Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 6 months ended
30 June 2021

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(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premiums	8.1	6,194	12,342	5,594	11,691
Reinsurers' share in gross written premium		(293)	(446)	(118)	(274)
Net written premiums		**5,901**	**11,896**	**5,476**	**11,417**
Movement in net provision for unearned premiums		(70)	(379)	214	35
Net earned premiums		**5,831**	**11,517**	**5,690**	**11,452**
Revenue from commissions and fees	8.2	1,161	2,226	964	1,983
Interest income calculated using the effective interest rate	8.3	2,315	4,675	2,674	5,670
Other net investment income	8.4	286	254	186	186
Result on derecognition of financial instruments and investments	8.5	14	526	(260)	(185)
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.6	(445)	(883)	(1,415)	(2,075)
Net movement in fair value of assets and liabilities measured at fair value	8.7	250	380	1,108	553
Other operating income	8.8	379	752	349	669
Claims, benefits and movement in technical provisions		(4,170)	(8,186)	(4,117)	(7,608)
Reinsurers' share in claims, benefits and movement in technical provisions		26	116	107	317
Net insurance claims and benefits	8.9	**(4,144)**	**(8,070)**	**(4,010)**	**(7,291)**
Fee and commission expenses	8.10	(283)	(539)	(243)	(478)
Interest expenses	8.11	(71)	(197)	(321)	(806)
Acquisition expenses	8.12	(825)	(1,623)	(812)	(1,647)
Administrative expenses	8.12	(1,754)	(3,456)	(1,656)	(3,335)
Other operating expenses	8.13	(940)	(2,156)	(1,854) [1]	(3,640) [2]
Operating profit		**1,774**	**3,406**	**400**	**1,056**
Share of the net financial results of entities measured by the equity method		(2)	(8)	-	(1)
Profit before tax		**1,772**	**3,398**	**400**	**1,055**
Income tax	8.14	(419)	(874)	(381)	(747)
Net profit on continuing operations		**1,353**	**2,524**	**19**	**308**
Loss on discontinued operations		-	-	(4)	(4)
Net profit, including:		**1,353**	**2,524**	**15**	**304**
- profit attributable to the equity holders of the Parent Company		774	1,671	185	301
- profit (loss) attributed to holders of non-controlling interest		579	853	(170)	3
Weighted average basic and diluted number of common shares	8.15	863,339,389	863,341,671	863,320,531	863,325,925
Basic and diluted profit (loss) per common share (in PLN)	8.15	0.90	1.94	0.21	0.35

[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).

[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).

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Net profit		1,353	2,524	15	304
Other comprehensive income	8.14	(542)	(1,273)	1,138	1,202
Subject to subsequent transfer to profit or loss		(591)	(1,371)	1,026	1,138
Valuation of debt instruments		(335)	(699)	848	445
Measurement of loan receivables from clients		(32)	(36)	14	2
Foreign exchange translation differences		(54)	(28)	(28)	59
Cash flow hedging		(170)	(608)	192	632
Not to be transferred to profit or loss in the future		49	98	112	64
Valuation of equity instruments		49	98	112	64
Total net comprehensive income		**811**	**1,251**	**1,153**	**1,506**
- comprehensive income attributable to equity holders of the Parent Company		567	1,165	779	807
- comprehensive income attributable to holders of non-controlling interest		244	86	374	699

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 June 2021	31 December 2020
Goodwill	8.16	2,768	2,776
Intangible assets	8.17	3,234	3,206
Deferred tax assets		2,721	2,511
Other assets	8.18	646	753
Deferred acquisition costs		1,632	1,550
Reinsurers' share in technical provisions	8.32	2,065	2,101
Property, plant and equipment	8.19	4,118	4,188
Investment property		2,742	2,493
Entities measured by the equity method	8.20	100	72
Assets held for sale	8.21	116	590
Loan receivables from clients	8.22	209,645	197,288
Financial derivatives	8.23	4,659	6,339
Investment financial assets	8.24	139,615	140,922
Measured at amortized cost		76,074	66,864
Measured at fair value through other comprehensive income		53,608	64,248
Measured at fair value through profit or loss		9,933	9,810
Receivables	8.25	6,360	6,246
Cash and cash equivalents		10,921	7,939
Total assets		**391,342**	**378,974**

Equity and liabilities	Note	30 June 2021	31 December 2020
Equity			
Equity attributable to equity holders of the parent		16,916	18,777
Share capital	8.30	86	86
Other capital		15,793	17,093
Retained earnings		1,037	1,598
Retained profit or loss		(634)	(314)
Net profit		1,671	1,912
Non-controlling interest		24,711	24,626
Total equity		**41,627**	**43,403**
Liabilities			
Technical provisions	8.32	49,463	48,471
Subordinated liabilities	8.33	6,415	6,679
Liabilities on the issue of own debt securities	8.34	6,133	7,532
Liabilities to banks	8.35	7,939	9,751
Liabilities to clients under deposits	8.36	257,775	241,975
Financial derivatives	8.23	4,767	6,281
Other liabilities	8.37	14,747	12,434
Provisions	8.38	1,330	1,378
Deferred tax liability		1,083	949
Liabilities related directly to assets classified as held for sale	8.21	63	121
Total liabilities		**349,715**	**335,571**
Total equity and liabilities		**391,342**	**378,974**

(in millions of PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	8.30										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	46	-	-	-	-	46	52	98
Valuation of debt instruments	-	-	-	-	(339)	-	-	-	-	(339)	(360)	(699)
Measurement of loan receivables from clients	-	-	-	-	(7)	-	-	-	-	(7)	(29)	(36)
Cash flow hedging	-	-	-	-	(177)	-	-	-	-	(177)	(431)	(608)
Foreign exchange translation differences	-	-	-	-	-	-	(29)	-	-	(29)	1	(28)
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(477)**	**-**	**(29)**	**-**	**-**	**(506)**	**(767)**	**(1,273)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,671	1,671	853	2,524
Total comprehensive income	**-**	**-**	**-**	**-**	**(477)**	**-**	**(29)**	**-**	**1,671**	**1,165**	**86**	**1,251**
Other changes, including:	**-**	**-**	**(1,095)**	**305**	**(4)**	**-**	**-**	**(2,232)**	**-**	**(3,026)**	**(1)**	**(3,027)**
Distribution of financial result	-	-	969	305	-	-	-	(1,274)	-	-	-	-
PZU dividend	-	-	(2,064)	-	-	-	-	(958)	-	(3,022)	-	(3,022)
Transactions with holders of non-controlling interests	-	-	(4)	-	-	-	-	-	-	(4)	(1)	(5)
Sale of revalued properties and other	-	-	4	-	(4)	-	-	-	-	-	-	-
As at 30 June 2021	**86**	**(9)**	**14,753**	**600**	**410**	**3**	**36**	**(634)**	**1,671**	**16,916**	**24,711**	**41,627**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	8.30										2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	-	1	-	-	-	-	(3)	61	58
Valuation of debt instruments	-	-	-	-	453	-	-	-	-	453	453	906
Measurement of loan receivables from clients	-	-	-	-	3	-	-	-	-	3	14	17
Cash flow hedging	-	-	-	-	146	-	-	-	-	146	376	522
Foreign exchange translation differences	-	-	-	-	-	-	106	-	-	106	(2)	104
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	2	-	-	-	2	(7)	(5)
Total net other comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**-**	**707**	**895**	**1,602**
Net profit (loss)	-	-	-	-	-	-	-	-	1,912	1,912	618	2,530
Total comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**1,912**	**2,619**	**1,513**	**4,132**
Other changes, including:	**-**	**(2)**	**2,739**	**619**	**(6)**	**-**	**-**	**(3,361)**	**-**	**(11)**	**(6)**	**(17)**
Distribution of financial result	-	-	2,741	620	-	-	-	(3,361)	-	-	-	-
Transactions on treasury shares	-	(2)	2	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(10)	-	-	-	-	-	-	(10)	(2)	(12)
Sale of revalued properties and other	-	-	6	(1)	(6)	-	-	-	-	(1)	(4)	(5)
As at 31 December 2020	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**(314)**	**1,912**	**18,777**	**24,626**	**43,403**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

	Equity attributable to equity holders of the parent											
		Other capital						Retained earnings				
					Cumulative other comprehensive income							
Consolidated statement of changes in equity	**Share capital**	Treasury shares	Supplemen-tary capital	Other reserve capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2020	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	-	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**	**620**	**(4)**	**-**	**-**	**(3,293)**	**-**	**-**	**-**	**-**
Distribution of financial result	-	-	2,673	620	-	-	-	(3,293)	-	-	-	-
Transactions with holders of non-controlling interests	-	-		-	-	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	4	-	(4)	-	-	-	-	-	-	-
As at 30 June 2020	**86**	**(7)**	**15,786**	**296**	**740**	**1**	**19**	**(246)**	**301**	**16,976**	**23,818**	**40,794**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 June 2021	1 January – 30 June 2020
Profit before tax		3,398	1,055
Adjustments		1,399	29,203
Movement in loan receivables from clients	8.39	(1,307)	(3,381)
Movement in liabilities under deposits	8.39	1,649	28,237
Movement in the valuation of assets measured at fair value		(380)	(553)
Interest income and expenses		(1,310)	(1,342)
Realized gains/losses from investing activities and impairment losses		257	1,850
Net foreign exchange differences		54	81
Movement in deferred acquisition expenses		(82)	25
Amortization of intangible assets and depreciation of property, plant and equipment		645	638
Movement in the reinsurers' share in technical provisions		36	73
Movement in technical provisions		992	240
Movement in receivables	8.39	(87)	446
Movement in liabilities	8.39	434	(183)
Cash flow on investment contracts		4	-
Acquisitions and redemptions of participation units and investment certificates of mutual funds		94	63
Income tax paid		(893)	(1,088)
Subsidy from the Bank Guarantee Fund related to the acquisition of Idea Bank		193	-
Increase in cash related to the acquisition of Idea Bank		1,097	-
Other adjustments		3	4,097
Net cash flows from operating activities		**4,797**	**30,258**
Cash flow from investing activities			
Proceeds		355,011	383,773
- sale of investment property		155	8
- proceeds from investment property		140	118
- sale of intangible assets and property, plant and equipment		56	17
- sale of ownership interests and shares		624	375
- realization of debt securities		203,228	117,153
- closing of buy-sell-back transactions		106,879	155,817
- closing of term deposits with credit institutions		29,186	95,592
- realization of other investments		13,805	13,777
- interest received		885	849
- dividends received		34	44
- increase in cash due to purchase of entities and change in the scope of consolidation		1	-
- other investment proceeds		18	23

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	**Note**	**1 January – 30 June 2021**	**1 January – 30 June 2020**
Expenditures		(352,691)	(403,642)
- purchase of investment properties		(113)	(60)
- expenditures for the maintenance of investment property		(65)	(79)
- purchase of intangible assets and property, plant and equipment		(436)	(508)
- purchase of ownership interests and shares		(355)	(373)
- purchase of ownership interests and shares in subsidiaries		(4)	-
- purchase of debt securities		(201,038)	(137,056)
- opening of buy-sell-back transactions		(107,550)	(156,385)
- purchase of term deposits with credit institutions		(28,832)	(95,660)
- purchase of other investments		(14,285)	(13,504)
- other expenditures for investments		(13)	(17)
Net cash flows from investing activities		**2,320**	**(19,869)**
Cash flows from financing activities			
Proceeds		45,025	44,181
- proceeds from loans and borrowings	8.39	1	969
- proceeds on the issue of own debt securities	8.39	2,871	4,098
- opening of repurchase transactions	8.39	42,153	39,114
Expenditures		(49,138)	(46,220)
- repayment of loans and borrowings	8.39	(1,213)	(759)
- redemption of own debt securities	8.39	(4,522)	(5,739)
- closing of repurchase transactions	8.39	(43,185)	(39,477)
- interest on loans and borrowings	8.39	(38)	(57)
- interest on outstanding debt securities	8.39	(29)	(41)
- expenditures on leases	8.39	(151)	(147)
Net cash flows from financing activities		**(4,113)**	**(2,039)**
Total net cash flows		**3,004**	**8,350**
Cash and cash equivalents at the beginning of the period		7,939	7,788
Movement in cash due to foreign exchange differences		(22)	102
Cash and cash equivalents at the end of the period, including:		10,921	16,240
- restricted cash		53	37

Supplementary notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

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

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 2021.

