	(6)
Changes attributable to valuation or credit risk level (excluding reclassification)	12	-	-	-	12	(4)	(3)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	5	1	-	-	6	5	-	-	-	5
Reclassification to basket 1	(16)	16	-	-	-	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	9	(9)	-	-	-
Other changes, including foreign exchange differences	(1)	-	-	-	(1)	(2)	-	(1)	-	(3)
End of the period	**(45)**	**(2)**	**(34)**	**-**	**(81)**	**(33)**	**(19)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**46,801**	**39**	**-**	**-**	**46,840**	**35,581**	**349**	**-**	**-**	**35,930**

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

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

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	**1 January – 30 June 2020**					**1 January - 31 December 2019**				
	Basket 1	**Basket 2**	**Basket 3**	**POCI**	**Total**	**Basket 1**	**Basket 2**	**Basket 3**	**POCI**	**Total**
Carrying amount										
Beginning of the period	54,537	156	-	-	54,693	38,142	73	-	-	38,215
Recognition of instruments at the time of acquisition, creation, granting	117,864	-	-	-	117,864	203,057	-	-	-	203,057
Change in measurement	940	(4)	-	-	936	725	(5)	-	-	720
Change attributable to modification of cash flows concerning the given instrument	(8)	-	-	-	(8)	(8)	-	-	-	(8)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(109,544)	(25)	-	-	(109,569)	(187,893)	-	-	-	(187,893)
Reclassification to basket 1	13	(13)	-	-	-					
Reclassification to basket 2	(12)	12	-	-	-	(87)	87	-	-	-
Other changes, including foreign exchange differences	359	-	-	-	359	601	1	-	-	602
End of the period	**64,149**	**126**	**-**	**-**	**64,275**	**54,537**	**156**	**-**	**-**	**54,693**
Expected credit losses										
Beginning of the period	(41)	(2)	-	-	(43)	(37)	(3)	-	-	(40)
Establishment of allowances for newly acquired, created, granted instruments	(4)	-	-	-	(4)	(18)	-	-	-	(18)
Changes attributable to valuation or credit risk level (excluding reclassification)	(19)	(11)	-	-	(30)	(1)	2	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	6	-	-	-	6	14	-	-	-	14
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	1	(1)	-	-	-
End of the period	**(58)**	**(13)**	**-**	**-**	**(71)**	**(41)**	**(2)**	**-**	**-**	**(43)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January – 30 June 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	1,455	1	-	-	1,456	2,770	1	9	-	2,780
Recognition of instruments at the time of acquisition, creation, granting	69,299	-	-	-	69,299	228,598	-	-	-	228,598
Change in measurement	30	-	-	-	30	4	-	-	-	4
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(69,655)	-	-	-	(69,655)	(229,902)	-	-	-	(229,902)
Other changes, including foreign exchange differences	(3)	(1)	-	-	(4)	(15)	-	(9)	-	(24)
End of the period	**1,126**	**-**	**-**	**-**	**1,126**	**1,455**	**1**	**-**	**-**	**1,456**
Expected credit losses										
Beginning of the period	(2)	-	-	-	(2)	(2)	-	(9)	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(3)	-	-	-	(3)	(6)	-	-	-	(6)
Changes attributable to variations in measurement of instruments or credit risk level (excluding reclassification)	3	-	-	-	3	2	-	-	-	2
Other changes, including foreign exchange differences	1	-	-	-	1	4	-	9	-	13
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(2)**	**-**	**-**	**-**	**(2)**
Net carrying amount at the end of the period	**1,125**	**-**	**-**	**-**	**1,125**	**1,453**	**1**	**-**	**-**	**1,454**

(in millions of PLN)

Loans	1 January – 30 June 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,517	-	-	-	4,517	4,595	-	-	-	4,595
Recognition of instruments at the time of acquisition, creation, granting	842	-	-	-	842	547	-	-	-	547
Change in measurement	61	-	-	-	61	14	-	-	-	14
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(1,146)	-	-	-	(1,146)	(577)	(61)	-	-	(638)
Reclassification to basket 2	(79)	79	-	-	-	(61)	61	-	-	-
Other changes	-	-	-	-	-	(1)	-	-	-	(1)
End of the period	**4,195**	**79**	**-**	**-**	**4,274**	**4,517**	**-**	**-**	**-**	**4,517**
Expected credit losses										
Beginning of the period	(27)	-	-	-	(27)	(60)	-	-	-	(60)
Establishment of allowances for newly acquired, created, granted instruments	(5)	-	-	-	(5)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(6)	-	-	-	(6)	33	(2)	-	-	31
Changes attributable to sale, exclusion or expiration of the instrument	7	-	-	-	7	1	3	-	-	4
Reclassification to basket 2	5	(5)	-	-	-	1	(1)	-	-	-
End of the period	**(26)**	**(5)**	**-**	**-**	**(31)**	**(27)**	**-**	**-**	**-**	**(27)**
Net carrying amount at the end of the period	**4,169**	**74**	**-**	**-**	**4,243**	**4,490**	**-**	**-**	**-**	**4,490**

Receivables	1 January – 30 June 2020	1 January – 31 December 2019
Gross carrying amount		
Beginning of the period	6,825	7,282
Changes in the period	67	(457)
End of the period	**6,892**	**6,825**
Expected credit losses		
Beginning of the period	(1,088)	(939)
Changes in the period	(46)	(149)
End of the period	**(1,134)**	**(1,088)**
Net carrying amount at the end of the period	**5,758**	**5,737**

8.25 Fair value

8.25.1. Description of valuation techniques

8.25.1.1. 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.

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

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

8.25.1.2. 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 forecasted profit or loss of companies or measurement models based on available market data.

8.25.1.3. 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.

8.25.1.4. 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 margin provided for the instrument, are used to discount cash flows.

The fair value of options related to structured deposits is measured based on valuations provided by the issuers of such options, taking into account a verification of these valuations performed by the PZU Group, based on its own valuation models.

8.25.1.5. 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.

8.25.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

8.25.1.7. 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 current credit spread.

8.25.1.8. 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.

8.25.1.9. 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.

8.25.2. 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 quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale).
- Level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, including free land free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method;
  - loan receivables from clients and liabilities to clients under deposits;
  - options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Loan receivables from clients	Liquidity margin and current margin from the sale of the product group	Fair values are estimated using valuation techniques, with an assumption that when the loan is granted, the fair value is equal to the carrying amount. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date less expected credit loss. The cash flow discounting rate is the appropriate risk-free market rate plus the liquidity margin and current sales margin for the loan's product group. The margin is determined by product group and by maturity. For the purpose of estimating the fair value of foreign currency loans, the liquidity margin for PLN loans is used, adjusted by quotations of FX swap and basis-swap transactions. The fair value of loans with recognized impairment is equal to the sum of future expected salvage discounted using the effective interest rate, since the average expected recoveries fully reflect the credit risk component. For loans that do not have a repayment schedule (current account loans, overdrafts and credit cards), the fair value is assumed to be equal to the carrying amount.	Negative correlation.
Liabilities to clients under deposits	Sales margin	Fair values are estimated using valuation techniques, with an assumption that when the deposit is accepted, the fair value is equal to the carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows discounted at the balance sheet date. The cash flow discounting rate is the appropriate risk-free market rate plus the current sales margin. The margin is determined on the basis of deposits accepted in the last quarter, by product group and by maturity. For short-term deposits (current deposits, overnight deposits and savings accounts), the carrying amount is taken as fair value.	Negative correlation.
Options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.	Model parameters	Embedded instruments are plain vanilla options and exotic options for individual shares, indices, commodities and other market multiples, including interest rate indices and exchange rates and their baskets. All separated options are offset on an ongoing basis on the interbank market. Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.
Investment property and property designated for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
	Monthly rental rate per 1 m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	

(in millions of PLN)

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

8.25.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 June 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	30,906	26,487	7,405	64,798	32,595	15,555	7,061	55,211
Equity instruments	270	1	252	523	271	1	246	518
Debt securities	30,636	26,486	7,153	64,275	32,324	15,554	6,815	54,693
Investment financial assets measured at fair value through profit or loss	4,741	4,884	342	9,967	4,985	4,996	286	10,267
Equity instruments	562	-	241	803	613	6	226	845
Participation units and investment certificates	101	4,648	20	4,769	111	4,690	19	4,820
Debt securities	4,078	236	81	4,395	4,261	300	41	4,602
Loan receivables from clients	-	-	1,746	1,746	-	-	1,624	1,624
Measured at fair value through other comprehensive income	-	-	1,532	1,532	-	-	1,381	1,381
Measured at fair value through profit or loss	-	-	214	214	-	-	243	243
Financial derivatives	12	7,178	98	7,288	4	2,985	118	3,107
Investment property	-	157	2,120	2,277	-	153	1,828	1,981
Liabilities								
Derivatives	10	6,586	62	6,658	3	2,947	68	3,018
Liabilities to members of consolidated mutual funds	-	153	-	153	-	90	-	90
Investment contracts for the client's account and risk *(unit-linked)*	-	247	-	247	-	259	-	259
Liabilities on borrowed securities (short sale)	481	-	-	481	293	-	-	293

