Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 6 months ended
30 June 2022

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(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021 (restated) [1)]	1 January – 30 June 2021 (restated) [1)]
Gross written premiums	8.1	6,394	12,647	6,194	12,342
Reinsurers' share in gross written premium		(346)	(477)	(293)	(446)
Net written premiums		**6,048**	**12,170**	**5,901**	**11,896**
Movement in net provision for unearned premiums		(125)	(487)	(70)	(379)
Net earned premium		**5,923**	**11,683**	**5,831**	**11,517**
Revenue from commissions and fees	8.2	1,326	2,549	1,161	2,226
Interest income calculated using the effective interest rate	8.3	4,854	8,434	2,315	4,675
Other net investment income	8.4	(207)	(196)	286	254
Result on derecognition of financial instruments and investments	8.5	(119)	(227)	14	526
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.6	(882)	(1,276)	(445)	(883)
Net movement in fair value of assets and liabilities measured at fair value	8.7	(122)	(43)	250	380
Other operating income	8.8	428	837	379	752
Claims, benefits and movement in technical provisions		(3,528)	(7,392)	(4,170)	(8,186)
Reinsurers' share in claims, benefits and movement in technical provisions		102	276	26	116
Net insurance claims and benefits	8.9	**(3,426)**	**(7,116)**	**(4,144)**	**(8,070)**
Fee and commission expenses	8.10	(359)	(663)	(283)	(539)
Interest expenses	8.11	(883)	(1,251)	(71)	(197)
Acquisition expenses	8.12	(959)	(1,876)	(867)	(1,704)
Administrative expenses	8.12	(1,938)	(3,719)	(1,732)	(3,412)
Other operating expenses	8.13	(1,757)	(3,048)	(940)	(2,156)
Operating profit		**1,879**	**4,088**	**1,754**	**3,369**
Share of the net financial results of entities measured by the equity method		(6)	(17)	(2)	(8)
Profit before tax		**1,873**	**4,071**	**1,752**	**3,361**
Income tax	8.14	(615)	(1,203)	(419)	(874)
Net profit, including:		**1,258**	**2,868**	**1,333**	**2,487**
- profit attributable to the equity holders of the Parent Company		722	1,480	754	1,634
- profit (loss) attributed to holders of non-controlling interest		536	1,388	579	853

Weighted average basic and diluted number of common shares	8.15	863,390,985	863,384,065	863,339,389	863,341,671
Basic and diluted profit (loss) per common share (in PLN)	8.15	0.84	1.71	0.87	1.89

[1)] Information on restatement of data for the period from 1 April to 30 June 2021 and 1 January – 30 June 2021 is presented in section 4.4.

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021 (restated) [1)]	1 January – 30 June 2021 (restated) [1)]
Net profit		1,258	2,868	1,333	2,487
Other comprehensive income	8.14	(2,420)	(4,657)	(542)	(1,273)
Subject to subsequent transfer to profit or loss		(2,372)	(4,672)	(591)	(1,371)
Valuation of debt instruments		(881)	(1,991)	(335)	(699)
Measurement of loan receivables from clients		(3)	(4)	(32)	(36)
Foreign exchange translation differences		9	27	(54)	(28)
Cash flow hedging		(1,497)	(2,704)	(170)	(608)
Not to be transferred to profit or loss in the future		(48)	15	49	98
Valuation of equity instruments		(62)	1	49	98
Actuarial gains and losses related to provisions for employee benefits		14	14	-	-
Total net comprehensive income		**(1,162)**	**(1,789)**	**791**	**1,214**
- comprehensive income attributable to equity holders of the Parent Company		(324)	(437)	547	1,128
- comprehensive income attributable to holders of non-controlling interest		(838)	(1,352)	244	86

[1)] Information on restatement of data for the period from 1 April to 30 June 2021 and 1 January – 30 June 2021 is presented in section 4.4.

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 June 2022	31 December 2021
Goodwill	8.16	2,800	2,778
Intangible assets	8.17	3,138	3,403
Deferred tax assets		3,352	3,058
Other assets	8.18	833	633
Deferred acquisition costs		1,678	1,573
Reinsurers' share in technical provisions	8.32	2,515	2,540
Property, plant and equipment	8.19	4,235	4,144
Investment property		2,930	2,773
Entities measured by the equity method	8.20	79	93
Assets securing liabilities	8.24	8,485	1,336
Assets held for sale	8.21	665	643
Loan receivables from clients	8.22	217,502	215,008
Financial derivatives	8.23	19,363	8,328
Investment financial assets	8.25	129,065	136,954
Measured at amortized cost		83,575	82,893
Measured at fair value through other comprehensive income		37,316	44,896
Measured at fair value through profit or loss		8,174	9,165
Receivables	8.26	13,328	9,418
Cash and cash equivalents		19,968	9,447
Total assets		**429,936**	**402,129**

Equity and liabilities	Note	30 June 2022	31 December 2021
Equity			
Equity attributable to equity holders of the parent		14,969	17,080
Share capital	8.31	86	86
Other capital		13,897	14,343
Retained earnings		986	2,651
Retained profit or loss		(494)	(685)
Net profit		1,480	3,336
Non-controlling interest		20,659	22,914
Total equity		**35,628**	**39,994**
Liabilities			
Technical provisions	8.32	50,090	50,173
Subordinated liabilities	8.33	6,135	6,274
Liabilities on the issue of own debt securities	8.34	7,940	5,940
Liabilities to banks	8.35	7,758	7,470
Liabilities to clients under deposits	8.36	268,729	265,155
Financial derivatives	8.23	25,851	11,880
Other liabilities	8.37	25,810	13,203
Provisions	8.38	1,297	1,206
Deferred tax liability		668	806
Liabilities related directly to assets classified as held for sale	8.21	30	28
Total liabilities		**394,308**	**362,135**
Total equity and liabilities		**429,936**	**402,129**

(in millions of PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	8.31										2.4	
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**2,651**	**-**	**17,080**	**22,914**	**39,994**
Valuation of equity instruments	-	-	-	-	52	-	-	-	-	52	(51)	1
Valuation of debt instruments	-	-	-	-	(1,279)	-	-	-	-	(1,279)	(712)	(1,991)
Measurement of loan receivables from clients	-	-	-	-	(1)	-	-	-	-	(1)	(3)	(4)
Cash flow hedging	-	-	-	-	(719)	-	-	-	-	(719)	(1,985)	(2,704)
Actuarial gains and losses related to employee provisions	-	-	-	-	-	3	-	-	-	3	11	14
Foreign exchange translation differences	-	-	-	-	-	-	27	-	-	27	-	27
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(1,947)**	**3**	**27**	**-**	**-**	**(1,917)**	**(2,740)**	**(4,657)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,480	1,480	1,388	2,868
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,947)**	**3**	**27**	**-**	**1,480**	**(437)**	**(1,352)**	**(1,789)**
Other changes, including:	**-**	**1**	**363**	**1,117**	**(10)**	**-**	**-**	**(3,145)**	**-**	**(1,674)**	**(903)**	**(2,577)**
Distribution of financial result	-	-	1,303	1,117	-	-	-	(2,420)	-	-	(903)	(903)
PZU dividend	-	-	(950)	-	-	-	-	(725)	-	(1,675)	-	(1,675)
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Sale of revalued properties and other	-	-	10	-	(10)	-	-	-	-	-	-	-
As at 30 June 2022	**86**	**(4)**	**15,179**	**1,717**	**(3,097)**	**6**	**96**	**(494)**	**1,480**	**14,969**	**20,659**	**35,628**

(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	8.31										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	49	-	-	-	-	49	25	74
Valuation of debt instruments	-	-	-	-	(1,185)	-	-	-	-	(1,185)	(1,044)	(2,229)
Measurement of loan receivables from clients	-	-	-	-	(8)	-	-	-	-	(8)	(30)	(38)
Cash flow hedging	-	-	-	-	(872)	-	-	-	-	(872)	(2,119)	(2,991)
Foreign exchange translation differences	-	-	-	-	-	-	4	-	-	4	1	5
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	-	-	-	-	-	31	31
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**-**	**(2,012)**	**(3,136)**	**(5,148)**
Net profit (loss)	-	-	-	-	-	-	-	-	3,336	3,336	2,098	5,434
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**3,336**	**1,324**	**(1,038)**	**286**
Other changes, including:	**-**	**4**	**(1,032)**	**305**	**(15)**	**-**	**-**	**(2,283)**	**-**	**(3,021)**	**(674)**	**(3,695)**
Distribution of financial result	-	-	1,020	305	-	-	-	(1,325)	-	-	(674)	(674)
PZU dividend	-	-	(2,064)	-	-	-	-	(958)	-	(3,022)	-	(3,022)
Transactions on treasury shares	-	4	(3)	-	-	-	-	-	-	1	-	1
Sale of equity instruments designated for measurement at fair value through other comprehensive income	-	-	10	-	(10)	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	5	-	(5)	-	-	-	-	-	-	-
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**(685)**	**3,336**	**17,080**	**22,914**	**39,994**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)[1)]	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	8.31										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)	-	-	-	-	-	-	-	-	1,634	1,634	853	2,487
Total comprehensive income	**-**	**-**	**-**	**-**	**(477)**	**-**	**(29)**	**-**	**1,634**	**1,128**	**86**	**1,214**
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)**	**1,634**	**16,879**	**24,711**	**41,590**

[1)] Information on restatement of data for the period from 1 January to 30 June 2021 is presented in section 4.4.

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 June 2022	1 January – 30 June 2021 (restated) [1)]
Profit before tax		4,071	3,361
Adjustments		(964)	1,436
Movement in loan receivables from clients		(3,608)	(1,307)
Movement in liabilities under deposits		2,920	1,649
Movement in the valuation of assets measured at fair value		43	(380)
Interest income and expenses		(1,578)	(1,310)
Realized gains/losses from investing activities and impairment losses		1,367	257
Net foreign exchange differences		364	54
Movement in deferred acquisition expenses		(105)	(45)
Amortization of intangible assets and depreciation of property, plant and equipment		668	645
Movement in the reinsurers' share in technical provisions		25	36
Movement in technical provisions		(83)	992
Movement in receivables		(221)	(87)
Movement in liabilities		2,268	434
Cash flow on investment contracts		3	4
Acquisitions and redemptions of participation units and investment certificates of mutual funds		(35)	94
Income tax paid		(855)	(893)
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		(2,137)	3
Net cash flows from operating activities		**3,107**	**4,797**
Cash flow from investing activities			
Proceeds		252,170	355,011
- sale of investment property		7	155
- proceeds from investment property		186	140
- sale of intangible assets and property, plant and equipment		60	56
- sale of ownership interests and shares		342	624
- realization of debt securities		59,696	203,228
- closing of buy-sell-back transactions		121,219	106,879
- closing of term deposits with credit institutions		50,672	29,186
- realization of other investments		18,847	13,805
- interest received		1,094	885
- dividends received		32	34
- increase in cash due to purchase of entities and change in the scope of consolidation		-	1
- other investment proceeds		15	18

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 30 June 2022	1 January – 30 June 2021 (restated) [1)]
Expenditures		(253,242)	(352,691)
- purchase of investment properties		(69)	(113)
- expenditures for the maintenance of investment property		(87)	(65)
- purchase of intangible assets and property, plant and equipment		(356)	(436)
- purchase of ownership interests and shares		(342)	(355)
- purchase of ownership interests and shares in subsidiaries		(13)	(4)
- purchase of debt securities		(55,234)	(201,038)
- opening of buy-sell-back transactions		(122,034)	(107,550)
- purchase of term deposits with credit institutions		(55,763)	(28,832)
- purchase of other investments		(19,332)	(14,285)
- other expenditures for investments		(12)	(13)
Net cash flows from investing activities		**(1,072)**	**2,320**
Cash flows from financing activities			
Proceeds		115,923	45,025
- proceeds from loans and borrowings	8.39	635	1
- proceeds on the issue of own debt securities	8.39	9,261	2,871
- opening of repurchase transactions	8.39	106,027	42,153
Expenditures		(107,578)	(49,138)
- repayment of loans and borrowings	8.39	(544)	(1,213)
- redemption of own debt securities	8.39	(7,458)	(4,522)
- closing of repurchase transactions	8.39	(99,343)	(43,185)
- interest on loans and borrowings	8.39	(15)	(38)
- interest on outstanding debt securities	8.39	(66)	(29)
- expenditures on leases	8.39	(152)	(151)
Net cash flows from financing activities		**8,345**	**(4,113)**
Total net cash flows		**10,380**	**3,004**
Cash and cash equivalents at the beginning of the period		9,447	7,939
Movement in cash due to foreign exchange differences		141	(22)
Cash and cash equivalents at the end of the period, including:		19,968	10,921
- restricted cash		63	53

[1)] Information on restatement of data for the period from 1 January to 30 June 2021 is presented in section 4.4.

Notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

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

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 2022.

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

Functional and presentation currency

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

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

FX rates

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

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

Due to restrictions on currency exchange in Ukraine and the lack of current quotation of the Ukrainian hryvnia by the National Bank of Poland (a fixed rate maintained by NBP at 0.1467 PLN/UAH as of 24 March 2022), to determine the rate for the hryvnia, the PZU Group applied the regulations of the Decision of the National Bank of Ukraine https://zakon.rada.gov.ua/laws/show/v0018500-22#n67 according to which authorized institutions (banks) carry out non-cash foreign currency purchase and sale operations on behalf of clients:

- in USD – at an exchange rate that may deviate by no more than 1% from the official exchange rate of the NBU in effect on the day of the transaction;
- in other foreign currencies – according to the exchange rate, which may deviate by no more than 1% from the rate determined on the basis of the official hryvnia to U.S. dollar exchange rate in effect on the day of the transaction, as well as

(in millions of PLN)

information on the current exchange rates of foreign currencies to the U.S. dollar (or the U.S. dollar to foreign currencies) on the international foreign exchange markets, which are received through trade information systems at the time of the transaction.

The PZU Group used the official exchange rate between the Ukrainian hryvnia and the U.S. dollar adopted by the NBU (which was 29.2549 UAH/USD until 21 July 2022) to determine the rate, and then converted this rate to the Polish zloty using the PLN/USD exchange rate set by the National Bank of Poland (as at 30 June 2022 – for the purposes of determining the UAH exchange rate as at that date, and as at the end of individual months of the second quarter, i.e. as at 30 April, 31 May and 30 June 2022 – for the purposes of determining the average UAH exchange rate for the period 1 January – 30 June 2022).

Currency	1 January – 30 June 2022	1 January – 30 June 2021	30 June 2022	31 December 2021
Euro	4.6427	4.5472	4.6806	4.5994
British pound	5.4971	5.2494	5.4429	5.4846
Ukrainian hryvnia	0.1465 [1)]	0.1364	0.1532 [1)]	0.1487

[1)] Ukrainian hryvnia exchange rate calculated as described above.

Going concern assumption

These condensed interim consolidated financial statements have been drawn up under the assumption that the PZU Group remains a going concern in the foreseeable future, i.e. in the period of at least 12 months after the end of the reporting period. As at the date of signing these condensed interim consolidated financial statements, there are no facts or circumstances that would indicate a threat to the ability of the PZU Group to continue its activity in the period of 12 months after the end of the reporting period as a result of an intentional or an induced discontinuation or a material curtailment of its hitherto activity.

Having made this assumption, in its assessment, the PZU Management Board took into account the impact of factors subject to uncertainty, including the armed conflict in Ukraine which began on 24 February 2022, on the macroeconomic situation (additional information on this matter is presented in section 18.6).

Discontinued operations

In the 6-month period ended 30 June 2022, the PZU Group 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 Spółka Akcyjna.

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 Spółka Akcyjna.

LD – Akcinė bendrovė „Lietuvos draudimas”.

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

Pekao – Bank Pekao 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.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

CGU –cash generating unit.

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.

IRS – interest rate swap.

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

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2022.

NBP – National Bank of Poland.

NBU – National Bank of Ukraine.

POCI – Purchased or originated credit-impaired financial assets.

Banking Law – Banking Law Act of 29 August 1997 (Journal of Laws of 2021, Item 2439, as amended).

PAS – Accounting Act of 29 September 1994 (Journal of Laws of 2021 Item 217, as amended) and regulations issued thereunder.

(in millions of PLN)

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.

2021 consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2021, signed by the PZU Management Board on 23 March 2022.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office for Competition and Consumer Protection.