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

Functional and presentation currency

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

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

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 2021	1 January – 30 June 2020	30 June 2021	31 December 2020
Euro	4.5472	4.4412	4.5208	4.6148
British pound	5.2494	5.0497	5.2616	5.1327
Ukrainian hryvnia	0.1364	0.1532	0.1396	0.1326

Going concern assumption

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

Discontinued operations

In the 6-month period ended 30 June 2021, the PZU Group companies did not discontinue any significant type of activity.

Seasonal or cyclical business

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

Glossary

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

Names of companies

Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

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

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

Idea Bank – Idea Bank SA.

LD – Akcinė bendrovė "Lietuvos draudimas".

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju Spółka Akcyjna.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

PZU LT GD – Uždaroji akcinė bendrovė "PZU Lietuva gyvybės draudimas".

PZU Ukraine – PRJSC IC "PZU Ukraine".

PZU Ukraine Life – PRJSC IC "PZU Ukraine Life Insurance".

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

BGK – Bank Gospodarstwa Krajowego.

CIRS – cross-currency interest rate swap.

FRA – forward rate agreement.

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

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

IBOR – Interbank Offered Rate.

IRS – interest rate swap.

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

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2021.

NBP – National Bank of Poland.

POCI – Purchased or originated credit-impaired financial assets.

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

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

IASB – International Accounting Standards Board.

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

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

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

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

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

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

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

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

(in millions of PLN)

2. Information on PZU and the PZU Group

2.1 Key information on the PZU Group

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

(in millions of PLN)

2.2 PZU Group companies and associates

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

(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 2021	31 December 2020	
Consolidated companies – Pekao Group – continued						
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	Dom Inwestycyjny Xelion sp. z o.o. [2)]	Warsaw	11.12.2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	New Commerce Services sp. z o.o. [3)]	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a procurement platform
30	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
31	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
32	Corsham Sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
33	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
34	Harberton sp. z o.o. in liquidation [4)]	Warsaw	19.02.2020	31.93%	31.93%	Business consulting.
35	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/

(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 2021	31 December 2020	
Consolidated companies – PZU Zdrowie Group – continued						
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
42	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
43	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
44	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
45	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
46	NZOZ Grupa Medical sp. z o.o. 5)	Poznań	31.05.2021	100.00%	n/a	Medical services.
Consolidated companies – other companies						
47	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
48	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
49	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
50	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
51	PZU Finance AB (publ.) in likvidation 6)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
52	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
53	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
54	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
55	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
56	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
57	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
58	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab

(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 2021	31 December 2020	
Consolidated companies – other companies – continued						
59	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
60	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
61	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
62	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
63	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
64	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
65	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
66	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
67	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
68	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
69	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
70	PZU FIZ Dynamiczny w likwidacji [7)]	Warsaw	27.01.2010	n/a	n/a	as above
71	PZU FIZ Sektora Nieruchomości 2 [8)]	Warsaw	21.11.2011	n/a	n/a	as above
72	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
73	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
74	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
75	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
76	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
77	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
78	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
79	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
80	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2021	31 December 2020	
Consolidated companies – mutual funds – continued						
81	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
82	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
83	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above
84	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
85	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
86	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
87	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
88	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
89	PZU FIO Ochrony Majątku [PZU FIO Wealth Protection]	Warsaw	12.03.2021	n/a	n/a	as above
Associates						
90	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
91	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
92	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
93	Krajowy Integrator Płatności SA [9)]	Poznań	31.03.2021	7.67%	n/a	Other monetary intermediation. https://tpay.com/

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

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

[3)] On 1 July 2021, the company's merger with Serwis Ubezpieczeniowy sp. z o.o. (acquiring company) was registered. This transaction did not affect the condensed interim consolidated financial statements.

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

[5)] Additional information on the acquisition of NZOZ Grupa Medical sp. z o.o. is presented in section 2.3.1.3.

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

[7)] On 30 June 2021, the fund liquidation process was completed. As at the date of signing the condensed interim consolidated financial statements, the fund has not been removed from the register of funds. This transaction did not affect the condensed interim consolidated financial statements.

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

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

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

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

The changes in the extent of consolidation and in the PZU Group's structure that occurred in the 6-month period ended 30 June 2021 are presented in the following sections.

2.3.1. Acquisitions of companies

2.3.1.1. Acquisition of Idea Bank's enterprise

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

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

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

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

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

hereinafter: "Acquired Business".

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

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

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

The acquisition of Idea Bank did not entail any payment from Pekao. As a result of the Transaction the PZU Group acquired Idea Bank's assets and liabilities whose total estimate fair value was negative. Pekao did not acquire all assets of Idea Bank. In particular, it did not acquire any shares in Idea Bank's subsidiaries or associates.

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

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

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

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

Provisional purchase price allocation

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

In accordance with IFRS 3.45, the final settlement of the purchase should be completed within one year of obtaining control. The application of IFRS 3 requires, among others, carrying out a process of identification and measurement of the acquired assets and liabilities at fair value as at the date of recognizing and measuring goodwill or gain from a bargain purchase. Accordingly, the values of the identifiable acquired assets and assumed liabilities, measured at fair value, as presented below, may change, thereby affecting the calculation of the settlement.

(in millions of PLN)

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

Statement of financial position item	Carrying amount	Adjustment to fair value	Fair value
Intangible assets	144	(104)	40
Other assets	16	(16)	-
Property, plant and equipment	36	(7)	29
Assets held for sale	1	-	1
Loan receivables from clients	12,049	12	12,061
Financial derivatives	9	-	9
Investment financial assets	748	(194)	554
Measured at amortized cost	271	(180)	91
Measured at fair value through other comprehensive income	412	(14)	398
Measured at fair value through profit or loss	65	-	65
Receivables	286	(58)	228
Cash and cash equivalents	1,107	(10)	1,097
Total assets	**14,396**	**(377)**	**14,019**
Liabilities to banks	126	(1)	125
Liabilities to clients under deposits	13,514	62	13,576
Financial derivatives	155	9	164
Other liabilities	342	2	344
Provisions	8	(4)	4
Total liabilities	**14,145**	**68**	**14,213**
Fair value of net assets acquired			**(194)**
Subsidy from the Bank Guarantee Fund			193
Goodwill			**(1)**

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

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

Cash and cash equivalents, receivables

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

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

Loan receivables from clients

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

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

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

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

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

Investment securities

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

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

Intangible assets

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

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

Property, plant and equipment

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

Receivables

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

Liabilities to clients under deposits

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

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

Provisions

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

Other liabilities

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

2.3.1.2. Krajowy Integrator Płatności SA

On 31 March 2021, Pekao closed the purchase transaction, as a result of which it became the owner of 210,641 shares representing 38.33% of capital and 38.33% votes at the Shareholder Meeting of Krajowy Integrator Płatności SA, operator of the Tpay.com system. The purchase price was PLN 42 million. As a result of the transaction, Pekao will offer its business clients a fully comprehensive payment acceptance offer supplemented with products for the quickly growing e-Commerce sector.

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

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

2.3.2. Changes to consolidation of mutual funds

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

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

2.3.3. Sales of companies

PayPo sp. z o.o.

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

(in millions of PLN)

2.3.4. Transactions under joint control

On 31 May 2021, PZU Zdrowie SA (the acquiring company) merged with Polmedic Sp. z o.o. (the acquired company).

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

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

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

Carrying amount of non-controlling interests	30 June 2021	31 December 2020
Pekao Group	20,386	20,329
Alior Bank Group	4,324	4,296
Other	1	1
Total	**24,711**	**24,626**

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

Assets	Pekao Group		Alior Bank Group	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Goodwill	693	692	-	-
Intangible assets	1,994	1,938	417	424
Deferred tax assets	1,418	1,251	1,219	1,217
Other assets	91	53	60	44
Property, plant and equipment	2,025	2,098	709	702
Entities measured by the equity method	43	-	-	5
Assets held for sale	61	53	-	-
Loan receivables from clients	152,647	141,332	56,717	55,783
Financial derivatives	4,170	5,591	419	717
Investment financial assets	69,521	73,116	16,449	16,037
Measured at amortized cost	38,175	28,569	7,554	8,753
Measured at fair value through other comprehensive income	30,687	43,069	8,739	7,072
Measured at fair value through profit or loss	659	1,478	156	212
Receivables	2,107	2,305	1,273	1,106
Cash and cash equivalents	8,261	4,727	1,543	2,359
Total assets	**243,031**	**233,156**	**78,806**	**78,394**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Equity				
Equity attributable to equity holders of the parent	25,489	25,417	6,353	6,311
Share capital	262	262	1,306	1,306
Other capital	21,587	22,092	5,571	5,776
Retained earnings	3,640	3,063	(524)	(771)
Non-controlling interest	11	11	-	-
Total equity	**25,500**	**25,428**	**6,353**	**6,311**
Liabilities				
Subordinated liabilities	2,758	2,758	1,529	1,793
Liabilities on the issue of own debt securities	5,116	6,152	1,017	1,380
Liabilities to banks	7,428	9,165	550	619
Liabilities to clients under deposits	191,494	177,006	66,984	65,680
Derivatives	4,296	5,690	353	479
Other liabilities	5,504	5,908	1,735	1,794
Provisions	848	938	284	337
Deferred tax liability	27	28	1	1
Liabilities related directly to assets classified as held for sale	60	83	-	-
Total liabilities	**217,531**	**207,728**	**72,453**	**72,083**
Total equity and liabilities	**243,031**	**233,156**	**78,806**	**78,394**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2021	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	12,342	-	-	11	12,353
Reinsurers' share in gross written premium	(446)	-	-	-	(446)
Net written premiums	**11,896**	**-**	**-**	**11**	**11,907**
Movement in net provision for unearned premiums	(379)	-	-	2	(377)
Net earned premiums	**11,517**	**-**	**-**	**13**	**11,530**
Revenue from commissions and fees	2,226	(1,538)	(640)	80	128
Interest income calculated using the effective interest rate	4,675	(2,715)	(1,376)	59	643
Other net investment income	254	(236)	49	(5)	62
Result on derecognition of financial instruments and investments	526	(36)	11	-	501
Movement in allowances for expected credit losses and impairment losses on financial instruments	(883)	388	492	-	(3)
Net movement in fair value of assets and liabilities measured at fair value	380	(22)	(169)	-	189
Other operating income	752	(119)	(93)	33	573
Claims, benefits and movement in technical provisions	(8,186)	-	-	(2)	(8,188)
Reinsurers' share in claims, benefits and movement in technical provisions	116	-	-	-	116
Net insurance claims and benefits	**(8,070)**	**-**	**-**	**(2)**	**(8,072)**
Fee and commission expenses	(539)	254	288	(4)	(1)
Interest expenses	(197)	94	82	(8)	(29)
Acquisition expenses	(1,623)	-	-	(149)	(1,772)
Administrative expenses	(3,456)	1,837	718	(25)	(926)
Other operating expenses	(2,156)	894	254	8	(1,000)
Operating profit (loss)	**3,406**	**(1,199)**	**(384)**	**-**	**1,823**
Share of the net financial results of entities measured by the equity method	(8)	-	-	-	(8)
Profit (loss) before tax	**3,398**	**(1,199)**	**(384)**	**-**	**1,815**
Income tax	(874)	346	133	-	(395)
Net profit (loss)	**2,524**	**(853)**	**(251)**	**-**	**1,420**

(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 premiums	**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	**(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).

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 June 2021	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2020
Net profit	853	508	251	(591)
Other comprehensive income	(781)	749	(209)	144
Subject to subsequent transfer to profit or loss	(848)	740	(206)	120
Valuation of debt instruments	(434)	306	(19)	(26)
Measurement of loan receivables from clients	(36)	2	-	-
Cash flow hedging	(378)	432	(189)	147
Foreign exchange translation differences	-	-	2	(1)
Not to be transferred to profit or loss in the future	67	9	(3)	24
Valuation of equity instruments	67	9	(3)	24
Total net comprehensive income	**72**	**1,257**	**42**	**(447)**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 June 2021	1 January – 30 June 2020	1 January – 30 June 2021	1 January – 30 June 2020
Net cash flows from operating activities	2,872	27,422	644	1,648
Net cash flows from investing activities	3,588	(17,344)	(627)	(1,549)
Net cash flows from financing activities	(2,910)	(1,592)	(831)	(394)
Total net cash flows	**3,550**	**8,486**	**(814)**	**(295)**

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 30 June 2021 or from 1 January to 30 June 2020.

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 2021, the PZU Management Board consisted of the following persons:

- Beata Kozłowska-Chyła – President of the PZU Management Board;
- Ernest Bejda – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Małgorzata Kot – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board;
- Krzysztof Szypuła – Member of the PZU Management Board.

