Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed Interim
Consolidated Financial Statements
for the 9 months ended
30 September 2022

Table of contents

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 30 September 2022	m PLN 1 January – 30 September 2021	m EUR 1 January – 30 September 2022	m EUR 1 January – 30 September 2021
Gross written premiums	19,042	18,250	4,062	4,004
Net earned premiums	17,921	17,372	3,823	3,811
Revenue from commissions and fees	3,865	3,460	824	759
Net investment result	9,027	7,073	1,926	1,552
Net insurance claims and benefits	(11,045)	(11,964)	(2,356)	(2,625)
Profit before tax	4,415	5,185	942	1,137
Profit attributable to equity holders of the Parent Company	2,140	2,373	456	521
Profit attributable to holders of non-controlling interests	914	1,464	195	321
Basic and diluted weighted average number of common shares	863,389,553	863,341,351	863,389,553	863,341,351
Basic and diluted earnings per common share (in PLN/EUR)	2.48	2.75	0.53	0.60

Data from the consolidated statement of financial position	m PLN 30 September 2022	m PLN 31 December 2021	m EUR 30 September 2022	m EUR 31 December 2021
Assets	432,449	402,129	88,802	87,431
Share capital	86	86	18	19
Equity attributable to equity holders of the Parent	15,575	17,080	3,198	3,713
Non-controlling interest	20,288	22,914	4,166	4,982
Total equity	35,863	39,994	7,364	8,695
Basic and diluted number of common shares	863,394,821	863,359,431	863,394,821	863,359,431
Book value per common share (in PLN/EUR)	18.04	19.78	3.70	4.30

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2022	m PLN 1 January – 30 September 2021	m EUR 1 January – 30 September 2022	m EUR 1 January – 30 September 2021
Net cash flows from operating activities	4,945	5,814	1,055	1,275
Net cash flows from investing activities	6,472	(724)	1,380	(159)
Net cash flows from financing activities	3,404	(2,974)	726	(652)
Total net cash flows	14,821	2,116	3,161	464

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 30 September 2022	m PLN 31 December 2021	m EUR 30 September 2022	m EUR 31 December 2021
Assets	44,680	44,466	9,175	9,668
Share capital	86	86	18	19
Total equity	13,976	15,776	2,870	3,430
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	16.18	18.27	3.32	3.97

(in millions of PLN)

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 30 September 2022	m PLN 1 January – 30 September 2021	m EUR 1 January – 30 September 2022	m EUR 1 January – 30 September 2021
Gross written premiums	10,418	9,604	2,222	2,107
Technical result of non-life insurance	1,022	947	218	208
Net investment result [1)]	448	1,916	96	420
Net result	783	2,269	167	498
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	0.91	2.63	0.19	0.58

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

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

Data from the balance sheet	m PLN 30 September 2022	m PLN 31 December 2021	m EUR 30 September 2022	m EUR 31 December 2021
Assets	26,965	27,569	5,537	5,994
Total equity	3,556	3,706	730	806

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 30 September 2022	m PLN 1 January – 30 September 2021	m EUR 1 January – 30 September 2022	m EUR 1 January – 30 September 2021
Gross written premiums	6,306	6,654	1,345	1,460
Technical life insurance result	801	816	171	179
Net investment result	(396)	542	(84)	119
Net profit	545	534	116	117

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2022 was PLN 3,054 million and was 20.4% lower than the net result in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders was PLN 2,140 million compared to PLN 2,373 million in 2021 (down PLN 233 million).

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2022 was 17.5%, i.e. was on the same level as in the corresponding period of the previous year.

The following factors also affected the PZU Group's activity in the 9 months ended 30 September 2022, as compared to the corresponding period of the previous year:

- higher gross written premium, especially in non-motor insurance in the mass client segment and corporate client segment, MOD insurance and growth of sales in the Baltic companies, including property and motor insurance;
- lower results related to banking activities, in particular due to non-recurring events: costs associated with the modification of agreements for PLN mortgage loans granted to consumers due to the suspension of loan repayments (the so-called moratorium periods), the recognition of an additional provision for the legal risk related to foreign currency mortgage loans in Pekao, and contribution to the Commercial Bank Protection Scheme. In addition, the banks' results were burdened by a provision for refund of the additional margin on mortgages charged in the period until the establishment of the collateral and a contribution to the Borrower Support Fund;
- higher profitability in group and individually continued insurance, on account of the decreased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- higher profitability of the mass insurance segment driven mainly by the lower loss ratio of the MOD insurance;

- lower result in the foreign insurance segments, including mainly in the companies in Ukraine, due to recognition of asset impairment losses as a result of the assessment of the impact of the Russian Federation's invasion of Ukraine on 24 February 2022 on the PZU Group's operations, business continuity, financial position and going concern, and due to the downgrading of Ukraine's rating;
- higher operating result in the corporate insurance segment due to the increase in profitability of non-motor insurance and lower loss ratio in the motor insurance portfolio (MOD);
- lower performance on investing activities, including due to last year's one-off effect of an increase in the valuation of the shares of a logistics company in connection with its IPO.

(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021 (restated) [1]	1 January – 30 September 2021 (restated) [1]
Gross written premiums	9.1	6,395	19,042	5,908	18,250
Reinsurers' share in gross written premium		(202)	(679)	(145)	(591)
Net written premiums		**6,193**	**18,363**	**5,763**	**17,659**
Movement in net provision for unearned premiums		45	(442)	92	(287)
Net earned premiums		**6,238**	**17,921**	**5,855**	**17,372**
Revenue from commissions and fees	9.2	1,316	3,865	1,234	3,460
Interest income calculated using the effective interest rate	9.3	3,187	11,621	2,398	7,073
Other net investment income	9.4	(351)	(547)	36	290
Result on derecognition of financial instruments and investments	9.5	(177)	(404)	(10)	516
Movement in allowances for expected credit losses and impairment losses on financial instruments	9.6	(573)	(1,849)	(422)	(1,305)
Net movement in fair value of assets and liabilities measured at fair value	9.7	249	206	119	499
Other operating income	9.8	432	1,269	373	1,125
Claims, benefits and movement in technical provisions		(4,008)	(11,400)	(4,019)	(12,205)
Reinsurers' share in claims, benefits and movement in technical provisions		79	355	125	241
Net insurance claims and benefits	**9.9**	**(3,929)**	**(11,045)**	**(3,894)**	**(11,964)**
Fee and commission expenses	9.10	(381)	(1,044)	(326)	(865)
Interest expenses	9.11	(1,596)	(2,847)	(86)	(283)
Acquisition expenses	9.12	(1,006)	(2,882)	(921)	(2,625)
Administrative expenses	9.12	(1,844)	(5,563)	(1,659)	(5,071)
Other operating expenses	9.13	(1,216)	(4,264)	(870)	(3,026)
Operating profit		**349**	**4,437**	**1,827**	**5,196**
Share of the net financial results of entities measured by the equity method		(5)	(22)	(3)	(11)
Profit before tax		**344**	**4,415**	**1,824**	**5,185**
Income tax	9.14	(158)	(1,361)	(474)	(1,348)
Net profit, including:		**186**	**3,054**	**1,350**	**3,837**
- profit attributable to the equity holders of the Parent Company		660	2,140	739	2,373
- profit (loss) attributed to holders of non-controlling interest		(474)	914	611	1,464
Weighted average basic and diluted number of common shares	9.15	863,400,190	863,389,553	863,340,728	863,341,351
Basic and diluted profit (loss) per common share (in PLN)	9.15	0.76	2.48	0.86	2.75

[1] Information on restatement of data for the period from 1 July to 30 September 2021 and 1 January to 30 September 2021 is presented in section 5.5.

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021 (restated) [1]	1 January – 30 September 2021 (restated) [1)]
Net profit		186	3,054	1,350	3,837
Other comprehensive income	9.14	49	(4,608)	(605)	(1,878)
Subject to subsequent transfer to profit or loss		118	(4,554)	(550)	(1,921)
Valuation of debt instruments		(256)	(2,247)	(196)	(895)
Measurement of loan receivables from clients		(3)	(7)	1	(35)
Foreign exchange translation differences		58	85	48	20
Cash flow hedging		319	(2,385)	(403)	(1,011)
Not to be transferred to profit or loss in the future		(69)	(54)	(55)	43
Valuation of equity instruments		(69)	(68)	(55)	43
Actuarial gains and losses related to provisions for employee benefits		-	14	-	-
Total net comprehensive income		**235**	**(1,554)**	**745**	**1,959**
- comprehensive income attributable to equity holders of the Parent Company		606	169	506	1,634
- comprehensive income attributable to holders of non-controlling interest		(371)	(1,723)	239	325

[1)] Information on restatement of data for the period from 1 July to 30 September 2021 and 1 January to 30 September 2021 is presented in section 5.5.