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

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

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

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 2022	31 December 2021	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga, Latvia	30.06.2014	100.00% [1)]	100.00% [1)]	Property insurance. http://www.balta.lv/
7	PRJSC IC "PZU Ukraine"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC „PZU Ukraine Life Insurance"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB "PZU Lietuva gyvybes draudimas"	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.01%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.01%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.01%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.01%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.01%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.01%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.01%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% [2)]	46.81% [2)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.01%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07.06.2017	20.01%	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 2022	31 December 2021	
Consolidated companies – Pekao Group – continued						
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.01%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.01%	20.02%	Business consulting.
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.01%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o.	Warsaw	20.07.2021	20.01%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
30	AL Finance sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
31	Corsham Sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
32	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities.
33	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
34	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
35	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
36	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
37	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
38	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
39	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
40	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2022	31 December 2021	
Consolidated companies – PZU Zdrowie Group – continued						
41	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
42	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
43	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
44	Aura Medic Południe sp. z o.o. [3)]	Gdynia	31.03.2022	100.00%	n/a	Medical services. https://www.auramedic.pl/
Consolidated companies – other companies						
45	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
46	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
47	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
48	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
49	PZU Finance AB (publ.) in likvidation	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
50	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
51	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
52	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
53	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
54	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
55	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
56	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2022	31 December 2021	
Consolidated companies – other companies – continued						
57	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
58	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
59	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
60	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
61	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
62	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
63	AQ SA (formerly: Aquaform SA) [4)]	Krakow	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
64	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
65	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
66	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
67	PZU FIZ Sektora Nieruchomości 2 [5)]	Warsaw	21.11.2011	n/a	n/a	as above
68	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
69	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
70	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
71	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
72	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
73	inPZU Akcje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
74	inPZU Obligacje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
75	inPZU Obligacje Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
76	inPZU Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
77	inPZU Akcje Amerykańskie	Warsaw	28.10.2019	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2022	31 December 2021	
Consolidated companies – mutual funds – continued						
78	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	as above
79	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
80	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
81	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
82	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
83	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
84	PZU FIZ Legato	Warsaw	11.08.2021	n/a	n/a	as above
85	inPZU Akcje Rynku Surowców	Warsaw	15.12.2021	n/a	n/a	as above
86	inPZU Akcje Rynku Złota	Warsaw	15.12.2021	n/a	n/a	as above
87	inPZU Akcje Sektora Zielonej Energii	Warsaw	15.12.2021	n/a	n/a	as above
88	inPZU Akcje Sektora Informatycznego	Warsaw	15.12.2021	n/a	n/a	as above
89	inPZU Akcje Sektora Nieruchomości	Warsaw	15.12.2021	n/a	n/a	as above
90	inPZU Akcje Europejskie	Warsaw	15.12.2021	n/a	n/a	as above
91	inPZU Obligacje Inflacyjne	Warsaw	15.12.2021	n/a	n/a	as above
Associates						
92	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
93	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
94	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
95	Krajowy Integrator Płatności SA [6]	Poznań	31.03.2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

[1] Only one minority shareholder remains in Balta with 1 share.
[2] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.
[3] Information on the acquisition of the company is presented in section 2.3.1.
[4] The change of the company's name and headquarters was registered on 15 July 2022.
[5] PZU FIZ Sektora Nieruchomości 2 conducts its investment activity through 30 (consolidated) subsidiary companies established under commercial law.
[6] Pekao's associate in which it holds a 38.33% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

(in millions of PLN)

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

The detailed accounting policy pertaining to settlement of acquisition transactions is presented in the consolidated financial statements for 2021.

The changes in the extent of consolidation and in the PZU Group's structure that occurred in the 6-month period ended 30 June 2022 are presented in the following sections.

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

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

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

2.3.2. Completion of the liquidation of Aquaform Romania SRL

On 5 January 2022, Aquaform Romania SRL was deleted from the register. The decision became final non-appealable on 20 January 2022. The liquidation of the company did not affect the PZU Group's condensed interim 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 2022	31 December 2021
Pekao [1]	79.99%	79.98%
Alior Bank [2]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
Balta	0.00% [3]	0.00% [3]

[1] As a result, PZU also holds non-controlling interests in Pekao's subsidiaries listed in the table in section 2.2.
[2] As a result, PZU also holds non-controlling interests in Alior Bank's subsidiaries listed in the table in section 2.2.
[3] Only one minority shareholder remains in Balta with 1 share.

Carrying amount of non-controlling interests	30 June 2022	31 December 2021
Pekao Group	17,169	19,028
Alior Bank Group	3,489	3,885
Other	1	1
Total	**20,659**	**22,914**

Both Pekao and Alior Bank conduct operations primarily in the territory of Poland. The tables below present condensed financial information for the Pekao Group and the Alior Bank Group included in the consolidated financial statements (without consolidation eliminations).

The data of the Pekao Group and the Alior Bank Group incorporate the effect of adjustments resulting from the measurement of assets and liabilities to fair value as at the date control was acquired and their subsequent amortization over time.

(in millions of PLN)

Assets	Pekao Group		Alior Bank Group	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
Goodwill	693	693	-	-
Intangible assets	1,911	2,129	388	426
Deferred tax assets	1,677	1,650	1,569	1,352
Other assets	158	52	77	39
Property, plant and equipment	1,777	1,979	724	755
Entities measured by the equity method	45	44	-	-
Assets held for sale	43	14	-	-
Assets securing liabilities	6,341	846	2,140	131
Loan receivables from clients	159,403	156,692	57,650	57,907
Financial derivatives	18,785	8,007	554	272
Investment financial assets	66,432	69,781	12,593	15,992
Measured at amortized cost	47,884	46,736	4,965	6,578
Measured at fair value through other comprehensive income	17,671	22,372	7,488	9,265
Measured at fair value through profit or loss	877	673	140	149
Receivables	6,179	3,653	3,463	2,215
Cash and cash equivalents	14,084	4,967	4,871	3,748
Total assets	**277,528**	**250,507**	**84,029**	**82,837**

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
Equity				
Equity attributable to equity holders of the parent	21,464	23,791	5,126	5,708
Share capital	263	263	1,306	1,306
Other capital	17,913	19,402	3,677	4,658
Retained earnings	3,288	4,126	143	(256)
Non-controlling interest	12	12	-	-
Total equity	**21,476**	**23,803**	**5,126**	**5,708**
Liabilities				
Subordinated liabilities	2,783	2,761	1,159	1,347
Liabilities on the issue of own debt securities	7,399	5,356	540	584
Liabilities to banks	6,874	7,040	891	462
Liabilities to clients under deposits	200,323	194,260	69,078	71,489
Derivatives	22,765	10,191	2,510	1,224
Other liabilities	14,940	6,240	4,458	1,732
Provisions	944	831	266	290
Deferred tax liability	24	25	1	1
Total liabilities	**256,052**	**226,704**	**78,903**	**77,129**
Total equity and liabilities	**277,528**	**250,507**	**84,029**	**82,837**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2022	PZU Group	Elimination of data Pekao	Elimination of data Alior Bank	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	12,647	-	-	8	12,655
Reinsurers' share in gross written premium	(477)	-	-	-	(477)
Net written premiums	**12,170**	**-**	**-**	**8**	**12,178**
Movement in net provision for unearned premiums	(487)	-	-	10	(477)
Net earned premium	**11,683**	**-**	**-**	**18**	**11,701**
Revenue from commissions and fees	2,549	(1,703)	(781)	73	138
Interest income calculated using the effective interest rate	8,434	(5,331)	(2,383)	84	804
Other net investment income	(196)	(77)	390	(4)	113
Result on derecognition of financial instruments and investments	(227)	8	(9)	-	(228)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,276)	656	474	-	(146)
Net movement in fair value of assets and liabilities measured at fair value	(43)	(1)	(411)	-	(455)
Other operating income	837	(118)	(93)	28	654
Claims, benefits and movement in technical provisions	(7,392)	-	-	(1)	(7,393)
Reinsurers' share in claims, benefits and movement in technical provisions	276	-	-	-	276
Net insurance claims and benefits	**(7,116)**	**-**	**-**	**(1)**	**(7,117)**
Fee and commission expenses	(663)	287	380	(5)	(1)
Interest expenses	(1,251)	676	515	(13)	(73)
Acquisition expenses	(1,876)	-	-	(95)	(1,971)
Administrative expenses	(3,719)	2,036	790	(69)	(962)
Other operating expenses	(3,048)	1,545	532	(16)	(987)
Operating profit (loss)	**4,088**	**(2,022)**	**(596)**	**-**	**1,470**
Share of the net financial results of entities measured by the equity method	(17)	(2)	-	-	(19)
Profit (loss) before tax	**4,071**	**(2,024)**	**(596)**	**-**	**1,451**
Income tax	(1,203)	631	194	-	(378)
Net profit (loss)	**2,868**	**(1,393)**	**(402)**	**-**	**1,073**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2021 (restated)	**PZU Group**	**Elimination of data Pekao**	**Elimination of data Alior Bank**	**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 premium	**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	(1,704)	-	-	(105)	(1,809)
Administrative expenses	(3,412)	1,837	718	(69)	(926)
Other operating expenses	(2,156)	894	254	8	(1,000)
Operating profit (loss)	**3,369**	**(1,199)**	**(384)**	**-**	**1,786**
Share of the net financial results of entities measured by the equity method	(8)	-	-	-	(8)
Profit (loss) before tax	**3,361**	**(1,199)**	**(384)**	**-**	**1,778**
Income tax	(874)	346	133	-	(395)
Net profit (loss)	**2,487**	**(853)**	**(251)**	**-**	**1,383**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 June 2022	1 January – 30 June 2021	1 January – 30 June 2022	1 January – 30 June 2021
Net profit	1,393	853	402	251
Other comprehensive income	(2,589)	(781)	(984)	(209)
Subject to subsequent transfer to profit or loss	(2,522)	(848)	(989)	(206)
Valuation of debt instruments	(741)	(434)	(177)	(19)
Measurement of loan receivables from clients	(4)	(36)	-	-
Cash flow hedging	(1,791)	(378)	(812)	(189)
Actuarial gains related to provisions for employee benefits	14	-	-	-
Foreign exchange translation differences	-	-	-	2
Not to be transferred to profit or loss in the future	(67)	67	5	(3)
Valuation of equity instruments	(67)	67	5	(3)
Total net comprehensive income	**(1,196)**	**72**	**(582)**	**42**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 June 2022	1 January – 30 June 2021	1 January – 30 June 2022	1 January – 30 June 2021
Net cash flows from operating activities	4,212	2,872	(1,724)	644
Net cash flows from investing activities	(2,375)	3,588	1,126	(627)
Net cash flows from financing activities	7,204	(2,910)	1,661	(831)
Total net cash flows	**9,041**	**3,550**	**1,063**	**(814)**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 June 2022	1 January – 30 June 2021	1 January – 30 June 2022	1 January – 30 June 2021
Date of ratifying the dividend	15 June 2022	11 June 2021	-	-
Record date	25 July 2022	10 September 2021	-	-
Dividend payment date	4 August 2022	29 September 2021	-	-
Dividend per share (PLN)	4.30	3.21	-	-
Dividend due to the PZU Group	226	169	-	-
Dividend due to non-controlling shareholders	903	674	-	-

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 2022, the PZU Management Board consisted of the following persons:

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

- Krzysztof Szypuła – Member of the PZU Management Board.

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

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

From 28 April 2022 to the date of signing the condensed interim consolidated financial statements, the PZU Management Board consisted of the following persons:

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

3.2 Composition of the parent company's Supervisory Board

From 1 January 2022 to the date of signing the condensed interim consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

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

3.3 PZU Group Directors

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

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

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

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

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

(in millions of PLN)

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

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

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 2021.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2021.

4.1 Amendments to the applied IFRS

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

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

Standard/interpretation	Approving regulation	Commentary
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	2021/1080	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The change did not have any significant effect on the PZU Group's consolidated financial statements.
Amendment to IAS 37 – Onerous contracts – costs of fulfillment of contractual obligations	2021/1080	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The change did not have any significant effect on the PZU Group's consolidated financial statements.
Amendments to IFRS 3	2021/1080	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The change did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Approving regulation	Commentary
Amendments to IFRS 2018-2020	2021/1080	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments did not exert any material impact on the PZU Group's consolidated financial statements.

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	Commentary
IFRS 17 – Insurance contracts	1 January 2023	2021/2036	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. The introduction of unified valuation rules should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. This definition is consistent in principle with the definition in IFRS 4. 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 following will have the biggest impact on the occurrence of differences from the prevailing standard: • valuation of liabilities and assets under insurance contracts, which will: ○ be based on the value of the best estimate of future cash flows; ○ factor in the time value of money; ○ include a risk adjustment for non-financial risks; • recognition of expected profits for a group of insurance contracts over time, in proportion to the so-called units of service provided, corresponding to the level of provision by the insurance company in individual reporting periods; • recognition of the full expected loss on insurance contracts at the time when the entity considers the contract as having become onerous, which may be the date of its initial recognition or the date of any subsequent measurement; • separate (from direct business contracts) valuation of liabilities and assets on account of outward reinsurance. The new standard introduces new measurement, presentation and disclosure rules for insurance contracts that will affect the design of PZU Group's statements. The new standard requires separate presentation of outward reinsurance contracts and insurance and inward reinsurance contracts. Within each of these two groups, separate presentation is required on the asset and liability sides of portfolios, depending on whether the sum of the balance sheet items making up the portfolio valuation is a net asset or liability. In addition, only the aggregate item of assets and liabilities of insurance contracts will be presented on the balance sheet, without distinguishing items such as premium receivables and liabilities, DAC or technical provisions. In the income statement, the result from insurance will be shown broken down into income from insurance contracts and expense from insurance contracts, as well as the result from outward reinsurance contracts. Elements such as written premium will not be presented. The standard also requires quantitative and qualitative disclosures, with particular emphasis on the expert assessments used and the entity's risk profile. More detailed information on the implementation of IFRS 17 in the PZU Group is presented in section 4.2.

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Commentary
Amendments to IAS 1 – Presentation of Financial Statements	1 January 2023	2022/357	In accordance with the amendments, the entity will be obligated to disclose material accounting policy information rather than significant accounting principles (as previously). The amendment contains examples of identification of material accounting policies and stipulates that an accounting policy may be material due to its nature, even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies may not obscure material accounting policies. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023	2022/357	The amendments to IAS 8 comprise: • replacement of the definition of a change in estimates with a definition of estimates. In accordance with the new definition, estimates are "monetary amounts in financial statements that are subject to measurement uncertainty"; • explanation that a change in the estimate resulting from new information or new events is not a correction of error. In addition, the effects of a change in input data or measurement technique applied to determine the estimate are changes in estimates, unless they follow from a correction of errors of previous periods; • clarification that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendment to IAS 12 – Income Taxes	1 January 2023	2022/1392	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 millions of PLN)

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Commentary
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
Amendment to IFRS 17 – Insurance contracts	9 December 2021	1 January 2023	On 9 December 2021, the IASB issued an amendment to IFRS 17 regarding comparative information about financial assets presented at the time of the first application of IFRS 17. The purpose of the amendment is to help avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts resulting from different requirements for the presentation of comparable data between IFRS 9 and IFRS 17. The amendment will not exert a significant impact on the PZU Group's reporting due to the implementation of IFRS 9 already in 2018.

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

4.2 Implementation of IFRS 17 in the PZU Group

On 18 May 2017, the IASB issued IFRS 17 Insurance Contracts, which will replace the current IFRS 4 – Insurance contracts, effective 1 January 2023.

The aim of the new standard is to introduce completely new, uniform rules for valuation of insurance contracts, ensuring greater comparability of reports between different insurers, as well as providing a number of new disclosures for the use of financial statement recipients.

On 13 May 2022, the European Securities and Markets Authority (ESMA) issued a public statement to promote the consistent and correct application of IFRS 17. ESMA notes the importance of presenting in the financial statements appropriate and comparable information on the possible impacts of the implementation of the standard on the date when IFRS 17 is first applied.

The PZU Group is conducting advanced project work to implement the standard in all insurance companies. As part of the project, PZU Group works, among others, on:

- developing details of the valuation methodology for distinct types of contracts and the method of presenting financial information required by IFRS 17 in the consolidated financial statements;
- building the target reporting process;
- introducing changes necessary to be implemented in IT systems, processes and areas which is significantly affected by the implementation of IFRS 17;
- rolling out an IT system to support the financial reporting process in accordance with the requirements of IFRS 17;
- building repositories of input and output data to facilitate the automation of calculations.

At the current stage of work on the implementation of the new IFRS 17 standard, some decisions have yet to be made on the practical application of IFRS 17, the accounting principles adopted and significant judgments. For this reason, the PZU Group refrains from disclosing at this stage an estimate of the actual impact of the application of IFRS 17 on the consolidated financial statements.

4.2.1. Principles of measurement

In accordance with IFRS 17, contracts will be measured using the following methods:

- GMM (General Measurement Model) – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of:
  - discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs;
  - risk adjustment for non-financial risk (RA) – individual estimate of the financial value of the offset for 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 contracts shall be recognized immediately in the profit and loss account;
- PAA – measurement method based on premium allocation

  The Premium Allocation Approach ("PAA") is a simplified approach where the valuation of Liability for Remaining Coverage ("LRC") is analogous to the provision for unearned premiums mechanism (without separate presentation of RA and CSM). The PAA method is used for short-term contracts of up to 1 year and longer, as long as the relevant qualification criteria for applying the simplification, as specified in paragraphs 53 or 69 of IFRS 17, are met. The measurement of liability for incurred claims ("LIC") is carried out using the GMM model (without CSM calculations);

- Variable Fee Approach ("VFA")

  The liability valuation method used for IFRS 17 reporting of insurance contracts with direct profit sharing, where the valuation of liabilities is performed similarly to the GMM approach with the difference that changes in the CSM contract margin component in individual periods also include the impact of changes in economic factors, not just insurance factors. The PZU Group will apply the VFA approach to unit-linked products.

In the PZU Group, as at the transition date, the majority of insurance and reinsurance contracts in non-life insurance met the criteria for applying the simplified premium allocation-based valuation method – PAA. Life insurance contracts will be measured using the general model – GMM, and for insurance contracts with direct profit sharing, the PZU Group will use the VFA model.

4.2.2. Identification and aggregation of insurance contracts

In order to identify insurance contracts and inward reinsurance contracts covered by IFRS 17, the PZU Group verifies whether, under a given contract, the entity accepts a considerable insurance risk from the policyholder and undertakes to compensate the policyholder for an adverse effect defined as an uncertain future insurable event.

The definition of a considerable insurance risk is generally consistent with that in IFRS 4.