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

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

From 4 August 2021 to the date of signing the condensed interim consolidated financial statements, the PZU Management Board consisted of the following persons:

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

3.2 Composition of the parent company's Supervisory Board

From 1 January 2021, the PZU Supervisory Board consisted of the following persons:

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

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

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

From 17 June 2021 to the date of signing the condensed interim consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

- Paweł Mucha – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Robert Śnitko – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- 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

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

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

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

From 4 August 2021 to the date of signing the condensed interim consolidated financial statements, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Krzysztof Kozłowski (PZU Życie);
- 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 2020.

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

4.1 Amendments to the applied IFRS

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

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

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

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

(in millions of PLN)

4.1.2. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	1 January 2022	2021/1080	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendment to IAS 37 – Onerous contracts – costs of fulfillment of contractual obligations	1 January 2022	2021/1080	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor; and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendments to IFRS 3	1 January 2022	2021/1080	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The amendment will not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2018-2020	1 January 2022	2021/1080	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.

(in millions of PLN)

- Not approved by the European Commission:

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

IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or (if possible) by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts.
In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations.

On 25 June 2020, the IASB published amendments to IFRS 17, the most important of which was to defer the implementation of the standard until 1 January 2023. In addition to the detailed clarifications on distinct types of insurance contracts, the amendment also introduced the possibility of modifying actuarial</td></tr>
</table>

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			estimates related to the implementation of IFRS 17 in subsequent interim financial statements or in the annual report (requirement of consistent application at the reporting entity's level) and simplified the principles of presenting contracts in the statement of financial position, permitting the aggregation of assets or liabilities at the portfolio level rather than for separate contract groups. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group is working on the following, among other things: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • the selection of a system to support the reporting process in accordance with the requirements of IFRS 17. As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
Amendments to IAS 1 – Presentation of Financial Statements	12 February 2021	1 January 2023	In accordance with the amendments, the entity will be obligated to disclose material accounting policy information rather than significant accounting principles (as previously). The amendment contains examples of identification of material accounting policies and stipulates that an accounting policy may be material due to its nature, even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies may not obscure material accounting policies. The amendment will not affect the PZU Group's consolidated statements to any significant extent.

(in millions of PLN)

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

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

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

In connection with the progress of the vaccination process, the number of COVID-19 infections is declining, however there are still many uncertainties regarding the macroeconomic situation, such as: the risk of restrictions imposed on the activity in some sectors of the economy that are likely to suffer from the pandemic, the risk of another epidemic wave, including the rise of new mutations and the potential ineffectiveness of the current vaccines. The PZU Group reflects these factors in its approach to credit risk management and to the calculation of expected credit losses. The PZU Group is also taking steps to reduce credit risk and support its clients. Such activities include intensified monitoring of the loan portfolio, with particular emphasis on high-risk industries, strengthening the legal collateral established on receivables, granting loans with the use of dedicated guarantee programs.

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

Information on the movement in impairment losses is presented in section 8.26.

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.

The value of derecognized impairment losses on investment financial assets and receivables stood at PLN 31 million in the 6 months ended 30 June 2021, compared to their PLN 56 million of allowances recognized in the corresponding period of 2020.

Detailed information on the movement in impairment losses is presented in sections 8.6 and 8.26.

4.2.2. Goodwill

As at 30 June 2021, the PZU Group has analyzed the grounds for impairment, including changes in the discount rate, financial plans and the market value of shares, and has not identified any need for impairment tests. During the 6-month period ended 30 June 2021 the PZU Group has not recognized any impairment losses on goodwill.

(in millions of PLN)

4.2.3. Provision for potential refunds of borrowing costs

On an ongoing basis, the PZU Group monitors the value of estimated prepayments of consumer loans and takes into account the most recent data on incoming complaints and reimbursement amounts when calculating the value of the provision for potential reimbursements of loan costs. Detailed information on this matter is presented in section 8.38.

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

As at 30 June 2021, the PZU Group assessed the probability of the impact of the legal risk related to CHF mortgage loans on its future expected cash flows from its loan exposures and on the probability of cash outflows.

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

More information on this matter is presented in section 8.38.

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

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

6. Corrections of errors from previous years

During the 6-month period from 1 January to 30 June 2021, 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 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premiums in non-life insurance	3,954	7,816	3,458	7,339
In direct insurance	3,949	7,810	3,454	7,334
In indirect insurance	5	6	4	5
Gross written premiums in life insurance	2,240	4,526	2,136	4,352
Individual insurance premiums	487	1,015	381	838
Individually continued insurance premiums	514	1,028	513	1,024
Group insurance premiums	1,239	2,483	1,242	2,490
Total gross written premiums	**6,194**	**12,342**	**5,594**	**11,691**

(in millions of PLN)

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Accident and sickness insurance (group 1 and 2)	266	554	215	452
Motor third party liability insurance (group 10)	1,321	2,648	1,309	2,699
Other motor insurance (group 3)	958	1,934	850	1,824
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	32	58	24	62
Insurance against fire and other property damage (groups 8 and 9)	912	1,702	695	1,478
TPL insurance (groups 11, 12, 13)	225	483	199	439
Credit and suretyship (groups 14, 15)	21	33	20	40
Assistance (group 18)	137	267	102	253
Legal protection (group 17)	3	7	3	6
Other (group 16)	74	124	37	81
Total	**3,949**	**7,810**	**3,454**	**7,334**

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Banking activity	1,003	1,914	826	1,667
Margin on foreign exchange transactions with clients	194	370	173	356
Brokerage fees	52	112	39	72
Fiduciary activity	19	37	16	30
Payment card and credit card services	269	505	215	446
Fees on account of insurance intermediacy activities	9	18	19	36
Credits and loans	126	226	98	189
Bank account-related services	135	265	111	215
Transfers	70	137	62	128
Cash operations	25	46	18	39
Receivables purchased	16	32	12	25
Guarantees, letters of credit, collections, promises	23	44	19	38
Commissions on leasing activity	22	41	13	29
Other commission	43	81	31	64
Revenue and payments received from funds and mutual fund management companies	118	240	111	241
Pension insurance	38	69	26	73
Other	2	3	1	2
Total revenue from commissions and fees	**1,161**	**2,226**	**964**	**1,983**

(in millions of PLN)

8.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Loan receivables from clients	1,728	3,433	1,989	4,229
Debt securities measured at fair value through other comprehensive income	180	389	264	533
Debt securities measured at amortized cost	365	702	326	647
Buy-sell-back transactions	1	1	6	24
Term deposits with credit institutions	4	8	11	30
Borrowings	27	48	49	132
Receivables purchased	9	92	24	58
Receivables	-	-	1	1
Cash and cash equivalents	1	2	4	16
Interest income calculated using the effective interest rate, total	**2,315**	**4,675**	**2,674**	**5,670**

8.4 Other net investment income

Other net investment income	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Hedge derivatives	110	215	92	161
Dividend income, including:	34	35	42	43
Investment financial assets measured at fair value through profit or loss	8	9	15	16
Investment financial assets measured at fair value through other comprehensive income	26	26	27	27
Foreign exchange differences	109	(54)	19	(81)
Income on investment property	61	117	56	111
Investment property maintenance expenses	(28)	(51)	(23)	(45)
Investment activity expenses	(6)	(19)	(6)	(13)
Other	6	11	6	10
Other net investment income, total	**286**	**254**	**186**	**186**

8.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment financial assets	29	635	(36)	33
Debt instruments measured at fair value through other comprehensive income	22	26	22	94
Financial instruments measured at fair value through profit or loss	7	604	(61)	(95)
Equity instruments	4	587	(32)	(54)
Participation units and investment certificates	7	13	(24)	(74)
Debt instruments	(4)	4	(5)	33
Instruments measured at amortized cost	-	5	3	34
Loan receivables from clients measured at amortized cost	(4)	(9)	(1)	2
Derivatives	19	(49)	(205)	(160)
Short sale	-	2	5	6
Receivables	(35)	(59)	(25)	(68)
Investment property	5	6	2	2
Result on derecognition of financial instruments and investments, total	**14**	**526**	**(260)**	**(185)**

(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 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment financial assets	39	33	8	(26)
Debt instruments measured at fair value through other comprehensive income	23	22	(8)	(28)
Instruments measured at amortized cost	16	11	16	2
- debt instruments	14	9	17	6
- term deposits with credit institutions	(1)	-	-	-
- loans	3	2	(1)	(4)
Loan receivables from clients	(527)	(967)	(1,232)	(1,794)
Measured at amortized cost	(549)	(989)	(1,229)	(1,789)
Measured at fair value through other comprehensive income	22	22	(3)	(5)
Guarantees and sureties given	37	54	(170)	(225)
Receivables	6	(2)	(21)	(30)
Cash and cash equivalents	-	(1)	-	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(445)**	**(883)**	**(1,415)**	**(2,075)**

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 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment financial instruments measured at fair value through profit or loss	151	208	537	262
Equity instruments	153	70	152	(1)
Debt securities	(140)	2	(43)	206
Participation units and investment certificates	138	136	428	57
Derivatives	172	244	410	107
Measurement of liabilities to members of consolidated mutual funds	(11)	(7)	(9)	1
Investment contracts for the client's account and risk (unit-linked)	(9)	(7)	(19)	11
Investment property	(53)	(59)	194	174
Loan receivables from clients	-	1	(5)	(2)
Net movement in fair value of assets and liabilities measured at fair value, total	**250**	**380**	**1,108**	**553**

8.8 Other operating income

Other operating income	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Revenues on the sales of products, merchandise and services by non-insurance companies	217	425	153	322
Revenues from direct claims handling on behalf of other insurance undertakings	39	81	36	90
Reversal of provisions	17	20	60[1)]	61[1)]
Reimbursement of the costs of pursuit of claims	9	16	11	22
Reinsurance commissions and profit participation	21	56	18	32
Interest for late payment of amounts due under direct insurance and outward reinsurance	10	24	14	33
Gain from sale of property, plant and equipment and property, plant and equipment under construction	9	10	-	-
Other	57	120	57	109
Other operating income, total	**379**	**752**	**349**	**669**

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

(in millions of PLN)

8.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Claims, benefits and movement in technical provisions	**4,170**	**8,186**	**4,117**	**7,608**
In non-life insurance	2,132	4,321	2,223	4,584
- claims and benefits	1,653	3,397	1,710	3,661
- movement in technical provisions	266	492	331	527
- claims handling expenses	213	432	182	396
In life insurance	2,038	3,865	1,894	3,024
- claims and benefits	1,779	3,558	1,404	3,044
- movement in technical provisions	230	246	455	(90)
- claims handling expenses	29	61	35	70
Reinsurers' share in claims, benefits and movement in technical provisions	**(26)**	**(116)**	**(107)**	**(317)**
In non-life insurance	(26)	(116)	(107)	(317)
Total net insurance claims and benefits	**4,144**	**8,070**	**4,010**	**7,291**

8.10 Fee and commission expenses

Fee and commission expenses	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Costs of card and ATM transactions, including card issue costs	189	354	155	306
Commissions on acquisition of banking clients	28	55	31	55
Fees for the provision of ATMs	13	21	10	22
Costs of awards to banking clients	4	8	3	8
Costs of bank transfers and remittances	9	20	8	19
Additional services attached to banking products	5	11	5	11
Brokerage fees	8	16	7	11
Costs of administration of bank accounts	1	2	1	2
Costs of banknote operations	7	12	2	6
Fiduciary activity expenses	8	14	6	10
Other commission	11	26	15	28
Total fee and commission expenses	**283**	**539**	**243**	**478**

8.11 Interest expenses

Interest expenses	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Term deposits	(9)	26	127	327
Current deposits	8	24	81	219
Own debt securities issued	49	102	90	192
Hedge derivatives	8	15	2	4
Borrowings	-	-	1	3
Repurchase transactions	-	-	1	12
Bank loans contracted by PZU Group companies	6	12	9	21
Leases	5	11	5	15
Other	4	7	5	13
Total interest expenses	**71**	**197**	**321**	**806**

(in millions of PLN)

8.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Consumption of materials and energy	39	83	36	83
Third party services	430	804	386	770
Taxes and charges	37	72	35	67
Employee expenses	1,277	2,559	1,208	2,457
Depreciation of property, plant and equipment	142	300	158	311
Amortization of intangible assets	122	240	100	193
Other, including:	812	1,598	714	1,535
- commissions in insurance activities	631	1,260	557	1,198
- advertising	61	104	49	97
- remuneration of group insurance administrators in work establishments	52	102	52	103
- other	68	132	56	137
Movement in deferred acquisition expenses	(38)	(84)	48	32
Administrative, acquisition and claims handling expenses, total	**2,821**	**5,572**	**2,685**	**5,448**