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 June 2020	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Beginning of the period	**246**	**6,815**	**226**	**19**	**41**	**118**	**68**	**1,381**	**243**	**1,828**
Purchase/opening of the position/granting	4	151	-	1	442	3	3	99	-	83
Reclassification from Level II [1)]	-	766	2	-	36	-	-	-	-	-
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	296
Profit or loss recognized in the profit and loss account:	-	78	5	-	(2)	-	4	11	(3)	155
- interest income calculated using the effective interest rate	-	77	-	-	-	-	-	11	(3)	-
Result on derecognition of financial instruments and investments	-	1	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	5	-	(2)	-	4	-	-	155
Profits or losses recognized in other comprehensive income	2	(93)	-	-	-	-	-	(3)	-	-
Sales/settlements/repayments	-	(315)	-	-	(434)	(23)	(13)	44	(26)	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(256)
Reclassification to Level II	-	(249)	-	-	(2)	-	-	-	-	-
Amendments to lease contracts	-	-	-	-	-	-	-	-	-	14
Foreign exchange differences	-	-	8	-	-	-	-	-	-	-
End of the period	**252**	**7,153**	**241**	**20**	**81**	**98**	**62**	**1,532**	**214**	**2,120**

[1)] Information on the restatements is presented in section 8.25.6.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 2019	**Investment financial assets measured at fair value through other comprehensive income**		**Investment financial assets measured at fair value through profit or loss**			**Derivatives – assets**	**Derivatives – liabilities**	**Loan receivables from clients measured at fair value**		**Investment property**
	Equity	**Debt**	**Equity**	**Investment certificates**	**Debt**			**through other comprehensive income**	**through profit or loss**	
Beginning of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**
Posting of right-of-use assets (IFRS16)	-	-	-	-	-	-	-	-	-	44
Purchase/opening of the position/granting	-	997	-	-	573	26	21	167	-	195
Reclassification from Level II [1]	-	545	-	-	-	1	-	-	-	-
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	1
Profit or loss recognized in the profit and loss account:	-	176	111	3	6	57	36	29	(2)	48
- interest income calculated using the effective interest rate	-	170	-	-	-	-	-	29	(2)	-
Result on derecognition of financial instruments and investments	-	6	-	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	111	3	5	57	36	-	-	48
Profits or losses recognized in other comprehensive income	34	35	-	-	-	-	-	16	-	-
Sales/settlements/repayments	-	(1,851)	-	-	(661)	(34)	(25)	(342)	(58)	(4)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(12)
Reclassification to Level II	-	(83)	-	-	-	-	-	-	-	-
Foreign exchange differences	-	-	-	2	-	-	-	-	-	-
End of the period	**246**	**6,815**	**226**	**19**	**41**	**118**	**68**	**1,381**	**243**	**1,828**

[1] Information on the restatements is presented in section 8.25.6.

(in millions of PLN)

8.25.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Loan receivables from clients measured at amortized cost	-	-	192,276	192,276	-	-	193,964	193,964
Investment financial assets measured at amortized cost	35,205	4,894	22,224	62,323	26,032	2,149	21,742	49,923
Debt securities	35,205	3,595	13,436	52,236	26,032	1,123	12,674	39,829
Buy-sell-back transactions	-	1,149	3,495	4,644	-	738	3,326	4,064
Term deposits with credit institutions	-	150	976	1,126	-	288	1,168	1,456
Loans	-	-	4,317	4,317	-	-	4,574	4,574
Liabilities								
Liabilities to banks	-	985	6,940	7,925	-	897	5,728	6,625
Liabilities to clients under deposits	-	-	247,194	247,194	-	-	219,233	219,233
Liabilities on the issue of own debt securities [1])	-	5,427	2,321	7,748	-	6,700	2,667	9,367
Subordinated liabilities [1])	-	2,766	3,918	6,684	-	2,766	4,014	6,780
Liabilities on account of repurchase transactions	-	194	42	236	-	599	-	599

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

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

In the 6-month period ended 30 June 2020 and 2019, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

8.25.6. 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.

The outbreak of the COVID-19 pandemic translated indirectly into an increase in volatility on the financial markets and a decrease in the liquidity of certain market segments, such as, in particular, corporate and municipal securities. This resulted in the reclassification of some assets to lower fair value levels.

In the 6-month period ended 30 June 2020, the following reclassifications of assets between fair value levels were made:

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

In 2019, the following transfers of assets between fair value levels were made:

- reclassification from Level III to Level II was applied to municipal and corporate bonds measured using market information about the prices of comparable financial instruments, municipal and corporate bonds for which the estimated credit parameters had no significant impact on their measurement because the unobservable factor (correlation) had no significant impact on their measurement,
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was material and capital market derivatives for which the estimated parameter (correlation) exerted a significant impact on the measurement.

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

In the 6-month period ended 30 June 2020, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.27 Extent of exposure to credit risk

The following tables present the exposure of credit risk assets to credit risk broken down by ratings (the lowest rating for each asset was adopted from among those published by Fitch, Standard & Poor's and Eurorating). The credit risk exposure arising from repo transactions is presented as an exposure to the issuer of the securities taken as collateral.

The table does not include loan receivables from clients and receivables due under insurance contracts. This ensues from the considerable distribution of these asset portfolios meaning, among others, that a significant portion of the receivables comes from entities and private individuals that do not have ratings.

(in millions of PLN)

Credit risk assets as at 30 June 2020	AAA	AA	A	BBB	BB	B	No rating	Assets at the client's risk	Total
Debt securities measured at amortized cost – carrying amount	442	-	37,920	657	139	-	7,682	-	46,840
- gross carrying amount	445	-	37,928	659	141	-	7,748	-	46,921
- allowance for expected credit losses	(3)	-	(8)	(2)	(2)	-	(66)	-	(81)
Debt securities measured at fair value through other comprehensive income – carrying amount	3,825	66	39,102	4,332	402	-	16,548	-	64,275
- allowance for expected credit losses [1]	(22)	-	(8)	(10)	(3)	-	(28)	-	(71)
Debt securities measured at fair value through profit or loss – carrying amount	1	865	2,218	69	35	27	35	1,145	4,395
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	-	836	605	170	-	3,417	741	5,769
- gross carrying amount	-	-	836	605	170	-	3,418	741	5,770
- allowance for expected credit losses	-	-	-	-	-	-	(1)	-	(1)
Loans – carrying amount	-	-	-	-	88	-	4,155	-	4,243
- gross carrying amount	-	-	-	-	90	-	4,184	-	4,274
- allowance for expected credit losses	-	-	-	-	(2)	-	(29)	-	(31)
Derivatives	4,737	55	754	526	4	-	1,181	31	7,288
Reinsurers' share in claims provisions	-	195	743	-	-	-	177	-	1,115
Reinsurance receivables	-	14	28	-	-	-	28	-	70
Total	**9,005**	**1,195**	**81,601**	**6,189**	**838**	**27**	**33,223**	**1,917**	**133,995**

[1] The allowance is recognized in the revaluation reserve and does not lower the carrying amount of assets.

Credit risk assets as at 31 December 2019	AAA	AA	A	BBB	BB	B	No rating	Assets at the client's risk	Total
Debt securities measured at amortized cost – carrying amount	-	-	29,396	990	37	-	5,507	-	35,930
- gross carrying amount	-	-	29,402	991	39	-	5,584	-	36,016
- allowance for expected credit losses	-	-	(6)	(1)	(2)	-	(77)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	3,632	59	40,046	4,132	447	-	6,377	-	54,693
- allowance for expected credit losses [1]	(13)	-	(9)	(5)	(2)	-	(14)	-	(43)
Debt securities measured at fair value through profit or loss – carrying amount	2	16	3,191	169	39	26	43	1,116	4,602
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	-	1,482	323	128	-	3,536	49	5,518
- gross carrying amount	-	-	1,482	323	128	-	3,538	49	5,520
- allowance for expected credit losses	-	-	-	-	-	-	(2)	-	(2)
Loans – carrying amount	-	-	-	-	698	-	3,792	-	4,490
- gross carrying amount	-	-	-	-	699	-	3,818	-	4,517
- allowance for expected credit losses	-	-	-	-	(1)	-	(26)	-	(27)
Derivatives	1,393	39	587	372	2	-	671	43	3,107
Reinsurers' share in claims provisions	-	135	657	1	-	-	207	-	1,000
Reinsurance receivables	-	10	29	-	-	-	19	-	58
Total	**5,027**	**259**	**75,388**	**5,987**	**1,351**	**26**	**20,152**	**1,208**	**109,398**

[1] The allowance is recognized in the revaluation reserve and does not lower the carrying amount of assets.