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 September 2022	31 December 2021
Goodwill	9.16	2,822	2,778
Intangible assets	9.17	3,177	3,403
Deferred tax assets		3,744	3,058
Other assets	9.18	793	633
Deferred acquisition costs		1,694	1,573
Reinsurers' share in technical provisions	9.31	2,385	2,540
Property, plant and equipment	9.19	4,238	4,144
Investment property		2,943	2,773
Entities measured by the equity method	9.20	73	93
Assets securing liabilities	9.24	2,724	1,336
Assets held for sale	9.21	619	643
Loan receivables from clients	9.22	221,852	215,008
Financial derivatives	9.23	19,772	8,328
Investment financial assets	9.25	128,008	136,954
Measured at amortized cost		81,696	82,893
Measured at fair value through other comprehensive income		38,214	44,896
Measured at fair value through profit or loss		8,098	9,165
Receivables	9.26	12,930	9,418
Cash and cash equivalents		24,675	9,447
Total assets		**432,449**	**402,129**

Equity and liabilities	Note	30 September 2022	31 December 2021
Equity			
Equity attributable to equity holders of the Parent		15,575	17,080
Share capital	9.30	86	86
Other capital		13,983	14,343
Retained earnings		1,506	2,651
Retained profit or loss		(634)	(685)
Net profit		2,140	3,336
Non-controlling interest		20,288	22,914
Total equity		**35,863**	**39,994**
Liabilities			
Technical provisions	9.31	50,047	50,173
Subordinated liabilities	9.32	6,189	6,274
Liabilities on the issue of own debt securities	9.33	9,105	5,940
Liabilities to banks	9.34	8,119	7,470
Liabilities to clients under deposits	9.35	276,582	265,155
Financial derivatives	9.23	26,427	11,880
Other liabilities	9.36	18,060	13,203
Provisions	9.37	1,417	1,206
Deferred tax liability		611	806
Liabilities related directly to assets classified as held for sale	9.21	29	28
Total liabilities		**396,586**	**362,135**
Total equity and liabilities		**432,449**	**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	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	9.30										2.4	
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**2,651**	**-**	**17,080**	**22,914**	**39,994**
Valuation of equity instruments	-	-	-	-	(14)	-	-	-	-	(14)	(54)	(68)
Valuation of debt instruments	-	-	-	-	(1,489)	-	-	-	-	(1,489)	(758)	(2,247)
Measurement of loan receivables from clients	-	-	-	-	(1)	-	-	-	-	(1)	(6)	(7)
Cash flow hedging	-	-	-	-	(556)	-	-	-	-	(556)	(1,829)	(2,385)
Actuarial gains and losses related to employee provisions	-	-	-	-	-	3	-	-	-	3	11	14
Foreign exchange translation differences	-	-	-	-	-	-	86	-	-	86	(1)	85
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(2,060)**	**3**	**86**	**-**	**-**	**(1,971)**	**(2,637)**	**(4,608)**
Net profit (loss)	-	-	-	-	-	-	-	-	2,140	2,140	914	3,054
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,060)**	**3**	**86**	**-**	**2,140**	**169**	**(1,723)**	**(1,554)**
Other changes, including:	**-**	**1**	**499**	**1,121**	**(10)**	**-**	**-**	**(3,285)**	**-**	**(1,674)**	**(903)**	**(2,577)**
Distribution of financial result	-	-	1,439	1,121	-	-	-	(2,560)	-	-	(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 September 2022	**86**	**(4)**	**15,315**	**1,721**	**(3,210)**	**6**	**155**	**(634)**	**2,140**	**15,575**	**20,288**	**35,863**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	9.30										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	49	-	-	-	-	49	25	74
Valuation of debt instruments	-	-	-	-	(1,185)	-	-	-	-	(1,185)	(1,044)	(2,229)
Measurement of loan receivables from clients	-	-	-	-	(8)	-	-	-	-	(8)	(30)	(38)
Cash flow hedging	-	-	-	-	(872)	-	-	-	-	(872)	(2,119)	(2,991)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	-	-	-	-	-	31	31
Foreign exchange translation differences	-	-	-	-	-	-	4	-	-	4	1	5
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
Sales 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	9.30										2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	3	-	9	-	-	-	-	12	31	43
Valuation of debt instruments	-	-	-	-	(461)	-	-	-	-	(461)	(434)	(895)
Measurement of loan receivables from clients	-	-	-	-	(7)	-	-	-	-	(7)	(28)	(35)
Cash flow hedging	-	-	-	-	(302)	-	-	-	-	(302)	(709)	(1,011)
Foreign exchange translation differences	-	-	-	-	-	-	19	-	-	19	1	20
Total net other comprehensive income	**-**	**-**	**3**	**-**	**(761)**	**-**	**19**	**-**	**-**	**(739)**	**(1,139)**	**(1,878)**
Net profit (loss)	-	-	-	-	-	-	-	-	2,373	2,373	1,464	3,837
Total comprehensive income	**-**	**-**	**3**	**-**	**(761)**	**-**	**19**	**-**	**2,373**	**1,634**	**325**	**1,959**
Other changes, including:	**-**	**3**	**(1,048)**	**305**	**(5)**	**-**	**-**	**(2,283)**	**-**	**(3,028)**	**(676)**	**(3,704)**
Distribution of financial result	-	-	(1,044)	305	-	-	-	739	-	-	(674)	(674)
PZU dividend	-	-	-	-	-	-	-	(3,022)	-	(3,022)	-	(3,022)
Transactions on treasury shares	-	3	(3)	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(6)	-	-	-	-	-	-	(6)	(2)	(8)
Sale of revalued properties and other	-	-	5	-	(5)	-	-	-	-	-	-	-
As at 30 September 2021	**86**	**(6)**	**14,803**	**600**	**125**	**3**	**84**	**(685)**	**2,373**	**17,383**	**24,275**	**41,658**

[1] Information on restatement of data for the period from 1 January to 30 September 2021 is presented in section 5.5.

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 September 2022	1 January – 30 September 2021 (restated) [1)]
Profit before tax		4,415	5,185
Adjustments		530	629
Movement in loan receivables from clients		(8,532)	(4,059)
Movement in liabilities under deposits		10,227	3,108
Movement in the valuation of assets measured at fair value		(206)	(499)
Interest income and expenses		(2,467)	(1,990)
Realized gains/losses from investing activities and impairment losses		1,976	673
Net foreign exchange differences		617	190
Movement in deferred acquisition expenses		(121)	(31)
Amortization of intangible assets and depreciation of property, plant and equipment		1,011	1,003
Movement in the reinsurers' share in technical provisions		155	78
Movement in technical provisions		(126)	1,082
Movement in receivables		(89)	175
Movement in liabilities		781	318
Cash flow on investment contracts		3	6
Acquisitions and redemptions of participation units and investment certificates of mutual funds		(35)	155
Income tax paid		(1,087)	(1,235)
Subsidy from the Bank Guarantee Fund related to the acquisition of Idea Bank		-	193
Increase in cash related to the acquisition of Idea Bank		-	1,097
Other adjustments		(1,577)	365
Net cash flows from operating activities		**4,945**	**5,814**
Cash flow from investing activities			
Proceeds		401,129	478,318
- sale of investment property		7	169
- proceeds from investment property		273	218
- sale of intangible assets and property, plant and equipment		77	94
- sale of ownership interests and shares		430	926
- realization of debt securities		91,944	260,324
- closing of buy-sell-back transactions		186,078	152,180
- closing of term deposits with credit institutions		92,078	42,875
- realization of other investments		28,474	20,141
- interest received		1,627	1,314
- dividends received		120	47
- increase in cash due to purchase of entities and change in the scope of consolidation		-	1
- other investment proceeds		21	29

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 30 September 2022	1 January – 30 September 2021 (restated) [1)]
Expenditures		(394,657)	(479,042)
- purchase of investment properties		(96)	(171)
- expenditures for the maintenance of investment property		(163)	(100)
- purchase of intangible assets and property, plant and equipment		(578)	(732)
- purchase of ownership interests and shares		(1,214)	(484)
- purchase of ownership interests and shares in subsidiaries		(17)	(4)
- decrease in cash due to the sale of entities and change in the scope of consolidation		-	(6)
- purchase of debt securities		(81,305)	(255,482)
- opening of buy-sell-back transactions		(188,246)	(154,722)
- purchase of term deposits with credit institutions		(93,948)	(45,733)
- purchase of other investments		(29,073)	(21,585)
- other expenditures for investments		(17)	(23)
Net cash flows from investing activities		**6,472**	**(724)**
Cash flows from financing activities			
Proceeds		157,139	72,608
- proceeds from loans and borrowings	9.38	1,562	751
- proceeds on the issue of own debt securities	9.38	16,395	2,871
- opening of repurchase transactions	9.38	139,182	68,986
Expenditures		(153,735)	(75,582)
- dividends to owners of non-controlling interests		(903)	(674)
- repayment of loans and borrowings	9.38	(858)	(1,030)
- redemption of own debt securities	9.38	(13,384)	(4,037)
- closing of repurchase transactions	9.38	(138,211)	(69,519)
- interest on loans and borrowings	9.38	(22)	(21)
- interest on outstanding debt securities	9.38	(135)	(80)
- expenditures on leases	9.38	(222)	(221)
Net cash flows from financing activities		**3,404**	**(2,974)**
Total net cash flows		**14,821**	**2,116**
Cash and cash equivalents at the beginning of the period		9,447	7,939
Movement in cash due to foreign exchange differences		407	66
Cash and cash equivalents at the end of the period, including:		24,675	10,121
- restricted cash		52	43

[1)] Information on restatement of data for the period from 1 January to 30 September 2021 is presented in section 5.5.

Notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

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

Parent company's quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 9 months from 1 January to 30 September 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.

(in millions of PLN)

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 the currency exchange restrictions in force in Ukraine and irregular quotations of the Ukrainian hryvnia by the National Bank of Poland, the PZU Group determined the exchange rate for converting the data of Ukrainian companies using the NBU Decision (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 U.S. dollars - at an exchange rate that may deviate by no more than 1% from the official NBU rate in effect on the day of the transaction;
- in other foreign currencies - at the rate that may deviate by no more than 1% from the rate determined on the basis of the official exchange rate of the Ukrainian hryvnia to the U.S. dollar, in effect on the date of the transaction, as well as information on current exchange rates of foreign currencies to the U.S. dollar (or the U.S. dollar to foreign currencies) on international foreign exchange markets, which are received through trade information systems at the time of the transaction.

The official Ukrainian hryvnia / U.S. dollar exchange rate adopted by the NBU (as of 21 July 2022, amounting to 36.5686 UAH/USD) was converted into Polish zloty using the USD/PLN exchange rate set by the National Bank of Poland. In accordance with this methodology, the Ukrainian hryvnia exchange rate set as of 30 September 2022 was 0.1355 PLN/UAH. The average exchange rate was obtained using the above methodology at the end of each month in the period April - September 2022 (until the end of March 2022, the PZU Group used the NBP exchange rate).

Currency	1 January – 30 September 2022	1 January – 30 September 2021	30 September 2022	31 December 2021
Euro	4.6880	4.5585	4.8698	4.5994
British pound	5.5216	5.2795	5.5560	5.4846
Ukrainian hryvnia [1]	0.1412	0.1394	0.1355	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.

Making this assumption, in its assessment, the PZU Management Board took into account the impact of factors subject to uncertainty on the macroeconomic situation, and its own operations, including the armed conflict in Ukraine lasting from 24 February 2022 (additional information on this topic is presented in section 24.5).

Discontinued operations

In the 9-month period ended 30 September 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.

PKN Orlen – Polski Koncern Naftowy Orlen Spółka Akcyjna.

PZU, Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

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

PZU Ukraine – PRJSC IC "PZU Ukraine".

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

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TFI Energia – Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BFG – Bank Guarantee Fund (Polish: *Bankowy Fundusz Gwarancyjny*).

CGU – cash generating unit.

CIRS – cross-currency interest rate swap.

COR – combined operating ratio, calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period; a decrease in the value of this indicator signifies an improvement in efficiency.

FRA – forward rate agreement.

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

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

IRS – interest rate swap.

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

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2020 entitled Commercial Company Code (consolidated text: Journal of Laws of 2022, item 1467, as amended).

Operating result margin in life insurance – profitability of life insurance segments, calculated as the ratio of the result on operating activity to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency; IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 September 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.

ROE attributable to the parent company – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity, minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency. Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, item 757, as amended).

IASB – International Accounting Standards Board.

BMR – Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

Consolidated financial statements for 2021 – 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).

Crowdfunding Act – Act of 7 July 2022 on crowdfunding for economic ventures and assistance to borrowers (Journal of Laws of 2022, Item 1488, as amended).

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

Administrative expense ratio – the quotient of administrative expenses and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

Acquisition expense ratio – the quotient of acquisition expenses (net of reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

Loss ratio – the quotient of net insurance claims and benefits and net earned premium (for the non-life insurance sector); a decrease in the value of this indicator signifies an improvement in efficiency.

(in millions of PLN)

Cost/Income ratio, C/I ratio (banking sector) – the quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments; a decrease in the value of this indicator signifies an improvement in efficiency.

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

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	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Country of registration	Poland
Registration address of the entity's offices	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Principal place of business	Poland
Core 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, 13th 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

Change of address of PZU's registered office

As of 19 November 2022, the address of PZU's registered office has changed. The new address is Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw. The change of PZU's address also involved a change in the jurisdiction of the Commercial Division of the National Court Register. After the change of address, the competent court for PZU is the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register.

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

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2022	31 December 2021	
Consolidated companies – Pekao Group – continued						
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o.	Warsaw	20.07.2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	Absource sp. z o.o.	Kraków	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
30	AL Finance sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage 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 September 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. [3)]	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
44	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
45	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
46	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
47	Towarzystwo Funduszy Inwestycyjnych Energia SA	Warsaw	15.07.2022	100.00%	n/a	Creation, representing and management of mutual funds.
48	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
49	PZU Finance AB (publ.) in likvidation	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
50	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
51	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
52	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
53	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
54	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
55	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment 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 September 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	Kraków	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
63	AQ SA (formerly: Aquaform SA) [4)]	Kraków	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
64	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
65	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
66	PZU FIZ Sektora Nieruchomości 2 [5)]	Warsaw	21.11.2011	n/a	n/a	as above
67	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
68	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
69	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
70	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
71	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
72	inPZU Akcje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
73	inPZU Obligacje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
74	inPZU Obligacje Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
75	inPZU Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
76	inPZU Akcje Amerykańskie	Warsaw	28.10.2019	n/a	n/a	as above

(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 September 2022	31 December 2021	
Consolidated companies – mutual funds – continued						
77	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	as above
78	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
79	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
80	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
81	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
82	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
83	PZU FIZ Legato	Warsaw	11.08.2021	n/a	n/a	as above
84	inPZU Akcje Rynku Surowców	Warsaw	15.12.2021	n/a	n/a	as above
85	inPZU Akcje Rynku Złota	Warsaw	15.12.2021	n/a	n/a	as above
86	inPZU Akcje Sektora Zielonej Energii	Warsaw	15.12.2021	n/a	n/a	as above
87	inPZU Akcje Sektora Informatycznego	Warsaw	15.12.2021	n/a	n/a	as above
88	inPZU Akcje Sektora Nieruchomości	Warsaw	15.12.2021	n/a	n/a	as above
89	inPZU Akcje Europejskie	Warsaw	15.12.2021	n/a	n/a	as above
90	inPZU Obligacje Inflacyjne	Warsaw	15.12.2021	n/a	n/a	as above
Associates						
91	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
92	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
93	Krajowy Integrator Płatności SA [6]	Poznań	31.03.2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

[1] As of 30 September 2022 and 31 December 2021, Balta's shareholder base included one minority shareholder holding 1 share. From 31 October 2022 PZU has been the holder of 100% of Balta's shares.
[2] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.
[3] Information about the acquisition of Aura Medic Południe sp. z o.o. and its subsequent merger with Bonus-Diagnosta sp. z o.o. is presented in section 2.3.1.
[4] The change of the company's name and registered office 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.

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 9-month period ended 30 September 2022 are presented in the following sections.

2.3.1. Acquisitions

2.3.1.1. Aura Medic Południe sp. z o.o. and its merger with Bonus-Diagnosta 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 shares in the share capital of Aura Medic Południe sp. z o.o. and entitling the holder to a total of 100% of the votes at the shareholder meeting, for PLN 13 million and an additional payment of PLN 2 million (of which PLN 1 million was paid on 27 September 2022). The additional payment is subject to the terms and conditions set forth in the purchase agreement.

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

On 31 August 2022 Bonus-Diagnosta sp. z o.o. (acquiring company) merged with Aura Medic Południe sp. z o.o. (acquired company) in accordance with Article 492 § 1 item 1 of the Commercial Company Code, i.e. through transfer of all assets of Aura Medic Południe sp. z o.o. to Bonus-Diagnosta sp. z o.o. The merger had no impact on the PZU Group's condensed interim financial statements.