8.13 Other operating expenses

Other operating expenses	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Impairment of goodwill created as a result of the acquisition of Alior Bank	-	-	230	746
Impairment of goodwill created as a result of the acquisition of Pekao	-	-	555	555
Levy on financial institutions	320	637	305	596
Expenses of the core business of non-insurance and non-banking companies	236	478	185	400
Direct claims handling expenses on behalf of other insurance undertakings	37	85	39	95
Compulsory payments to insurance market institutions and banking market institutions	27	89	24	77
Bank Guarantee Fund	44	310	67	406
Insurance Guarantee Fund	15	31	15	31
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	2	16	1	17
Expenditures for prevention activity	12	24	15	29
Establishment of provisions	111	238	123	271
Amortization of intangible assets purchased in company acquisition transactions	31	63	46	90
Recognition of impairment losses for non-financial assets	3	3	164 [1)]	170 [1)]
Donations	1	22	2	28
Late interest, penalties, indemnities	2	2	4	9
Costs of pursuit of claims	24	46	18	45
Loss from sale of property, plant and equipment and property, plant and equipment under construction	7	11	-	-
Other	68	101	61	75
Other operating expenses, total	**940**	**2,156**	**1,854**	**3,640**

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

(in millions of PLN)

8.14 Income tax

Total amount of current and deferred tax	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Recognized through profit or loss, including:	(419)	(874)	(381)	(747)
- current tax	(438)	(665)	(499)	(984)
- deferred tax	19	(209)	118	237
Recognized in other comprehensive income (deferred tax)	115	293	(275)	(269)
Total	**(304)**	**(581)**	**(656)**	**(1,016)**

Income tax on other comprehensive income items	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross other comprehensive income	(657)	(1,566)	1,413	1,471
Income tax	115	293	(275)	(269)
Debt instruments	78	164	(200)	(105)
Loan receivables from clients	8	9	(4)	(1)
Cash flow hedging	40	143	(45)	(148)
Equity instruments measured at fair value through other comprehensive income	(11)	(23)	(26)	(15)
Net other comprehensive income	**(542)**	**(1,273)**	**1,138**	**1,202**

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.

8.15 Earnings per share

Earnings per share	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Net profit attributable to the equity holders of the parent company	774	1,671	185	301
Weighted average basic and diluted number of common shares	863,339,389	863,341,671	863,320,531	863,325,925
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)	(183,611)	(181,329)	(202,469)	(197,075)
Basic and diluted earnings (losses) per common share (in PLN)	0.90	1.94	0.21	0.35

In the 6-month periods ended 30 June 2021 and 30 June 2020, there were no transactions or events resulting in the dilution of earnings per share.

(in millions of PLN)

8.16 Goodwill

Goodwill	30 June 2021	31 December 2020
Pekao [1)]	1,715	1,714
LD [2)]	499	511
Medical companies	287	284
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	41	41
Other	5	5
Total goodwill	**2,768**	**2,776**

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

8.17 Intangible assets

Intangible assets by type groups	30 June 2021	31 December 2020
Software, licenses and similar assets	1,735	1,548
Trademarks	519	522
- Pekao	340	340
- other	179	182
Client relations	501	565
- Pekao	422	478
- other	79	87
Intangible assets under development	456	548
Other intangible assets	23	23
Total intangible assets	**3,234**	**3,206**

8.18 Other assets

Other assets	30 June 2021	31 December 2020
Reinsurance settlements	101	282
Estimated salvage and subrogation	169	189
Deferred IT expenses	97	91
Accrued direct claims handling receivables	50	51
Costs settled over time	109	67
Inventories	27	40
Payments for taxes on property, means of transport and land	25	-
Payments for the costs of the allowance to the Company Social Benefit Fund	21	-
Accrued commissions	15	14
Other assets	32	19
Total other assets	**646**	**753**

(in millions of PLN)

8.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 June 2021	31 December 2020
Plant and machinery	649	637
Means of transport	206	172
Property, plant and equipment under construction	189	229
Real property	2,711	2,809
Other property, plant and equipment	363	341
Total property, plant and equipment	**4,118**	**4,188**

8.20 Entities measured by the equity method

Associates	30 June 2021	31 December 2020
RUCH SA	57	65
Krajowy Integrator Płatności SA	42	-
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	-	1
PayPo sp. z o.o.	-	5
Associates, total	**100**	**72**

8.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	30 June 2021	31 December 2020
Groups held for sale	**(13)**	**396**
Assets	50	517
Investment property	-	439
Investment financial assets measured at fair value through other comprehensive income	37	28
Intangible assets	1	2
Property, plant and equipment	3	4
Receivables	3	5
Cash and cash equivalents	-	33
Other assets	6	6
Liabilities related directly to assets classified as held for sale	63	121
Liabilities to clients under deposits	49	76
Other liabilities	13	30
Deferred tax liability	-	14
Provisions	1	1
Other assets held for sale	**66**	**73**
Property, plant and equipment	8	10
Investment property	58	63
Assets and groups of assets held for sale	**116**	**590**
Liabilities related directly to assets classified as held for sale	**63**	**121**

As at 30 June 2021, the “Groups held for sale” section contains chiefly the assets and liabilities of Dom Inwestycyjny Xelion sp. z o.o. – in connection with the intended sale of a stake in this company. As at 31 December 2020, it also presented real properties intended for sale by mutual funds investing in the real estate sector, which as at 30 June 2021 were reclassified as “Investment properties” in the statement of financial position.

(in millions of PLN)

8.22 Loan receivables from clients

Loan receivables from clients	30 June 2021	31 December 2020
Measured at amortized cost	209,208	195,626
Measured at fair value through other comprehensive income	258	1,475
Measured at fair value through profit or loss	179	187
Total loan receivables from clients	**209,645**	**197,288**

Loan receivables from clients	30 June 2021	31 December 2020
Retail segment	**112,759**	**110,230**
Operating loans	225	244
Consumer finance	27,093	27,286
Consumer finance loans	3,771	3,852
Loan to purchase securities	23	26
Overdrafts in credit card accounts	1,002	993
Loans for residential real estate	79,620	76,782
Other mortgage loans	750	772
Other receivables	275	275
Business segment	**96,886**	**87,058**
Operating loans	29,551	26,722
Consumer finance	18	-
Car financing loans	4	4
Investment loans	27,264	27,295
Receivables purchased (factoring)	13,545	7,049
Overdrafts in credit card accounts	165	56
Loans for residential real estate	442	233
Other mortgage loans	10,025	10,641
Finance lease	13,404	12,330
Other receivables	2,468	2,728
Total loan receivables from clients	**209,645**	**197,288**

(in millions of PLN)

8.23 Financial derivatives

Derivatives	30 June 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**3,789**	**4,132**	**5,453**	**5,212**
Fair value hedging instruments – SWAP transactions	4	132	-	206
Cash flow hedging instruments – SWAP transactions	663	959	1,113	729
Instruments held for trading, including:	3,122	3,041	4,340	4,277
- FRA transactions	1	2	1	1
- SWAP transactions	3,107	3,031	4,333	4,274
- call options	7	3	5	1
- put options (sale)	7	5	1	1
Foreign exchange derivatives	**532**	**339**	**660**	**877**
Cash flow hedging instruments – SWAP transactions	112	8	5	264
Instruments held for trading, including:	420	331	655	613
- forward contracts	139	162	340	277
- SWAP transactions	226	104	225	257
- call options	47	13	67	38
- put options (sale)	8	52	23	41
Equity derivatives – held for trading	**120**	**81**	**93**	**61**
- call options	120	81	93	61
Commodity derivatives – held for trading	**218**	**215**	**133**	**131**
- forward contracts	5	5	3	7
- SWAP transactions	195	194	74	72
- call options	14	5	19	1
- put options (sale)	4	11	37	51
Total derivatives	**4,659**	**4,767**	**6,339**	**6,281**

(in millions of PLN)

8.24 Investment financial assets

Investment financial assets	30 June 2021				31 December 2020			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	812	1,321	2,133	n/a	605	946	1,551
Participation units and investment certificates	n/a	n/a	5,831	5,831	n/a	n/a	5,298	5,298
Debt securities	66,797	52,796	2,781	122,374	57,871	63,643	3,566	125,080
Government securities	58,929	39,396	2,638	100,963	50,632	48,250	3,443	102,325
Domestic	58,704	36,788	2,454	97,946	50,417	45,577	3,262	99,256
Fixed rate	54,191	27,850	1,883	83,924	47,227	37,420	2,695	87,342
Floating rate	4,513	8,938	571	14,022	3,190	8,157	567	11,914
Foreign	225	2,608	184	3,017	215	2,673	181	3,069
Fixed rate	225	2,608	184	3,017	215	2,673	181	3,069
Other	7,868	13,400	143	21,411	7,239	15,393	123	22,755
Fixed rate	2,873	5,909	55	8,837	2,466	7,671	53	10,190
Floating rate	4,995	7,491	88	12,574	4,773	7,722	70	12,565
Other, including:	9,277	-	-	9,277	8,993	-	-	8,993
Buy-sell-back transactions	5,328	-	-	5,328	4,657	-	-	4,657
Term deposits with credit institutions	557	-	-	557	952	-	-	952
Borrowings	3,392	-	-	3,392	3,384	-	-	3,384
Investment financial assets, total	**76,074**	**53,608**	**9,933**	**139,615**	**66,864**	**64,248**	**9,810**	**140,922**

Equity instruments measured at fair value through other comprehensive income	30 June 2021	31 December 2020
Biuro Informacji Kredytowej SA	387[1)]	240
Grupa Azoty SA	237	198
Polimex-Mostostal SA	56	51
PSP sp. z o.o.	55	59
Astaldi SpA	29	15
Krajowa Izba Rozliczeniowa SA	21	19
Other	27	23
Equity instruments measured at fair value through other comprehensive income, total	**812**	**605**

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

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	30 June 2021	31 December 2020
Lithuania	876	910
Romania	232	221
Latvia	154	169
Croatia	147	173
Ukraine	146	132
Hungary	141	144
Indonesia	126	129
Russia	96	100
Bulgaria	87	90
Columbia	80	104
Mexico	75	68
Panama	74	78
Brazil	67	83
Peru	61	58
Kazakhstan	59	62
South Africa	57	55
Saudi Arabia	55	57
Philippines	55	48
Uruguay	53	55
Dominican Republic	51	53
Other	325[1)]	280[2)]
Total	**3,017**	**3,069**

1) The line item "Other" includes bonds issued by 42 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 40 countries.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	30 June 2021	31 December 2020
Foreign banks	6,633	7,069
Domestic local governments	5,105	5,859
Companies from the WIG-Energy Index	1,615	1,732
Energy and fuel sector companies (including: companies from the WIG-Fuels index)	1,428	1,324
National Bank of Poland	1,019	2,275
Manufacturing	841	482
Financial and insurance services	798	793
Transportation and storage	711	603
Construction and real estate market service (including: WIG - lease of properties and WIG - sale of properties)	570	481
Companies from the WIG-Banks Index	556	555
Administrative and support service activities	541	-
Public utility services	428	382
Arts, entertainment and recreation (including: WIG - hotels and restaurants)	369	365
Information and communication (including: WIG - Telecommunications)	266	307
Mining and quarrying (including companies included in the WIG-Mining index)	246	252
Other professional, scientific and technical activity	193	184
Other	92	92
Total	**21,411**	**22,755**

(in millions of PLN)

8.25 Receivables

Receivables – carrying amount	30 June 2021	31 December 2020
Receivables on direct insurance, including:	2,440	2,399
- receivables from policyholders	2,249	2,288
- receivables from insurance intermediaries	96	98
- other receivables	95	13
Reinsurance receivables	51	55
Other receivables	3,869	3,792
- receivables from disposal of securities and margins [1)]	1,808	1,861
- receivables on account of payment card settlements	664	807
- trade receivables	350	303
- receivables from the state budget, other than corporate income tax receivables	175	144
- receivables by virtue of commissions concerning off-balance sheet products	187	175
- prevention settlements	27	38
- receivables from direct claims handling on behalf of other insurance undertakings	17	18
- receivables for acting as an emergency adjuster	9	10
- receivables on account of Corporate Income Tax	108	76
- receivables from security and bid deposits	52	38
- interbank and interbranch receivables	84	4
- other	388	318
Total receivables	**6,360**	**6,246**

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

As at 30 June 2021 and 31 December 2020, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