For valuation purposes, insurance contracts will be aggregated into the so-called insurance contract groups. The purpose of this aggregation is to ensure that profits are recognized over time in proportion to the insurance services provided, and losses are recognized immediately when the entity assesses that the contract becomes onerous. Offsetting gains and losses between the identified insurance contracts groups will not be permitted.

Grouping of insurance contracts will occur upon initial recognition, and the PZU Group will not reassess the groups in subsequent periods unless there is a rationale for discontinuing the recognition as specified in IFRS 17. Grouping of contracts will be done taking into account the following three dimensions:

- portfolio dimension – contracts with similar risk characteristics and managed jointly;
- profitability dimension – contracts belonging to the same profitability group (one of the three defined by the standard);
- cohort dimension – contracts issued no more than one year apart.

In the PZU Group, the division of the portfolio into insurance contract groups will be determined taking into account the above dimensions:

- portfolio dimension – based on the risk characteristics of individual insurance contracts and on existing insurance portfolio management processes;
- profitability dimension:
  - for life insurance – at the level of a single contract by measuring the given insurance contract;
  - for non-life insurance – all contracts will be treated as profitable, unless there are facts or circumstances that indicate that they are not profitable. Profitability will be assessed at the level of the IFRS 17 portfolio, however it is permissible to move the assessment to the level of cohorts from the given quarter or year;
- cohort dimension – the PZU Group has decided to use annual cohorts for life insurance and quarterly cohorts for property insurance, which makes it possible to more accurately assign insurance contracts to profitability categories for the purposes of valuation of liabilities.

The PZU Group does not expect to apply the exemption from reporting under the requirement for annual cohorts.

4.2.3. Key elements of measurement according to IFRS 17

The most significant elements of the IFRS 17 valuation and the key methodological decisions made by the PZU Group are presented below.

4.2.3.1. Boundaries of the contract

For the purpose of measuring liabilities, the value of financial flows within the boundaries of the contracts is estimated. The PZU Group bases its definition of the contract boundary on an assessment of whether there are viable possibilities to change the tariffs in its insurance offerings. If there is no such practical possibility, all future expected contributions are included in the measurement of liabilities. In accordance with the requirements for the contract boundary, insurance contracts are treated as a whole, without separating and treating individual components separately.

In the PZU Group, the contract boundary approach is largely consistent with the Solvency II measurement approach used to date. The exceptions are the contract boundaries applied to riders and some unit-linked products. In life insurance, where riders are treated as a whole with the main contract, the contract boundaries for the riders correspond with the boundary of the main contract. In the case of unit-linked insurance, the contract boundary presented in the "KNF Office's position on the contract boundary for determining insurance or reinsurance obligations" is used for measurement purposes. In contrast, calculations for the needs of IFRS 17 in products with regular premiums model the premium that the policyholder is obligated to pay under the general terms and conditions of insurance.

4.2.3.2. Discounting and adjustment for non-financial risk

The PZU Group uses discount rate curves determined under the bottom-up approach (IFRS 17 paragraph B80), which assumes that discount curves will be determined as liquid risk-free rate curves adjusted for the illiquidity premium resulting from the difference in the liquidity characteristics of the financial instruments used to determine the curves and the liquidity characteristics of the insurance contracts.

For the curves defined since the end of 2015, the PZU Group uses risk-free discount rates published by EIOPA, while for years prior to the implementation of Solvency II, the PZU Group determined historical discount rate curves based on market data. The illiquidity premium is determined on the basis of market data and liquidity characteristics of each group of insurance contracts.

The PZU Group includes a risk adjustment for non-financial risks in the measurement of insurance contracts. For non-life insurance, the adjustment is determined using the value-at-risk (VaR) method, while for life insurance it is determined using the cost of capital (CoC) method. This differentiation allows for better reflection of the level of risk in the above insurance sectors. Due to the different risk characteristics for future flows resulting from past claims and future claims, the adjustment for non-financial risks for these claims is estimated independently. The risk adjustment for non-financial risk at the entity level is determined as a simple sum of the adjustments determined at the level of individual groups of contracts.

4.2.3.3. Contract margin

The contract margin is part of the liabilities under insurance contracts. The contract margin reflects the outstanding profit for a group of insurance contracts and is therefore released as income in the profit and loss account. For the purpose of accounting for CSMs during the year, a number of carriers of so-called coverage units have been adopted, which determine the volume of the insurance service provided in individual periods. In the PZU Group, the vast majority of cases were based on the sums insured, to which all guaranteed benefits refer. If the sum insured is not present due to the specifics of the product (such as in health insurance, providing access to selected medical services depending on the coverage selected) the unit of services provided is the annual premium.

(in millions of PLN)

4.2.3.4. Financial costs of insurance operations

Under IFRS 17, the PZU Group has the option to split the financial costs of its insurance operations into the portion recognized in profit or loss and other comprehensive income. The PZU Group plans to take advantage of this opportunity for all of its IFRS 17 portfolios. Under IFRS 4, technical provisions were not calculated based on current economic assumptions. Hence this is a new element introduced by IFRS 17.

The PZU Group implemented IFRS 9 as of 1 January 2018, and does not plan to use the option to restate the financial items measured under IFRS 9.

4.2.4. Transition day

The PZU Group will apply IFRS 17 for the first time in the period beginning 1 January 2023. Due to the need to prepare comparative data, 1 January 2022 is assumed as the date of transition to the new standard.

The standard allows 3 methods to be used for the purpose of measurement of financial items at the date of transition:

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

The PZU SA Group plans to use all three methods depending on the availability of historical data.

In accordance with the provisions of IFRS17 paragraph C3, unless it is impracticable to do so, the PZU Group applies the full retrospective approach to the measurement of insurance contracts. In cases where the application of the full retrospective approach has been assessed as impracticable, the PZU Group uses the modified retrospective approach or the fair value approach, and the choice of approach is made individually for each group of contracts. The selection takes into account such factors as the availability of historical data, materiality and whether the group of contracts belongs to the portfolio offered for sale by the PZU Group as at the transition date.

The table below presents the simplifications allowed by the standard that the PZU Group will apply, along with a reference to the relevant provisions of IFRS 17 depending on the approach taken:

Description of the simplification	Modified retrospective approach	Fair value approach
Evaluating groups of contracts using information available as at the transition date, instead of at the time the contract was entered into	C9	C21-22
Non-application of the provisions of paragraph 22 to divide groups into those that do not include contracts issued more than one year apart	C10	C23
Use of historical cash flows in determining the contractual margin	C12	n/a
Simplified calculation of risk adjustment for non-financial risks at the date of initial recognition of a group of insurance contracts	C14	n/a
Breakdown of financial income or expenses into amounts included in profit or loss and amounts included in other comprehensive income	C18-19	C24

The choice of simplifications used in measuring a group of contracts is made on a case-by-case basis, depending on the characteristics of the group and the availability of data.

4.3 Application of estimates and assumptions

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

In the calculation of provisions for outstanding claims and benefits, the uncertainty related to bodily injury claims is taken into account. For such claims, changes in the legal environment and uncertain jurisprudence may affect the ultimate amount of benefits paid.

When calculating the provision for the capitalized value of annuities, the future increase in average annuity is estimated based on historical data and taking into account other information that may contribute to an increase in annuities in the future (for example, growing insurance awareness, legislative changes, etc.).

For lifetime annuities, the period in which the annuity will be payable is determined using publicly available statistics (in Poland – Polish Life Expectancy Tables). Additionally, the provision for the capitalized value of annuities is calculated taking into account the cost of future handling services at 3% of the value of benefits paid.

When calculating the amount of the life insurance provision the assumptions made for the frequency of events covered by insurance, i.e. mortality, morbidity and accident rate, are determined based on publicly available statistics, such as the Polish Life Expectancy Tables in Poland or based on own statistics developed using historical data on particular groups of products in the portfolio.

Such assumptions are subject to natural uncertainty resulting from the long term of the projection. However, these assumptions are verified for adequacy every year. The data are subjected to an analysis in particular in terms of the behavior of the whole portfolio, as opposed to various distinct cases. If it is found that an assumption is inadequate, it is verified and adjusted, which leads directly to a change in the value of liabilities presented in the consolidated financial statements.

In the calculation of its technical provisions, the PZU Group applies the Polish Life Expectancy Tables or other publicly available statistics, among other sources. For the group and continued insurance portfolio, the calculation of provisions also makes use of assumptions regarding the probability of the insured having co-insureds (spouse, parents and in-laws). These assumptions, due to their long-term nature, are subject to natural uncertainty as to the actual evolution of the portfolio. For older versions of individually continued products the forecasted inflation rate is used in the calculation of provisions in order to recognize the expected effect off higher indexation in the following years.

4.3.1. Impairment and expected credit losses

4.3.1.1. Loan receivables from clients

The PZU Group incorporates future macroeconomic factors into all relevant components of its expected credit loss estimates, ensuring that their current valuation reflects the expected magnitude of deterioration in portfolio credit quality as a result of a difficult macroeconomic environment.

In connection with the following risks:

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

the PZU Group identifies increased credit risk, which has been taken into account in the estimate of expected credit losses. Information on the movement in the impairment losses on expected credit losses is presented in section 8.27.

4.3.1.2. Investment financial assets and receivables

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

The value of impairment losses on investment financial assets and receivables stood at PLN 150 million in the 6 months ended 30 June 2022 (compared to a decrease by PLN 31 million in allowances derecognized in the corresponding period of 2021).

Detailed information on the movement in the impairment losses on expected credit losses is presented in sections 8.6 and 8.27.

4.3.1.3. Goodwill

As at 30 June 2022, the PZU Group has analyzed the grounds for impairment, including changes in the discount rate and financial plans and conducted impairment tests for all CGUs for which goodwill was allocated, except for the mass insurance segment in property insurance.

Additional information is presented in section 8.16.

4.3.2. 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 subject is presented in section 8.38.

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

As at 30 June 2022, the PZU Group assessed the probability of the impact of the legal risk related to CHF mortgage loans on its future expected cash flows from its loan exposures and on the probability of cash outflows.

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

More information on this matter is presented in section 8.38.

4.4 Adjustment of comparative data

The methodology, assumptions and input data for estimation of the costs incurred by banks belonging to the PZU Group related to the sale of insurance products has been changed in PZU Group's 2021 consolidated financial statements. As a result of that analysis The PZU Group has transferred a part of cost previously disclosed as administrative expenses to the acquisition expenses and decreased the amount of deferred acquisition cost presented in the consolidated statement of financial position in correspondence with the acquisition costs presented in the consolidated profit and loss account. In order to keep the comparative data in that condensed interim financial statement comparable they were adjusted as presented in the following tables.

(in millions of PLN)

Consolidated profit and loss account	1 April – 30 June 2021 (before restatement)	Adjustment	1 April – 30 June 2021 (restated)	1 January – 30 June 2021 (before restatement)	Adjustment	1 January – 30 June 2021 (restated)
Acquisition expenses	(825)	(42)	(867)	(1,623)	(81)	(1,704)
Administrative expenses	(1,754)	22	(1,732)	(3,456)	44	(3,412)
Net profit, including:	**1,353**	**(20)**	**1,333**	**2,524**	**(37)**	**2,487**
- profit attributable to the equity holders of the Parent Company	774	(20)	754	1,671	(37)	1,634
- profit (loss) attributed to holders of non-controlling interest	579	-	579	853	-	853

Consolidated statement of comprehensive income	1 April – 30 June 2021 (before restatement)	Adjustment	1 April – 30 June 2021 (restated)	1 January – 30 June 2021 (before restatement)	Adjustment	1 January – 30 June 2021 (restated)
Net profit	1,353	(20)	1,333	2,524	(37)	2,487
Other comprehensive income	(542)	-	(542)	(1,273)	-	(1,273)
Net comprehensive income, including:	**811**	**(20)**	**791**	**1,251**	**(37)**	**1,214**
- comprehensive income attributable to equity holders of the Parent Company	567	(20)	547	1,165	(37)	1,128
- comprehensive income attributable to holders of non-controlling interest	244	-	244	86	-	86

Consolidated cash flow statement	1 January – 30 June 2021 (before restatement)	Adjustment	1 January – 30 June 2021 (restated)
Profit before tax	3,398	(37)	3,361
Adjustments	1,399	37	1,436
Movement in deferred acquisition expenses	(82)	37	(45)
Cash flow on operating activity:	**4,797**	**-**	**4,797**

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

In the 6-month period ended 30 June 2022, there were no events that resulted in any change of the structure of financial statement items.

6. Corrections of errors from previous years

During the 6-month period from 1 January to 30 June 2022, no corrections of errors were made from previous years.

7. Material events after the end of the reporting period

On 14 July 2022, the President of the Republic of Poland signed the Act of 7 July 2022 on Crowdfunding for Business Ventures and Providing Aid to Borrowers, which regulates three key issues.

Moratorium periods

Pursuant to Article 73 of this act, the bank is obliged to suspend repayment of a mortgage loan granted in Polish currency at the request of the borrower, except for loans indexed or denominated to a currency other than the Polish currency. Suspension of loan repayment is available only with respect to one contract, entered into for the purpose of satisfying one's own housing needs. Suspension of loan repayment is available during the following periods:

- from 1 August to 30 September 2022 – two months;
- from 1 October to 31 December 2022 – two months;
- from 1 January to 31 December 2023 – one month in each quarter.

During the suspension of loan repayment, the borrower is not obligated to make any payments under the loan agreement, except for the fees for insurance associated with such agreement.

In accordance with the provisions of IFRS 9, the entitlement introduced by the law for clients to take advantage of their suspension of loan repayments requires adjustment of the gross carrying amount of such loans by determining and recognizing in the PZU Group's financial result the estimated cost resulting from this entitlement as the difference between:

- the present value of expected cash flows from the loan portfolio that meets the criteria of the Act (the gross carrying amount of that portfolio) and
- the present value of expected cash flows from this portfolio determined based on modified cash flows taking into account the provisions of the Act, discounted at the current effective interest rate,

taking into account the estimated level of participation of eligible clients who, in the opinion of the PZU Group, will exercise this right.

The loss will be recognized in the PZU Group's financial result in Q3 2022 as a reduction of interest income calculated using the effective interest rate method.

An important assumption that requires a judgment regarding the amount of this loss is the number of customers applying for moratorium periods. According to PZU Group estimates, the recognized loss would be PLN 2,895 million. Due to the fact that the above loss estimate represents the expected utilization of the entitlements under the Act by clients, and the actual utilization will take place during the term of the Act, it will be necessary to update the estimate periodically and recognize the effects of these revaluations in the PZU Group's current results. If one were to assume a participation rate of 100%, the maximum loss would be PLN 3,634 million.

Suspension of client installment payments during the moratorium period will disrupt the cash flows from mortgage loans that are hedged items under hedge accounting in Alior Bank – reduced cash flows of hedged items, due to the moratorium period, relative to the cash flows of hedge derivatives. Assuming that 60% of Alior Bank's clients will take advantage of the credit vacation and unchanged interest rates assumed for the 29 July 2022 estimate, the impact of the loan moratorium on hedge accounting could lead to a loss of PLN 55 million being recognized in the PZU Group's consolidated profit and loss account before the termination date of the hedging relationship.

Borrower Support Fund

The act also introduces an obligation of making additional payments to the Borrower Support Fund (FWK). According to it, the fund's resources will increase by PLN 1.4 billion by the end of 2022, and will amount to a total of more than PLN 2 billion, with the amount of additional payments attributable to individual banks to be determined by the Fund Council by resolution, based on information from the Chairman of KNF. Both borrowers who took out loans in Polish and foreign currencies can benefit from FWK subsidies. The support is repayable, but part of the support can be waived under certain conditions.

Calculation of the level of contribution payable by respective banks will be influenced primarily by the following factors:

- the share of the given bank in the gross carrying value of its portfolio of housing loans, where the delay in repayment of principal or interest exceeds 90 days in comparison with the entire banking sector in Poland;
- possible exemption of a portion of lenders that do not meet regulatory capital and liquidity requirements from paying into FWK.

(in millions of PLN)

Due to the above conditions, as at the date of signing the condensed interim consolidated financial statements, it is not possible to reliably estimate the amount of the additional payment to the FWK attributable to the PZU Group. The final amount of the payment to the FWK by the PZU Group will be known after it is determined by the FWK Council.

Change in the WIBOR reference index

The adopted act also provides for work on the process of determining a replacement for WIBOR in the form of new risk-free rates based on O/N (overnight) transactions. A national working group has been established to prepare a roadmap for the smooth and safe implementation of the various elements of the process leading to the replacement of the WIBOR interest rate reference index with a new reference index. As of the date of signing the condensed interim financial statements, the PZU Group was unable to estimate the potential impact on the PZU Group's result on this account.