2.3.1.2. Acquisition of TFI Energia

On 17 March 2022, PZU signed a preliminary agreement to acquire 100% of the shares of Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna ("TFI Energia") from Polska Grupa Energetyczna Spółka Akcyjna. On 15 July 2022, after obtaining the approvals from the KNF and UOKiK, the final agreement was signed. As of 15 July 2022, TFI Energia has been PZU's subsidiary and has been consolidated as of that date. The purchase price of the stake in TFI Energia was PLN 21 million.

On 29 September 2022, the Extraordinary Shareholder Meeting of TFI PZU adopted a resolution on the merger of TFI PZU with TFI Energia. The merger took place on 2 November 2022 and will have no impact on the PZU Group's consolidated financial statements.

2.3.1.3. Settlement of acquisitions

The allocation process of the share purchase prices was carried out based on accounting data:

- Aura Medic Południe sp. z o.o. – as at 31 March 2022;
- TFI Energia – as at 15 July 2022.

The condensed interim consolidated financial statements contain the final fair value of the assets and liabilities acquired. During the goodwill calculation:

- intangible assets not carried thus far in TFI Energia's financial statements were recognized;
- fair value measurement of assets and liabilities was performed;
- no contingent liabilities requiring recognition were identified;
- no potential indemnification assets requiring recognition were identified.

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

(in millions of PLN)

The tables below present the purchase price allocation of the acquisition of medical companies.

Value of acquired net assets	**Aura Medic Południe sp. z o.o.** Final settlement	**TFI Energia** Final settlement
Assets	**3**	**27**
Intangible assets	-	9
Property, plant and equipment	2	-
Receivables	1	-
Cash and cash equivalents	-	18
Liabilities	**1**	**3**
Other liabilities	1	3
Value of acquired net assets	**2**	**24**

Calculated goodwill / gain from a bargain purchase	**Aura Medic Południe sp. z o.o.** Final settlement	**TFI Energia** Final settlement
Payment transferred at the date of acquisition	13	21
Additional payment obligation [1)]	2	-
Net value of identifiable assets	(2)	(24)
Goodwill / (gain from a bargain purchase)	**13**	**(3)**

[1)] On 27 September 2022, Bonus-Diagnosta sp. z o.o. paid PLN 1 million. The remainder is due in January 2023.

Goodwill will not reduce taxable income.

2.3.2. Completion of the liquidation of Armatura Group companies

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

Aquaform Badprodukte GmbH in Liquidation was deregistered on 9 September 2022. The decision became final on 23 September 2022.

The liquidation did not affect the condensed interim consolidated financial statements of the PZU Group.

2.3.3. Sale of the shares of GSU Pomoc Górniczy Klub Ubezpieczonych SA

On 30 August 2022, PZU Pomoc SA entered into an agreement to sell 36,000 shares (all shares held by PZU Pomoc) in GSU Pomoc Górniczy Klub Ubezpieczonych SA for a total price of PLN 649 thousand. The registration of the transfer of the shares in the register of shareholders of GSU Pomoc Górniczy Klub Ubezpieczonych SA was made on 7 September 2022. As of that date, GSU Pomoc Górniczy Klub Ubezpieczonych SA ceased to be an affiliate of the PZU Group.

(in millions of PLN)

2.4 Non-controlling interest

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

Name of the entity	30 September 2022	31 December 2021
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
Balta	0.00% [3)]	0.00% [3)]

[1)] As a result, PZU also holds non-controlling interests in Pekao's subsidiaries listed in the table in section 2.2.
[2)] As a result, PZU also holds non-controlling interests in Alior Bank's subsidiaries listed in the table in section 2.2.
[3)] As of 30 September 2022 and 31 December 2021, Balta's shareholder base included one minority shareholder holding 1 share. As of 31 October 2022 PZU has been the holder of 100% of Balta's shares.

Carrying amount of non-controlling interests	30 September 2022	31 December 2021
Pekao Group	16,708	19,028
Alior Bank Group	3,579	3,885
Other	1	1
Total	**20,288**	**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.

Assets	Pekao Group		Alior Bank Group	
	30 September 2022	31 December 2021	30 September 2022	31 December 2021
Goodwill	693	693	-	-
Intangible assets	1,933	2,129	390	426
Deferred tax assets	2,079	1,650	1,547	1,352
Other assets	139	52	54	39
Property, plant and equipment	1,707	1,979	723	755
Entities measured by the equity method	47	44	-	-
Assets held for sale	14	14	-	-
Assets securing liabilities	2,462	846	240	131
Loan receivables from clients	163,416	156,692	57,997	57,907
Financial derivatives	19,125	8,007	634	272
Investment financial assets	63,062	69,781	13,936	15,992
Measured at amortized cost	44,987	46,736	5,528	6,578
Measured at fair value through other comprehensive income	16,983	22,372	8,308	9,265
Measured at fair value through profit or loss	1,092	673	100	149
Receivables	6,093	3,653	3,133	2,215
Cash and cash equivalents	18,745	4,967	5,228	3,748
Total assets	**279,515**	**250,507**	**83,882**	**82,837**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2022	31 December 2021	30 September 2022	31 December 2021
Equity				
Equity attributable to equity holders of the Parent	20,890	23,791	5,258	5,708
Share capital	263	263	1,306	1,306
Other capital	17,881	19,402	3,865	4,658
Retained earnings	2,746	4,126	87	(256)
Non-controlling interest	12	12	-	-
Total equity	**20,902**	**23,803**	**5,258**	**5,708**
Liabilities				
Subordinated liabilities	2,836	2,761	1,171	1,347
Liabilities on the issue of own debt securities	8,551	5,356	554	584
Liabilities to banks	7,822	7,040	294	462
Liabilities to clients under deposits	205,694	194,260	71,698	71,489
Derivatives	23,323	10,191	2,368	1,224
Other liabilities	9,316	6,240	2,256	1,732
Provisions	1,048	831	282	290
Deferred tax liability	23	25	1	1
Total liabilities	**258,613**	**226,704**	**78,624**	**77,129**
Total equity and liabilities	**279,515**	**250,507**	**83,882**	**82,837**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2022	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	19,042	-	-	20	19,062
Reinsurers' share in gross written premium	(679)	-	-	-	(679)
Net written premiums	**18,363**	**-**	**-**	**20**	**18,383**
Movement in net provision for unearned premiums	(442)	-	-	7	(435)
Net earned premiums	**17,921**	**-**	**-**	**27**	**17,948**
Revenue from commissions and fees	3,865	(2,576)	(1,200)	115	204
Interest income calculated using the effective interest rate	11,621	(6,869)	(3,570)	135	1,317
Other net investment income	(547)	98	683	(19)	215
Result on derecognition of financial instruments and investments	(404)	(12)	(25)	-	(441)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,849)	919	768	1	(161)
Net movement in fair value of assets and liabilities measured at fair value	206	(27)	(691)	-	(512)
Other operating income	1,269	(196)	(129)	43	987
Claims, benefits and movement in technical provisions	(11,400)	-	-	(2)	(11,402)
Reinsurers' share in claims, benefits and movement in technical provisions	355	-	-	-	355
Net insurance claims and benefits	**(11,045)**	**-**	**-**	**(2)**	**(11,047)**
Fee and commission expenses	(1,044)	449	602	(8)	(1)
Interest expenses	(2,847)	1,636	1,090	(25)	(146)
Acquisition expenses	(2,882)	-	-	(142)	(3,024)
Administrative expenses	(5,563)	3,012	1,179	(107)	(1,479)
Other operating expenses	(4,264)	2,128	725	(18)	(1,429)
Operating profit (loss)	**4,437**	**(1,438)**	**(568)**	**-**	**2,431**
Share of the net financial results of entities measured by the equity method	(22)	(4)	-	-	(26)
Profit (loss) before tax	**4,415**	**(1,442)**	**(568)**	**-**	**2,405**
Income tax	(1,361)	591	222	-	(548)
Net profit (loss)	**3,054**	**(851)**	**(346)**	**-**	**1,857**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2021 (restated)	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	18,250	-	-	24	18,274
Reinsurers' share in gross written premium	(591)	-	-	-	(591)
Net written premiums	**17,659**	**-**	**-**	**24**	**17,683**
Movement in net provision for unearned premiums	(287)	-	-	(2)	(289)
Net earned premiums	**17,372**	**-**	**-**	**22**	**17,394**
Revenue from commissions and fees	3,460	(2,380)	(1,009)	119	190
Interest income calculated using the effective interest rate	7,073	(4,098)	(2,083)	94	986
Other net investment income	290	(295)	144	(4)	135
Result on derecognition of financial instruments and investments	516	(38)	8	-	486
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,305)	566	745	-	6
Net movement in fair value of assets and liabilities measured at fair value	499	(67)	(329)	1	104
Other operating income	1,125	(175)	(140)	50	860
Claims, benefits and movement in technical provisions	(12,205)	-	-	(4)	(12,209)
Reinsurers' share in claims, benefits and movement in technical provisions	241	-	-	-	241
Net insurance claims and benefits	**(11,964)**	**-**	**-**	**(4)**	**(11,968)**
Fee and commission expenses	(865)	396	474	(6)	(1)
Interest expenses	(283)	136	113	(12)	(46)
Acquisition expenses	(2,625)	-	-	(160)	(2,785)
Administrative expenses	(5,071)	2,725	1,085	(107)	(1,368)
Other operating expenses	(3,026)	1,185	385	7	(1,449)
Operating profit (loss)	**5,196**	**(2,045)**	**(607)**	**-**	**2,544**
Share of the net financial results of entities measured by the equity method	(11)	(1)	-	-	(12)
Profit (loss) before tax	**5,185**	**(2,046)**	**(607)**	**-**	**2,532**
Income tax	(1,348)	564	198	-	(586)
Net profit (loss)	**3,837**	**(1,482)**	**(409)**	**-**	**1,946**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 September 2022	1 January – 30 September 2021	1 January – 30 September 2022	1 January – 30 September 2021
Net profit	851	1,482	346	409
Other comprehensive income	(2,621)	(1,135)	(796)	(341)
Subject to subsequent transfer to profit or loss	(2,548)	(1,177)	(802)	(337)
Valuation of debt instruments	(803)	(529)	(173)	(17)
Measurement of loan receivables from clients	(7)	(35)	-	-
Cash flow hedging	(1,752)	(613)	(628)	(321)
Actuarial gains related to provisions for employee benefits	14	-	-	-
Foreign exchange translation differences	-	-	(1)	1
Not to be transferred to profit or loss in the future	(73)	42	6	(4)
Valuation of equity instruments	(73)	42	6	(4)
Total net comprehensive income	**(1,770)**	**347**	**(450)**	**68**