(in millions of PLN)

8.26 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	163,118	28,238	12,329	5,291	208,976	170,284	17,609	10,980	6,054	204,927
Recognition of instruments at the time of acquisition, creation, granting	32,060	-	-	5	32,065	47,445	-	-	1	47,446
Change attributable to modification of cash flows concerning the given instrument	(1)	(1)	-	-	(2)	(7)	(1)	(3)	-	(11)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(27,980)	8	(1,064)	(492)	(29,528)	(39,726)	(694)	(816)	(734)	(41,970)
Assets from the statement of financial position	-	-	(916)	(25)	(941)	-	-	(1,822)	(39)	(1,861)
Reclassification to basket 1	6,008	(5,843)	(165)	-	-	4,833	(4,765)	(68)	-	-
Reclassification to basket 2	(11,484)	11,812	(328)	-	-	(17,442)	17,887	(445)	-	-
Reclassification to basket 3	(821)	(1,631)	2,452	-	-	(2,463)	(1,784)	4,247	-	-
Change in the composition of the Group	11,189	-	-	872	12,061	-	-	-	-	-
Other changes, including foreign exchange differences	(400)	(85)	33	141	(311)	194	(14)	256	9	445
End of the period	**171,689**	**32,498**	**12,341**	**5,792**	**222,320**	**163,118**	**28,238**	**12,329**	**5,291**	**208,976**
Expected credit losses										
Beginning of the period	(909)	(1,876)	(6,517)	(4,048)	(13,350)	(800)	(1,321)	(5,247)	(4,315)	(11,683)
Establishment of allowances for newly acquired, created, granted instruments	(324)	-	-	(2)	(326)	(657)	-	-	(1)	(658)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	520	(43)	(1,073)	339	(257)	610	(853)	(2,478)	243	(2,478)
Assets from the statement of financial position	-	-	916	25	941	-	-	1,805	39	1,844
Reclassification to basket 1	(368)	266	102	-	-	(303)	280	23	-	-
Reclassification to basket 2	86	(231)	145	-	-	113	(239)	126	-	-
Reclassification to basket 3	55	299	(354)	-	-	151	323	(474)	-	-
Other changes, including foreign exchange differences	(5)	(236)	184	(63)	(120)	(23)	(66)	(272)	(14)	(375)
End of the period	**(945)**	**(1,821)**	**(6,597)**	**(3,749)**	**(13,112)**	**(909)**	**(1,876)**	**(6,517)**	**(4,048)**	**(13,350)**
Net carrying amount at the end of the period	**170,744**	**30,677**	**5,744**	**2,043**	**209,208**	**162,209**	**26,362**	**5,812**	**1,243**	**195,626**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	720	755	-	-	1,475	772	609	-	-	1,381
Recognition of instruments at the time of acquisition, creation, granting	-	-	-	-	-	100	-	-	-	100
Change in measurement	(2)	(3)	-	-	(5)	43	57	-	-	100
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(589)	(619)	-	-	(1,208)	(76)	(51)	-	-	(127)
Reclassification to basket 2	-	-	-	-	-	(132)	132	-	-	-
Other changes	(2)	(2)	-	-	(4)	13	8	-	-	21
End of the period	**127**	**131**	**-**	**-**	**258**	**720**	**755**	**-**	**-**	**1,475**
Expected credit losses										
Beginning of the period	(4)	(22)	-	-	(26)	(4)	(17)	-	-	(21)
Changes attributable to valuation or credit risk level (excluding reclassification)	(1)	-	-	-	(1)	(2)	(2)	-	-	(4)
Changes attributable to sale, exclusion or expiration of the instrument	4	19	-	-	23	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
Other changes	(1)	1	-	-	-	1	(2)	-	-	(1)
End of the period	**(2)**	**(2)**	**-**	**-**	**(4)**	**(4)**	**(22)**	**-**	**-**	**(26)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	57,850	73	34	-	57,957	35,614	368	34	-	36,016
Recognition of instruments at the time of acquisition, creation, granting	14,333	-	-	-	14,333	31,790	-	-	-	31,790
Change in measurement	336	-	-	-	336	820	-	-	-	820
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(5,986)	-	-	-	(5,986)	(10,834)	(33)	-	-	(10,867)
Assets from the statement of financial position	-	-	(1)	-	(1)	-	-	-	-	-
Reclassification to basket 1 [1)]	-	-	-	-	-	299	(299)	-	-	-
Reclassification to basket 2	(141)	141	-	-	-	(38)	38	-	-	-
Change in the composition of the Group	15	-	-	40	55	-	-	-	-	-
Other changes, including foreign exchange differences	175	1	-	(1)	175	199	(1)	-	-	198
End of the period	**66,582**	**215**	**33**	**39**	**66,869**	**57,850**	**73**	**34**	**-**	**57,957**
Expected credit losses										
Beginning of the period	(50)	(2)	(34)	-	(86)	(33)	(19)	(34)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(11)	(1)	-	-	(12)	(20)	-	-	-	(20)
Changes attributable to valuation or credit risk level (excluding reclassification)	18	-	-	-	18	9	-	-	-	9
Changes attributable to sale, exclusion or expiration of the instrument	3	-	-	-	3	11	1	-	-	12
Assets from the statement of financial position	-	-	1	-	1	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	(16)	16	-	-	-
Reclassification to basket 2	4	(4)	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	-	-	-	4	4	(1)	-	-	-	(1)
End of the period	**(36)**	**(7)**	**(33)**	**4**	**(72)**	**(50)**	**(2)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**66,546**	**208**	**-**	**43**	**66,797**	**57,800**	**71**	**-**	**-**	**57,871**

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

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

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	63,387	256	-	-	63,643	54,537	156	-	-	54,693
Recognition of instruments at the time of acquisition, creation, granting	186,861	-	-	-	186,861	405,843	-	-	-	405,843
Change in measurement	(592)	(1)	-	-	(593)	1,054	(1)	-	-	1,053
Change attributable to modification of cash flows concerning the given instrument	-	-	-	-	-	(12)	-	-	-	(12)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(197,639)	(48)	-	-	(197,687)	(398,632)	(49)	-	-	(398,681)
Reclassification to basket 1	-	-	-	-	-	13	(13)	-	-	-
Reclassification to basket 2	(75)	75	-	-	-	(163)	163	-	-	-
Change in the composition of the Group	313	-	-	-	313	-	-	-	-	-
Other changes, including foreign exchange differences	258	1	-	-	259	747	-	-	-	747
End of the period	**52,513**	**283**	**-**	**-**	**52,796**	**63,387**	**256**	**-**	**-**	**63,643**
Expected credit losses										
Beginning of the period	(68)	(13)	-	-	(81)	(41)	(2)	-	-	(43)
Establishment of allowances for newly acquired, created, granted instruments	(8)	-	-	-	(8)	(35)	-	-	-	(35)
Changes attributable to valuation or credit risk level (excluding reclassification)	27	(1)	-	-	26	(5)	(10)	-	-	(15)
Changes attributable to sale, exclusion or expiration of the instrument	4	-	-	-	4	11	1	-	-	12
Reclassification to basket 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	3	(3)	-	-	-
End of the period	**(44)**	**(15)**	**-**	**-**	**(59)**	**(68)**	**(13)**	**-**	**-**	**(81)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	953	-	-	-	953	1,455	1	-	-	1,456
Recognition of instruments at the time of acquisition, creation, granting	18,168	-	-	-	18,168	110,971	-	-	-	110,971
Change in measurement	(3)	-	-	-	(3)	26	-	-	-	26
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(18,747)	-	-	-	(18,747)	(111,481)	-	-	-	(111,481)
Change in the composition of the Group	161	-	-	-	161	-	-	-	-	-
Other changes, including foreign exchange differences	26	-	-	-	26	(18)	(1)	-	-	(19)
End of the period	**558**	**-**	**-**	**-**	**558**	**953**	**-**	**-**	**-**	**953**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Changes in the period	-	-	-	-	-	1	-	-	-	1
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**557**	**-**	**-**	**-**	**557**	**952**	**-**	**-**	**-**	**952**

Borrowings	1 January - 30 June 2021					1 January - 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	3,318	79	-	-	3,397	4,517	-	-	-	4,517
Recognition of instruments at the time of acquisition, creation, granting	783	-	-	-	783	1,173	-	-	-	1,173
Change in measurement	(2)	1	-	-	(1)	56	-	-	-	56
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(773)	(3)	-	-	(776)	(2,349)	-	-	-	(2,349)
Reclassification to basket 2	-	-	-	-	-	(79)	79	-	-	-
End of the period	**3,326**	**77**	**-**	**-**	**3,403**	**3,318**	**79**	**-**	**-**	**3,397**
Expected credit losses										
Beginning of the period	(7)	(6)	-	-	(13)	(27)	-	-	-	(27)
Establishment of allowances for newly acquired, created, granted instruments	-	-	-	-	-	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excluding reclassification)	2	(1)	-	-	1	3	-	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	1	-	-	-	1	16	-	-	-	16
Reclassification to basket 2	-	-	-	-	-	6	(6)	-	-	-
End of the period	**(4)**	**(7)**	**-**	**-**	**(11)**	**(7)**	**(6)**	**-**	**-**	**(13)**
Net carrying amount at the end of the period	**3,322**	**70**	**-**	**-**	**3,392**	**3,311**	**73**	**-**	**-**	**3,384**

(in millions of PLN)

Receivables	1 January – 30 June 2021	1 January – 31 December 2020
Gross carrying amount		
Beginning of the period	7,333	6,825
Changes in the period	86	508
End of the period	**7,419**	**7,333**
Expected credit losses		
Beginning of the period	(1,087)	(1,088)
Changes in the period	28	1
End of the period	**(1,059)**	**(1,087)**
Net carrying amount at the end of the period	**6,360**	**6,246**

8.27 Fair value

8.27.1. Description of valuation techniques

8.27.1.1. Debt securities and loans

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

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

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

8.27.1.2. Equity-based financial assets

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

8.27.1.3. Participation units and investment certificates of mutual funds

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

8.27.1.4. Derivatives

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

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

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

8.27.1.5. Loan receivables from clients

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

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

8.27.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

- real properties held for sale – measured before the commencement of their active exposure to the market in accordance with the requirements of IFRS 5.

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

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

8.27.1.8. Liabilities under deposits

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

8.27.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

8.27.2. Fair value hierarchy

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

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale).

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

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Loan receivables from clients	Liquidity margin and current margin from the sale of the product group	Fair values are estimated using valuation techniques, with an assumption that when the loan is granted, the fair value is equal to the carrying amount. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date less expected credit loss. The cash flow discounting rate is the appropriate risk-free market rate plus the liquidity margin and current sales margin for the loan's product group. The margin is determined by product group and by maturity. For the purpose of estimating the fair value of foreign currency loans, the liquidity margin for PLN loans is used, adjusted by quotations of FX swap and basis-swap transactions. The fair value of loans with recognized impairment is equal to the sum of future expected salvage discounted using the effective interest rate, since the average expected recoveries fully reflect the credit risk component. For loans that do not have a repayment schedule (current account loans, overdrafts and credit cards), the fair value is assumed to be equal to the carrying amount.	Negative correlation.
Liabilities to clients under deposits	Sales margin	Fair values are estimated using valuation techniques, with an assumption that when the deposit is accepted, the fair value is equal to the carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows discounted at the balance sheet date. The cash flow discounting rate is the appropriate risk-free market rate plus the current sales margin. The margin is determined on the basis of deposits accepted in the last quarter, by product group and by maturity. For short-term deposits (current deposits, overnight deposits and savings accounts), the carrying amount is taken as fair value.	Negative correlation.