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premiums in non-life insurance	4,321	8,470	3,954	7,816
In direct insurance	4,314	8,459	3,949	7,810
In indirect insurance	7	11	5	6
Gross written premiums in life insurance	2,073	4,177	2,240	4,526
Individual insurance premiums	293	609	487	1,015
Individually continued insurance premiums	517	1,034	514	1,028
Group insurance premiums	1,263	2,534	1,239	2,483
Total gross written premiums	**6,394**	**12,647**	**6,194**	**12,342**

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 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Accident and sickness insurance (group 1 and 2)	214	489	266	554
Motor third party liability insurance (group 10)	1,374	2,684	1,321	2,648
Other motor insurance (group 3)	1,113	2,192	958	1,934
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	47	79	32	58
Insurance against fire and other property damage (groups 8 and 9)	1,021	1,973	912	1,702
TPL insurance (groups 11, 12, 13)	242	506	225	483
Credit and suretyship (groups 14, 15)	22	39	21	33
Assistance (group 18)	169	325	137	267
Legal protection (group 17)	3	7	3	7
Other (group 16)	109	165	74	124
Total	**4,314**	**8,459**	**3,949**	**7,810**

(in millions of PLN)

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Banking activity	1,185	2,275	1,003	1,914
Margin on foreign exchange transactions with clients	276	525	194	370
Brokerage fees	44	100	52	112
Fiduciary activity	20	40	19	37
Payment card and credit card services	356	655	269	505
Fees on account of insurance intermediacy activities	5	13	9	18
Credits and loans	129	237	126	226
Bank account-related services	129	271	135	265
Transfers	78	152	70	137
Cash operations	31	59	25	46
Receivables purchased	20	39	16	32
Guarantees, letters of credit, collections, promises	26	49	23	44
Commissions on leasing activity	22	46	22	41
Other commission	49	89	43	81
Revenue and payments received from funds and mutual fund management companies	89	181	118	240
Pension insurance	51	91	38	69
Other	1	2	2	3
Total revenue from commissions and fees	**1,326**	**2,549**	**1,161**	**2,226**

8.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Loan receivables from clients	3,538	6,184	1,728	3,433
Debt securities measured at fair value through other comprehensive income	271	503	180	389
Debt securities measured at amortized cost	545	1,009	365	702
Buy-sell-back transactions	86	125	1	1
Term deposits with credit institutions	26	43	4	8
Loans	60	96	27	48
Receivables purchased	145	234	9	92
Receivables	23	30	-	-
Cash and cash equivalents	160	210	1	2
Interest income calculated using the effective interest rate, total	**4,854**	**8,434**	**2,315**	**4,675**

(in millions of PLN)

8.4 Other net investment income

Other net investment income	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Hedge derivatives	(32)	48	110	215
Dividend income, including:	34	36	34	35
Investment financial assets measured at fair value through profit or loss	7	9	8	9
Investment financial assets measured at fair value through other comprehensive income	27	27	26	26
Foreign exchange differences	(251)	(364)	109	(54)
Income on investment property	79	151	61	117
Investment property maintenance expenses	(34)	(62)	(28)	(51)
Investment activity expenses	(7)	(14)	(6)	(19)
Other	4	9	6	11
Other net investment income, total	**(207)**	**(196)**	**286**	**254**

8.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment financial assets	(73)	(103)	29	635
Debt instruments measured at fair value through other comprehensive income	(4)	(11)	22	26
Financial instruments measured at fair value through profit or loss	(70)	(95)	7	604
Equity instruments	(11)	(10)	4	587
Participation units and investment certificates	(28)	(49)	7	13
Debt instruments	(31)	(36)	(4)	4
Instruments measured at amortized cost	1	3	-	5
Loan receivables from clients measured at amortized cost	(3)	(13)	(4)	(9)
Derivatives	(7)	(63)	19	(49)
Short sale	(1)	4	-	2
Receivables	(35)	(52)	(35)	(59)
Investment property	-	-	5	6
Result on derecognition of financial instruments and investments, total	**(119)**	**(227)**	**14**	**526**

(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 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment financial assets	(54)	(58)	39	33
Debt instruments measured at fair value through other comprehensive income	(3)	-	23	22
Instruments measured at amortized cost	(51)	(58)	16	11
- debt instruments	(23)	(25)	14	9
- term deposits with credit institutions	(25)	(28)	(1)	-
- loans	(3)	(5)	3	2
Loan receivables from clients	(740)	(1,114)	(527)	(967)
Measured at amortized cost	(739)	(1,114)	(549)	(989)
Measured at fair value through other comprehensive income	(1)	-	22	22
Guarantees and sureties given	(13)	(5)	37	54
Receivables	(69)	(92)	6	(2)
Cash and cash equivalents	(6)	(7)	-	(1)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(882)**	**(1,276)**	**(445)**	**(883)**

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 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment financial instruments measured at fair value through profit or loss	(341)	(456)	151	208
Equity instruments	(113)	(131)	153	70
Debt securities	103	104	(140)	2
Participation units and investment certificates	(331)	(429)	138	136
Derivatives	109	282	172	244
Measurement of liabilities to members of consolidated mutual funds	33	52	(11)	(7)
Investment contracts for the client's account and risk (unit-linked)	26	43	(9)	(7)
Investment property	48	32	(53)	(59)
Loan receivables from clients	3	4	-	1
Net movement in fair value of assets and liabilities measured at fair value, total	**(122)**	**(43)**	**250**	**380**

(in millions of PLN)

8.8 Other operating income

Other operating income	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Revenues on the sales of products, merchandise and services by non-insurance companies	262	513	217	425
Revenues from direct claims handling on behalf of other insurance undertakings	40	80	39	81
Reversal of provisions	10	12	17	20
Reimbursement of the costs of pursuit of claims	22	33	9	16
Reinsurance commissions and profit participation	29	57	21	56
Interest for late payment of amounts due under direct insurance and outward reinsurance	13	27	10	24
Other	52	115	66	130
Other operating income, total	**428**	**837**	**379**	**752**

8.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Claims, benefits and movement in technical provisions	**3,528**	**7,392**	**4,170**	**8,186**
In non-life insurance	2,386	4,829	2,132	4,321
- claims and benefits	1,992	4,007	1,653	3,397
- movement in technical provisions	170	368	266	492
- claims handling expenses	224	454	213	432
In life insurance	1,142	2,563	2,038	3,865
- claims and benefits	1,516	3,358	1,779	3,558
- movement in technical provisions	(406)	(860)	230	246
- claims handling expenses	32	65	29	61
Reinsurers' share in claims, benefits and movement in technical provisions	**(102)**	**(276)**	**(26)**	**(116)**
In non-life insurance	(102)	(276)	(26)	(116)
Total net insurance claims and benefits	**3,426**	**7,116**	**4,144**	**8,070**

8.10 Fee and commission expenses

Fee and commission expenses	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Costs of card and ATM transactions, including card issue costs	268	486	189	354
Commissions on acquisition of banking clients	22	41	28	55
Fees for the provision of ATMs	12	22	13	21
Costs of awards to banking clients	5	9	4	8
Costs of bank transfers and remittances	12	24	9	20
Additional services attached to banking products	5	11	5	11
Brokerage fees	8	14	8	16
Costs of administration of bank accounts	2	3	1	2
Costs of banknote operations	4	13	7	12
Fiduciary activity expenses	7	14	8	14
Other commission	14	26	11	26
Total fee and commission expenses	**359**	**663**	**283**	**539**

(in millions of PLN)

8.11 Interest expenses

Interest expenses	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Term deposits	190	237	(9)	26
Current deposits	199	294	8	24
Own debt securities issued	167	254	49	102
Hedge derivatives	167	231	8	15
Loans	25	33	-	-
Repurchase transactions	87	127	-	-
Bank loans contracted by PZU Group companies	24	38	6	12
Leases	15	22	5	11
Other	9	15	4	7
Total interest expenses	**883**	**1,251**	**71**	**197**

8.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021 (restated)	1 January – 30 June 2021 (restated)
Consumption of materials and energy	46	99	39	83
Third party services	544	937	430	804
Taxes and charges	30	60	37	72
Employee expenses	1,364	2,727	1,277	2,559
Depreciation of property, plant and equipment	161	323	142	300
Amortization of intangible assets	107	247	122	240
Other, including:	946	1,831	812	1,598
- commissions in insurance activities	726	1,431	631	1,260
- advertising	89	146	61	104
- remuneration of group insurance administrators in work establishments	51	102	52	102
- other	80	152	68	132
Movement in deferred acquisition expenses	(45)	(110)	(18)	(47)
Administrative, acquisition and claims handling expenses, total	**3,153**	**6,114**	**2,841**	**5,609**

(in millions of PLN)

8.13 Other operating expenses

Other operating expenses	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Levy on financial institutions	361	709	320	637
Expenses of the core business of non-insurance and non-banking companies	282	559	236	478
Direct claims handling expenses on behalf of other insurance undertakings	41	83	37	85
Compulsory payments to insurance market institutions and banking market institutions	29	93	27	89
Bank Guarantee Fund	57	421	44	310
Costs of the bank protection system fee	636	636	-	-
Insurance Guarantee Fund	15	30	15	31
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	1	14	2	16
Expenditures for prevention activity	7	18	12	24
Establishment of provisions	147	176	111	238
Amortization of intangible assets purchased in company acquisition transactions	24	49	31	63
Recognition of impairment losses for non-financial assets	68	104	3	3
Donations	7	35	1	22
Costs of pursuit of claims	18	42	24	46
Other	64	79	77	114
Other operating expenses, total	**1,757**	**3,048**	**940**	**2,156**

8.14 Income tax

Total amount of current and deferred tax	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Recognized through profit or loss, including:	(615)	(1,203)	(419)	(874)
- current tax	(513)	(546)	(438)	(665)
- deferred tax	(102)	(657)	19	(209)
Recognized in other comprehensive income (deferred tax)	563	1,085	115	293
Total	**(52)**	**(118)**	**(304)**	**(581)**

Income tax on other comprehensive income items	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross other comprehensive income	(2,983)	(5,742)	(657)	(1,566)
Income tax	563	1,085	115	293
Debt instruments	199	453	78	164
Loan receivables from clients	1	1	8	9
Cash flow hedging	351	634	40	143
Equity instruments measured at fair value through other comprehensive income	15	-	(11)	(23)
Actuarial gains and losses related to employee provisions	(3)	(3)	-	-
Net other comprehensive income	**(2,420)**	**(4,657)**	**(542)**	**(1,273)**

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.

(in millions of PLN)

8.15 Earnings per share

Earnings per share	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021 (restated)	1 January – 30 June 2021 (restated)
Net profit attributable to the equity holders of the parent company	722	1,480	754	1,634
Weighted average basic and diluted number of common shares	863,390,985	863,384,065	863,339,389	863,341,671
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)	(132,015)	(138,935)	(183,611)	(181,329)
Basic and diluted earnings (losses) per common share (in PLN)	0.84	1.71	0.87	1.89

In the 6-month periods ended 30 June 2022 and 30 June 2021, there were no transactions or events resulting in the dilution of earnings per share.

8.16 Goodwill

Goodwill	30 June 2022	31 December 2021
Pekao [1]	1,715	1,715
LD [2]	517	508
Medical companies	300	288
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	42	41
Other	5	5
Total goodwill	**2,800**	**2,778**

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

Due to the increase in interest rates, an analysis of the possibility of impairment was conducted. The analysis took into account the impact of rising rates on the cost of capital, the implementation of current financial plans, and the dynamics of changes in sales and profitability. As a result of the analysis, as at 30 June 2022, impairment tests were conducted for all CGUs for which goodwill was allocated, except for the mass insurance segment in non-life insurance.

The tests were prepared in accordance with the principles described in PZU Group's 2021 consolidated financial statements.

The market risk premium was set at 5.5% (as at 31 December 2021: 5.0%).

The test for Pekao was performed without taking into account the legislative changes that came into effect after the balance sheet date (additional information on these changes is presented in section 7).

(in millions of PLN)

Cash generating unit	30 June 2022			31 December 2021		
	Discount rate	Growth rate after the projection period	Timeframe of financial projections	Discount rate	Growth rate after the projection period	Timeframe of financial projections
Pekao	12.6%	3.5%	3 years	9.7%	3.5%	3 years
LD	7.3%	3.0%	3 years	5.5%	3.0%	3 years
Balta	7.1%	3.0%	3 years	6.1%	3.0%	3 years
Medical companies	10.8%-11,4%	2.0%-3.0%	3 years	6.0%-6.7%	2.0%-3.0%	3 years

Sensitivity analysis

The table below presents the surplus of recoverable amounts over carrying amounts and the maximum discount rates and minimum marginal growth rates after the projection period, at which the carrying amounts and recoverable amounts of the individual CGUs. The surplus amount was stated as PZU's share.

Cash generating unit	30 June 2022			31 December 2021		
	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Pekao	1,233	13.0%	2.9%	1,376	11.2%	(4.3%)
LD	160	7.9%	2.4%	833	7.2%	1.1%
Balta	102	8.3%	1.6%	163	7.5%	1.5%
Medical companies	180	10.9%-24.3%	(6.0%)-2.0%	956	10.6%-28.1%	(54.4%)-(3.8%)

8.17 Intangible assets

Intangible assets by type groups	30 June 2022	31 December 2021
Software, licenses and similar assets	1,636	1,738
Trademarks	523	522
- Pekao	340	340
- other	183	182
Customer relationships	388	437
- Pekao	324	366
- other	64	71
Intangible assets under development	569	686
Other intangible assets	22	20
Total intangible assets	**3,138**	**3,403**

(in millions of PLN)

8.18 Other assets

Other assets	30 June 2022	31 December 2021
Reinsurance settlements	131	90
Estimated salvage and subrogation	190	198
Deferred IT expenses	187	110
Accrued direct claims handling receivables	46	53
Costs settled over time	119	74
Inventories	56	57
Payments for taxes on property, means of transport and land	27	-
Payments for the costs of the allowance to the Company Social Benefit Fund	25	-
Accrued commissions	14	18
Other assets	38	33
Total other assets	**833**	**633**

8.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 June 2022	31 December 2021
Plant and machinery	632	647
Means of transport	231	246
Property, plant and equipment under construction	233	283
Real property	2,756	2,587
Other property, plant and equipment	383	381
Total property, plant and equipment	**4,235**	**4,144**

8.20 Entities measured by the equity method

Associates	30 June 2022	31 December 2021
RUCH SA	30	48
Krajowy Integrator Płatności SA	45	44
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	3	-
Associates, total	**79**	**93**

(in millions of PLN)

8.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	30 June 2022	31 December 2021
Groups held for sale	**305**	**297**
Assets	335	325
Investment property	303	298
Receivables	4	7
Cash and cash equivalents	27	20
Other assets	1	-
Liabilities related directly to assets classified as held for sale	30	28
Other liabilities	14	14
Deferred tax liability	16	14
Other assets held for sale	**330**	**318**
Property, plant and equipment	46	18
Investment property	284	300
Assets and groups of assets held for sale	**665**	**643**
Liabilities related directly to assets classified as held for sale	**30**	**28**

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

8.22 Loan receivables from clients

Loan receivables from clients	30 June 2022	31 December 2021
Measured at amortized cost	216,968	214,602
Measured at fair value through other comprehensive income	391	246
Measured at fair value through profit or loss	143	160
Total loan receivables from clients	**217,502**	**215,008**

Loan receivables from clients	30 June 2022	31 December 2021
Retail segment	**114,166**	**116,523**
Operating loans	203	214
Consumer finance	26,041	27,013
Consumer finance loans	4,151	4,284
Loan to purchase securities	16	32
Overdrafts in credit card accounts	1,101	1,106
Loans for residential real estate	81,755	82,923
Other mortgage loans	684	717
Other receivables	215	234
Business segment	**103,336**	**98,485**
Operating loans	34,332	31,859
Car financing loans	2	3
Investment loans	29,204	27,992
Receivables purchased (factoring)	8,118	7,393
Overdrafts in credit card accounts	125	157
Loans for residential real estate	66	76
Other mortgage loans	10,647	9,522
Finance leases	14,042	13,694
Other receivables	6,800	7,789
Total loan receivables from clients	**217,502**	**215,008**

(in millions of PLN)

8.23 Financial derivatives

Derivatives	30 June 2022		31 December 2021	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**16,656**	**23,658**	**6,706**	**10,372**
Fair value hedging instruments – swap transactions	111	10	24	91
Cash flow hedging instruments – swap transactions	124	7,227	30	3,513
Instruments held for trading, including:	16,421	16,421	6,652	6,768
- forward contracts	16	19	7	13
- swap transactions	16,337	16,310	6,621	6,729
- call options (purchase)	52	77	16	20
- put options	14	13	6	4
- cap floor options	2	2	2	2
Foreign exchange derivatives	**1,557**	**1,112**	**797**	**727**
Cash flow hedging instruments – swap transactions	179	12	63	31
Instruments held for trading, including:	1,378	1,100	734	696
- forward contracts	562	655	361	393
- swap transactions	675	327	287	254
- call options (purchase)	111	45	83	24
- put options	30	73	3	25
Equity derivatives – held for trading	**31**	**3**	**69**	**41**
- call options (purchase)	31	3	69	41
Commodity derivatives – held for trading	**1,119**	**1,078**	**756**	**740**
- forward contracts	22	15	12	7
- swap transactions	1,054	1,020	729	717
- call options (purchase)	43	43	15	14
- put options	-	-	-	2
Total derivatives	**19,363**	**25,851**	**8,328**	**11,880**

8.24 Assets securing liabilities

Assets securing liabilities	30 June 2022				31 December 2021			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Debt securities	7,199	1,238	48	8,485	131	911	48	1,090
Government securities	7,199	1,238	48	8,485	131	911	48	1,090
Domestic	7,199	1,238	48	8,485	131	911	48	1,090
Fixed rate	5,154	650	45	5,849	131	911	2	1,044
Floating rate	2,045	588	3	2,636	-	-	46	46
Buy-sell-back transactions	-	-	-	-	246	-	-	246
Assets securing liabilities, total	**7,199**	**1,238**	**48**	**8,485**	**377**	**911**	**48**	**1,336**

(in millions of PLN)

8.25 Investment financial assets

Investment financial assets	30 June 2022				31 December 2021			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	770	818	1,588	n/a	768	931	1,699
Participation units and investment certificates	n/a	n/a	5,005	5,005	n/a	n/a	5,816	5,816
Debt securities	67,941	36,546	2,351	106,838	74,052	44,128	2,418	120,598
Government securities	58,577	26,643	2,098	87,318	65,228	31,409	2,135	98,772
Domestic	58,335	24,163	1,971	84,469	64,958	28,664	1,952	95,574
Fixed rate	54,572	16,348	1,495	72,415	59,532	21,233	1,511	82,276
Floating rate	3,763	7,815	476	12,054	5,426	7,431	441	13,298
Foreign	242	2,480	127	2,849	270	2,745	183	3,198
Fixed rate	242	2,480	127	2,849	270	2,745	180	3,195
Floating rate	-	-	-	-	-	-	3	3
Other	9,364	9,903	253	19,520	8,824	12,719	283	21,826
Fixed rate	3,023	5,300	36	8,359	2,844	7,424	37	10,305
Floating rate	6,341	4,603	217	11,161	5,980	5,295	246	11,521
Other, including:	15,634	-	-	15,634	8,841	-	-	8,841
Buy-sell-back transactions	5,114	-	-	5,114	3,871	-	-	3,871
Term deposits with credit institutions	6,419	-	-	6,419	1,384	-	-	1,384
Loans	4,101	-	-	4,101	3,586	-	-	3,586
Investment financial assets, total	**83,575**	**37,316**	**8,174**	**129,065**	**82,893**	**44,896**	**9,165**	**136,954**

Equity instruments measured at fair value through other comprehensive income	30 June 2022	31 December 2021
Grupa Azoty SA	324	243
Biuro Informacji Kredytowej SA	257	323
PSP sp. z o.o.	98	94
Polimex-Mostostal SA	35	42
Krajowa Izba Rozliczeniowa SA	14	16
Webuild SpA	11	15
Astaldi SFP	10	14
Other	21	21
Equity instruments measured at fair value through other comprehensive income, total	**770**	**768**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	30 June 2022	31 December 2021
Lithuania	756	845
Romania	209	227
Latvia	157	155
Italy	153	118
Indonesia	131	132
Hungary	124	134
Ukraine	113	163
Croatia	76	154
Mexico	75	88
Bulgaria	72	87
Columbia	71	76
Panama	69	76
Brazil	67	70
Peru	66	74
Spain	54	17
Saudi Arabia	51	59
Uruguay	50	55
Other	555 [1)]	668 [2)]
Total	**2,849**	**3,198**

[1)] The line item “Other” includes bonds issued by 53 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 54 countries.