Statement of Cash Flows	Pekao Group		Alior Bank Group	
	1 January – 30 September 2022	1 January – 30 September 2021	1 January – 30 September 2022	1 January – 30 September 2021
Net cash flows from operating activities	3,826	4,421	(286)	(1,012)
Net cash flows from investing activities	5,750	663	1,815	694
Net cash flows from financing activities	4,005	(2,176)	(248)	(662)
Total net cash flows	**13,581**	**2,908**	**1,281**	**(980)**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2022	1 January – 30 September 2021	1 January – 30 September 2022	1 January – 30 September 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. Shareholder structure

As at the date of conveying this interim report, PZU's shareholder structure, taking into consideration the shareholders with at least 5% of the votes at the PZU Shareholder Meeting is as follows:

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300	34.1875%
2	Nationale Nederlanden Otwarty Fundusz Emerytalny [1)]	49,223,000	5.7003%
3	Other shareholders	519,082,700	60.1122%
Total		**863,523,000**	**100.0000%**

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

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

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

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

Neither as at the date of conveying this interim report nor as at the date of conveying the report for the 6-month period ended 30 June 2022 (i.e. 25 August 2022) PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. Neither as at the date of conveying this interim report nor as at the date of conveying the report for the 6-month period ended 30 June 2022 (i.e. 25 August 2022) did any of the other members of the Management Board, Supervisory Board or the Directors of the Group hold any PZU shares or rights to them.

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

4.1 Composition of the parent company's Management Board

From 1 January 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 as 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 entrusted him with discharging the function of a PZU Management Board Member starting 28 April 2022 for a joint term of office encompassing three full financial years 2020-2022.

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

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

4.2 Composition of the parent company's Supervisory Board

From 1 January 2022, 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.

On 31 August 2022, Paweł Mucha submitted his resignation from serving in the capacity of Chairman of the PZU Supervisory Board, effective as of 31 August 2022.

On 1 September 2022, the Shareholder Meeting of PZU appointed Piotr Wachowiak as member of the PZU Supervisory Board. On 27 October 2022, the PZU Supervisory Board appointed Robert Jastrzębski as the Chairman of the PZU Supervisory Board.

From 27 October 2022 to the date of signing the condensed interim consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

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

4.3 PZU Group Directors

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

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

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

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

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

(in millions of PLN)

From 28 April 2022 to the date of signing the consolidated financial statements, the following persons were PZU Group Directors:

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

5. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2021.

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

5.1 Amendments to the applied IFRS

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

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

Standard/interpretation	Approving regulation	Comments
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.

(in millions of PLN)

Standard/interpretation	Approving regulation	Comments
Amendments to IFRS 3	2021/1080	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2018-2020	2021/1080	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments did not exert a material influence on the PZU Group's consolidated financial statements.

5.1.2. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission:

Name of standard/ interpretation	Effective date	Approving regulation	Comments

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. Introduction of consistent measurement 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 items will have the biggest impact on the occurrence of differences from the current standard:
			• measurement of liabilities and assets under insurance contracts which will:
			  ○ be based on the value of the best estimate of future cash flows;
			  ○ take into account the time value of money;
			  ○ include a non-financial risk adjustment;
			• 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 each reporting period;
			• recognition of the entire expected loss on insurance contracts at the time the entity assesses that the concluded contract gives rise to a burden, which may be at the date of initial recognition of the contract or at subsequent measurement;

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Comments
			• separate (from direct business contracts) measurement of liabilities and assets for outward reinsurance. The new standard introduces new measurement, presentation and disclosure rules for insurance contracts that will affect the shape of PZU Group's financial 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 the 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 under 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 5.2.
Amendment to IFRS 17 Insurance Contracts	1 January 2023	2022/1491	on 9 December 2021, the IASB issued an amendment to IFRS 17 regarding comparative information on financial assets presented at the time of initial application of IFRS 17. The amendment is intended to help avoid transitional accounting mismatches between financial assets and insurance contract liabilities resulting from different comparative presentation requirements between IFRS 9 and IFRS 17. The amendment will not be relevant to the PZU Group, which implemented IFRS 9 as of 1 January 2018.
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.

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Comments
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.

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
Amendment to IFRS 16 – Leases	22 September 2022	1 January 2024	The amendment requires that when measuring lease liabilities arising from a leaseback, the seller (lessee) should not recognize any gain or loss related to the retained right of use. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.

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

5.2 Implementation of IFRS 17 in 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 the 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) published 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 in the midst of advanced project work to implement the standard in all insurance units. As part of the project, the PZU Group is working on, among other things:

- developing the details of the valuation methodology for each type of contract and the presentation of financial information required by IFRS 17 in the consolidated financial statements;
- building a target reporting process;
- making the changes necessary to be implemented in IT systems, processes and areas significantly affected by the implementation of IFRS 17;
- implementing 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 automation of conversions.

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.

5.2.1. Measurement principles

Under IFRS 17, contracts will be measured according to 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 – an individual estimate of the financial value of the offset for uncertainty related to the amount and timing of 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 measurement 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 applied for short-term contracts of up to 1 year and longer, as long as the relevant qualifying criteria for applying the simplification are satisfied, as specified in paragraphs 53 or 69 of IFRS 17. The measurement of liability for incurred claims (LIC) is carried out using the GMM model (without CSM calculations);
- VFA – variable fee approach

  The liability measurement method used for IFRS 17 reporting of insurance contracts with direct profit sharing, where the measurement of liabilities is performed similarly to the GMM approach with the difference that changes in the contract margin component of the CSM in subsequent 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 the majority of insurance and reinsurance contracts in non-life insurance meet the criteria for applying the simplified premium allocation-based pricing method - PAA - as of the transition date. 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.

5.2.2. Identification and aggregation of insurance contracts

In order to identify insurance contracts and inward reinsurance contracts that are within the scope of IFRS 17, the PZU Group verifies whether, under a given contract, the entity accepts a significant 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 significant insurance risk is generally consistent with that in IFRS 4.

For measurement purposes, insurance contracts will be aggregated into the so-called groups of insurance contracts. 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 concluded contract gives rise to a burden. Offsetting gains and losses between identified groups of insurance contracts 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 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 groups of insurance contracts will be determined taking into account the above dimensions:

- portfolio dimension - based on the risk characteristics of individual insurance contracts and based 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, while it is permissible to move the assessment to the level of the quarter or year cohorts;
- cohort dimension - the PZU Group has decided to use annual cohorts for life insurance and quarterly cohorts for property insurance, which allows for a more accurate allocation of insurance contracts to profitability categories for the purposes of measurement of liabilities.