Measured assets	Unobservable data	Description	Impact on measurement
Options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.	Model parameters	Embedded instruments are plain vanilla options and exotic options for individual shares, indices, commodities and other market multiples, including interest rate indices and exchange rates and their baskets. All separated options are offset on an ongoing basis on the interbank market. Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.
Investment property and property designated for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
	Monthly rental rate per 1 m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

(in millions of PLN)

8.27.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 June 2021				31 December 2020			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	27,032	14,527	12,049	53,608	27,673	24,797	11,778	64,248
Equity instruments	306	1	505	812	257	1	347	605
Debt securities	26,726	14,526	11,544	52,796	27,416	24,796	11,431	63,643
Investment financial assets measured at fair value through profit or loss	3,067	6,432	434	9,933	3,616	5,709	485	9,810
Equity instruments	628	438	255	1,321	575	1	370	946
Participation units and investment certificates	134	5,675	22	5,831	134	5,143	21	5,298
Debt securities	2,305	319	157	2,781	2,907	565	94	3,566
Loan receivables from clients	-	-	437	437	-	-	1,662	1,662
Measured at fair value through other comprehensive income	-	-	258	258	-	-	1,475	1,475
Measured at fair value through profit or loss	-	-	179	179	-	-	187	187
Financial derivatives	-	4,567	92	4,659	-	6,246	93	6,339
Investment property	-	200	2,542	2,742	-	186	2,307	2,493
Liabilities								
Derivatives	-	4,721	46	4,767	-	6,221	60	6,281
Liabilities to members of consolidated mutual funds	-	384	-	384	-	265	-	265
Investment contracts for the client's account and risk *(unit-linked)*	-	277	-	277	-	268	-	268
Liabilities on borrowed securities (short sale)	545	-	-	545	851	-	-	851

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 June 2021	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Beginning of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**
Purchase/opening of the position/granting	-	2,790	-	-	2,137	2	2	53	-	34
Reclassification from Level II [1]	-	430	-	-	20	-	-	-	-	99
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	157
Profit or loss recognized in the profit and loss account:	-	49	(118)	-	(1)	16	2	38	1	(55)
- interest income calculated using the effective interest rate	-	56	-	-	-	6	-	38	1	-
- result on derecognition of financial instruments and investments	-	2	(135)	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(9)	17	-	(2)	10	2	-	-	(55)
Profits or losses recognized in other comprehensive income	70	(86)	-	-	-	-	-	(22)	-	-
Sales/settlements/repayments	-	(2,469)	-	-	(2,087)	(23)	(22)	(1,286)	(9)	-
Reclassification to Level II	-	(601)	-	-	(6)	-	-	-	-	-
Change in the composition of the group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	3	-	3	1	-	-	-	-	-	-
End of the period	**505**	**11,544**	**255**	**22**	**157**	**92**	**46**	**258**	**179**	**2,542**

[1] Information on the restatements is presented in section 8.27.6.

(in millions of PLN)

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

[1)] Information on the restatements is presented in section 8.27.6.

(in millions of PLN)

8.27.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2021					31 December 2020				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	207,831	207,831	209,208	-	-	193,609	193,609	195,637
Investment financial assets measured at amortized cost	46,373	10,406	23,517	80,296	76,074	42,591	7,450	22,845	72,886	66,864
Debt securities	46,373	8,863	15,727	70,963	66,797	42,591	6,168	15,045	63,804	57,871
Buy-sell-back transactions	-	1,441	3,887	5,328	5,328	-	1,000	3,657	4,657	4,657
Term deposits with credit institutions	-	102	460	562	557	-	282	670	952	952
Borrowings	-	-	3,443	3,443	3,392	-	-	3,473	3,473	3,384
Liabilities										
Liabilities to banks	-	1,678	6,298	7,976	7,939	-	2,504	7,140	9,644	9,751
Liabilities to clients under deposits	-	-	257,464	257,464	257,775	-	-	241,171	241,171	241,975
Liabilities on the issue of own debt securities [1)]	-	5,288	883	6,171	6,133	-	6,423	1,130	7,553	7,532
Subordinated liabilities [1)]	-	2,760	3,790	6,550	6,415	-	2,761	4,038	6,799	6,679
Liabilities on account of repurchase transactions	-	114	8	122	122	-	744	410	1,154	1,154

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

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

In the 6-month period ended 30 June 2021 and 2020, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

8.27.6. Reclassification between fair value hierarchy levels

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

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

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

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

In the 6-month period ended 30 June 2021, the following reclassifications of assets between fair value levels were made:

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

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

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

(in millions of PLN)

8.28 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 2021, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.29 Extent of exposure to credit risk

The subsequent tables present the exposure to credit risk for credit risk assets in the various categories of Fitch ratings (if there is no Fitch rating then a Standard&Poor's or EuroRating's rating is used instead). 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.

Credit risk assets as at 30 June 2021	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	66,546	208	-	43	66,797
- gross carrying amount	66,582	215	33	39	66,869
- from AAA to A	57,141	-	-	-	57,141
- from BBB to B	1,202	35	-	-	1,237
- no rating	8,239	180	33	39	8,491
- allowance for expected credit losses	(36)	(7)	(33)	4	(72)
Debt securities measured at fair value through other comprehensive income – carrying amount	52,513	283	-	-	52,796
- from AAA to A	39,636	-	-	-	39,636
- from BBB to B	5,046	118	-	-	5,164
- no rating	7,831	165	-	-	7,996
- allowance for expected credit losses [1)]	(44)	(15)	-	-	(59)
Debt securities measured at fair value through profit or loss – carrying amount	n/a	n/a	n/a	n/a	2,781
- from AAA to A	n/a	n/a	n/a	n/a	1,460
- from BBB to B	n/a	n/a	n/a	n/a	180
- no rating	n/a	n/a	n/a	n/a	51
- assets at the client's risk	n/a	n/a	n/a	n/a	1,090
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,885	-	-	-	5,885
- gross carrying amount	5,886	-	-	-	5,886
- from AAA to A	527	-	-	-	527
- from BBB to B	247	-	-	-	247
- no rating	5087	-	-	-	5,087
- assets at the client's risk	25	-	-	-	25
- allowance for expected credit losses	(1)	-	-	-	(1)
Loans – carrying amount	3,322	70	-	-	3,392
- gross carrying amount	3,326	77	-	-	3,403
- from BBB to B	187	-	-	-	187
- no rating	3,139	77	-	-	3,216
- allowance for expected credit losses	(4)	(7)	-	-	(11)

(in millions of PLN)

Credit risk assets as at 30 June 2021	Basket 1	Basket 2	Basket 3	POCI	Total
Derivatives	n/a	n/a	n/a	n/a	4,659
- from AAA to A	n/a	n/a	n/a	n/a	3,498
- from BBB to B	n/a	n/a	n/a	n/a	397
- no rating	n/a	n/a	n/a	n/a	730
- assets at the client's risk	n/a	n/a	n/a	n/a	34
Reinsurers' share in claims provisions	n/a	n/a	n/a	n/a	1,222
- from AAA to A	n/a	n/a	n/a	n/a	1,055
- from BBB to B	n/a	n/a	n/a	n/a	2
- no rating	n/a	n/a	n/a	n/a	165
Reinsurance receivables	n/a	n/a	n/a	n/a	51
- from AAA to A	n/a	n/a	n/a	n/a	31
- no rating	n/a	n/a	n/a	n/a	20
Total	**128,266**	**561**	**-**	**43**	**137,583**

[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 2020	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	57,800	71	-	-	57,871
- gross carrying amount	57,850	73	34	-	57,957
- from AAA to A	49,199	-	-	-	49,199
- from BBB to B	609	35	-	-	644
- no rating	8,042	38	34	-	8,114
- allowance for expected credit losses	(50)	(2)	(34)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	63,387	256	-	-	63,643
- from AAA to A	47,181	-	-	-	47,181
- from BBB to B	5,495	55	-	-	5,550
- no rating	10,711	201	-	-	10,912
- allowance for expected credit losses [1]	(68)	(13)	-	-	(81)
Debt securities measured at fair value through profit or loss – carrying amount	n/a	n/a	n/a	n/a	3,566
- from AAA to A	n/a	n/a	n/a	n/a	1,999
- from BBB to B	n/a	n/a	n/a	n/a	161
- no rating	n/a	n/a	n/a	n/a	220
- assets at the client's risk	n/a	n/a	n/a	n/a	1,186
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,609	-	-	-	5,609
- gross carrying amount	5,610	-	-	-	5,610
- from AAA to A	1,156	-	-	-	1,156
- from BBB to B	328	-	-	-	328
- no rating	4,093	-	-	-	4,093
- assets at the client's risk	33	-	-	-	33
- allowance for expected credit losses	(1)	-	-	-	(1)

(in millions of PLN)

Credit risk assets as at 31 December 2020	Basket 1	Basket 2	Basket 3	POCI	Total
Loans – carrying amount	3,311	73	-	-	3,384
- gross carrying amount	3,318	79	-	-	3,397
- from BBB to B	40	-	-	-	40
- no rating	3,278	79	-	-	3,357
- allowance for expected credit losses	(7)	(6)	-	-	(13)
Derivatives	n/a	n/a	n/a	n/a	6,339
- from AAA to A	n/a	n/a	n/a	n/a	4,718
- from BBB to B	n/a	n/a	n/a	n/a	485
- no rating	n/a	n/a	n/a	n/a	1,108
- assets at the client's risk	n/a	n/a	n/a	n/a	28
Reinsurers' share in claims provisions	n/a	n/a	n/a	n/a	1,176
- from AAA to A	n/a	n/a	n/a	n/a	1,022
- from BBB to B	n/a	n/a	n/a	n/a	1
- no rating	n/a	n/a	n/a	n/a	153
Reinsurance receivables	n/a	n/a	n/a	n/a	55
- from AAA to A	n/a	n/a	n/a	n/a	35
- no rating	n/a	n/a	n/a	n/a	20
Total	**130,107**	**400**	**-**	**-**	**141,643**

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

8.30 Share capital

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

All the Shares have been fully paid for.

As at 30 June 2021 and 31 December 2020

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

8.31 Distribution of the parent company's profit

Information on the distribution of the parent company's profit is presented in section 16.

(in millions of PLN)

8.32 Technical provisions

Technical provisions	30 June 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**26,072**	**(2,064)**	**24,008**	**25,276**	**(2,100)**	**23,176**
Provision for unearned premiums	8,979	(842)	8,137	8,645	(924)	7,721
Provision for unexpired risk	33	-	33	32	-	32
Provision for outstanding claims and benefits	10,731	(931)	9,800	10,371	(903)	9,468
- for reported claims	3,827	(813)	3,014	3,590	(738)	2,852
- for claims not reported (IBNR)	4,627	(98)	4,529	4,573	(146)	4,427
- for claims handling expenses	2,277	(20)	2,257	2,208	(19)	2,189
Provision for the capitalized value of annuities	6,326	(291)	6,035	6,226	(273)	5,953
Provisions for bonuses and discounts for insureds	3	-	3	2	-	2
Technical provisions in life insurance	**23,391**	**(1)**	**23,390**	**23,195**	**(1)**	**23,194**
Provision for unearned premiums	106	(1)	105	106	(1)	105
Provision for unexpired risk	-	-	-	51	-	51
Life insurance provision	16,311	-	16,311	16,309	-	16,309
Provision for outstanding claims and benefits	616	-	616	613	-	613
- for reported claims	168	-	168	175	-	175
- for claims not reported (IBNR)	443	-	443	433	-	433
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	5	-	5	6	-	6
Other technical provisions	178	-	178	190	-	190
Unit-linked provision	6,175	-	6,175	5,920	-	5,920
Total technical provisions	**49,463**	**(2,065)**	**47,398**	**48,471**	**(2,101)**	**46,370**

8.33 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue date/Maturity date	Carrying amount 30 June 2021 (in PLN m)	Carrying amount 31 December 2020 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,265	2,265
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,254	1,254
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	552	552
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	350
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	224
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 / 31 March 2021	-	195
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 / 6 December 2021	148	147
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	603	604
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 / 29 April 2021	-	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	46	47
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					**6,415**	**6,679**

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

8.34 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 June 2021	31 December 2020
Bonds	3,961	4,597
Certificates of deposit	897	1,611
Covered bonds	1,275	1,324
Total liabilities on the issue of own debt securities	**6,133**	**7,532**

(in millions of PLN)

8.35 Liabilities to banks

Liabilities to banks	30 June 2021	31 December 2020
Current deposits	1,198	914
One-day deposits	285	1,826
Term deposits	1,172	123
Loans received	5,143	6,439
Other liabilities	141	449
Liabilities to banks, total	**7,939**	**9,751**

8.36 Liabilities to clients under deposits

Liabilities to clients under deposits	30 June 2021	31 December 2020
Current deposits	232,175	210,212
Term deposits	24,444	30,849
Other liabilities	1,156	914
Liabilities to clients under deposits, total	**257,775**	**241,975**

(in millions of PLN)