(in millions of PLN)

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

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	30 June 2022	31 December 2021
K. Financial and insurance activities, of which:	6,690	8,375
Foreign banks	4,924	4,777
National Bank of Poland	29	1,870
Companies from the WIG-Banks Index	563	553
O. Public administration and defense, compulsory social security, of which:	5,241	5,354
Domestic local governments	5,235	5,345
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	1,957	2,329
Companies from the WIG-Energy Index	1,354	1,614
C. Manufacturing, of which:	1,769	1,818
Production and processing of crude oil refining products (including WIG-Fuels)	705	766
H. Transportation and storage	853	801
N. Administrative and support service activities	851	1,006
E. Water supply; sewerage, waste management and remediation activities	519	413
J. Information and communication	373	377
F. Construction	362	305
I. R. Accommodation and food service activities (including: WIG - hotels and restaurants) and arts, entertainment and recreation activities	317	335
L. Real estate activities	194	285
M. Professional, scientific and technical activity	186	196
B. Mining and quarrying	161	185
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	47	47
Total	**19,520**	**21,826**

8.26 Receivables

Receivables – carrying amount	30 June 2022	31 December 2021
Receivables on direct insurance, including:	2,667	2,694
- receivables from policyholders	2,466	2,604
- receivables from insurance intermediaries	102	89
- other receivables	99	1
Reinsurance receivables	52	63
Other receivables	10,609	6,661
- receivables from disposal of securities and margins [1)]	7,887	4,516
- receivables on account of payment card settlements	750	931
- trade receivables	343	310
- receivables from the state budget, other than corporate income tax receivables	128	98
- receivables by virtue of commissions concerning off-balance sheet products	214	170
- prevention settlements	33	33
- receivables from direct claims handling on behalf of other insurance undertakings	13	12
- receivables for acting as an emergency adjuster	7	8
- receivables on account of Corporate Income Tax	674	223
- receivables from security and bid deposits	65	54
- interbank and interbranch receivables	111	16
- refund from the National Depository for Securities Guarantee Fund	12	-
- other	372	290
Total receivables	**13,328**	**9,418**

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

(in millions of PLN)

As at 30 June 2022 and 31 December 2021, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

8.27 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 30 June 2022					1 January – 31 December 2021 (restated)				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	182,578	28,470	11,239	5,307	227,594	163,118	28,238	12,044	5,473	208,873
Recognition of instruments at the time of acquisition, creation, granting	35,386	-	-	18	35,404	58,460	-	-	8	58,468
Change attributable to modification of cash flows concerning the given instrument	(2)	(1)	-	-	(3)	(2)	(1)	-	-	(3)
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(28,402)	(1,498)	(1,649)	(236)	(31,785)	(40,618)	(4,955)	(2,570)	(1,132)	(49,275)
Assets from the statement of financial position	-	-	(1,093)	(7)	(1,100)	-	-	(1,678)	(57)	(1,735)
Reclassification to basket 1	9,587	(9,325)	(262)	-	-	7,958	(7,665)	(293)	-	-
Reclassification to basket 2	(9,589)	9,987	(398)	-	-	(15,055)	15,127	(72)	-	-
Reclassification to basket 3	(2,255)	(1,380)	3,635	-	-	(1,374)	(2,167)	3,541	-	-
Change in the composition of the Group	-	-	-	-	-	11,131	-	-	1,058	12,189
Other changes, including foreign exchange differences	104	13	183	193	493	(1,040)	(107)	267	(43)	(923)
End of the period	**187,407**	**26,266**	**11,655**	**5,275**	**230,603**	**182,578**	**28,470**	**11,239**	**5,307**	**227,594**
Expected credit losses										
Beginning of the period	(1,067)	(1,798)	(6,321)	(3,806)	(12,992)	(909)	(1,876)	(6,413)	(4,048)	(13,246)
Establishment of allowances for newly acquired, created, granted instruments	(235)	-	-	(3)	(238)	(839)	-	-	(3)	(842)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	437	(615)	(797)	51	(924)	927	(395)	(1,202)	306	(364)
Assets from the statement of financial position	-	-	1,093	7	1,100	-	-	1,678	57	1,735
Reclassification to basket 1	(461)	348	113	-	-	(495)	360	135	-	-
Reclassification to basket 2	109	(286)	177	-	-	157	(161)	4	-	-
Reclassification to basket 3	41	203	(244)	-	-	111	372	(483)	-	-
Other changes, including foreign exchange differences	(6)	33	(352)	(256)	(581)	(19)	(98)	(40)	(118)	(275)
End of the period	**(1,182)**	**(2,115)**	**(6,331)**	**(4,007)**	**(13,635)**	**(1,067)**	**(1,798)**	**(6,321)**	**(3,806)**	**(12,992)**
Net carrying amount at the end of the period	**186,225**	**24,151**	**5,324**	**1,268**	**216,968**	**181,511**	**26,672**	**4,918**	**1,501**	**214,602**

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

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 30 June 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	115	131	-	-	246	720	755	-	-	1,475
Recognition of instruments at the time of acquisition, creation, granting	150	-	-	-	150	-	-	-	-	-
Change in measurement	2	2	-	-	4	-	-	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	(3)	(3)	-	-	(6)	(601)	(622)	-	-	(1,223)
Other changes	(4)	1	-	-	(3)	(4)	(2)	-	-	(6)
End of the period	**260**	**131**	**-**	**-**	**391**	**115**	**131**	**-**	**-**	**246**
Expected credit losses										
Beginning of the period	(2)	(2)	-	-	(4)	(4)	(22)	-	-	(26)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	-	-	-	-	-
Changes attributable to valuation or credit risk level (excluding reclassification)	1	1	-	-	2	(2)	2	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	4	19	-	-	23
Other changes	-	-	-	-	-	-	(1)	-	-	(1)
End of the period	**(3)**	**(1)**	**-**	**-**	**(4)**	**(2)**	**(2)**	**-**	**-**	**(4)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January – 30 June 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	73,897	354	35	39	74,325	57,850	73	34	-	57,957
Recognition of instruments at the time of acquisition, creation, granting	3,983	-	-	-	3,983	26,513	-	-	-	26,513
Change in measurement	576	-	1	-	577	802	-	1	-	803
Changes attributable to sale, exclusion or expiration of the instrument	(3,929)	(37)	-	-	(3,966)	(11,476)	(8)	-	-	(11,484)
Assets from the statement of financial position	-	-	-	-	-	-	-	(1)	-	(1)
Reclassification to basket 1	244	(244)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(213)	213	-	-	-	(288)	288	-	-	-
Change in the composition of the Group	-	-	-	-	-	15	-	-	40	55
Other changes, including foreign exchange differences	371	6	-	6	383	481	1	1	(1)	482
End of the period	**74,929**	**292**	**36**	**45**	**75,302**	**73,897**	**354**	**35**	**39**	**74,325**
Expected credit losses										
Beginning of the period	(69)	(8)	(35)	(30)	(142)	(50)	(2)	(34)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(7)	-	-	-	(7)	(39)	-	-	-	(39)
Changes attributable to valuation or credit risk (excluding reclassification)	(24)	5	-	-	(19)	9	1	-	-	10
Changes attributable to sale, exclusion or expiration of the instrument	1	-	-	-	1	4	-	-	-	4
Assets from the statement of financial position	-	-	-	-	-	-	-	1	-	1
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Reclassification to basket 2	32	(32)	-	-	-	7	(7)	-	-	-
Other changes, including foreign exchange differences	(1)	(1)	(1)	8	5	-	-	(2)	(30)	(32)
End of the period	**(69)**	**(35)**	**(36)**	**(22)**	**(162)**	**(69)**	**(8)**	**(35)**	**(30)**	**(142)**
Net carrying amount at the end of the period	**74,860**	**257**	**-**	**23**	**75,140**	**73,828**	**346**	**-**	**9**	**74,183**

The value of allowances for expected credit losses on buy-sell-back transactions, both as at 30 June 2022 and as at 31 December 2021, is zero.

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 30 June 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	44,788	251	-	-	45,039	63,387	256	-	-	63,643
Recognition of instruments at the time of acquisition, creation, granting	50,959	-	-	-	50,959	297,955	4	-	-	297,959
Change in measurement	(1,784)	(17)	-	-	(1,801)	(445)	(10)	-	-	(455)
Changes attributable to sale, exclusion or expiration of the instrument	(56,833)	(21)	-	-	(56,854)	(315,883)	(93)	-	-	(315,976)
Reclassification to basket 1	26	(26)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(168)	168	-	-	-	(94)	94	-	-	-
Change in the composition of the Group	-	-	-	-	-	313	-	-	-	313
Other changes, including foreign exchange differences	440	1	-	-	441	(445)	-	-	-	(445)
End of the period	**37,428**	**356**	**-**	**-**	**37,784**	**44,788**	**251**	**-**	**-**	**45,039**
Expected credit losses										
Beginning of the period	(54)	(26)	-	-	(80)	(68)	(13)	-	-	(81)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(19)	-	-	-	(19)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	(1)	-	-	(1)	12	(12)	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	20	-	-	-	20
Reclassification to basket 2	10	(10)	-	-	-	1	(1)	-	-	-
End of the period	**(43)**	**(37)**	**-**	**-**	**(80)**	**(54)**	**(26)**	**-**	**-**	**(80)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January – 30 June 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	1,385	-	-	-	1,385	953	-	-	-	953
Recognition of instruments at the time of acquisition, creation, granting	19,900	-	-	-	19,900	33,091	-	-	-	33,091
Change in measurement	6	-	-	-	6	2	-	-	-	2
Change attributable to modification of cash flows concerning the given instrument	(363)	-	-	-	(363)	(399)	-	-	-	(399)
Changes attributable to sale, exclusion or expiration of the instrument	(14,498)	-	-	-	(14,498)	(32,411)	-	-	-	(32,411)
Reclassification to basket 2	(177)	177	-	-	-	-	-	-	-	-
Reclassification to basket 3	(143)	-	143	-	-	-	-	-	-	-
Change in the composition of the Group	-	-	-	-	-	161	-	-	-	161
Other changes, including foreign exchange differences	11	8	-	-	19	(12)	-	-	-	(12)
End of the period	**6,121**	**185**	**143**	**-**	**6,449**	**1,385**	**-**	**-**	**-**	**1,385**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	5	-	-	-	5	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(32)	-	(1)	-	(33)	(4)	-	-	-	(4)
Reclassification to basket 2	27	(27)	-	-	-	-	-	-	-	-
Reclassification to basket 3	1	-	(1)	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	-	(1)	-	-	(1)	6	-	-	-	6
End of the period		**(28)**	**(2)**	**-**	**(30)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**6,121**	**157**	**141**	**-**	**6,419**	**1,384**	**-**	**-**	**-**	**1,384**

(in millions of PLN)

Loans	1 January – 30 June 2022					1 January – 31 December 2021				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	3,522	75	-	-	3,597	3,318	79	-	-	3,397
Recognition of instruments at the time of acquisition, creation, granting	578	-	-	-	578	1,418	-	-	-	1,418
Change in measurement	21	2	-	-	23	(10)	2	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	(78)	(4)	-	-	(82)	(1,204)	(6)	-	-	(1,210)
End of the period	**4,043**	**73**	**-**	**-**	**4,116**	**3,522**	**75**	**-**	**-**	**3,597**
Expected credit losses										
Beginning of the period	(5)	(6)	-	-	(11)	(7)	(6)	-	-	(13)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	(4)	1	-	-	(3)	1	-	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	2	-	-	-	2
Other changes	1	-	-	-	1	-	-	-	-	-
End of the period	**(10)**	**(5)**	**-**	**-**	**(15)**	**(5)**	**(6)**	**-**	**-**	**(11)**
Net carrying amount at the end of the period	**4,033**	**68**	**-**	**-**	**4,101**	**3,517**	**69**	**-**	**-**	**3,586**

Receivables	1 January – 30 June 2022	1 January – 31 December 2021
Gross carrying amount		
Beginning of the period	10,575	7,333
Changes in the period	4,004	3,242
End of the period	**14,579**	**10,575**
Expected credit losses		
Beginning of the period	(1,157)	(1,087)
Changes in the period	(94)	(70)
End of the period	**(1,251)**	**(1,157)**
Net carrying amount at the end of the period	**13,328**	**9,418**

8.28 Fair value

8.28.1. Description of valuation techniques

8.28.1.1. Debt securities and loans

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

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

The fair value of loans and debt securities for which an active market does not exist is measured using the discounted cash flow method. For debt instruments based on a variable interest rate, the reference curve reflecting the level of risk-free rates for the discounting of future flows is developed on the basis of an appropriate swap curve for the respective currency. In turn, for instruments based on a fixed interest rate, it is based on treasury bond quotations in the respective currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of the respective debt instrument, a market-based sectoral spread published in news services is added, reflecting the risk valuation for the issuer's sector and its rating.

8.28.1.2. Equity-based financial assets

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

8.28.1.3. Participation units and investment certificates of mutual funds

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

8.28.1.4. Derivatives

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

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

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

8.28.1.5. Loan receivables from clients

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

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

8.28.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

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

The fair value of liabilities on the issue of own debt securities, including subordinated liabilities, is calculated as the present value of expected payments based on the current interest rate curves and the individual credit spread for the given issue. The individual spread is initially calibrated to the issue price and periodically recalibrated when trading data are available.

8.28.1.8. Liabilities under deposits

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

8.28.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

8.28.2. Fair value hierarchy

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

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

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

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

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

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

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
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.	

8.28.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 June 2022				31 December 2021			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets and assets securing liabilities measured at fair value through other comprehensive income	21,638	11,096	5,820	38,554	22,733	17,002	6,072	45,807
Equity instruments	370	-	400	770	297	-	471	768
Debt securities	21,268	11,096	5,420	37,784	22,436	17,002	5,601	45,039
Investment financial assets and assets securing liabilities measured at fair value through profit or loss	2,696	5,181	345	8,222	2,625	6,142	446	9,213
Equity instruments	558	-	260	818	615	57	259	931
Participation units and investment certificates	153	4,831	21	5,005	164	5,631	21	5,816
Debt securities	1,985	350	64	2,399	1,846	454	166	2,466
Loan receivables from clients	-	-	534	534	-	-	406	406
Measured at fair value through other comprehensive income	-	-	391	391	-	-	246	246
Measured at fair value through profit or loss	-	-	143	143	-	-	160	160
Financial derivatives	-	19,335	28	19,363	1	8,273	54	8,328
Investment property	-	161	2,769	2,930	-	166	2,607	2,773
Liabilities								
Derivatives	-	25,850	1	25,851	-	11,860	20	11,880
Liabilities to members of consolidated mutual funds	-	291	-	291	-	380	-	380
Investment contracts for the client's account and risk *(unit-linked)*	-	224	-	224	-	267	-	267
Liabilities on borrowed securities (short sale)	853	-	-	853	686	-	-	686

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 June 2022	Investment financial assets and assets securing liabilities measured at fair value through other comprehensive income		Investment financial assets and assets securing liabilities measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehen-sive income	through profit or loss	
Beginning of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**
Purchase/opening of the position/granting	-	49	-	-	835	-	-	151	-	112
Reclassification from Level II [1)]	-	1,964	-	-	22	-	-	-	-	7
Reclassification from own properties	-	-	-	-	-	-	-	-	-	8
Reclassifications from assets held for sale	-	-	-	-	-	-	-	-	-	23
Profit or loss recognized in the profit and loss account:	-	10	3	-	(2)	(12)	(10)	7	2	13
- interest income calculated using the effective interest rate	-	59	-	-	-	(2)	-	7	2	-
- result on derecognition of financial instruments and investments	-	1	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(50)	3	-	(2)	(10)	(10)	-	-	13
Profits or losses recognized in other comprehensive income	(71)	(238)	-	-	-	-	-	(5)	-	-
Sales/settlements/repayments/conversions	-	(464)	-	-	(867)	(13)	(9)	(8)	(19)	-
Reclassification to assets held for sale or own properties	-	-	-	-	-	-	-	-	-	(1)
Reclassification to Level II	-	(1,502)	-	-	(90)	(1)	-	-	-	-
Foreign exchange differences	-	-	(2)	-	-	-	-	-	-	-
End of the period	**400**	**5,420**	**260**	**21**	**64**	**28**	**1**	**391**	**143**	**2,769**

[1)] Information on the restatements is presented in section 8.28.6.