(in millions of PLN)

The table below presents the credit risk ratios used by the PZU Group to measure credit risk.

Standard & Poor's ratings	AAA	AA	A	BBB	BB	B	No rating
Ratio as at 30 June 2020	0.70%	0.72%	1.24%	3.32%	11.78%	23.74%	20.22%
Ratio as at 31 December 2019	0.70%	0.73%	1.28%	3.44%	12.22%	24.21%	20.62%

The quantity of credit risk for assets for which the PZU Group incurs risk on 30 June 2020 was PLN 8,112 million (at 31 December 2019: PLN 5,535 million; while if the ratios on 30 June 2020 are applied, this figure would be PLN 5,411 million).

8.28 Assets and liabilities held for sale

Assets and liabilities held for sale	30 June 2020	31 December 2019
Groups held for sale	**421**	**475**
RUCH [1]	(25)	-
Assets	140	-
Liabilities	165	-
Other groups held for sale	446	475
Assets	478	504
Investment property	431	454
Receivables	7	9
Deferred tax assets	4	6
Cash and cash equivalents	34	34
Other assets	2	1
Liabilities	32	29
Deferred tax liability	13	6
Other liabilities	15	11
Liabilities to banks	3	-
Liabilities for borrowings	-	5
Other financial liabilities	1	6
Other provisions	-	1
Other assets held for sale	**69**	**76**
Property, plant and equipment	39	33
Investment property	30	43
Assets and groups of assets held for sale	**687**	**580**
Liabilities related directly to assets classified as held for sale	**197**	**29**

[1] More information on the classification of RUCH's assets and liabilities as a group held for sale is presented in section 2.3.1.1.

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

8.29 Share capital

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

All the Shares have been fully paid for.

(in millions of PLN)

As at 30 June 2020 and 31 December 2019

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

8.30 Distribution of the parent company's profit

Information on the distribution of the parent company's profit is presented in section 17.

8.31 Technical provisions

Technical provisions	30 June 2020			31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**24,786**	**(1,783)**	**23,003**	**24,457**	**(1,856)**	**22,601**
Provision for unearned premiums	8,569	(667)	7,902	8,765	(856)	7,909
Provision for unexpired risk	25	-	25	14	-	14
Provisions for outstanding claims and benefits	10,112	(855)	9,257	9,676	(785)	8,891
- for reported claims	3,600	(743)	2,857	3,414	(670)	2,744
- for claims not reported (IBNR)	4,339	(86)	4,253	4,210	(90)	4,120
- for claims handling expenses	2,173	(26)	2,147	2,052	(25)	2,027
Provision for the capitalized value of annuities	6,078	(261)	5,817	5,999	(215)	5,784
Provisions for bonuses and discounts for insureds	2	-	2	3	-	3
Technical provisions in life insurance	**22,783**	**-**	**22,783**	**22,872**	**-**	**22,872**
Provision for unearned premiums	104	-	104	106	-	106
Life insurance provision	16,399	-	16,399	16,346	-	16,346
Provisions for outstanding claims and benefits	578	-	578	622	-	622
- for reported claims	153	-	153	167	-	167
- for claims not reported (IBNR)	419	-	419	449	-	449
- for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	5	-	5	6	-	6
Other technical provisions	200	-	200	214	-	214
Unit-linked provision	5,497	-	5,497	5,578	-	5,578
Total technical provisions	**47,569**	**(1,783)**	**45,786**	**47,329**	**(1,856)**	**45,473**

8.32 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 June 2020 (in PLN m)	Carrying amount 31 December 2019 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,279	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,255	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	553	554
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	201	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	350	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 4 June 2031	401	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	224	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	195	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	147	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	604	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	68	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	46	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	151	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	70	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	150	150
Subordinated liabilities					**6,694**	**6,700**

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.

8.33 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 June 2020	31 December 2019
Bonds	2,820	3,976
Certificates of deposit	3,420	3,940
Covered bonds	1,446	1,357
Liabilities on the issue of own debt securities, total	**7,686**	**9,273**

(in millions of PLN)

8.34 Liabilities to banks

Liabilities to banks	30 June 2020	31 December 2019
Current deposits	1,204	412
One-day deposits	430	419
Term deposits	13	41
Loans received	5,819	5,427
Other liabilities	446	305
Liabilities to banks, total	**7,912**	**6,604**

8.35 Liabilities to clients under deposits

Liabilities to clients under deposits	30 June 2020	31 December 2019
Current deposits	198,686	151,417
Term deposits	46,607	66,414
Other liabilities	855	757
Liabilities to clients under deposits, total	**246,148**	**218,588**

(in millions of PLN)

8.36 Other liabilities

Other liabilities	30 June 2020	31 December 2019 (restated)
Liabilities measured at fair value	**886**	**675**
Liabilities on borrowed securities (short sale)	481	293
Investment contracts for the client's account and risk (unit-linked)	247	259
Liabilities to members of consolidated mutual funds	153	90
Liability on the settlement of the acquisition of Tomma shares	5	33
Financial liabilities measured at amortized cost	**9,508**	**9,734**
Accrued expenses	1,324	1,979
Accrued expenses of agency commissions	361	390
Accrued payroll expenses	195	217
Accrued reinsurance expenses	209	706
Accrued employee bonuses	290	367
Other	269	299
Deferred revenue	396	322
Other liabilities	7,788	7,433
Liabilities on account of repurchase transactions	236	599
Lease liabilities	1,116	1,066
Liabilities due under transactions on financial instruments	1,280	905
Liabilities to banks for payment documents cleared in interbank clearing systems	1,231	1,096
Liabilities on direct insurance	881	892
Liabilities on account of payment card settlements	424	408
Regulatory settlements	251	289
Liabilities for contributions to the Bank Guarantee Fund	626	356
Reinsurance liabilities	357	197
Estimated non-insurance liabilities	95	161
Liabilities to employees	63	47
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	68	69
Trade liabilities	319	258
Current income tax liabilities	267	352
Liabilities to the state budget other than for income tax	125	182
Liabilities on account of donations	20	23
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	13	12
Insurance Guarantee Fund	12	15
Liability for the refund of loan costs	58	106
Liabilities for direct claims handling	23	29
Other	323	371
Other liabilities, total	**10,394**	**10,409**

(in millions of PLN)

8.37 Other provisions

Movement in other provisions in the period ended 30 June 2020	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	358	375	-	(150)	2	585
Provision of potential refunds of borrowing costs	254	109	(190)	-	-	173
Provision for restructuring expenses	34	144	(55)	-	-	123
Provision for tax risk	-	-	-	-	85	85
Provision for disputed claims and potential liabilities	80	6	(11)	-	-	75
Provision for legal risk pertaining to mortgage loans in Swiss francs	22	7	-	(3)	-	26
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	-	-	(57)	-	28
Other	34	5	(7)	(1)	-	31
Total other provisions	**867**	**646**	**(263)**	**(211)**	**87**	**1,126**

Movement in other provisions in the period ended 31 December 2019	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	316	331	-	(289)	-	358
Provision for disputed claims and potential liabilities	67	48	(26)	(12)	3	80
Provision of potential refunds of borrowing costs	-	272	(18)	-	-	254
Provision for legal risk pertaining to mortgage loans in Swiss francs	-	22	-	-	-	22
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	-	-	-	-	85
Provision for restructuring expenses	20	85	(78)		7	34
Other	31	16	(8)	(5)	-	34
Total other provisions	**519**	**774**	**(130)**	**(306)**	**10**	**867**

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 of potential refunds of borrowing costs

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

The Court ruled unambiguously that a credit prepayment entitles the consumer to a reduction in all costs included in the total cost of credit. However, the judgment did not specify the method of calculation of such a reduction in respect of non-recurring costs, such as commissions and preparation fees.

The formula approved by the President of UOKiK and the Financial Ombudsman for the settlement of credit costs with borrowers is the so-called linear formula whereby a pro rata approach is adopted based on the period between the actual loan repayment date and the repayment date specified in the loan agreement and requires that any non-recurring cost be broken down on a pro rata basis across all payment periods.

In Q2 2020, the PZU Group revalued its estimate of the legal risk arising from prepayments of consumer loans made before the date of announcement of the CJEU judgment and established an additional provision of PLN 109 million, which was charged to other operating expenses. The revaluation of the estimate was based on the most recent data on incoming complaints regarding the refund of the loan costs and on the refund amounts. As at 30 June 2020, the carrying amount of the provision was PLN 173 million. Its amount corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. The estimation of the provision has required adoption of a number of expert assumptions and entails a significant uncertainty following from, among others, the short observation period and the difficult to estimate volatility of the observed trends pertaining to the number and amounts of lodged complaints. For this reason the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

Provision for restructuring expenses

The Pekao Management Board reported that on 20 February 2020, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships, it adopted a resolution concerning the intention to effect group layoffs and commence the consultation procedure on group layoffs.