8.37 Other liabilities

Other liabilities	30 June 2021	31 December 2020
Liabilities measured at fair value	**1,206**	**1,389**
Liabilities on borrowed securities (short sale)	545	851
Investment contracts for the client's account and risk (unit-linked)	277	268
Liabilities to members of consolidated mutual funds	384	265
Liability on the settlement of the acquisition of Tomma Diagnostyka Obrazowa Spółka Akcyjna shares	-	5
Accrued expenses	**1,724**	**1,963**
Accrued expenses of agency commissions	352	359
Accrued payroll expenses	658	609
Accrued reinsurance expenses	369	731
Other	345	264
Deferred revenue	**460**	**395**
Other liabilities	**11,357**	**8,687**
Liabilities on account of repurchase transactions	122	1,154
Lease liabilities	1,048	1,064
Liabilities due under transactions on financial instruments	1,050	1,044
Liabilities to banks for payment documents cleared in interbank clearing systems	1,725	1,140
Liabilities on direct insurance	931	915
Liabilities on account of payment card settlements	379	354
Regulatory settlements	277	223
Liabilities for contributions to the Bank Guarantee Fund	769	514
Reinsurance liabilities	261	223
Estimated non-insurance liabilities	147	143
Liabilities to employees	68	42
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	25	30
Trade liabilities	420	611
Current income tax liabilities	159	355
Liabilities on account of employee leaves	215	156
Liabilities to the state budget other than for income tax	129	116
Liabilities on account of donations	17	21
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	45	21
Insurance Guarantee Fund	13	14
Liability for the refund of loan costs	93	88
Liabilities for direct claims handling	35	31
Liabilities to PZU shareholders for dividends	3,025	3
Other	404	425
Other liabilities, total	**14,747**	**12,434**

(in millions of PLN)

8.38 Provisions

Movement in provisions in the period ended 30 June 2021	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	555	211	-	(265)	-	501
Provision for retirement severance pays	323	16	(23)	-	-	316
Provision for disputed claims and potential liabilities	80	6	(18)	(1)	-	67
Provision for potential refunds of borrowing costs	128	9	(52)	-	-	85
Provision for tax risk	-	91	-	-	-	91
Provision for legal risk pertaining to mortgage loans in Swiss francs	91	-	-	(3)	-	88
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	93	120	(128)	(15)	-	70
Provision for post-mortem benefits	32	-	-	-	-	32
Other	37	7	(2)	(1)	-	41
Total provisions	**1,378**	**460**	**(223)**	**(285)**	**-**	**1,330**

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

Provision for potential refunds of borrowing costs

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

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

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

In the 6-month period ended 30 June 2021, the provision increased by PLN 9 million, while PLN 52 million of the provision was utilized and its amount as at 30 June 2021 was PLN 85 million (PLN 128 million as at 31 December 2020). Its amount corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. The estimation of the provision has required adoption of a number of expert assumptions and entails a significant uncertainty following from, among others, the difficult to estimate volatility of the observed trends pertaining to the number and amounts of lodged complaints. For this reason the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

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

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

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

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

In the opinion of the PZU Group, the Supreme Court ruling in the above issues may have significant impact on the further line of court rulings in this respect.

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

As at 30 June 2021, 1,043 individual court cases were pending against the PZU Group over foreign currency mortgage loans in Swiss francs, which were granted in previous years with the total disputed amount of PLN 289 million (as at 31 December 2020 there were 592 cases pending with the value of PLN 160 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid. In H1 2021, the PZU Group received 37 unfavorable court judgments in cases filed by borrowers, including 6 final judgments, and 5 favorable judgments, including 1 final judgment, by which the court discontinued the claim for declaring the loan agreement invalid and dismissed the claim for payment (in 2020: 36 unfavorable court judgments in cases filed by borrowers, including 3 final judgments declaring the loan agreement invalid, and 13 favorable court judgments, including 2 final judgments dismissing the claim for declaring the loan agreement invalid and a claim for payment in connection with the invalidity of the loan agreement).

(in millions of PLN)

As at 30 June 2021, the level of the provision for legal risk associated with FX mortgage loans in Swiss franc was PLN 438 million (PLN 436 million as at 31 December 2020).

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

The rules for estimating these provisions as at 30 June 2021, including the parameters adopted in each scenario, were consistent with those applied as at 31 December 2020 and are described in detail in the consolidated financial statements for 2020.

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

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

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

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

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

In connection with the above, for the FX exposures of CHF mortgage loans outstanding as at 30 June 2021, it has been assumed that the provision amount (comprising the existing and possible future statements of claim) is recognized in "Impairment losses for loan receivables from clients" (in correspondence with the "Movement in allowances for expected credit losses and impairment losses on financial instruments" item up to the amount of the credit exposure. The PZU Group recognizes that with regard to the CHF loan portfolio there was a significant increase in credit risk from the date of initial recognition and classifies these loans into Basket 2.

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

(in millions of PLN)

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

Consolidated statement of financial position line items	30 June 2021	31 December 2020
Impairment losses for loan receivables from clients	350	345
individual provision	108	65
portfolio provision	242	280
Other provisions	88	91
individual provision	19	11
portfolio provision	69	80
Total	**438**	**436**

Consolidated profit and loss account line items	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Movement in allowances for expected credit losses and impairment losses on financial instruments	(4)	(5)	(10)	(12)
Other operating expenses	2	3	(6)	(4)
Total	**(2)**	**(2)**	**(16)**	**(16)**

Provisions for guarantees and sureties given

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

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

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

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

Provision for tax risk

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

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

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

(in millions of PLN)

At the same time, on 27 August 2020, PZU Finance AB submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB received the tax decision from the tax office confirming that the tax was calculated correctly. The decision was not final. Due to the pursuit of the goals for which the company was established, on 4 May 2021, the Shareholder Meeting decided to commence the liquidation procedure of PZU Finance AB.On 23 June 2021, PZU Finance AB received a preliminary decision regarding the adjustment of its tax settlement for 2019. After receiving the final decision, Finance AB will be able to initiate court proceedings in Sweden from the first instance before an administrative court. Due to the uncertainty surrounding the outcome of the tax issue, the PZU Group recognized a provision for tax risks in the amount of PLN 91 million as at 30 June 2021 (disclosed as a contingent liability of PLN 92 million as at 31 December 2020), corresponding to the tax effect arising from the reduction of tax costs by the total amount of the disputed foreign exchange differences realized at the redemption of bonds issued by PZU Finance AB.

Provision for restructuring costs

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

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

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

8.39 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 June 2021	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	6,439	(1,227)	-	(79)	10	5,143
Debt securities liabilities	7,532	(1,390)	7	(9)	(7)	6,133
Bonds	4,597	(634)	3	(4)	(1)	3,961
Certificates of deposit	1,611	(718)	5	-	(1)	897
Covered bonds	1,324	(38)	(1)	(5)	(5)	1,275
Subordinated liabilities	6,679	(313)	50	(1)	-	6,415
Liabilities on account of repurchase transactions	1,154	(1,032)	-	-	-	122
Lease liabilities	1,064	(151)	14	(1)	122	1,048
Total	**22,868**	**(4,113)**	**71**	**(90)**	**125**	**18,861**

(in millions of PLN)

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

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

Item in the consolidated cash flow statement	Movement arising from balance sheet changes [1)]	Movement arising from business combinations	Total
Movement in loan receivables from clients	(13,368)	12,061	(1,307)
Movement in liabilities under deposits	15,350	(13,701)	1,649
Movement in receivables	(315)	228	(87)
Movement in liabilities	778	(344)	434

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

9. Assets securing receivables, liabilities and contingent liabilities

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

Financial assets pledged as collateral for liabilities and contingent liabilities	30 June 2021	31 December 2020
Carrying amount of financial assets pledged as collateral for liabilities	10,427	11,671
Repurchase transactions	122	1,154
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	960	980
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	249	216
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	412	391
Lombard and technical credit	5,788	5,852
Other loans	487	699
Issue of covered bonds	1,749	1,838
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	48	43
Derivative transactions	573	456
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	39	42
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**10,427**	**11,671**

(in millions of PLN)

10. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2021	31 December 2020
Contingent assets, including:	6	7
- guarantees and sureties received	6	7
Contingent liabilities	65,308	65,785
- for renewable limits in settlement accounts and credit cards	4,973	4,830
- for loans in tranches	38,732	39,733
- guarantees and sureties given	8,975	9,826
- disputed insurance claims	646	771
- other disputed claims	217	222
- other, including:	11,765	10,403
- guaranteeing securities issues	5,141	4,339
- factoring	4,626	4,136
- intra-day limit	435	425
- letters of credit and commitment letters	1,426	1,231
- other	137	272

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

In the period of 6 months ended on 30 June 2021 and in 2020, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant, with the exception of the issue described below.

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

11. Equity management

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

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

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

The capital management policy rests on the following principles:

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

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

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

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

subject to the items below:

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

External capital requirements

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

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

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

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

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

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.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation.
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation.
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues.
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation.
Baltic States	IFRS	Non-life and life insurance products offered by LD and its branch in Estonia, Balta and PZU LT GD.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
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 2020.

PZU's 2020 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 contracts and investment contracts according to IFRS.

(in millions of PLN)

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

12.5 Simplifications in the segmental note

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

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

12.6 Quantitative data

Corporate insurance (non-life insurance)	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	795	1,462	550	1,216
Gross written premium – cross-segment	4	13	3	10
Gross written premiums	**799**	**1,475**	**553**	**1,226**
Movement in provision for unearned premiums and gross provision for unexpired risks	15	112	223	324
Gross earned premium	**814**	**1,587**	**776**	**1,550**
Reinsurers' share in gross written premium	(211)	(297)	(88)	(212)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(19)	(131)	(106)	(155)
Net earned premiums	**584**	**1,159**	**582**	**1,183**
Investment income, including:	3	27	14	57
external operations	3	27	14	57
intersegment operations	-	-	-	-
Other net technical income	7	16	5	28
Total income	**594**	**1,202**	**601**	**1,268**
Net insurance claims and benefits	(368)	(740)	(377)	(763)
Acquisition expenses	(126)	(254)	(124)	(253)
Administrative expenses	(32)	(69)	(37)	(73)
Reinsurance commissions and profit participation	13	28	12	22
Other	(13)	(38)	(7)	(27)
Insurance result	**68**	**129**	**68**	**174**

(in millions of PLN)

Mass insurance (non-life insurance)	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	2,677	5,384	2,465	5,220
Gross written premium – cross-segment	(22)	(7)	5	12
Gross written premiums	**2,655**	**5,377**	**2,470**	**5,232**
Movement in provision for unearned premiums and gross provision for unexpired risks	(107)	(373)	136	(84)
Gross earned premium	**2,548**	**5,004**	**2,606**	**5,148**
Reinsurers' share in gross written premium	(61)	(104)	(10)	(19)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	37	37	(23)	(36)
Net earned premiums	**2,524**	**4,937**	**2,573**	**5,093**
Investment income, including:	78	179	109	279
external operations	78	179	109	279
intersegment operations	-	-	-	-
Other net technical income	28	59	11	45
Total income	**2,630**	**5,175**	**2,693**	**5,417**
Net insurance claims and benefits	(1,505)	(2,994)	(1,542)	(3,071)
Acquisition expenses	(531)	(1,034)	(496)	(988)
Administrative expenses	(159)	(329)	(175)	(341)
Reinsurance commissions and profit participation	2	25	-	(1)
Other	(78)	(158)	(72)	(187)
Insurance result	**359**	**685**	**408**	**829**

Group and individually continued insurance (life insurance)	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	1,753	3,510	1,754	3,513
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,753**	**3,510**	**1,754**	**3,513**
Movement in provision for unearned premiums and provision for unexpired risks	39	51	1	-
Gross earned premium	**1,792**	**3,561**	**1,755**	**3,513**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premiums	**1,792**	**3,561**	**1,755**	**3,513**
Investment income, including:	196	328	268	293
external operations	196	328	268	293
intersegment operations	-	-	-	-
Other net technical income	1	1	-	1
Total income	**1,989**	**3,890**	**2,023**	**3,807**
Net insurance claims and benefits and movement in other net technical provisions	(1,536)	(3,002)	(1,234)	(2,355)
Acquisition expenses	(97)	(185)	(95)	(192)
Administrative expenses	(162)	(324)	(157)	(315)
Other	(18)	(23)	(12)	(22)
Insurance result	**176**	**356**	**525**	**923**

(in millions of PLN)

Individual insurance (life insurance)	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	444	931	346	762
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**444**	**931**	**346**	**762**
Movement in the provision for unearned premiums	-	1	-	2
Gross earned premium	**444**	**932**	**346**	**764**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premiums	**444**	**932**	**346**	**764**
Investment income, including:	136	151	398	131
external operations	136	151	398	131
intersegment operations	-	-	-	-
Other net technical income	-	-	-	1
Total income	**580**	**1,083**	**744**	**896**
Net insurance claims and benefits and movement in other net technical provisions	(478)	(829)	(639)	(661)
Acquisition expenses	(52)	(104)	(36)	(75)
Administrative expenses	(20)	(42)	(19)	(39)
Other	(2)	(3)	(2)	(3)
Insurance result	**28**	**105**	**48**	**118**