(in millions of PLN)

Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 2021	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehen-sive income	through profit or loss	
Beginning of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**
Purchase/opening of the position/granting	-	3,376	-	-	5,938	2	2	53	1	310
Reclassification from Level I [1)]		7	-	-	-	-	-	-	-	-
Reclassification from Level II [1)]	-	788	-	-	36	-	-	-	-	142
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	157
Profit or loss recognized in the profit and loss account:	-	68	604	(2)	(17)	19	10	44	(4)	160
- interest income calculated using the effective interest rate	-	113	-	-	2	7	-	44	(4)	-
- result on derecognition of financial instruments and investments	-	2	586	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(47)	18	(2)	(20)	12	10	-	-	160
Profits or losses recognized in other comprehensive income	39	(161)	-	-	-	-	-	(24)	-	-
Sales/settlements/repayments/conversions	-	(9,034)	(720)	-	(5,880)	(64)	(52)	(1,302)	(24)	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(469)
Reclassification to Level II	-	(874)	-	-	(5)	-	(4)	-	-	-
Change in the composition of the Group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	-	-	5	2	-	-	-	-	-	-
End of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**

[1)] Information on the restatements is presented in section 8.28.6.

(in millions of PLN)

8.28.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2022					31 December 2021				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	222,454	222,454	216,968	-	-	214,781	214,781	214,602
Investment financial assets and assets securing liabilities measured at amortized cost	37,847	22,865	20,197	80,909	90,774	39,455	8,663	32,383	80,501	83,270
Debt securities	37,847	15,221	12,276	65,344	75,140	39,455	6,436	25,489	71,380	74,183
Buy-sell-back transactions	-	1,992	3,122	5,114	5,114	-	1,590	2,527	4,117	4,117
Term deposits with credit institutions	-	5,652	811	6,463	6,419	-	637	754	1,391	1,384
Loans	-	-	3,988	3,988	4,101	-	-	3,613	3,613	3,586
Liabilities										
Liabilities to banks	-	1,681	6,044	7,725	7,758	-	2,726	4,762	7,488	7,470
Liabilities to clients under deposits	-	-	268,450	268,450	268,729	-	-	264,818	264,818	265,155
Liabilities on the issue of own debt securities [1)]	-	7,397	583	7,980	7,940	-	5,418	539	5,957	5,940
Subordinated liabilities [1)]	-	2,768	3,325	6,093	6,135	-	2,748	3,520	6,268	6,274
Liabilities on account of repurchase transactions	-	6,865	1,128	7,993	7,987	-	846	359	1,205	1,207

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

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

In the 6-month period ended 30 June 2022 and 2021, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

8.28.6. Reclassification between fair value hierarchy levels

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

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

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

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

In the 6-month period ended 30 June 2022, the following reclassifications of assets between fair value levels were made:

- reclassification from level III to level II was applied to corporate, municipal and State Treasury bonds measured using market information about the prices of comparable financial instruments, corporate and municipal bonds for which the estimated credit parameters had no significant impact on their measurement;
- reclassification from level II to level III was applied to corporate and municipal bonds and foreign exchange and interest rate market for which the impact exerted by the estimated credit parameters exerted a significant impact on the measurement;
- reclassification from level II to level I was applied to government bonds measured using price information from the market due to an increase in market activity.

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

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

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

Both in the 6-month period ended 30 June 2022, and in 2021, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.30 Exposure to credit risk

The following tables present the credit risk exposure of individual credit risk assets in respective Fitch rating categories granted by external rating agencies.

Credit risk exposures arising from conditional transactions are presented as an exposure to the issuer of the underlying securities.

The tables do not include loan receivables from clients and receivables due under insurance contracts. This was because these asset portfolios are very dispersed and therefore contains a significant percentage of receivables from unrated entities and individuals.

(in millions of PLN)

Credit risk assets as at 30 June 2022	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	74,860	257	-	23	75,140
- gross carrying amount	74,929	292	36	45	75,302
- from AAA to A	60,907	-	-	-	60,907
- from BBB to B	1,260	36	-	-	1,296
- no rating	12,762	256	36	45	13,099
- write-off for expected credit losses	(69)	(35)	(36)	(22)	(162)
Debt securities measured at fair value through other comprehensive income – carrying amount	37,428	356	-	-	37,784
- from AAA to A	29,677	-	-	-	29,677
- from BBB to B	4,427	131	-	-	4,558
- no rating	3,324	225	-	-	3,549
- allowance for expected credit losses [1)]	(43)	(37)	-	-	(80)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	2,399
- from AAA to A	X	X	X	X	1,238
- from BBB to B	X	X	X	X	112
- no rating	X	X	X	X	176
- assets at the client's risk	X	X	X	X	873
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	11,235	157	141	-	11,533
- gross carrying amount	11,235	185	143	-	11,563
- from AAA to A	3,166	-	-	-	3,166
- from BBB to B	821	-	-	-	821
- no rating	7,234	185	143	-	7,562
- assets at the client's risk	14	-	-	-	14
- write-off for expected credit losses	-	(28)	(2)	-	(30)
Loans – carrying amount	4,033	68	-	-	4,101
- gross carrying amount	4,043	73	-	-	4,116
- from BBB to B	174	-	-	-	174
- no rating	3,869	73	-	-	3,942
- write-off for expected credit losses	(10)	(5)	-	-	(15)
Derivatives	X	X	X	X	19,363
- from AAA to A	X	X	X	X	13,101
- from BBB to B	X	X	X	X	1,332
- no rating	X	X	X	X	4,906
- assets at the client's risk	X	X	X	X	24
Reinsurers' share in claims provisions	X	X	X	X	1,484
- from AAA to A	X	X	X	X	1,280
- from BBB to B	X	X	X	X	12
- no rating	X	X	X	X	192
Reinsurance receivables	X	X	X	X	52
- from AAA to A	X	X	X	X	33
- no rating	X	X	X	X	19
Total	**127,556**	**838**	**141**	**23**	**151,856**

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

(in millions of PLN)

Credit risk assets as at 31 December 2021	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	73,828	346	-	9	74,183
- gross carrying amount	73,897	354	35	39	74,325
- from AAA to A	60,350	-	-	-	60,350
- from BBB to B	1,242	35	-	-	1,277
- no rating	12,305	319	35	39	12,698
- write-off for expected credit losses	(69)	(8)	(35)	(30)	(142)
Debt securities measured at fair value through other comprehensive income – carrying amount	44,788	251	-	-	45,039
- from AAA to A	35,806	-	-	-	35,806
- from BBB to B	5,117	127	-	-	5,244
- no rating	3,865	124	-	-	3,989
- allowance for expected credit losses [1)]	(54)	(26)	-	-	(80)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	2,466
- from AAA to A	X	X	X	X	1,142
- from BBB to B	X	X	X	X	171
- no rating	X	X	X	X	145
- assets at the client's risk	X	X	X	X	1,008
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,501	-	-	-	5,501
- gross carrying amount	5,502	-	-	-	5,502
- from AAA to A	796	-	-	-	796
- from BBB to B	519	-	-	-	519
- no rating	4,167	-	-	-	4,167
- assets at the client's risk	20	-	-	-	20
- write-off for expected credit losses	(1)	-	-	-	(1)
Loans – carrying amount	3,517	69	-	-	3,586
- gross carrying amount	3,522	75	-	-	3,597
- from BBB to B	150	-	-	-	150
- no rating	3,372	75	-	-	3,447
- write-off for expected credit losses	(5)	(6)	-	-	(11)
Derivatives	X	X	X	X	8,328
- from AAA to A	X	X	X	X	6,632
- from BBB to B	X	X	X	X	882
- no rating	X	X	X	X	782
- assets at the client's risk	X	X	X	X	32
Reinsurers' share in claims provisions	X	X	X	X	1,399
- from AAA to A	X	X	X	X	1,192
- from BBB to B	X	X	X	X	8
- no rating	X	X	X	X	199
Reinsurance receivables	X	X	X	X	63
- from AAA to A	X	X	X	X	35
- no rating	X	X	X	X	28
Total	**127,634**	**666**	**-**	**9**	**140,565**

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

(in millions of PLN)

8.31 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 2022 and 31 December 2021

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

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

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

On 29 June 2022, the PZU Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2021 in the amount of PLN 2,028 million, increased by PLN 950 million moved from supplementary capital created from the net profit for the year ended 31 December 2020, i.e. in total PLN 2,978 million, as follows:

- designate PLN 1,675 million (i.e. PLN 1.94 per share) as a dividend payout;
- designate PLN 1,296 million for supplementary capital;
- designate PLN 7 million for the Company Social Benefit Fund.

The record date was set at 29 September 2022 and the dividend payment date was set for 20 October 2022.

The accepted profit distribution is consistent with the PZU Group's Capital and Dividend Policy for 2021-2024, as adopted on 24 March 2021, and takes into account the recommendations contained in the Polish Financial Supervision Authority's (KNF) stance on the dividend policy in 2022 issued on 9 December 2021.

8.32 Technical provisions

Technical provisions	30 June 2022			31 December 2021		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**27,673**	**(2,514)**	**25,159**	**26,881**	**(2,539)**	**24,342**
Provision for unearned premiums	9,847	(1,025)	8,822	9,423	(1,139)	8,284
Provision for unexpired risk	34	-	34	42	-	42
Provision for outstanding claims and benefits	11,286	(1,204)	10,082	11,039	(1,119)	9,920
- for reported claims	4,176	(1,051)	3,125	4,024	(966)	3,058
- for claims not reported *(IBNR)*	4,764	(123)	4,641	4,748	(129)	4,619
- for claims handling expenses	2,346	(30)	2,316	2,267	(24)	2,243
Provision for the capitalized value of annuities	6,492	(279)	6,213	6,371	(280)	6,091
Provisions for bonuses and discounts for insureds	14	(6)	8	6	(1)	5
Technical provisions in life insurance	**22,417**	**(1)**	**22,416**	**23,292**	**(1)**	**23,291**
Provision for unearned premiums	111	-	111	113	(1)	112
Provision for unexpired risk	-	-	-	25	-	25
Life insurance provision	16,576	-	16,576	16,345	-	16,345
Provision for outstanding claims and benefits	682	(1)	681	676	-	676
- for reported claims	192	(1)	191	163	-	163
- for claims not reported *(IBNR)*	485	-	485	508	-	508
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	3	-	3	6	-	6
Other technical provisions	167	-	167	164	-	164
Unit-linked provision	4,878	-	4,878	5,963	-	5,963
Total technical provisions	**50,090**	**(2,515)**	**47,575**	**50,173**	**(2,540)**	**47,633**

8.33 Subordinated liabilities

	Par value (in millions)	Cur-rency	Interest rate	Issue date/Maturity date	Carrying amount 30 June 2022 (PLN million)	Carrying amount 31 December 2021 (PLN million)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,295	2,266
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,266	1,255
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	559	553
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	203	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	352	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	403	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	226	225
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	610	604
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	-	47
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 / 16 May 2022	-	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	150	150
Subordinated liabilities					**6,135**	**6,274**

(in millions of PLN)

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 2022	31 December 2021
Bonds	3,720	4,154
Certificates of deposit	3,275	695
Covered bonds	945	1,091
Total liabilities on the issue of own debt securities	**7,940**	**5,940**

8.35 Liabilities to banks

Liabilities to banks	30 June 2022	31 December 2021
Current deposits	991	821
One-day deposits	691	3
Term deposits	876	1,893
Loans received	4,767	4,658
Other liabilities	433	95
Liabilities to banks, total	**7,758**	**7,470**

8.36 Liabilities to clients under deposits

Liabilities to clients under deposits	30 June 2022	31 December 2021
Current deposits	221,364	241,112
Term deposits	45,894	23,067
Other liabilities	1,471	976
Liabilities to clients under deposits, total	**268,729**	**265,155**

(in millions of PLN)

8.37 Other liabilities

Other liabilities	30 June 2022	31 December 2021
Liabilities measured at fair value	**1,368**	**1,333**
Liabilities on borrowed securities (short sale)	853	686
Investment contracts for the client's account and risk (unit-linked)	224	267
Liabilities to members of consolidated mutual funds	291	380
Accrued expenses	**1,921**	**2,230**
Accrued expenses of agency commissions	408	381
Accrued payroll expenses	672	750
Accrued reinsurance expenses	439	725
Other	402	374
Deferred revenue	**592**	**502**
Other liabilities	**21,929**	**9,138**
Liabilities on account of repurchase transactions	7,987	1,207
Lease liabilities	1,296	992
Liabilities due under transactions on financial instruments	2,323	1,338
Liabilities to banks for payment documents cleared in interbank clearing systems	2,091	1,251
Liabilities on direct insurance	1,084	955
Liabilities on account of payment card settlements	437	404
Regulatory settlements	311	275
Liabilities for contributions to the Bank Guarantee Fund	989	629
Reinsurance liabilities	263	228
Estimated non-insurance liabilities	153	159
Liabilities to employees	83	101
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	26	18
Trade liabilities	324	652
Current income tax liabilities	289	147 [1)]
Liabilities on account of employee leaves	223	165
Liabilities to the state budget other than for income tax	153	68
Liabilities on account of donations	12	17
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	21	28
Insurance Guarantee Fund	13	13
Liability for the refund of loan costs	120	96
Liabilities for direct claims handling	34	36
Liabilities for the bank protection system fee	636	-
Liabilities to PZU shareholders for dividends	1,678	3
Liabilities to minority shareholders in subsidiaries for dividends	903	-
Other	480	356
Other liabilities, total	**25,810**	**13,203**

[1)] Including PLN 72 million of a tax liability in Sweden. Additional information on this issue is presented in item 18.7.

(in millions of PLN)

8.38 Provisions

Movement in provisions in the period ended 30 June 2022	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	496	251	-	(246)	5	506
Provision for retirement severance pays	267	15	(28)	-	(15)	239
Provision for disputed claims and potential liabilities	69	12	(7)	(9)	1	66
Provision for potential refunds of borrowing costs	120	34	(25)	-	-	129
Provision for legal risk pertaining to mortgage loans in Swiss francs	132	114	(4)	(2)	-	240
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	28	-	(4)	-	-	24
Provision for post-mortem benefits	25	1	-	-	(2)	24
Other	30	10	(9)	(1)	-	30
Total provisions	**1,206**	**437**	**(77)**	**(258)**	**(11)**	**1,297**

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

Provision for potential refunds of borrowing costs

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

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

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

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

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

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 pertaining to the above issues may have significant impact on the further line of court rulings in this respect. However, it is uncertain whether and when the full panel of the Civil Chamber will adopt a resolution on these legal questions.

As at 30 June 2022, there were 2,240 individual court cases pending against the PZU Group pertaining to FX mortgage loans which were granted in previous years with the total disputed amount of PLN 687 million (as at 31 December 2021, there were 1,623 cases pending with the value of PLN 470 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

In H1 2022, the PZU Group received 243 unfavorable court judgments in cases filed by borrowers, including 36 final non-appealable judgments, and 13 favorable court judgments, including 4 final non-appealable judgments (in 2021: 125 unfavorable court judgments, including 20 final non-appealable judgments, and 11 favorable court judgments, including 4 final non-appealable judgments).

The PZU Group considers that the legal risk pertaining to the FX mortgage loan portfolio outstanding as at the balance sheet date impacts the expected cash flows from this portfolio and that the level of the expected credit loss, as defined in IFRS 9. With regard to the portfolio of repaid loans, the PZU Group applies IAS 37 and recognizes provisions allocated to this part of the portfolio as Other provisions and Other operating expenses.

(in millions of PLN)

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

Consolidated statement of financial position line items	30 June 2022	31 December 2021
Impairment losses for loan receivables from clients (pertaining to on-balance sheet exposures)	841	516
individual provision	292	220
portfolio provision	549	296
Other provisions (pertaining to repaid exposures)	240	132
individual provision	78	52
portfolio provision	162	80
Total	**1,081**	**648**

Consolidated profit and loss account line items	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Movement in allowances for expected credit losses and impairment losses on financial instruments	(300)	(331)	(4)	(5)
Other operating expenses	(107)	(114)	2	3
Total	**(407)**	**(445)**	**(2)**	**(2)**

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

New rulings and the possible sectoral solutions which will appear in the Polish market for mortgage loans may have impact on the amount of the provision established by 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 calculation of the provision for the Pekao portfolio carried out as at 30 June 2022 was based on the following scenarios:

- base scenario – recognized as the most likely, assumes that approx. 17% of FX borrowers (with both active and repaid loans) have filed or will file statements of claim challenging the loan agreement. The scenario takes into account an analysis of the number and trend of lawsuits to date and the likelihood of losing lawsuits, as well as the possible financial impact if a lawsuit is lost, taking as possible outcomes:
  - invalidating the entire mortgage loan agreement as a result of recognizing the indexation clause as abusive (this outcome is considered the most likely);
  - recognizing the clauses contained in the loan agreement as abusive clauses resulting in determining the loan balance in PLN and leaving the loan interest rate based on the SARON rate (the so-called currency conversion of a CHF loan agreement);
  - recognizing the indexation clause as abusive and replacing the bank's exchange rate table in it with the average NBP exchange rate;
  - dismissing the statement of claim.