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

5.2.3. Main elements of measurement according to IFRS 17

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

5.2.3.1. Contract boundaries

For the purpose of measurement of liabilities, the value of financial flows within the contract boundaries is estimated. PZU Group bases its definition of a contract boundary on an assessment of whether there are viable possibilities to change tariffs in its insurance offering. If there is no such practical possibility, the measurement of liabilities includes all future expected premiums. 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 contract boundaries applied in life insurance contracts to rider contracts and some unit-linked products. For the needs of IFRS 17, rider contracts are treated as a whole with the main contract, i.e. the contract boundaries for the rider contracts correspond to the main contract boundary. In the case of unit-linked insurance, the guidelines for future cash flows derived from the “KNF Office's Position on the Contract Boundary for the Purpose of Determining Insurance or Reinsurance Liabilities” are used for measurement for the needs of Solvency II. In contrast, for the needs of IFRS 17, in unit-linked products with regular premiums, the future premium is modelled in accordance with the policyholder's liabilities described in the general terms and conditions of insurance and in the policy.

5.2.3.2. 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 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. Due to the different risk characteristics for the future flows arising from the liabilities of payable claims and those arising from the remaining insurance period, the adjustment for non-financial risk for these liabilities is estimated independently. For non-life insurance, the adjustment is determined using the value-at-risk (VaR) method. For life insurance, for liabilities arising from the remaining insurance period using the cost of capital (CoC) method, and for liabilities for payable claims using the VaR method. The risk adjustment for non-financial risks at the entity level is determined as a simple sum of adjustments determined at the level of individual groups of contracts or business lines, and diversification is taken into account when determining the level of materiality at the entity level (bottom-up approach). At the PZU Group level, the adjustment for non-financial risk is determined as a simple sum of adjustments for individual entities, and diversification between entities is not taken into account.

5.2.3.3. 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 income statement. For the purpose of CSM settlement during the year, a number of carriers of the so-called coverage units have been adopted, which determine the volume of insurance service provided in each period. The PZU Group relied on sums insured, to which all guaranteed benefits are referenced.

5.2.3.4. Financial costs of insurance operations

Under IFRS 17, the PZU Group has the option to split the financial expenses of its insurance operations into the portions recognized in profit or loss and other comprehensive income. The PZU Group plans to take advantage of this opportunity for all IFRS 17 portfolios. In accordance with IFRS 4 technical provisions were not calculated on the basis of 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 financial items measured under IFRS 9.

5.2.4. Transition date

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 the use of 3 methods for the purpose of measuring financial items at the transition date:

- full retrospective approach (FRA) - a method in which an entity measures groups of insurance contracts as if the standard had been applied from the beginning for those contracts;
- modified retrospective approach (MRA) - a method that allows 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 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. Factors such as group characteristics, the availability of historical data, materiality and whether the group of contracts belongs to the portfolio offered for sale by the PZU Group as of the transition date are taken into account in the selection.

(in millions of PLN)

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 at the time of the transition date, instead of at the time the contract was entered into	C9	C21-22
Failure to apply the provisions of paragraph 22 to divide groups into those that do not include contracts entered into at intervals greater than one year	C10	C23
Use of historical cash flows in determining contract margins	C12	n/a
Simplified calculation of risk adjustment for non-financial risks at the date of initial recognition of the 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

5.3 Other expected regulatory changes - change in the WIBOR reference rate index

The Crowdfunding Act provides for work on the process of determining a substitute for the WIBOR rate 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.

The steering committee of the national working group, at its meetings on 25 August and 1 September 2022, held discussions and decided on the selection of the WIRON (Warsaw Interest Rate Overnight) index as an alternative interest rate benchmark, with inputs in the form of information representing O/N (overnight) transactions. Ultimately, WIRON is expected to become a key interest rate benchmark under the BMR, which is used in financial contracts (e.g. loan agreements), financial instruments (e.g. debt securities or derivatives) and by investment funds (e.g. in setting management fees). The administrator of WIRON within the meaning of the BMR is WSE Benchmark SA, listed in the register of the European Securities and Markets Authority (ESMA).

The next step for the steering committee of the national working group was the adoption of a so-called roadmap, which sets out a timetable for replacing the WIBOR index with WIRON. The roadmap announced by KNF shows that it will be possible to start using WIRON in new financial instruments on the Polish market as early as December 2022. The development and publication of the WIBOR index (and the other index currently in use, WIBID) is to be discontinued from the beginning of 2025.

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.

5.4 Application of estimates and assumptions

The PZU Group has evaluated the estimates and assumptions made that affect the value of its individual assets and liabilities, as well as income and expenses presented in the condensed interim financial statements. Considering the uncertainty regarding the further development of the economic situation, particularly in connection with the ongoing armed conflict in Ukraine, the estimates made are subject to change in the future.

Uncertainties primarily relate to forecasts of macroeconomic assumptions, in particular those relating to key economic indicators (the level of the expected economic downturn, GDP, employment, housing prices, inflation, levels of market interest rates, possible disruptions in capital markets), possible disruptions in activity resulting from decisions made by state institutions, businesses and consumers, the effectiveness of aid programs designed to support businesses and consumers, and the development of mortality rates.

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.

In determining the value of the life insurance provision, assumptions are made regarding the frequency of events covered by insurance, i.e. mortality, morbidity and accident rates, 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 projected inflation rate is included in the calculation of provisions to recognize the expected effect of higher indexations in subsequent years.

5.4.1. Impairment and expected credit losses

5.4.1.1. 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 measurement reflects the expected magnitude of deterioration in the portfolio credit quality as a result of a difficult macroeconomic environment.

In relation to the risk:

- related to the armed conflict in Ukraine, its potential consequences for the situation of businesses and consumer sentiment;
- of a larger-than-expected increase in interest rates, which could translate into an increase in burden incurred by some clients;
- of a larger-than-expected economic slowdown due to increasing cost pressures on businesses, and
- of further COVID-19 mutations and further waves of the pandemic.

The PZU Group identifies increased credit risk, which is included in the estimate of expected credit losses. Among the key statutory client support tools available due to the macroeconomic situation, among other factors, the PZU Group includes the Borrower Support Fund. PZU Group classifies exposures covered by the Borrower Support Fund to Basket 2 (unless they meet the indications of impairment / default).

Information on the movement in expected credit losses is presented in section 9.27.

5.4.1.2. 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 recognized impairment losses on investment financial assets and receivables stood at PLN 157 million in the 9 months ended 30 September 2022 (PLN 4 million of allowances derecognized in the corresponding period of 2021).

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

5.4.1.3. 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 carried out impairment tests for all CGUs to which the goodwill has been allocated, except for the mass insurance segment in non-life insurance. In the period of 9 months ended 30 September 2022, the PZU Group has not recognized impairment losses on goodwill.

5.4.2. 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 matter is presented in section 9.37.

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

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

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

More information on this matter is presented in section 9.37.

5.4.4. Moratorium periods

On 14 July 2022, the President of the Republic of Poland signed the Crowdfunding Act.

According to Article 73 of the act, the bank is obliged to suspend repayment of a mortgage loan granted in the Polish currency at the borrower's request, 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 in 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 the loan repayment the borrower is not obligated to make any payments under the loan agreement, except for the fees for insurance associated with such agreements.

In accordance with the provisions of IFRS 9, the right introduced by the act for clients to take advantage of suspension of loan repayments requires adjusting 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 on the basis of modified cash flows taking into account the provisions of the act, discounted at the current effective interest rate,

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

(in millions of PLN)

The loss recognized on this account in the PZU Group's financial result in Q3 2022 amounted to PLN 2,931 million and was recognized as a reduction of interest income calculated using the effective interest rate method.

An important assumption that requires judgment regarding the amount of this loss is the number of clients applying for a moratorium period. Since this estimate represents the expected exercise of the right following from the act by clients, and the actual realization will take place during the effective 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 the participation rate were assumed at 100%, the maximum loss would be PLN 3,585 million.

5.5 Adjustment of comparative data

The PZU Group's 2021 consolidated financial statements reevaluated the methodology, assumptions and inputs for estimating the costs incurred by PZU Group banks related to the sale of insurance products. As a result of the above analysis, the PZU Group transferred some of the costs previously recognized as administrative expenses to acquisition expenses and reduced the amount of deferred acquisition expenses recognized in the consolidated statement of financial position in correspondence with acquisition expenses recognized in the consolidated income statement. In order to make the comparative data comparable, the data for the comparative periods have been adjusted in these condensed interim consolidated financial statements, i.e. from 1 July to 30 September 2021 and from 1 January to 30 September 2021 as presented below.