In the period from 13 March 2020 to 31 October 2020, the Pekao Management Board intends to terminate employment contracts with a maximum of 1,200 employees and modify employment conditions with a maximum of 1,350 employees, although Pekao may unilaterally decide to extend the process by at most 5 months.

The total costs related to the termination of employment contracts and the modification of the employment conditions for Pekao employees under group layoffs and the restructuring of the branch network were estimated at PLN 144 million, and the restructuring provision in this amount was established for this purpose. As at 30 June 2020, the carrying amount of this provision was PLN 111 million.

The remaining balance is made up of:

- PLN 10 million – pertaining to the restructuring process conducted in PZU and PZU Życie (PLN 10 million as at 31 December 2019);
- PLN 2 million – pertaining to the restructuring processes in Alior Bank (as at 31 December 2019: PLN 5 million).

Provision for tax risk

More information on the provision for tax risk is presented in section 8.14.

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 CHF-indexed loan agreement. CJEU specified the effects of declaring the possible abusiveness of the conversion clauses by the national court, without analyzing at all the possible abusiveness of the contractual provisions. CJEU did not rule that if the national court deems a clause abusive, then it should automatically declare the entire agreement invalid. An assessment in this respect is up to the national court, however CJEU did not rule out the possibility of supplementing the gap resulting from the abusiveness of the conversion clauses using national supplementary provisions.

The CJEU ruling provides general guidance for Polish ordinary courts. The ultimate resolutions made by Polish courts will be based on EU regulations interpreted in accordance with the CJEU judgment, taking into consideration the national laws and analysis of the individual circumstances of each case. At the same time, there is still no established line of rulings in cases involving mortgage loans in Swiss francs, an observation that is often corroborated by mutually exclusive judgments issued by ordinary courts and requests for a preliminary ruling sent by ordinary courts to the CJEU and the Supreme Court to resolve their legal doubts.

Considering the increasing numbers of statements of claim pertaining to CHF mortgage loans observed in the banking sector and the absence of consistency in the line of rulings pertaining to such loans, the PZU Group has estimated a provision for the legal risk associated with CHF mortgage loan agreements in the total amount, as at 30 June 2020, of PLN 74 million (as at 31

(in millions of PLN)

December 2019: PLN 59 million), of which PLN 26 million (as at 31 December 2019: PLN 22 million) is related to exposures repaid as at the balance sheet date (and is included in "Other provisions"), and PLN 48 million (as at 31 December 2019: PLN 37 million) is related to exposures outstanding as at the balance sheet date, recognized as an element of allowances for expected credit losses and impairment losses on financial instruments.

The amount of the provision for pending disputable cases is determined on the basis of legal opinions pertaining to assessment of the CHF mortgage loan agreement templates and on a case-by-case assessment (for each statement of claim) of the risk of losing the given case in court, taking into account the nature of the claims and the possible financial effects.

In addition, as at 30 June 2020, the PZU Group estimated the portfolio provision for future possible statements of claim of PLN 43 million (as at 31 December 2019: PLN 39 million), the value of which is based on an assessment of the legal risk. Calculating the provision amount, the PZU Group estimates the value of the portfolio for which future statements of claim may be filed challenging the loan agreement, the probability of losing future court cases, and the possible financial effects of losing court cases, taking into account the possibility of:

- invalidating the entire CHF mortgage loan agreement as a result of recognizing the indexation clause as abusive,
- recognizing the clauses contained in the loan agreement as abusive clauses resulting in determining the loan balance in PLN and leaving the loan interest rate based on the LIBOR rate (the so-called currency conversion of a CHF loan agreement),
- recognizing the indexation clause as abusive and replacing it with the average NBP exchange rate,
- dismissing the statement of claim.

Considering the inconsistent line of rulings pertaining to CHF mortgage loans and the short period, from the perspective of court cases, for which historical data are available on claims associated with such loans, the estimation of the provision required the adoption of expert assumptions by the PZU Group and entailed a significant degree of uncertainty. The PZU Group will monitor the impact of the CJEU ruling on the directions of decisions made by Polish courts, the market practice and the behaviors of borrowers, and will update all assumptions made in the provisioning process.

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

Detailed information about the reversal of the provision in the amount of PLN 57 million related to the penalty imposed on PZU in the proceedings initiated by the President of the Office of Competition and Consumer Protection is presented in section 18.2.

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

8.38 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 June 2020	Beginning of the period	Changes resulting from cash flows	Accruals and interest payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,427	194	3	195	-	5,819
Liabilities on the issue of debt securities	9,273	(1,637)	39	11	-	7,686
Bonds	3,976	(1,180)	24	-	-	2,820
Certificates of deposit	3,940	(536)	15	-	1	3,420
Covered bonds	1,357	79	-	11	(1)	1,446
Subordinated liabilities	6,700	(86)	79	1	-	6,694
Liabilities on account of repurchase transactions	599	(363)	5	-	(5)	236
Lease liabilities	1,066	(147)	30	(1)	168	1,116
Total financial liabilities	**23,065**	**(2,039)**	**156**	**206**	**163**	**21,551**

(in millions of PLN)

Movement in liabilities attributable to financial activities in the period ended 31 December 2019	Beginning of the period	Recognition of lease liabilities (IFRS 16)	Changes resulting from cash flows	Accruals and interest payments as well as settlements of discount and premium	Foreign exchange differences	Change in the composition of the Group	Other changes	End of the period
Loans received	4,386	-	938	6	33	53	11	5,427
Liabilities on the issue of debt securities	12,009	-	(2,828)	103	(1)	-	(10)	9,273
Bonds	5,922	-	(2,022)	74	2	-	-	3,976
Certificates of deposit	4,542	-	(631)	29	-	-	-	3,940
Covered bonds	1,545	-	(175)	-	(3)	-	(10)	1,357
Subordinated liabilities	6,061	-	453	176	-	10	-	6,700
Liabilities on account of repurchase transactions	540	-	55	4	-	-	-	599
Liabilities for borrowings	-	-	(5)	-	-	5	-	-
Lease liabilities	10	1,301	(297)	(24)	(1)	23	54	1,066
Total financial liabilities	**23,006**	**1,301**	**(1,684)**	**265**	**31**	**91**	**55**	**23,065**

9. Assets securing receivables, liabilities and contingent liabilities

Assets securing liabilities and contingent liabilities include primarily mortgage-backed bonds and receivables (in the case of mortgage bond issues) and cash deposits (in the case of coverage of the Settlement Guarantee Fund for the National Depository for Securities). The table presents the carrying amount of the collateral, by type of secured liability.

Financial assets pledged as collateral for liabilities and contingent liabilities	30 June 2020	31 December 2019
Carrying amount of financial assets pledged as collateral for liabilities	10,684	10,522
Repurchase transactions	189	598
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	985	938
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	168	122
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	365	302
Lombard and technical credit	5,985	5,758
Other loans	710	709
Issue of covered bonds	1,960	1,872
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	42	33
Derivative transactions	280	190
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**10,684**	**10,522**

(in millions of PLN)

10. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2020	31 December 2019
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	62,132	59,437
- for renewable limits in settlement accounts and credit cards	11,705	10,603
- for loans in tranches	31,092	29,867
- guarantees and sureties given	9,967	9,782
- disputed insurance claims	694	773
- other disputed claims	213	212
- other, including:	8,461	8,200
- guaranteeing securities issues	3,569	3,636
- factoring	3,570	3,300
- intra-day limit	389	339
- letters of credit and commitment letters	751	732
- other	182	193

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

In the 6-month period ended 30 June 2020 and 2019, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

11. Equity management

On 3 October 2016 PZU Supervisory Board adopted a resolution to approve the PZU Group's capital and dividend policy for 2016-2020 ("Policy").

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

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

The capital management policy rests among others on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

The PZU Group and PZU dividend policy assumes that:

- the dividend amount proposed by the PZU Management Board for the financial year is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:
  - no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
  - no less than 50% is subject to payment as an annual dividend;

(in millions of PLN)

– the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

subject to the items below:

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

External capital requirements

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

Pursuant to Article 412(1) of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2019 report published on 28 May 2020 is available online at https://www.pzu.pl/en/investor-relations/reports. Pursuant to Article 290(1) of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2019 published in the PZU Group's 2019 solvency and financial condition report was 245%. As at the end of H1 2020, the solvency ratio (standalone and consolidated alike), which was not subject to an audit or review by an audit firm, remained above the 200% mark.

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

12. Segment reporting

12.1 Reportable segments

12.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.

Segment	Accounting standards	Segment description	Aggregation criteria
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by LD and its branch in Estonia, AAS Balta and PZU LT GD.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

12.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

12.2 Inter-segment settlements

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

12.3 Segment's measure of profit

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

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

12.4 Accounting policies applied according to PAS

12.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2019.