  Under the baseline scenario, as at 30 June 2022, the current situation in the macroeconomic environment is taken into account, including the current trends in judicial decisions regarding FX mortgage loans. This resulted in an increase in the expected number of litigation cases by approx. 40% over the assumptions made as at 31 December 2021. In addition, the PZU Group has updated its expectations including the probability distribution of possible outcomes and the amount of expected financial impact if the litigation is lost, taking into account the statistics for litigation cases currently pending. In particular, the share of invalidation of the loan agreement in the possible outcome scenarios has risen to 90% (versus 80% at the end of 2021). No out-of-court settlements with customers are assumed in this scenario;

(in millions of PLN)

- out-of-court settlement scenario – possible in the current market conditions, in which most customers (approx. 85% of the portfolio value) will qualify for the settlement option, based on solutions being rolled out in the banking sector, as proposed by the Chairman of the Polish Financial Supervision Authority. In the settlement scenario the financial effects are equal to the sum of the differences between the current balance of the loan and the balance of the PLN mortgage loan based on the WIBOR rate plus the loan margin, granted at the same time and for the same term as the FX loan and repaid by the borrower in accordance with the repayments made in the FX loan.

  As a result, under the current market parameters, the cost of out-of-court settlements would total approx. PLN 650 million. For contracts currently in dispute, an assessment is underway of the possible tendency of customers to withdraw the lawsuit and enter into a settlement, taking into account in this assessment the relation of the benefit that may be obtained by the customer from the settlement to the potential benefit from the lawsuit (including the legal representation costs) and the expected outcome of the litigation;
- negative scenario – possible in the event of a significant deterioration of the macroeconomic environment, in particular in terms of a significant intensification and deepening of the adverse trend regarding the unfavorable judgments issued by ordinary courts in respect of foreign currency mortgage loans, the number of possible lawsuits will be twice as high as the one assumed in the baseline scenario with a simultaneous greater likelihood of unfavorable court judgments. In terms of the probability distribution of possible outcomes of the litigation, in this scenario, a higher probability of the whole foreign currency mortgage agreement being declared invalid (at a level of 95% of decisions – percentage levels unchanged compared to those assumed in 2021). No out-of-court settlements with customers are assumed in this scenario.

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

Parameter	Scenario	Impact on the amount of the provision 30 June 2022	Impact on the amount of the provision 31 December 2021
Number of cases brought to court	+20%	161	97
	-20%	(161)	(73)
Probability of losing the case	+10 p.p. (no more than 100%)	84	61
	-10 p.p.	(102)	(47)
Probability of the agreement invalidation scenario	+10 p.p. (no more than 100%)	79	53
	-10 p.p.	(95)	(37)

For Alior Bank's portfolio, the provision was estimated based on:

- the pace of the influx of litigations concerning the legal risk of foreign currency mortgage loans, observed to date and expected in future periods, and the resulting estimate of the percentage of the portfolio of foreign currency mortgage loans that will be the subject of litigation;
- the estimated financial impact of invalidation or PLN conversion scenarios in a hypothetical scenario if, as of the current balance sheet date, an effective claim was brought by all clients, for whom the financial effect of a dispute won by the clients would be positive;
- the percentage of litigation cases lost by banks, reported by the Polish Bank Association, including the percentage of cases that ended in agreement invalidation and the percentage of cases that ended in the conversion of the agreements into PLN.

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).

(in millions of PLN)

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

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

The amount of PLN 11 million pertains to the penalty imposed by the President of the Office of Competition and Consumer Protection as a result of the decision in which he deemed that s clause used by Pekao in annexes to agreements on the rules for setting foreign exchange rates is an impermissible contractual clause. Pekao appealed against the UOKiK President's decision to the Court of Competition and Consumer Protection and received a reply from the UOKiK President requesting that the appeal be dismissed in its entirety.

8.39 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 June 2022	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	4,658	76	1	26	6	4,767
Liabilities on the issue of debt securities	5,940	1,960	1	15	24	7,940
Bonds	4,154	(460)	6	15	5	3,720
Certificates of deposit	695	2,571	(5)	(1)	15	3,275
Covered bonds	1,091	(151)	-	1	4	945
Subordinated liabilities	6,274	(223)	85	(1)	-	6,135
Liabilities on account of repurchase transactions	1,207	6,684	132	-	(36)	7,987
Lease liabilities	992	(152)	182	1	273	1,296
Total	**19,071**	**8,345**	**401**	**41**	**267**	**28,125**

Movement in liabilities attributable to financial activities in the period ended 31 December 2021	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	6,439	(1,779)	1	(10)	7	4,658
Liabilities on the issue of debt securities	7,532	(1,610)	6	10	2	5,940
Bonds	4,597	(457)	1	11	2	4,154
Certificates of deposit	1,611	(918)	6	-	(4)	695
Covered bonds	1,324	(235)	(1)	(1)	4	1,091
Subordinated liabilities	6,679	(500)	95	-	-	6,274
Liabilities on account of repurchase transactions	1,154	54	2	-	(3)	1,207
Lease liabilities	1,064	(292)	22	-	198	992
Total	**22,868**	**(4,127)**	**126**	**-**	**204**	**19,071**

(in millions of PLN)

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 2022	31 December 2021
Carrying amount of financial assets pledged as collateral for liabilities	20,058	12,133
Repurchase transactions	8,357	1,205
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	998	1,027
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	304	275
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	570	489
Lombard and technical credit	5,038	5,481
Other loans	446	431
Issue of covered bonds	1,380	1,402
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	29	28
Derivative transactions	2,908	1,756
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	28	39
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**20,058**	**12,133**

10. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2022	31 December 2021
Contingent assets, including:	5	6
- guarantees and sureties received	5	6
Contingent liabilities	69,805	68,948
- for renewable limits in settlement accounts and credit cards	4,751	4,813
- for loans in tranches	42,626	41,017
- guarantees and sureties given	8,741	9,531
- disputed insurance claims	827	785
- other disputed claims	188	190
- other, including:	12,672	12,612
- guaranteeing securities issues	4,393	5,240
- factoring	6,848	5,863
- intra-day limit	434	424
- letters of credit and commitment letters	926	947
- other	71	138

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

In the period of 6 months ended on 30 June 2022 and in 2021, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity – where the total amount of outstanding sureties or guarantees would be significant.

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 2021 report published on 18 May 2022 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to Article 290 sec. 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

(in millions of PLN)

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

The PZU Group's solvency ratio as at 31 December 2021, published in the PZU Group's 2021 solvency and financial condition report, was 221%.

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

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.

Segment	Accounting standards	Segment description	Aggregation criteria
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 2021.

PZU's 2021 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.

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 – stems from the internal assessment of the segmental results based on such a combined measure of investment results;

(in millions of PLN)

- not allocating other revenues and costs to the segment called „investments” besides realized and unrealized revenues and costs of investments – stems 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 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	921	1,610	795	1,462
Gross written premium – cross-segment	11	12	4	13
Gross written premiums	**932**	**1,622**	**799**	**1,475**
Movement in provision for unearned premiums and gross provision for unexpired risks	(78)	61	15	112
Gross earned premium	**854**	**1,683**	**814**	**1,587**
Reinsurers’ share in gross written premium	(292)	(372)	(211)	(297)
Reinsurer’s share in the movement in provision for unearned premiums and the gross provision for unexpired risk	47	(100)	(19)	(131)
Net earned premium	**609**	**1,211**	**584**	**1,159**
Investment income, including:	29	56	3	27
external operations	29	56	3	27
intersegment operations	-	-	-	-
Other net technical income	9	19	7	16
Total income	**647**	**1,286**	**594**	**1,202**
Net insurance claims and benefits	(369)	(748)	(368)	(740)
Acquisition expenses	(131)	(259)	(126)	(254)
Administrative expenses	(36)	(72)	(32)	(69)
Reinsurance commissions and profit participation	16	31	13	28
Other	(19)	(46)	(13)	(38)
Insurance result	**108**	**192**	**68**	**129**

(in millions of PLN)

Mass insurance (non-life insurance)	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	2,819	5,711	2,677	5,384
Gross written premium – cross-segment	1	9	(22)	(7)
Gross written premiums	**2,820**	**5,720**	**2,655**	**5,377**
Movement in provision for unearned premiums and gross provision for unexpired risks	(28)	(324)	(107)	(373)
Gross earned premium	**2,792**	**5,396**	**2,548**	**5,004**
Reinsurers' share in gross written premium	(48)	(84)	(61)	(104)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	4	(2)	37	37
Net earned premium	**2,748**	**5,310**	**2,524**	**4,937**
Investment income, including:	143	248	78	179
external operations	143	248	78	179
intersegment operations	-	-	-	-
Other net technical income	22	44	28	59
Total income	**2,913**	**5,602**	**2,630**	**5,175**
Net insurance claims and benefits	(1,651)	(3,252)	(1,505)	(2,994)
Acquisition expenses	(612)	(1,179)	(531)	(1,034)
Administrative expenses	(169)	(330)	(159)	(329)
Reinsurance commissions and profit participation	9	18	2	25
Other	(94)	(179)	(78)	(158)
Insurance result	**396**	**680**	**359**	**685**

Group and individually continued insurance (life insurance)	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	1,780	3,568	1,753	3,510
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,780**	**3,568**	**1,753**	**3,510**
Movement in provision for unearned premiums and provision for unexpired risks	-	25	39	51
Gross earned premium	**1,780**	**3,593**	**1,792**	**3,561**
Reinsurers' share in gross written premium	(1)	(1)	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,779**	**3,592**	**1,792**	**3,561**
Investment income, including:	51	125	196	328
external operations	51	125	196	328
intersegment operations	-	-	-	-
Other net technical income	1	1	1	1
Total income	**1,831**	**3,718**	**1,989**	**3,890**
Net insurance claims and benefits and movement in other net technical provisions	(1,308)	(2,666)	(1,536)	(3,002)
Acquisition expenses	(109)	(217)	(97)	(185)
Administrative expenses	(183)	(357)	(162)	(324)
Other	(12)	(24)	(18)	(23)
Insurance result	**219**	**454**	**176**	**356**

(in millions of PLN)

Individual insurance (life insurance)	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	258	533	444	931
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**258**	**533**	**444**	**931**
Movement in the provision for unearned premiums	(1)	-	-	1
Gross earned premium	**257**	**533**	**444**	**932**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**257**	**533**	**444**	**932**
Investment income, including:	(306)	(375)	136	151
external operations	(306)	(375)	136	151
intersegment operations	-	-	-	-
Other net technical income	-	-	-	-
Total income	**(49)**	**158**	**580**	**1,083**
Net insurance claims and benefits and movement in other net technical provisions	158	107	(478)	(829)
Acquisition expenses	(56)	(113)	(52)	(104)
Administrative expenses	(23)	(45)	(20)	(42)
Other	(2)	(4)	(2)	(3)
Insurance result	**28**	**103**	**28**	**105**

Investments	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment income, including:	(26)	(35)	181	682
external operations	(48)	(74)	168	656
intersegment operations	22	39	13	26
Operating result	**(26)**	**(35)**	**181**	**682**

Banking activity	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Revenue from commissions and fees	1,288	2,484	1,135	2,177
external operations	1,255	2,415	1,095	2,099
intersegment operations	33	69	40	78
Investment income	3,598	6,597	1,761	3,526
external operations	3,598	6,597	1,761	3,526
intersegment operations	-	-	-	-
Total income	**4,886**	**9,081**	**2,896**	**5,703**
Fee and commission expenses	(361)	(667)	(285)	(542)
Interest expenses	(848)	(1,191)	(62)	(179)
Administrative expenses	(1,476)	(2,815)	(1,308)	(2,547)
Other	(1,140)	(1,831)	(257)	(879)
Operating result	**1,061**	**2,577**	**984**	**1,556**

(in millions of PLN)

Pension insurance	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment income, including:	3	4	-	1
external operations	3	4	-	1
intersegment operations	-	-	-	-
Other income	50	91	39	70
Total income	**53**	**95**	**39**	**71**
Administrative expenses	(10)	(19)	(17)	(31)
Other	(1)	(3)	(2)	(3)
Operating result	**42**	**73**	**20**	**37**

Insurance - Baltic States	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	564	1,111	447	909
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**564**	**1,111**	**447**	**909**
Movement in provision for unearned premiums and gross provision for unexpired risks	(53)	(118)	(8)	(41)
Gross earned premium	**511**	**993**	**439**	**868**
Reinsurers' share in gross written premium	(16)	(57)	(14)	(47)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(4)	18	(2)	15
Net earned premium	**491**	**954**	**423**	**836**
Investment income, including:	(15)	(21)	16	27
external operations	(15)	(21)	16	27
intersegment operations	-	-	-	-
Total income	**476**	**933**	**439**	**863**
Net insurance claims and benefits	(278)	(573)	(257)	(515)
Acquisition expenses	(108)	(212)	(87)	(170)
Administrative expenses	(41)	(79)	(38)	(72)
Other	1	2	2	3
Insurance result	**50**	**71**	**59**	**109**

(in millions of PLN)

Insurance – Ukraine	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Gross written premium – external	50	113	79	146
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**50**	**113**	**79**	**146**
Movement in provision for unearned premiums and gross provision for unexpired risks	18	29	(5)	(7)
Gross earned premium	**68**	**142**	**74**	**139**
Reinsurers' share in gross written premium	(3)	(14)	(21)	(41)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(13)	(20)	-	2
Net earned premium	**52**	**108**	**53**	**100**
Investment income, including:	(79)	(78)	7	13
external operations	(79)	(78)	7	13
intersegment operations	-	-	-	-
Total income	**(27)**	**30**	**60**	**113**
Net insurance claims and benefits	(19)	(44)	(19)	(39)
Acquisition expenses	(9)	(23)	(27)	(51)
Administrative expenses	(7)	(16)	(9)	(18)
Other	4	9	6	12
Insurance result	**(58)**	**(44)**	**11**	**17**

Investment contracts	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
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 premium	**6**	**15**	**6**	**15**
Investment income, including:	(23)	(39)	11	10
external operations	(23)	(39)	11	10
intersegment operations	-	-	-	-
Other income	-	-	-	-
Total income	**(17)**	**(24)**	**17**	**25**
Net insurance claims and benefits and movement in other net technical provisions	19	28	**(15)**	**(21)**
Acquisition expenses	-	-	-	-
Administrative expenses	-	(1)	-	(1)
Operating result	**2**	**3**	**2**	**3**

(in millions of PLN)

Other segments	1 April – 30 June 2022	1 January – 30 June 2022	1 April – 30 June 2021	1 January – 30 June 2021
Investment income, including:	16	17	8	9
external operations	16	17	8	9
intersegment operations	-	-	-	-
Other income	433	865	382	750
Total income	**449**	**882**	**390**	**759**
Expenses	(465)	(925)	(391)	(769)
Other	14	26	16	20
Operating result	**(2)**	**(17)**	**15**	**10**

Reconciliations 1 January – 30 June 2022	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,211	56	(748)	(259)	(72)	192
Mass insurance	5,310	248	(3,252)	(1,179)	(330)	680
Group and individually continued insurance	3,592	125	(2,666)	(217)	(357)	454
Individual insurance	533	(375)	107	(113)	(45)	103
Investments	-	(35)	-	-	-	(35)
Banking activity	-	6,597	-	-	(2,815)	2,577
Pension insurance	-	4	-	(3)	(19)	73
Insurance – Baltic States	954	(21)	(573)	(212)	(79)	71
Insurance – Ukraine	108	(78)	(44)	(23)	(16)	(44)
Investment contracts	15	(39)	28	-	(1)	3
Other segments	-	17	-	-	-	(17)
Total segments	**11,723**	**6,499**	**(7,148)**	**(2,006)**	**(3,734)**	**4,057**
Presentation of investment contracts	(15)	42	(28)	-	-	-
Estimated salvage and subrogation	-	-	(3)	-	-	(3)
Valuation of properties	-	(6)	-	-	(1)	(7)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	9
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(25)	157	63	130	26	42
Consolidated data	**11,683**	**6,692** [2)]	**(7,116)**	**(1,876)**	**(3,719)**	**4,088**

[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 – 30 June 2021 (restated)	**Net earned premium**	**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 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)	10	44	97	32	(311)
Consolidated data	**11,517**	**4,952** [2]	**(8,070)**	**(1,704)**	**(3,412)**	**3,369**

[1] Consolidation adjustments ensue chiefly from the dividends paid between the various segments and the various accounting standards in which the specific reporting segments are reported (PAS and IFRS) and consolidated data (IFRS).
[2] The sum of the following line items in the consolidated profit and loss account: "Interest income calculated using the effective interest rate", "Other net investment income", "Result on derecognition of financial instruments and investments", "Movement in allowances for expected credit losses and impairment losses on financial instruments" and "Net movement in fair value of assets and liabilities measured at fair value".