Consolidated profit and loss account	**1 July – 30 September 2021** (before restatement)	**Adjustment**	**1 July – 30 September 2021** (restated)	**1 January – 30 September 2021** (before restatement)	**Adjustment**	**1 January – 30 September 2021** (restated)
Acquisition expenses	(875)	(46)	(921)	(2,498)	(127)	(2,625)
Administrative expenses	(1,685)	26	(1,659)	(5,141)	70	(5,071)
Net profit, including:	**1,370**	**(20)**	**1,350**	**3,894**	**(57)**	**3,837**
- profit attributable to the equity holders of the Parent Company	759	(20)	739	2,430	(57)	2,373
- profit (loss) attributed to holders of non-controlling interest	611	-	611	1,464	-	1,464

Consolidated statement of comprehensive income	**1 July – 30 September 2021** (before restatement)	**Adjustment**	**1 July – 30 September 2021** (restated)	**1 January – 30 September 2021** (before restatement)	**Adjustment**	**1 January – 30 September 2021** (restated)
Net profit	1,370	(20)	1,350	3,894	(57)	3,837
Other comprehensive income	(605)	-	(605)	(1,878)	-	(1,878)
Total net comprehensive income, including:	**765**	**(20)**	**745**	**2,016**	**(57)**	**1,959**
- comprehensive income attributable to equity holders of the Parent Company	526	(20)	506	1,691	(57)	1,634
- comprehensive income attributable to holders of non-controlling interest	239	-	239	325	-	325

Consolidated cash flow statement	**1 January – 30 September 2021** (before restatement)	**Adjustment**	**1 January – 30 September 2021** (restated)
Profit before tax	5,242	(57)	5,185
Adjustments	572	57	629
Movement in deferred acquisition expenses	(88)	57	(31)
Cash flows from operating activities:	**5,814**	**-**	**5,814**

(in millions of PLN)

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

In the 9-month period ended 30 September 2022, there were no events that resulted in any significant change to the structure of financial statement line items.

7. Corrections of errors from previous years

During the 9-month period from 1 January to 30 September 2022, no corrections of errors from previous years were made.

8. Material events after the end of the reporting period

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

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premiums

Gross written premiums	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premiums in non-life insurance	4,174	12,644	3,671	11,487
In direct insurance	4,167	12,626	3,668	11,478
In indirect insurance	7	18	3	9
Gross written premiums in life insurance	2,221	6,398	2,237	6,763
Individual insurance premiums	427	1,036	479	1,494
Individually continued insurance premiums	519	1,553	514	1,542
Group insurance premiums	1,275	3,809	1,244	3,727
Total gross written premiums	**6,395**	**19,042**	**5,908**	**18,250**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Accident and sickness insurance (group 1 and 2)	252	741	285	839
Motor third party liability insurance (group 10)	1,397	4,081	1,329	3,977
Other motor insurance (group 3)	1,144	3,336	953	2,887
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	46	125	22	80
Insurance against fire and other property damage (groups 8 and 9)	814	2,787	654	2,356
TPL insurance (groups 11, 12, 13)	203	709	173	656
Credit and suretyship (groups 14, 15)	22	61	13	46
Assistance (group 18)	187	512	156	423
Legal protection (group 17)	4	11	3	10
Other (group 16)	98	263	80	204
Total	**4,167**	**12,626**	**3,668**	**11,478**

(in millions of PLN)

9.2 Revenue from commissions and fees

Revenue from commissions and fees	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Banking activity	1,188	3,463	1,076	2,990
Margin on foreign exchange transactions with clients	274	799	233	603
Brokerage fees	45	145	52	164
Fiduciary activity	19	59	20	57
Payment card and credit card services	371	1,026	298	803
Fees on account of insurance intermediacy activities	5	18	8	26
Credits and loans	126	363	126	352
Bank account-related services	117	388	137	402
Transfers	77	229	73	210
Cash operations	32	91	29	75
Receivables purchased	21	60	16	48
Guarantees, letters of credit, collections, promises	26	75	24	68
Commissions on leasing activity	23	69	22	63
Other commission	52	141	38	119
Revenue and payments received from funds and mutual fund management companies	88	269	122	362
Pension insurance	39	130	36	105
Other	1	3	-	3
Total revenue from commissions and fees	**1,316**	**3,865**	**1,234**	**3,460**

9.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Loan receivables from clients	1,442 [1)]	7,626 [1)]	1,766	5,199
Debt securities measured at fair value through other comprehensive income	402	905	166	555
Debt securities measured at amortized cost	656	1,665	373	1,075
Buy-sell-back transactions	127	252	-	1
Term deposits with credit institutions	54	97	4	12
Loans	91	187	42	90
Receivables purchased	175	409	46	138
Receivables	29	59	-	-
Cash and cash equivalents	211	421	1	3
Interest income calculated using the effective interest rate, total	**3,187**	**11,621**	**2,398**	**7,073**

[1)] Including a reduction in revenue of 2,931 million in Q3 2022 from moratorium periods. Detailed information on this matter is presented in section 5.4.4.

(in millions of PLN)

9.4 Other net investment income

Other net investment income	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Hedge derivatives	(149)	(101)	119	334
Dividend income, including:	11	47	14	49
Investment financial assets measured at fair value through profit or loss	11	20	14	23
Investment financial assets measured at fair value through other comprehensive income	-	27	-	26
Foreign exchange differences	(253)	(617)	(136)	(190)
Income on investment property	75	226	61	178
Investment property maintenance expenses	(33)	(95)	(23)	(74)
Investment activity expenses	(7)	(21)	(7)	(26)
Other	5	14	8	19
Other net investment income, total	**(351)**	**(547)**	**36**	**290**

9.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment financial assets	(38)	(141)	24	659
Debt instruments measured at fair value through other comprehensive income	-	(11)	2	28
Financial instruments measured at fair value through profit or loss	(41)	(136)	15	619
Equity instruments	(8)	(18)	(4)	583
Participation units and investment certificates	(52)	(101)	13	26
Debt instruments	19	(17)	6	10
Instruments measured at amortized cost	3	6	7	12
Loan receivables from clients measured at amortized cost	12	(1)	(1)	(10)
Derivatives	(116)	(179)	(9)	(58)
Short sale	(12)	(8)	-	2
Receivables	(23)	(75)	(24)	(83)
Investment property	-	-	-	6
Result on derecognition of financial instruments and investments, total	**(177)**	**(404)**	**(10)**	**516**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment financial assets	15	(43)	(34)	(1)
Debt instruments measured at fair value through other comprehensive income	12	12	(17)	5
Instruments measured at amortized cost	3	(55)	(17)	(6)
- debt instruments	(3)	(28)	(20)	(11)
- term deposits with credit institutions	12	(16)	-	-
- loans	(6)	(11)	3	5
Loan receivables from clients	(576)	(1,690)	(396)	(1,363)
Measured at amortized cost	(576)	(1,690)	(396)	(1,385)
Measured at fair value through other comprehensive income	-	-	-	22
Guarantees and sureties given	15	10	-	54
Receivables	(22)	(114)	7	5
Cash and cash equivalents	(5)	(12)	1	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(573)**	**(1,849)**	**(422)**	**(1,305)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment financial instruments measured at fair value through profit or loss	198	(258)	129	337
Equity instruments	(67)	(198)	(19)	51
Debt securities	282	386	130	132
Participation units and investment certificates	(17)	(446)	18	154
Derivatives	49	331	4	248
Measurement of liabilities to members of consolidated mutual funds	11	63	-	(7)
Investment contracts for the client's account and risk (unit-linked)	9	52	-	(7)
Investment property	(24)	8	(15)	(74)
Loan receivables from clients	6	10	1	2
Net movement in fair value of assets and liabilities measured at fair value, total	**249**	**206**	**119**	**499**

(in millions of PLN)

9.8 Other operating income

Other operating income	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Revenues on the sales of products, merchandise and services by non-insurance companies	258	771	226	651
Revenues from direct claims handling on behalf of other insurance undertakings	41	121	42	123
Reversal of provisions	13	25	1	21
Reimbursement of the costs of pursuit of claims	14	47	8	24
Reinsurance commissions and profit participation	29	86	21	77
Interest for late payment of amounts due under direct insurance and outward reinsurance	14	41	12	36
Other	63	178	63	193
Other operating income, total	**432**	**1,269**	**373**	**1,125**