PZU's 2019 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

12.4.2. PZU Życie

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

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

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

12.5 Simplifications in the segmental note

The segmental note has applied certain simplifications permitted by IFRS 8 "Operating segments". The justification for their usage is portrayed below:

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

(in millions of PLN)

12.6 Quantitative data

Corporate insurance (non-life insurance)	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	550	1,216	735	1,405
Gross written premium – cross-segment	3	10	5	6
Gross written premiums	**553**	**1,226**	**740**	**1,411**
Movement in provision for unearned premiums and gross provision for unexpired risks	223	324	17	72
Gross earned premium	**776**	**1,550**	**757**	**1,483**
Reinsurers' share in gross written premium	(88)	(212)	(109)	(158)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(106)	(155)	(32)	(108)
Net earned premium	**582**	**1,183**	**616**	**1,217**
Investment income, including:	14	57	24	49
external operations	14	57	24	49
intersegment operations	-	-	-	-
Other net technical income	5	28	15	24
Income	**601**	**1,268**	**655**	**1,290**
Net insurance claims and benefits	(377)	(763)	(392)	(774)
Movement in other net technical provisions	-	-	-	-
Acquisition expenses	(124)	(253)	(129)	(254)
Administrative expenses	(37)	(73)	(31)	(61)
Reinsurance commissions and profit participation	12	22	9	19
Other	(7)	(27)	(11)	(34)
Insurance result	**68**	**174**	**101**	**186**

(in millions of PLN)

Mass insurance (non-life insurance)	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	2,465	5,220	2,581	5,264
Gross written premium – cross-segment	5	12	5	9
Gross written premiums	**2,470**	**5,232**	**2,586**	**5,273**
Movement in provision for unearned premiums and gross provision for unexpired risks	136	(84)	38	(123)
Gross earned premium	**2,606**	**5,148**	**2,624**	**5,150**
Reinsurers' share in gross written premium	(10)	(19)	(12)	(47)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(23)	(36)	(27)	(14)
Net earned premium	**2,573**	**5,093**	**2,585**	**5,089**
Investment income, including:	109	279	118	238
external operations	109	279	118	238
intersegment operations	-	-	-	-
Other net technical income	11	45	24	72
Income	**2,693**	**5,417**	**2,727**	**5,399**
Net insurance claims and benefits	(1,542)	(3,071)	(1,739)	(3,287)
Movement in other net technical provisions	-	-	-	-
Acquisition expenses	(496)	(988)	(491)	(966)
Administrative expenses	(175)	(341)	(153)	(305)
Reinsurance commissions and profit participation	-	(1)	-	-
Other	(72)	(187)	(88)	(195)
Insurance result	**408**	**829**	**256**	**646**

Group and individually continued insurance (life insurance)	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	1,754	3,513	1,738	3,471
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,754**	**3,513**	**1,738**	**3,471**
Movement in the provision for unearned premiums	1	-	1	-
Gross earned premium	**1,755**	**3,513**	**1,739**	**3,471**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,755**	**3,513**	**1,739**	**3,471**
Investment income, including:	268	293	174	350
external operations	268	293	174	350
intersegment operations	-	-	-	-
Other net technical income	-	1	2	3
Income	**2,023**	**3,807**	**1,915**	**3,824**
Net insurance claims and benefits and movement in other net technical provisions	(1,234)	(2,355)	(1,230)	(2,594)
Acquisition expenses	(95)	(192)	(97)	(187)
Administrative expenses	(157)	(315)	(159)	(310)
Other	(12)	(22)	(22)	(30)
Insurance result	**525**	**923**	**407**	**703**

(in millions of PLN)

Individual insurance (life insurance)	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	346	762	367	694
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**346**	**762**	**367**	**694**
Movement in the provision for unearned premiums	-	2	(1)	2
Gross earned premium	**346**	**764**	**366**	**696**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**346**	**764**	**366**	**696**
Investment income, including:	398	131	124	316
external operations	398	131	124	316
intersegment operations	-	-	-	-
Other net technical income	-	1	-	-
Income	**744**	**896**	**490**	**1,012**
Net insurance claims and benefits and movement in other net technical provisions	(639)	(661)	(388)	(794)
Acquisition expenses	(36)	(75)	(33)	(64)
Administrative expenses	(19)	(39)	(16)	(33)
Other	(2)	(3)	(1)	(2)
Insurance result	**48**	**118**	**52**	**119**

Investments	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Investment income, including:	182	40	66	223
- external operations	169	8	(38)	102
- intersegment operations	13	32	104	121
Operating result	**182**	**40**	**66**	**223**

Banking activity	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019 (restated)	1 January – 30 June 2019 (restated)
Revenue from commissions and fees	930	1,905	990	1,922
- external operations	914	1,860	968	1,878
- intersegment operations	16	45	22	44
Investment income	1,122	3,233	2,107	4,404
- external operations	1,122	3,233	2,107	4,404
- intersegment operations	-	-	-	-
Income	**2,052**	**5,138**	**3,097**	**6,326**
Fee and commission expenses	(245)	(480)	(216)	(391)
Interest expenses	(305)	(768)	(507)	(997)
Administrative expenses	(1,196)	(2,423)	(1,226)	(2,439)
Other	(1,252)	(2,474) [1]	(318)	(1,048)
Operating result	**(946)**	**(1,007)**	**830**	**1,451**

[1] Including impairment losses on goodwill arising from the acquisition of Alior Bank in the amount of PLN 746 million and Pekao in the amount of PLN 555 million. Additional information on this issue is presented in section 8.16.1.

(in millions of PLN)

Pension insurance	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Investment income, including:	1	2	2	3
external operations	1	2	2	3
intersegment operations	-	-	-	-
Other income	26	73	37	69
Income	**27**	**75**	**39**	**72**
Administrative expenses	(17)	(26)	(10)	(22)
Other	(1)	(2)	(1)	(2)
Operating result	**9**	**47**	**28**	**48**

Insurance - Baltic States	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	412	835	440	856
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**412**	**835**	**440**	**856**
Movement in provision for unearned premiums and gross provision for unexpired risks	3	12	(31)	(47)
Gross earned premium	**415**	**847**	**409**	**809**
Reinsurers' share in gross written premium	(12)	(45)	(11)	(39)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(4)	15	(3)	11
Net earned premium	**399**	**817**	**395**	**781**
Investment income, including:	20	(7)	8	22
external operations	20	(7)	8	22
intersegment operations	-	-	-	-
Income	**419**	**810**	**403**	**803**
Net insurance claims and benefits paid	(236)	(470)	(235)	(482)
Acquisition expenses	(83)	(169)	(84)	(165)
Administrative expenses	(36)	(71)	(32)	(63)
Other	1	2	1	2
Insurance result	**65**	**102**	**53**	**95**

(in millions of PLN)

Insurance – Ukraine	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium – external	65	144	78	149
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**65**	**144**	**78**	**149**
Movement in provision for unearned premiums and gross provision for unexpired risks	5	11	(3)	(10)
Gross earned premium	**70**	**155**	**75**	**139**
Reinsurers' share in gross written premium	(26)	(53)	(26)	(46)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	1	(1)
Net earned premium	**44**	**102**	**50**	**92**
Investment income, including:	9	25	6	14
external operations	9	25	6	14
intersegment operations	-	-	-	-
Income	**53**	**127**	**56**	**106**
Net insurance claims and benefits paid	(10)	(36)	(14)	(33)
Acquisition expenses	(21)	(52)	(26)	(51)
Administrative expenses	(8)	(16)	(7)	(14)
Other	8	17	6	12
Insurance result	**22**	**40**	**15**	**20**

Investment contracts	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Gross written premium	6	15	7	17
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**6**	**15**	**7**	**17**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	**6**	**15**	**7**	**17**
Investment income, including:	21	(8)	3	11
external operations	21	(8)	3	11
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**27**	**7**	**10**	**28**
Net insurance claims and benefits and movement in other net technical provisions	(25)	(3)	(8)	(24)
Acquisition expenses	-	-	-	-
Administrative expenses	(1)	(2)	(1)	(2)
Other	-	-	-	-
Operating result	**1**	**2**	**1**	**2**

(in millions of PLN)

Other segments	1 April – 30 June 2020	1 January – 30 June 2020	1 April – 30 June 2019	1 January – 30 June 2019
Investment income, including:	9	10	9	9
- external operations	9	10	9	9
- intersegment operations	-	-	-	-
Other income	268	580	275	539
Income	**277**	**590**	**284**	**548**
Costs	(290)	(621)	(291)	(567)
Other	11	16	14	17
Operating result	**(2)**	**(15)**	**7**	**(2)**

Reconciliations 1 January 2020 – 30 June 2020	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,183	57	(763)	(253)	(73)	174
Mass insurance	5,093	279	(3,071)	(988)	(341)	829
Group and individually continued insurance	3,513	293	(2,355)	(192)	(315)	923
Individual insurance	764	131	(661)	(75)	(39)	118
Investments	-	40	-	-	-	40
Banking activity	-	3,233	-	-	(2,423)	(1,007) [1)]
Pension insurance	-	2	-	(2)	(26)	47
Insurance - Baltic States	817	(7)	(470)	(169)	(71)	102
Insurance – Ukraine	102	25	(36)	(52)	(16)	40
Investment contracts	15	(8)	(3)	-	(2)	2
Other segments	-	10	-	-	-	(15)
Total segments	**11,487**	**4,055**	**(7,359)**	**(1,731)**	**(3,306)**	**1,253**
Presentation of investment contracts	(15)	10	3	-	-	-
Estimated salvage and subrogation	-	-	(2)	-	-	(2)
Valuation of equity instruments	-	(8)	-	-	-	(8)
Valuation of properties	-	(2)	-	-	(1)	(1)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(8)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [2)]	(20)	94	67	84	(18)	(168)
Consolidated data	**11,452**	**4,149** [3)]	**(7,291)**	**(1,647)**	**(3,335)**	**1,056**

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million). Additional information on this issue is presented in section 8.16.1.