Geographic breakdown	**1 January – 30 June 2022**					**1 January – 30 June 2021**				
	Poland	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**
Gross written premium – external	11,423	1,111	113	-	12,647	11,287	909	146	-	12,342
Gross written premium – cross-segment	5	-	-	(5)	-	(7)	-	-	7	-
Revenue from commissions and fees	2,548	1	-	-	2,549	2,225	1	-	-	2,226
Investment income [1]	6,791	(21)	(78)	-	6,692	4,911	28	13	-	4,952

[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 2022					31 December 2021				
	Poland	Baltic States	Ukraine [1]	Un-allocated	Consolidated value	Poland	Baltic States	Ukraine [1]	Un-allocated	Consolidated value
Non-current assets, other than financial assets [2]	7,067	303	3	-	7,373	7,261	281	5	-	7,547
Deferred tax assets	3,352	-	-	-	3,352	3,055	-	3	-	3,058
Assets	427,137	3,657	464	(1,322)	429,936	399,262	3,611	554	(1,298)	402,129

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

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.

Russia’s armed aggression against Ukraine became a significant uncertainty factor in 2022 due to the triggering of geopolitical tensions and increased volatility in financial markets. In addition, a significant increase in the inflation rate caused by the rising prices of commodities and food coupled with disruptions in supply chains, along with the forecasted slowdown in economic growth, have created a tough environment for the PZU Group to operate in.

CPI inflation in H1 reached 15.5% y/y in June of this year compared to 8.6% y/y in December 2021. The prices of consumer goods and services increased 10.4% compared to December 2021 (Statistics Poland data).

The increase in CPI inflation above the NBP’s inflation target (2.5%) led to hikes in the NBP rates in H1 of this year. Since the beginning of this year, the base NBP interest rate has been increased by a total of 425 bps. The NBP reference rate at the end of Q2 was 6.0%.

According to the Statistics Poland notification of 22 April 2022, the deficit of the general government sector in 2021 was 1.9% of GDP, and the sector’s debt was 53.8% of GDP.

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

In the 6-month period ended 30 June 2022, there were no issues, redemptions or repayments of any debt securities or equity securities. On 31 March 2021, Alior Bank redeemed on time G series bonds with a nominal value of PLN 193 million, and 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 2022, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

16. Disputes

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

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

Estimates of the provision amounts for individual cases take into account all information available on the date of signing the consolidated financial statements, however their value may change in the future. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 30 June 2022, the total value of dispute in all 241,326 cases (as at 31 December 2021: 284,223 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,148 million (as at 31 December 2021: PLN 8,516 million). This amount included PLN 5,096 million (as at 31 December 2021: PLN 4,723 million) of liabilities and PLN 3,052 million (as at 31 December 2021: PLN 3,793 million) of accounts receivable of PZU Group companies.

In the 6-month period ended 30 June 2022 and by the date of signing the condensed interim consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

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

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

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

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

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

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

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

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

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

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

On 23 September 2015, a copy of the statement of claim with attachments was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment and litigation costs.

The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with the adoption of Resolution No. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU's attorney submitted a statement of defense, requesting to dismiss the claim it in its entirety. On 1 April 2016, MSC filed a pleading in which it responded to PZU's assertions, allegations and petitions and raised new arguments in the case.

On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In its decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, evidentiary hearings have taken place. On 6 April 2022, the Regional Court in Warsaw issued a decision in which it admitted evidence from an opinion by a scientific institute for the determination of the amount of damage suffered by MSC and J.P. Morgan, in the form of lost profits, as a result of Resolution No. 8/2007 adopted by the PZU Ordinary Shareholder Meeting of 30 June 2007 excluding the profit generated in the financial year 2006 from the distribution and the retaining of this profit in 2007.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 June 2022, 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.

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

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

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

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

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

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

16.3 Class action against Alior Bank

Alior Bank is being sued in a class action (the statement of claim was filed on 5 March 2018) brought by a natural person representing a group of 84 natural and legal persons and 3 individual cases seeking to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland (Funds). With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. By letter of 15 July 2021, the statement of claim was extended by a group of another 283 people. At the same time, 14 individuals submitted statements of withdrawal from the group. The court has not yet issued a decision on the composition of the group. The lawsuits were filed to establish liability (rather than award payment, i.e. compensation for damage), therefore the PZU Group does not expect any cash outflow from these proceedings other than legal fees estimated at PLN 600 thousand.

Moreover, Alior Bank is being sued for payment (compensation for damage) in 95 cases brought by buyers of the Funds' investment certificates. The total value under dispute in these cases is PLN 67 million.

Due to the pending fund liquidation process, the PZU Group is of the opinion that until the liquidation process is completed and the final value of the investment certificates is determined, all (existing and future) claims for payment are unfounded. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 30 June 2022, no provision was established in relation to these legal actions.

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

On 6 August 2019, KNF issued a decision pursuant to Article 167 sec. 2 item 1 in conjunction with Article 167(1)(1) of the Act on Trading in Financial Instruments imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and its Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (at Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw. On 17 June 2020, the Voivodship Administrative Court in Warsaw issued a judgment repealing the 3 December 2019 decision of the Polish Financial Supervision Authority, which upheld the earlier 6 August 2019 decision of the Polish Financial Supervision Authority, and discontinued the proceedings conducted by the KNF in the case.

KNF lodged a cassation appeal to the Supreme Court of Administration. As at the date of signing the condensed interim consolidated financial statements, the Supreme Court of Administration did not review the appeal.

(in millions of PLN)

17. Related party transactions

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

In the 6-month period ended 30 June 2022, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on the arm's length principle.

17.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 June 2022 and as at 30 June 2022		1 January – 31 December 2021 and as at 31 December 2021		1 January – 30 June 2021 and as at 30 June 2021	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	1	-	3	-	2
in non-life insurance	-	1	-	3	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	2	-	1
Expenses	-	13	-	22	-	7
Investment financial assets	-	-	-	3	-	3
Loan receivables from clients	1	-	1	-	1	-
Receivables	-	-	-	-	-	-
Liabilities under deposits	2	33	2	14	1	17
Other liabilities	-	4	-	6	-	4
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.

18. Other information

18.1 Inspections by the KNF Office

18.1.1. PZU

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 7 January 2021, PZU received a recommendation to refrain from breaching the interests of parties entitled to indemnification under motor TPL insurance, consisting in applying in the calculation of the indemnification using the cost estimate method out-of-date, unreliable data on the man-hour rates in the car repair market that do not match the actual repair costs from the place of residence, seat or the injured party or the place of repair of the vehicle. On 19 February 2021, PZU informed KNF about implementing the recommendations and, on 19 March 2021 provided KNF, on its request, with additional documents and explanations pertaining to the implementation of the recommendation. On 19 April 2021, KNF summoned PZU to present additional documents and explanations, deciding that the evidence presented earlier had not allowed it to consider the recommendation satisfied. On 30 April 2021, PZU provided additional explanations and documents. KNF set the requirements and dates for providing the evidence of implementation. On 7 December 2021, PZU submitted the implementation report regarding the recommendation. On 28 January 2022, KNF requested additional explanations and documents, which were provided by PZU on 14 February 2022. On 25 March 2022, KNF sent a letter stating that the evidence submitted by PZU was insufficient to conclude that the recommendation had been implemented. On 8 April 2022, PZU sent a response to KNF, completing the documentation presenting the implementation of the recommendation. Following KNF's request of 10 June 2022, PZU provided additional clarifications on 24 June 2022, and a meeting was held between PZU and KNF representatives on 21 July 2022, to discuss the process of implementing the recommendation. On 29 July 2022, PZU submitted additional documentation and clarifications to KNF.

During the period from 11 January to 10 March 2022, KNF conducted an inspection of PZU's operations and assets in terms of the solvency capital requirement. On 4 April 2022, PZU received an audit report, to which it submitted its reservations, additional explanations and documents on 15 April 2022. On 8 June 2022, PZU received 2 post-audit recommendations which will be implemented starting with the financial statements prepared as at 31 December 2022.

18.1.2. PZU Życie

On 25 July 2022, PZU Życie received a notice of intent to conduct a compliance audit of PZU Życie's use of insurance agents and agents offering supplementary insurance. The audit is scheduled to begin on 22 August 2022.

18.2 Proceedings conducted by the Office of Competition and Consumer Protection against Alior Bank

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

On 21 November 2019, the President of UOKiK issued a decision to initiate proceedings against Alior Bank for recognizing the provisions of the contract template as abusive (ref. no. DOIK-611-1/19/ARO), pertaining to 3 clauses included in the contract template used by Alior Bank through the Alior Bank Brokerage Office – "Regulations for the execution of orders in trading in financial instruments on OTC markets and keeping accounts and records related to this trading by the Brokerage Office of Alior

Bank SA", relating to the prerequisites for suspending the presentation of offers of a financial instrument, proceedings in the event of an erroneous quote, sources of quotes that can be relied on by the consumer. The President of UOKiK challenged the wording of the provisions in question as, among other things, imprecise. Alior Bank was in correspondence with the President of UOKiK on the matter. In a letter dated 13 May 2022, it submitted a commitment proposal under Article 23c sec. 1 in conjunction with Article 23b sec. 1 of the Act on Competition and Consumer Protection. In view of the completion of the examination of evidence in the case, a decision by the President of UOKiK is pending.

As at 30 June 2022, the PZU Group has not identified any premises to establish provisions for the above cases.

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

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

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

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

18.4 Intended bond issue by PZU

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

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

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

On 31 May 2022, due to the unfavorable market situation, the PZU Management Board made a decision to withdraw from continuing its endeavors to issue the bonds and, consequently, not to exercise the option for early redemption of Series A bonds.

18.5 Acquisition of TFI Energia SA

On 17 March 2022, PZU signed a preliminary agreement to purchase a 100% equity stake in Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna ("TFI Energia") from Polska Grupa Energetyczna Spółka Akcyjna. On 15 July 2022, after obtaining approvals from the Polish Financial Supervision Authority and the Office of Competition and Consumer Protection, the final agreement was executed. From 15 July 2022, TFI Energia has been a subsidiary of PZU and will be consolidated as of that date. The purchase price of TFI Energia was PLN 21 million.

18.6 Conflict in Ukraine

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

As a result of this analysis and due to the downgrading of Ukraine's rating, the PZU Group has decided to include the following in the consolidated profit and loss account for H1 2022, among others:

- increased impairment losses on expected credit losses for investment financial assets in the amount of PLN 53 million;
- impairment losses on receivables in the amount of PLN 41 million.

As at 30 June 2022, the net total assets (assets net of liabilities and adjusted for shares held mutually between PZU Ukraine and PZU Ukraine Life) of the three companies operating in Ukraine (PZU Ukraine, PZU Ukraine Life and LLC SOS Services Ukraine) stood at PLN 4 million (as at 31 December 2021: PLN 70 million).

The assets (net of the shares held mutually between PZU Ukraine and PZU Ukraine Life) of these companies subject to consolidation totaled PLN 464 million (as at 31 December 2021: PLN 554 million), including:

- investment financial assets of PLN 270 million (as at 31 December 2021: PLN 322 million), of which PLN 113 million (as at 31 December 2021: PLN 159 million) were instruments issued by the Ukrainian government, and PLN 157 million (as at 31 December 2021: PLN 163 million) were term deposits;
- the reinsurers' share in technical provisions is PLN 106 million (as at 31 December 2021: PLN 134 million), of which PLN 38 million (as at 31 December 2021: PLN 47 million) was PZU's share.

The companies' liabilities totaled PLN 460 million (as at 31 December 2021: PLN 484 million), including:

- technical provisions of PLN 398 million (as at 31 December 2021: PLN 414 million);
- other liabilities of PLN 62 million (as at 31 December 2021: PLN 70 million).

As at 30 June 2022, the banks in the PZU Group held PLN 324 million in bank credit exposures (as at 31 December 2021: PLN 335 million) and PLN 174 million of off-balance sheet exposures (as at 31 December 2021: PLN 317 million) to entities that are residents of Ukraine, Russia or Belarus.

In addition to the assets of companies operating in Ukraine and exposures to Alior Bank and Pekao, the PZU Group does not have any significant exposures to markets subject to hostilities or sanctions. All of the bonds held on 31 December 2021 issued by the governments of Russia (90 m PLN), Belarus (1.6 m PLN) and Ukraine (4 m PLN) were sold by 3 March 2022 (the realized loss was PLN 13 million and was charged to the PZU Group's consolidated profit and loss account in Q1 2022).

The martial law that has covered the whole territory of Ukraine since 24 February 2022 and the current hostilities in the east and south of the country, has caused the PZU Group's Ukrainian companies to operate with wartime considerations in mind:

- operational processes are carried out to a limited extent and kept being adjusted to the changing situation, all important processes (stationary and remote) are ongoing, while ensuring the continuation and deployment of critical processes, all IT systems are available;
- PZU Ukraine's sales processes are conducted to a limited extent – branches have been closed in cities and towns affected by hostilities, the company sells both new and renewed insurance in all key three business lines (in motor, property and personal insurance) through all channels. Most restrictions have been introduced in property insurance. Ukraine has been divided into three zones: red (occupied territories – where contracting is prohibited), blue (territories adjacent to the occupied territories or recaptured from the Russian Federation – where contracting is possible under the strict control of underwriters), and green (western and central parts of Ukraine – with no restrictions on sales). In the first half of 2022, the largest share of sales was accounted for by mandatory motor TPL insurance, Green Card, MOD insurance and travel (accident) insurance;
- PZU Ukraine Life's sales processes were initially halted in all sales channels, but the company resumed sales through the banking channel of short-term products with limited risk from June 2022, and resumed sales of new business policies not requiring underwriting from July 2022, with limited risk and sums insured through the agency and brokerage channels;
- the functionality of the full cycle of claims handling is ensured – in PZU Ukraine Life, payouts with complete documentation are made and withdrawal amounts are disbursed, to the extent possible; PZU Ukraine makes payouts from motor own damage and third party liability insurance, in accordance with the terms of insurance contracts and applicable legislation –

the company makes payments only if it has a complete set of documents, however because the declaration of martial law across the nation excludes the insurer's liability for losses incurred due to acts of war;

- the contact center and hotline are operating normally (LLC SOS Services Ukraine);
- the companies have been implementing HR policy rules, including the "suspension of employment contract", in order to adjust employment relationships to the actual situation of employees who are not working, who have been mobilized, are staying abroad or who currently may not be offered a job due to the company's limited business activity – application of the provisions of the Ukrainian Act of 15 March 2022 "On the organization of labor relations during martial law";
- the companies' financial liquidity is ensured, and payroll liabilities and other obligations, including administrative and fiscal ones, to the extent technically possible, are handled on an ongoing basis;
- the companies focus on ensuring cybersecurity, information security and physical security of their servers.

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

- temporary ban on the purchase of foreign currencies;
- suspension of trading in bonds issued by the Ukrainian government (from 8 August 2022 trading in bonds was resumed;
- ban on international money transfers from Ukraine.

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

In addition, rating agencies have changed Ukraine's ratings:

- as of 19 August 2022, according to ratings agency S&P Global Ratings, Ukraine's long-term and short-term foreign currency sovereign rating is CCC+/C;
- as of 17 August 2022, according to ratings agency Fitch Ratings, Ukraine's long-term foreign currency rating is CC.

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

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

The PZU Group continuously monitors the situation and analyzes potential future scenarios of how the events may unfold. Due to the situation in Ukraine, the valuation of assets and liabilities (in particular technical provisions) of Ukrainian companies requires a number of assumptions and is subject to significant uncertainty.

18.7 Tax on foreign exchange differences in Sweden

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

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB applied for an individual tax ruling to the Swedish Tax

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

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

At the same time, on 27 August 2020, PZU Finance AB submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB received the tax decision from the tax office confirming that the tax was calculated correctly. The decision was not final. Due to the pursuit of the goals for which the company was established, on 4 May 2021, the Shareholder Meeting decided to commence the liquidation procedure of PZU Finance AB. On 23 June 2021 and 21 December 2021, PZU Finance AB received a preliminary and enforceable, respectively, negative decision from the tax office regarding the adjustment of its tax settlement for 2019. Accordingly, as at 31 December 2021, the PZU Group posted a current income tax liability of PLN 72 million (SEK 159 million). On 21 January 2022, PZU transferred directly to the Swedish tax office SEK 159 million (SEK 155 million of the principal amount and SEK 4 million in interest). PZU Finance AB may now initiate court proceedings in Sweden in an administrative court of first instance.

18.8 Pekao and Alior Bank joining the protection system

By virtue of the Act of 7 April 2022 amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts (Journal of Laws of 2022, item 872), the possibility of establishing a protection system was introduced into the Polish legal system. The protection system may be established voluntarily by banks operating as joint stock companies, on the basis of a protection system agreement that will regulate the extent of the protection system participant's liability for liabilities arising from participation in the scheme. The goal of the protection system is to:

- ensure the liquidity and solvency of participant banks under the terms and to the extent specified in the protection system agreement;
- support:
  - BFG's resolution of a bank being a joint stock company;
  - takeover of a bank being a joint stock company under Article 146b sec. 1 of the Banking Law.

On 14 June 2022, the banks (participants in the protection system): Powszechna Kasa Oszczędności Bank Polski SA, Pekao, Bank Millennium SA, BNP Paribas Bank Polska SA, ING Bank Śląski SA, mBank SA, Santander Bank Polska SA and Alior Bank, entered into a protection system agreement and established a protection system. A company, named System Ochrony Banków Komercyjnych SA, was incorporated as the company managing the protection system.

The costs of the fee for the aid fund established within the security management company amounted to PLN 635 million in the PZU Group (PLN 440 million at Pekao and PLN 195 million at Alior Bank) and were charged to the consolidated profit and loss account in Q2 2022.

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 24 August 2022