Investments	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment income, including:	181	682	182	40
- external operations	168	656	169	8
- intersegment operations	13	26	13	32
Operating result	**181**	**682**	**182**	**40**

Banking activity	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Revenue from commissions and fees	1,135	2,177	930	1,905
- external operations	1,095	2,099	914	1,860
- intersegment operations	40	78	16	45
Investment income	1,761	3,526	1,122	3,233
- external operations	1,761	3,526	1,122	3,233
- intersegment operations	-	-	-	-
Total income	**2,896**	**5,703**	**2,052**	**5,138**
Fee and commission expenses	(285)	(542)	(245)	(480)
Interest expenses	(62)	(179)	(305)	(768)
Administrative expenses	(1,308)	(2,547)	(1,196)	(2,423)
Other	(257)	(879)	(1,252)	(2,474) [1)]
Operating result	**984**	**1,556**	**(946)**	**(1,007)**

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

(in millions of PLN)

Pension insurance	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment income, including:	-	1	1	2
external operations	-	1	1	2
intersegment operations	-	-	-	-
Other income	39	70	26	73
Total income	**39**	**71**	**27**	**75**
Administrative expenses	(17)	(31)	(17)	(26)
Other	(2)	(3)	(1)	(2)
Operating result	**20**	**37**	**9**	**47**

Insurance - Baltic States	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	447	909	412	835
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**447**	**909**	**412**	**835**
Movement in provision for unearned premiums and gross provision for unexpired risks	(8)	(41)	3	12
Gross earned premium	**439**	**868**	**415**	**847**
Reinsurers' share in gross written premium	(14)	(47)	(12)	(45)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	15	(4)	15
Net earned premiums	**423**	**836**	**399**	**817**
Investment income, including:	16	27	20	(7)
external operations	16	27	20	(7)
intersegment operations	-	-	-	-
Total income	**439**	**863**	**419**	**810**
Net insurance claims and benefits	(257)	(515)	(236)	(470)
Acquisition expenses	(87)	(170)	(83)	(169)
Administrative expenses	(38)	(72)	(36)	(71)
Other	2	3	1	2
Insurance result	**59**	**109**	**65**	**102**

(in millions of PLN)

Insurance – Ukraine	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium – external	79	146	65	144
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**79**	**146**	**65**	**144**
Movement in provision for unearned premiums and gross provision for unexpired risks	(5)	(7)	5	11
Gross earned premium	**74**	**139**	**70**	**155**
Reinsurers' share in gross written premium	(21)	(41)	(26)	(53)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	2	-	-
Net earned premiums	**53**	**100**	**44**	**102**
Investment income, including:	7	13	9	25
external operations	7	13	9	25
intersegment operations	-	-	-	-
Total income	**60**	**113**	**53**	**127**
Net insurance claims and benefits	(19)	(39)	(10)	(36)
Acquisition expenses	(27)	(51)	(21)	(52)
Administrative expenses	(9)	(18)	(8)	(16)
Other	6	12	8	17
Insurance result	**11**	**17**	**22**	**40**

Investment contracts	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Gross written premium	6	15	6	15
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**6**	**15**	**6**	**15**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premiums	**6**	**15**	**6**	**15**
Investment income, including:	11	10	21	(8)
external operations	11	10	21	(8)
intersegment operations	-	-	-	-
Other income	-	-	-	-
Total income	**17**	**25**	**27**	**7**
Net insurance claims and benefits and movement in other net technical provisions	(15)	(21)	(25)	(3)
Acquisition expenses	-	-	-	-
Administrative expenses	-	(1)	(1)	(2)
Operating result	**2**	**3**	**1**	**2**

(in millions of PLN)

Other segments	1 April – 30 June 2021	1 January – 30 June 2021	1 April – 30 June 2020	1 January – 30 June 2020
Investment income, including:	8	9	9	10
- external operations	8	9	9	10
- intersegment operations	-	-	-	-
Other income	382	750	268	580
Total income	**390**	**759**	**277**	**590**
Expenses	(391)	(769)	(290)	(621)
Other	16	20	11	16
Operating result	**15**	**10**	**(2)**	**(15)**

Reconciliations 1 January 2021 – 30 June 2021	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,159	27	(740)	(254)	(69)	129
Mass insurance	4,937	179	(2,994)	(1,034)	(329)	685
Group and individually continued insurance	3,561	328	(3,002)	(185)	(324)	356
Individual insurance	932	151	(829)	(104)	(42)	105
Investments	-	682	-	-	-	682
Banking activity	-	3,526	-	-	(2,547)	1,556
Pension insurance	-	1	-	(3)	(31)	37
Insurance - Baltic States	836	27	(515)	(170)	(72)	109
Insurance – Ukraine	100	13	(39)	(51)	(18)	17
Investment contracts	15	10	(21)	-	(1)	3
Other segments	-	9	-	-	-	10
Total segments	**11,540**	**4,953**	**(8,140)**	**(1,801)**	**(3,433)**	**3,689**
Presentation of investment contracts	(15)	(8)	21	-	-	-
Estimated salvage and subrogation	-	-	5	-	-	5
Valuation of equity instruments	-	(1)	-	-	-	(1)
Valuation of properties	-	(3)	-	-	(1)	(4)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	-
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(8)	11	44	178	(12)	(273)
Consolidated data	**11,517**	**4,952** [2)]	**(8,070)**	**(1,623)**	**(3,456)**	**3,406**

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

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

(in millions of PLN)

Reconciliations 1 January 2020 – 30 June 2020	Net earned premiums	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).

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

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

Geographic breakdown	1 January - 30 June 2021					1 January – 30 June 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value	Poland	Baltic States	Ukraine	Un-allocated	Consolidated value
Gross written premium – external	11,287	909	146	-	12,342	10,712	835	144	-	11,691
Gross written premium – cross-segment	(7)	-	-	7	-	11	-	-	(11)	-
Revenue from commissions and fees	2,225	1	-	-	2,226	1,983	-	-	-	1,983
Investment income [1]	4,911	28	13	-	4,952	4,131	(7)	25	-	4,149

[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 2021					31 December 2020				
	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value
Non-current assets, other than financial assets [1)]	7,077	269	6	-	7,352	7,116	272	6	-	7,394
Deferred tax assets	2,718	-	3	-	2,721	2,509	-	2	-	2,511
Assets	388,599	3,472	591	(1,320)	391,342	376,435	3,406	535	(1,402)	378,974

[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.

After the seasonally adjusted GDP dropped 0.3% q/q in the last quarter of 2020 during the “third wave” of the COVID-19 pandemic, in the first quarter of this year, GDP increased 1.3% compared to the previous quarter. As a result, the non-seasonally adjusted GDP was 0.9% lower than the year earlier.

Following an increase in the prices of consumer goods and services in 2020 by an average of 3.4%, inflation accelerated in H1 2021. The CPI was on average 3.6% higher than in H1 2020. CPI inflation increased to 4.7% y/y in May, followed by a drop to 4.4% y/y in June.

In H1 2021, the reference rate of the National Bank of Poland did not change, having remained at 0.10%. There were no changes to any other central bank rates in this period.

In H1 2021, the yields on Polish 1-year, 2-year, 5-year and 10-year treasury bonds increased. The yields on 1-year bonds increased from 0.051% to 0.084%, on 2-year bonds from 0.102% to 0.393%, on 5-year bonds from 0.471% to 1.276%, and on 10-year bonds from 1.252% to 1.65% (Refinitiv data). The spread versus 10-year German bonds that at the end of 2020 was 183 basis points, increased to 185.6 basis points at the end of H1 2021 (Refinitiv data). In H1, the yields on 10-year US treasury bonds increased from 0.9165% to 1.468%, and on German bonds from -0.575% to -0.203% (Refinitiv data).

In H1 2021, the WIG20 index increased by 11.8%, the WIG index by 15.9%, the mWIG40 by 21.3%, and the sWIG80 by 27.9% (Warsaw Stock Exchange data). In H1 2021, the American S&P500 stock index and the German DAX shot up by 14.4% (S&P data) and 13.2% (Deutsche Boerse data), respectively.

The EUR to PLN exchange rate decreased from 4.61 at the end of 2020 to 4.52 at the end of H1 2021 (National Bank of Poland data). During the first two months of 2021, the Polish zloty appreciated against the euro, temporarily bringing down the exchange rate to a level below 4.50. At the turn of April, the Polish zloty exchange rate against the euro surpassed 4.60, only to strengthen around 4.52 at the end of the first half of the year. The euro to USD exchange rate fell from 1.23 at the end of 2020 to 1.19 at the end of Q2 2021 (the EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). Eventually, at the end of the first half of the year, the US dollar exchange rate expressed in Polish zloty increased from 3.76 to 3.80 (NBP). The Swiss franc exchange rate declined in the first half of the year from PLN 4.26 to PLN 4.12 (NBP).

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

On 31 March 2021, Alior Bank redeemed on time its G series bonds with a par value of PLN 193 million. On 29 April 2021, it redeemed its B series bonds (Meritum Bank) with a par value of PLN 67 million.

15. Default or breach of material provisions of loan agreements

During the 6-month period ended 30 June 2021, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

16. Dividends

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

On 16 June 2021, the PZU Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2020 in the amount of PLN 1,919 million, increased by PLN 2,064 million moved from supplementary capital created from the net profit for the year ended 31 December 2019, i.e. in total PLN 3,983 million, as follows:

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

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

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

17. 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 2021, the total value of dispute in all 259,817 cases (as at 31 December 2020: 282,352 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 9,109 million (as at 31 December 2020: PLN 8,825 million). This amount included PLN 4,652 million (as at 31 December 2020: PLN 4,408 million) of liabilities and PLN 4,457 million (as at 31 December 2020: PLN 4,417 million) of receivables of PZU Group companies.

During the 6-month period ended 30 June 2021 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 June 2021, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU

Ordinary Shareholder Meeting on the distribution of profit for the 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.

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. This decision is legally binding. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. The carrying amount of PBG's shares as at 30 June 2021 was PLN 1 million (PLN 1 million as at 31 December 2020). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 30 June 2021 and 31 December 2020.

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

17.3 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 30 June 2021, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

(in millions of PLN)

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

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

18. Related party transactions

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

In the 6-month period ended 30 June 2021, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on the arm's length principle.

18.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January - 30 June 2021 and as at 30 June 2021		1 January – 31 December 2020 and as at 31 December 2020		1 January – 30 June 2020 and as at 30 June 2020	
	Key management	Other related parties [1)]	Key management	Other related parties [1)]	Key management	Other related parties [1)]
Gross written premium	-	2	-	3	-	2
in non-life insurance	-	2	-	3	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	1	-	-	-	-
Expenses	-	7	-	7	-	-
Investment financial assets	-	3	-	3	-	3
Loan receivables from clients	1	-	-	-	-	-
Receivables	-	-	-	-	-	-
Liabilities under deposits	1	17	1	-	1	-
Other liabilities	-	4	-	6	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1)] Associates measured by the equity method.

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

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

19. Other information

19.1 Inspections by the KNF Office at PZU

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 7 January 2021, PZU received a recommendation to refrain from breaching the interests of parties entitled to indemnification under motor TPL insurance, consisting in applying in the calculation of the indemnification using the cost estimate method out-of-date, unreliable data on the man-hour rates in the car repair market that do not match the actual repair costs from the place of residence, seat or the injured party or the place of repair of the vehicle. On 19 February 2021, PZU informed KNF about implementing the recommendations and, on 19 March 2021 provided KNF, on its request, with additional documents and explanations pertaining to the implementation of the recommendation. On 19 April 2021, KNF summoned PZU to present additional documents and explanations, deciding that the evidence presented earlier had not allowed it to consider the recommendation satisfied. On 30 April 2021, PZU provided additional explanations and documents. KNF made a positive assessment of the direction of implementing the recommendation and set the requirements and dates for providing the evidence of implementation. Starting on 5 August 2021, PZU will file monthly reports on the implementation of the recommendation. The last report will be submitted by 5 November 2021.

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

In December 2020 Alior Bank and Alior Leasing sp. z o.o. received from the former members of the Alior Leasing sp. z o.o. management board summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw on account of the management plan. On 30 June 2021, the arbitration court handed down a ruling to discontinue the ad hoc arbitration proceedings regarding this claim. The discontinuation ruling is final.

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

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

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 25 August 2021