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

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

(in millions of PLN)

Reconciliations 1 January 2019 - 30 June 2019 (restated)	**Net earned premium**	**Investment income**	**Net insurance claims and benefits paid**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	1,217	49	(774)	(254)	(61)	186
Mass insurance	5,089	238	(3,287)	(966)	(305)	646
Group and individually continued insurance	3,471	350	(2,594)	(187)	(310)	703
Individual insurance	696	316	(794)	(64)	(33)	119
Investments	-	223	-	-	-	223
Banking activity	-	4,404	-	-	(2,439)	1,451
Pension insurance	-	3	-	(2)	(22)	48
Insurance - Baltic States	781	22	(482)	(165)	(63)	95
Insurance – Ukraine	92	14	(33)	(51)	(14)	20
Investment contracts	17	11	(24)	-	(2)	2
Other segments	-	9	-	-	-	(2)
Total segments	**11,363**	**5,639**	**(7,988)**	**(1,689)**	**(3,249)**	**3,491**
Presentation of investment contracts	(17)	(6)	23	-	-	-
Estimated salvage and subrogation	-	-	(5)	-	-	(5)
Valuation of equity instruments	-	19	-	-	-	19
Valuation of properties	-	(4)	-	-	(1)	(6)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(3)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(12)	(35)	41	73	(16)	(383)
Consolidated data	**11,334**	**5,613** [2)]	**(7,929)**	**(1,616)**	**(3,276)**	**3,103**

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

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

Geographic breakdown	**1 January – 30 June 2020**					**1 January – 30 June 2019** (restated)				
	Poland	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**
Gross written premium – external	10,712	835	144	-	11,691	10,834	856	149	-	11,839
Gross written premium – cross-segment	11	-	-	(11)	-	6	-	-	(6)	-
Revenue from commissions and fees	1,983	-	-	-	1,983	1,993	-	-	-	1,993
Investment income [1)]	4,131	(7)	25	-	4,149	5,577	22	14	-	5,613

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

(in millions of PLN)

Geographic breakdown	30 June 2020					31 December 2019 (restated)				
	Poland	Baltic States	Ukraine	Unallocated	Consolidated value	Poland	Baltic States	Ukraine	Unallocated	Consolidated value
Non-current assets, other than financial assets [1)]	6,946	260	6	-	7,212	7,133	247	6	-	7,386
Deferred tax assets	2,475	-	3	-	2,478	2,310	-	3	-	2,313
Assets	374,308	3,131	572	(1,366)	376,645	341,372	2,877	596	(1,460)	343,385

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

12.7 Information on key customers

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

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

13.1 Macroeconomic environment

As a result of the COVID-19 pandemic, in mid-March 2020, the activity of a significant portion of trade and services in Poland was subjected to a lockdown. The economic consequences of the COVID-19 pandemic were reflected in the macroeconomic data for H1 2020, including in a decline in GDP, an increase in the unemployment rate, a decline in interest rates and decreases on the financial markets taking the form of lower T-bond yields, etc.

In Q2 2020, the rate of inflation, as measured by the Consumer Price Index (CPI), decreased to 3.2% y/y, compared to 4.5% y/y in the previous quarter.

In H1 2020, the National Bank of Poland cut its interest rates three times. The reference rate was cut from 1.5% to 1.0% in March, to 0.5% in April and then to 0.1% at the end of May.

In H1 2020, the yield on Polish 10-year treasury bonds dropped from 2.07% at the end of 2019 to 1.39% at the end of June 2020.

The PLN to EUR exchange rate increased 4.9% from 4.26 at the end of 2019 to 4.47 at the end of June 2020, while the PLN to USD exchange rate increased 4.8% from 3.80 to 3.98. The PLN to CHF exchange rate at the end of June 2020 was 4.18, compared to 3.92 at the end of 2019.

In H1 2020, the WIG index decreased 14.29%, and the WIG20 and mWIG40 indices fell 18.20% and 11.25%, respectively.

13.2 Impact of COVID-19

The PZU Group's operations were affected by the COVID-19 pandemic which reached Poland in March 2020 and triggered to a downturn in economic activity in Poland and its environment. The demand and supply shock associated directly with the decline in business activity in a number of industries increased the level of uncertainty among enterprises and households, thereby deteriorating the conditions for business development at PZU.

In H1 2020, legal regulations were adopted with a view to counteracting the pandemic and curtailing its impact on the economy, including the Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them (Journal of Laws of 2020, item 374, as amended), the Act of 16 April 2020 on Special Support Instruments in Connection with the Spread of the SARS-CoV-2 Virus (Journal of Laws of 2020, item 695, as amended), the Act of 14 May 2020 Amending Certain Acts in Respect of Protective Measures in Connection with the Spread of the SARS-CoV-2 Virus (Journal of Laws of 2020, item 875, as amended) and the Act of 19 June 2020 on Interest Subsidies for Bank

Loans Granted to Commercial Undertakings Affected by COVID-19 and on a Simplified Procedure for Approval of a Settlement in Connection with the Occurrence of COVID-19 (Journal of Laws of 2020, item 1086, as amended).

These statutes provide for a number of solutions applicable to various of areas of economic life, including instruments that enable economic operators to maintain financial liquidity (exemption from payment of social security contributions, micro-loans and idle time pay) and regulations aligning legal solutions with the realities of the electronic economy.

In H1 2020, the PZU Group introduced payment moratoria in compliance with the guidelines issued by the European Banking Authority and suspended the performance of loan agreements under the Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them. These moratoria were evaluated by the PZU Group in terms of fulfillment of the modification criteria within the meaning of IFRS 9. Due to their nature, they were classified as insignificant modifications.

The Office of the Polish Financial Supervision Authority has developed a Supervisory Incentive Package for Security and Development in the insurance market, containing a collection of measures devised to strengthen the Polish insurance sector, in particular by ensuring protection of clients and reducing the impact of market fluctuations on the insurance sector.

Moreover, the insurance sector has developed its own solutions to assist clients affected by the pandemic. These solutions are included in the “Recommendations of pro-client activities for the insurance market” issued by the Polish Insurance Association, in which the Association puts forward the following recommendations (among others) to its members: deferment (suspension) of premium payments (for certain types of insurance), reduction or no increase in the installment payment for motor third party liability insurance, introduction of a simplified method of handling simple and relatively small claims.

The Business Continuity Plans that PZU had in place did not provide for an epidemic scenario of the COVID-19 type. After the announcement of a crisis situation in PZU on 25 February 2020, the Crisis Management Team took action to supplement the contingency plans, including in respect of transition to and performance of remote work and levels of response in the event of an epidemiological threat at PZU. At the same time, action was taken to expand, reconfigure and scale up the capacity of the VPN environment as well as make developmental changes in the IT systems while maintaining business continuity and securing the interests of insurance clients.

Another component of these activities was an information campaign targeted at clients and dubbed “We operate remotely, but always near you”, encouraging the remote use of the PZU Group’s services: via the website, the “my PZU” mobile application or the hotline. Clients were offered the option to postpone the date of payment of their premiums, break down the payment into installments or have the insurer temporarily take over the payment of premiums. The claims handling process was simplified. The scale of PZU Zdrowie’s medical services provided remotely (over the phone or via a video call) was expanded.

In addition to the above factors which influence the conditions of operation and the PZU Group’s results, the situation in individual areas of activity is influenced by sector-specific factors and their changes. The most important one is the level of competition in individual product groups constituting the core of PZU Group’s business. Moreover, the COVID-19 pandemic has triggered a number of processes that will affect the operation of the insurance market, both in the short term and in the long term.

In connection with the series of interest rate cuts by the National Bank of Poland and the elevated credit risk in the banking business, a goodwill impairment test was carried out for Pekao and Alior Bank (more information on this matter is presented in section 8.16.1). The COVID-19 pandemic also caused an increase in allowances for expected credit losses on loan receivables from clients (more information on this matter is presented in section 4.2.1.1).

The decline in bond yields caused by the interest rate cuts suppressed the projected rates of return on assets covering the provisions, which prompted the PZU Group to make a decision to decrease the technical rate for the continued and group insurance portfolio (more information on this matter is presented in section 4.2.3).

In connection with the lockdown of the Polish economy, the loss ratio in motor own damage and motor TPL insurance declined due to the lower frequency of claims (which resulted from a lower volume of domestic and international traffic) with an increase in the average claim (fewer minor claims, interrupted supply chains and shortages of spare parts, appreciation of the euro, longer use of replacement vehicles). Similarly, on the side of life insurance, there was a significant decrease in the loss ratio in group and health insurance (due to a lower frequency of deaths, despite the outbreak of the pandemic, and a lower loss ratio of paramedical risks, chiefly hospitalization, surgical operations, critical illnesses and permanent dismemberment, due to a smaller number of claims). As a result, in H1 2020, the COVID-19 pandemic, despite its numerous unfavorable economic consequences, exerted no adverse impact on the PZU Group’s loss ratio in both the non-life insurance area and the life insurance area. Despite the currently observed gradual return to the loss ratio from the period preceding the lockdown of the economy, it is difficult to predict how the trends in question will affect the level of competition and the pricing policies of insurance companies in H2 2020.

On the other hand, some lines of business were immediately struck by the COVID-19 pandemic. First of all, travel insurance was particularly exposed to the unfavorable effects of the lockdown – at the initial stage of the pandemic, insurers recorded a deterioration in the loss ratio of this type of insurance, whereas following the imposition of travel restrictions, sales of insurance in this product group were frozen. In the medium term, unfavorable trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans.

Also, changes may occur in clients' awareness, expectations and habits. The pandemic and the accompanying sense of insecurity may cause clients to start generating stronger demand for classic protective life insurance products. Another trend may be the development of telemedicine. Furthermore, the lockdown of the economy, forcing the transition to distance work, undoubtedly accelerated the processes of digitization and the use of advanced technologies in the insurance sector. Remote forms of work, sales, inspection and claims handling became popular quite rapidly. The situation caused by isolation and, currently, adhering to the principles of social distancing in the return to the "new normal" may also accelerate the transfer of clients from traditional to remote channels. Changes in clients' habits, which would normally take several years, may in the current circumstances occur much faster.

At the same time, it is expected that changes in the insurance sector will continue, as they were observed even before the COVID-19 pandemic, related to the emergence of new entrants and trends associated with the development of new technologies, including operators of big databases, fintechs and insurtechs.

As regards the non-life insurance portfolio, the following are some of the specific risks that have been identified:

- possible slowdown in economic growth, which may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of insurance premium growth;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro;
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby an active pricing policy applied by competitors and rivalry to attract clients;
- possible adverse trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans;
- reduced demand for voluntary insurance (due to an increase in the rate of unemployment and a decline in employment).

As regards the life insurance portfolio, the following are some of the specific risks that have been identified:

- reduced demand for group employee life insurance (increase in the rate of unemployment, decline in employment);
- softer conditions on the capital markets deteriorating the attractiveness of products, especially unit-linked products.

In the investment area:

- lower interest rates will translate into the portfolio performance, because the return on a significant portion of debt assets directly depends on the level of interest rates (corporate bonds and loans, certain treasury bonds);
- in the longer term, as debt exposures acquired in the past with higher interest rates mature, the risk of reinvestment will increase;
- volatility on the financial markets will have a limited impact on the PZU Group's results, because the PZU Group, in anticipation of a deterioration in the financial markets, has prepared its portfolio for a slowdown ahead of time by significantly reducing its exposure to the most volatile assets;
- in the short term, the weaker Polish zloty should not significantly affect the results of those PZU Group companies that actively balance and hedge their currency positions (for the currency in question, liabilities correspond to assets).

In the banking area, the main impact will be exerted by:

- macroeconomic factors related to the COVID-19 pandemic and their impact on the quality of the loan portfolio;
- interest rate policy of the Monetary Policy Council;

- possibility of a temporary increase in risk aversion due to the uncertainty caused by the impact of the COVID-19 pandemic on the level of global economic activity, which may translate into reduced investment activity of banks' clients;
- scale of demand for banking services and the ability of banks' clients to timely pay their financial liabilities, which largely depends on the clients' financial standing. Apart from the country's macroeconomic standing, the economic situation of a number of client groups also depends on the national economic policy being pursued. Both a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients of banks.

The situation surrounding the spread of the COVID-19 pandemic has been developing rapidly and its impact on the PZU Group's financial standing is currently difficult to estimate. The PZU Group keeps monitoring on an ongoing basis how the changing environment affects all identified risks.

This notwithstanding, the PZU Management Board has evaluated the ability of the PZU Group to continue as a going concern, taking into account a number of factors, including: high solvency, potential impact of the COVID-19 pandemic on the operating activity of PZU Group companies, including additional costs to be incurred, the planning of business continuity of both the PZU Group and its business partners, the structure of offered products and related risks, assessment of the liquidity and stability of funding, potential impairment of financial and non-financial assets, etc.

Based on its analysis, the PZU Management Board confirms its finding that there are no known material uncertainties arising from events or circumstances that might call into question the PZU Group's ability to continue as a going concern during a period of at least 12 months following 30 June 2020.

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

In the 6-month period ended 30 June 2020, neither PZU nor its subsidiaries materially issued, redeemed or repaid any debt securities or equity securities.

15. Default or breach of material provisions of loan agreements

During the 6-month period ended 30 June 2020, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 6-month period ended 30 June 2020, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

17. Dividends

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

On 21 April 2020, the PZU Management Board decided to submit a motion to PZU's Ordinary Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2019 in the amount of PLN 2,651 million as follows:

- designate PLN 2,644 million for supplementary capital;
- designate PLN 7 million for the Company Social Benefit Fund.

The proposed profit distribution complies with the stance of the KNF expressed in its letter of 26 March 2020 and sent to insurance and reinsurance undertakings in which KNF indicates that having regard for the current situation involving the epidemic announced in Poland and its possible further adverse economic consequences as well as their expected adverse impact on the insurance sector, the regulatory authority expects that insurance undertakings retain the entirety of profit earned in previous years, notwithstanding the actions previously undertaken in this area. In addition, KNF has emphasized that it is advisable for undertakings not to take other actions without making arrangements with the regulatory authority, in particular, actions falling outside the scope of their ongoing business and operating activity that could lead to weakening their capital base.

On 28 April 2020, the PZU Supervisory Board issued a favorable opinion on the PZU Management Board's motion.

On 26 May 2020, the PZU Shareholder Meeting distributed PZU's net profit for 2019 in accordance with the PZU Management Board's proposal.

18. Disputes

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

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

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

As at 30 June 2020, the total value of dispute in all 272,848 cases (as at 31 December 2019: 294,687 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,561 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,345 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,216 million (as at 31 December 2019: PLN 4,070 million) of receivables of PZU Group companies.

During the 6-month period ended 30 June 2020 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the following sections.

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 June 2020, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the 2006 financial year, 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.

18.2 Proceedings conducted by the President of the Office of Competition and Consumer Protection against PZU

On 30 December 2011, the President of the Office of Competition and Consumer Protection ("UOKiK") issued a decision to impose a fine of PLN 57 million on PZU for its use of a practice restricting competition and violating the prohibition prescribed in Article 6 Section 1 Item 3 of the Act on Competition and Consumer Protection by the execution, by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker"), of an agreement restricting competition in the domestic market for sales of group ADD insurance for children, youths and staff of educational institutions consisting of dividing the sales market by entity and transferring PZU's clients from the Kujawsko-Pomorskie voivodship to Maximus Broker for the provision of services in exchange for their recommending PZU as the insurer of choice and at the same time prohibited PZU from the use of this alleged practice.

The PZU Management Board did not agree with the determination of facts and the legal argumentation in the decision, because not all the evidence was taken into account when making the decision and an erroneous legal qualification was made.

On 18 January 2012 PZU submitted an appeal against the aforementioned decision (as a result of which it did not become final). In its appeal, PZU indicated the following, among other issues:

- no agreement (other than a brokerage agreement) was entered into between PZU and Maximus Broker;
- the President of the Office of Competition and Consumer Protection misunderstands the principles of execution of insurance agreements involving a broker;
- the majority of insurance agreements involving Maximus Broker were entered into with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not in the past conduct competitive activity in the markets in which they operate.

On 27 March 2015, the Regional Court in Warsaw issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. By judgment of 6 December 2016, following an appeal of the UOKiK President, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. On 31 July 2017, the Regional Court in Warsaw issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. On 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. The Appellate Court in Warsaw, by its judgment of 23 January 2019, dismissed the appeal put forward by the UOKiK President. The judgment is final. The UOKiK President has filed a cassation appeal with the Supreme Court against the final judgment, to which PZU has given its reply. The Supreme Court accepted the cassation appeal filed by the President of UOKiK for examination. On 10 June 2020, the Supreme Court dismissed the cassation appeal filed by the President of UOKiK, which finally closes the case.

Consequently, PZU derecognized the provision for the above penalty, recognizing a revenue in the amount of PLN 57 million.

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported receivables, PZU received 206,139 PBG bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of PBG's shares as at 30 June 2020 was PLN 3 million (PLN 0.3 million as at 31 December 2019). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 30 June 2020 and 31 December 2019.

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 is 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).

18.4 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. The plaintiffs believe that Alior Bank failed to provide clients with information on the actual risk of investing in investment products, by which it exposed the clients to a loss resulting from the loss of value of investment certificates and loss of guaranteed profits. The PZU Group believes that the class action has no justified factual or legal grounds and therefore it should not be resolved favorably to the clients. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. The ruling is final non-appealable. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 30 June 2020, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

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

On 6 August 2019, KNF issued a decision pursuant to Article 167(2)(1) in conjunction with Article 167(1)(1) of the Financial Instruments Trading Act 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 (on Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw. On 17 June 2020, the Voivodship Administrative Court in Warsaw issued a judgment repealing the 3 December 2019 decision of the Polish Financial Supervision Authority, which upheld the earlier 6 August 2019 decision of the Polish Financial Supervision Authority, and discontinued the proceedings conducted by the KNF in the case.

19. Related party transactions

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

In the 6-month period ended 30 June 2020, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on the arm's length principle.

(in millions of PLN)

19.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 June 2020 and as at 30 June 2020		1 January – 31 December 2019 and as at 31 December 2019		1 January – 30 June 2019 and as at 30 June 2019	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	2	-	4	-	3
in non-life insurance	-	2	-	4	-	3
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Expenses	-	-	-	-	-	-
Investment financial assets	-	3	-	-	-	-
Receivables	-	-		-		-
Liabilities under deposits	1	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] Associates measured by the equity method.

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

- The Banks will be managed in such a way as to maintain at all times liquidity, own funds and solvency ratios on a stable level 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 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 will be at threat, no dividend will be paid out, and retained earnings will be allocated for increasing the Banks' own funds.

20. Other information

20.1 KNF Office inspections in PZU and PZU Życie

In the period from 7 to 25 January 2019 KNF conducted an inspection into PZU Życie's adherence to the obligations stemming from the act on counteracting money laundering and financing of terrorism. On 8 April 2019 KNF issued 5 post-inspection recommendations with execution deadlines of 30 June 2019, 31 December 2019 and 31 January 2020. On 12 July 2019, PZU Życie informed the regulatory authority that it has carried out the recommendations for which the implementation deadline expired on 30 June 2019, and on 10 January 2020 the company reported that it has carried out the recommendation for which the implementation deadline expired on 31 December 2019. By letter of 15 October 2019, at the request of PZU Życie, KNF agreed to postpone the time limit for the implementation of its two recommendations, from 31 December 2019 and 31 January 2020 to 30 April 2020 and 31 May 2020, respectively. On 28 May 2020, PZU Życie announced that all recommendations had been implemented. On 1 September 2020, PZU Życie provided the Polish Financial Supervision Authority with additional explanations and documents in connection with KNF's inquiry of 31 August 2020.

In the period from 9 January to 8 February 2019 KNF conducted a supervisory visit to PZU Życie with respect to the fulfillment of the requirements concerning the risk management system in terms of underwriting insurance risk. On 2 May 2019 PZU Życie received a written summary of the supervisory visit in which the regulatory authority identified an infringement of Article 21 of the Insurance Activity Act. On 16 May, 19 June and 5 July 2019, PZU Życie conveyed to KNF its position and information regarding the actions taken to ensure that the insurance undertaking's business is conducted in accordance with the law. On 25 July 2019, KNF provided recommendations to be implemented by 30 September and 30 November 2019 and 31 March 2020. On 7 October 2019 and 9 December 2019, PZU Życie informed the regulatory authority of its implementation of the recommendations for which the execution deadline expired on 30 September 2019 and 30 November 2019, respectively. On 7 April 2020, PZU Życie notified the regulatory authority of the implementation of all recommendations and, on 29 May 2020, provided additional explanations and evidence of their implementation.

In the period from 1 October to 30 November 2019, KNF carried out an inspection of PZU Życie's asset standing in the context of the company's investment policy. On 31 December 2019, PZU Życie received an inspection report and on 14 January 2020 it submitted additional clarifications. On 29 January 2020, KNF presented its stance on PZU Życie's comments and reservations regarding the contents of the report. On 27 February 2020, PZU Życie received a recommendation to adjust its operations to the provisions of Article 267(1) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended, with the time limit for such adjustment set for 5 May 2020. On 23 April 2020, PZU Życie submitted a request to extend the time limit for implementation of the recommendation until 31 December 2020. On 28 April 2020, the Polish Financial Supervision Authority requested PZU Życie to provide additional information related to the implementation of the recommendation. On 4 May 2020, PZU Życie provided pertinent explanations and applied for KNF's consent to change the date of implementation of the recommendation to 30 September 2020. On 5 May 2020, KNF set 30 September 2020 as the time limit for the implementation of the recommendation and imposed an obligation on PZU Życie to provide, on the last day of each month, information on the implementation of each item on the schedule and explain the reasons for any delays in their implementation.

On 27 July 2020, KNF commenced an inspection of PZU's operations and assets in the claims handling area. The inspection is expected to end 60 days from the start, i.e. on 24 September 2020.

On 24 August 2020, PZU Życie received a notification from KNF of the regulatory authority's intention to commence an inspection of technical provisions for solvency purposes. The inspection is scheduled to begin on 10 September 2020, and its expected completion date falls 60 days later, i.e. on 9 November 2020.

The Management Board of PZU believes that the results of the audit have not exerted any impact on the consolidated financial statements.

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

Since the beginning of 2019, Alior Leasing sp. z o.o. has received several letters from dismissed members of the company's management board containing a proposal for Alior Leasing sp. z o.o. to reach an amicable settlement of the dispute over the reasons for an early termination of the management contracts and payment of a portion of the benefits under the management option plan. The management option plan covered the dismissed members of the management board of Alior Leasing sp. z o.o. and certain employees of the company. Moreover, by letter of 28 January 2020, the dismissed members of the Alior Leasing sp. z o.o. management board extended their statement of claim for severance pay with a claim for payment of benefits under the management option plan referred to above (according to the extension of the statement of claim, the amount of the extended claim does not cover all claims under the management option plan). In the opinion of the PZU Group, the likelihood that the court awards the dismissed members of the management board of Alior Leasing sp. z o.o. the contested benefits under the management option plan is low. Accordingly, no relevant provision was recognized in the consolidated financial statements.

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

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

20.3 Lease agreement for the building of PZU's new Head Office

On 4 February 2020 the PZU Management Board adopted a resolution to select an offer in the proceeding to lease headquarters for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a company belonging to the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU Head Office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office.

On 30 June 2020, the PZU Management Board adopted a resolution on the execution of a lease agreement for the PZU Head Office with the Lessor. On the same date, an agreement was signed to lease office space, commercial and service space, storage space and parking spaces in the Building ("Lease Agreement"). The lease agreement contains clauses contemplating contractual penalties regarding the Lessor's liability for delays in handing over the leased facility, hindrances and impediments to usage of the leased area and violations of the non-compete clause.

The total estimated gross value of the Lease Agreement to lease the Building over the 10 years of its duration is approximately PLN 787 million, while the gross incremental costs related to relocation are approximately PLN 65 million. The amounts stated above may vary as a result of specific arrangements concerning the final layout, the final scope of adaptation work, the costs of fit-out and the date of translating some of the costs and financial incentives between EUR and PLN. The total value of the Lease Agreement as at 30 June 2020 should not change by more than 5% of the specified amount.

20.4 Approval of the base prospectus for Alior Bank's bond offering program

On 4 May 2020, KNF approved Alior Bank's base prospectus prepared in connection with:

- the program, to be offered in the Republic of Poland, of unsecured bearer bonds with a par value of at least PLN 100 each, up to a total maximum par value of PLN 1,500 million, established by Alior Bank within the framework of its multi-annual bond issue program, up to a total maximum par value of PLN 5,000 million; and
- its intention to apply for admission and floating of each series of bonds on a regulated market (main or parallel market) for debt securities operated by the Warsaw Stock Exchange or a regulated market for debt securities operated by BondSpot SA.

Signatures of the PZU Management Board Members:

Name	Position	
Beata Kozłowska-Chyła	Acting President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Ernest Bejda	Member of the PZU Management Board	.... (signature)
Adam Brzozowski	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Elżbieta Häuser-Schöneich	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 9 September 2020