9.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Claims, benefits and movement in technical provisions	**4,008**	**11,400**	**4,019**	**12,205**
In non-life insurance	2,520	7,349	2,487	6,808
- claims and benefits	2,186	6,193	2,053	5,450
- movement in technical provisions	113	481	209	701
- claims handling expenses	221	675	225	657
In life insurance	1,488	4,051	1,532	5,397
- claims and benefits	1,511	4,869	1,475	5,033
- movement in technical provisions	(56)	(916)	26	272
- claims handling expenses	33	98	31	92
Reinsurers' share in claims, benefits and movement in technical provisions	**(79)**	**(355)**	**(125)**	**(241)**
In non-life insurance	(79)	(355)	(125)	(241)
Total net insurance claims and benefits	**3,929**	**11,045**	**3,894**	**11,964**

9.10 Fee and commission expenses

Fee and commission expenses	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Costs of card and ATM transactions, including card issue costs	293	779	231	585
Commissions on acquisition of banking clients	23	64	30	85
Fees for the provision of ATMs	7	29	12	33
Costs of awards to banking clients	4	13	4	12
Costs of bank transfers and remittances	12	36	11	31
Additional services attached to banking products	7	18	6	17
Brokerage fees	6	20	4	20
Costs of administration of bank accounts	1	4	2	4
Costs of banknote operations	7	20	5	17
Fiduciary activity expenses	6	20	7	21
Other commission	15	41	14	40
Total fee and commission expenses	**381**	**1,044**	**326**	**865**

(in millions of PLN)

9.11 Interest expenses

Interest expenses	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Term deposits	576	813	7	33
Current deposits	313	607	8	32
Own debt securities issued	248	502	49	151
Hedge derivatives	242	473	6	21
Loans	26	59	(1)	(1)
Repurchase transactions	119	246	-	-
Bank loans contracted by PZU Group companies	30	68	7	19
Leases	30	52	6	17
Other	12	27	4	11
Total interest expenses	**1,596**	**2,847**	**86**	**283**

9.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021 (restated)	1 January – 30 September 2021 (restated)
Consumption of materials and energy	53	152	34	117
Third party services	458	1,395	397	1,201
Taxes and charges	31	91	35	107
Employee expenses	1,327	4,054	1,219	3,778
Depreciation of property, plant and equipment	165	488	174	474
Amortization of intangible assets	132	379	126	366
Other, including:	948	2,779	836	2,434
- commissions in insurance activities	742	2,173	646	1,906
- advertising	78	224	74	178
- remuneration of group insurance administrators in work establishments	51	153	50	152
- other	77	229	66	198
Movement in deferred acquisition expenses	(10)	(120)	15	(32)
Administrative, acquisition and claims handling expenses, total	**3,104**	**9,218**	**2,836**	**8,445**

(in millions of PLN)

9.13 Other operating expenses

Other operating expenses	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Levy on financial institutions	370	1,079	323	960
Expenses of the core business of non-insurance and non-banking companies	272	831	245	723
Direct claims handling expenses on behalf of other insurance undertakings	40	123	44	129
Compulsory payments to insurance market institutions and banking market institutions	31	124	28	117
Bank Guarantee Fund	(57)	364	41	351
Costs of the Bank Protection Scheme fee [1)]	60	696	-	-
Costs of the Borrower Support Fund fee	219	219	-	-
Insurance Guarantee Fund	16	46	15	46
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	2	16	1	17
Expenditures for prevention activity	8	26	9	33
Establishment of provisions	165	341	45	283
Amortization of intangible assets purchased in company acquisition transactions	25	74	33	96
Recognition of impairment losses for non-financial assets	3	107	1	4
Donations	2	37	-	22
Costs of pursuit of claims	20	62	25	71
Other	40	119	60	174
Other operating expenses, total	**1,216**	**4,264**	**870**	**3,026**

[1)] Additional information on the Bank Protection Scheme and the costs incurred by the PZU Group for its establishment are presented in Section 24.7.

Borrower Support Fund

The crowdfunding law introduces an obligation to make additional contributions to the Borrower Support Fund (BSF). According to the act, the fund's resources will increase by PLN 1.4 billion by the end of 2022 and will total more than PLN 2 billion. The amount of additional contributions attributable to individual banks was determined by the BSF Board by resolution, based on information from the Chairman of the KNF. The BSF offers support to both borrowers who have taken out loans in PLN and in a foreign currency.

The support is repayable, but part of the support can be written off under certain conditions.

Determination of the level of the contribution attributable to the given bank will be influenced primarily by the following factors:

- The share of the given bank in the gross carrying value of its housing loan portfolio, where the delay in repayment of principal or interest exceeds 90 days in comparison with the entire banking sector in Poland;
- Possible exemption of some lenders that do not meet regulatory capital and liquidity requirements from making contributions to the BSF.

Based on information received from the BSF Board, the premium for the PZU Group charged to the results for Q3 2022 amounted to PLN 219 million.

(in millions of PLN)

9.14 Income tax

Total amount of current and deferred tax	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Recognized through profit or loss, including:	(158)	(1,361)	(474)	(1,348)
- current tax	(615)	(1,161)	(539)	(1,204)
- deferred tax	457	(200)	65	(144)
Recognized in other comprehensive income (deferred tax)	(5)	1,080	155	448
Total	**(163)**	**(281)**	**(319)**	**(900)**

Income tax on other comprehensive income items	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross other comprehensive income	54	(5,688)	(760)	(2,326)
Income tax	(5)	1,080	155	448
Debt instruments	53	506	46	210
Loan receivables from clients	1	2	(1)	8
Cash flow hedging	(75)	559	94	237
Equity instruments measured at fair value through other comprehensive income	16	16	16	(7)
Actuarial gains and losses related to employee provisions	-	(3)	-	-
Net other comprehensive income	49	**(4,608)**	**(605)**	**(1,878)**

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

9.15 Earnings per share

Earnings per share	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021 (restated)	1 January – 30 September 2021 (restated)
Net profit attributable to the equity holders of the parent company	660	2,140	739	2,373
Weighted average basic and diluted number of common shares	863,400,190	863,389,553	863,340,728	863,341,351
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)	(122,810)	(133,447)	(182,272)	(181,649)
Basic and diluted earnings (losses) per common share (in PLN)	0.76	2.48	0.86	2.75

In the 9-month periods ended 30 September 2022 and 30 September 2021, there were no transactions or events resulting in the dilution of earnings per share.

(in millions of PLN)

9.16 Goodwill

Goodwill	30 September 2022	31 December 2021
Pekao [1)]	1,715	1,715
LD [2)]	537	508
Medical companies	300	288
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	44	41
Other	5	5
Total goodwill	**2,822**	**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.

9.17 Intangible assets

Intangible assets by type groups	30 September 2022	31 December 2021
Software, licenses and similar assets	1,575	1,738
Trademarks	529	522
- Pekao	340	340
- other	189	182
Customer relationships	372	437
- Pekao	303	366
- other	69	71
Intangible assets under development	680	686
Other intangible assets	21	20
Total intangible assets	**3,177**	**3,403**

9.18 Other assets

Other assets	30 September 2022	31 December 2021
Reinsurance settlements	89	90
Estimated salvage and subrogation	206	198
Deferred IT expenses	215	110
Accrued direct claims handling receivables	46	53
Costs settled over time	109	74
Inventories	53	57
Payments for taxes on property, means of transport and land	9	-
Payments for the costs of the allowance to the Company Social Benefit Fund	13	-
Accrued commissions	14	18
Other assets	39	33
Total other assets	**793**	**633**

(in millions of PLN)

9.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 September 2022	31 December 2021
Plant and machinery	613	647
Means of transport	222	246
Property, plant and equipment under construction	265	283
Real property	2,762	2,587
Other property, plant and equipment	376	381
Total property, plant and equipment	**4,238**	**4,144**

9.20 Entities measured by the equity method

Associates	30 September 2022	31 December 2021
RUCH SA	23	48
Krajowy Integrator Płatności SA	47	44
Sigma BIS SA	3	-
GSU Pomoc Górniczy Klub Ubezpieczonych SA	-	1
Associates, total	**73**	**93**

9.21 Assets and liabilities held for sale

Assets held for sale by classification before transfer	30 September 2022	31 December 2021
Groups held for sale	**289**	**297**
Assets	318	325
Investment property	303	298
Receivables	4	7
Cash and cash equivalents	10	20
Other assets	1	-
Liabilities related directly to assets classified as held for sale	29	28
Other liabilities	13	14
Deferred tax liability	16	14
Other assets held for sale	**301**	**318**
Property, plant and equipment	17	18
Investment property	284	300
Assets and groups of assets held for sale	**619**	**643**
Liabilities related directly to assets classified as held for sale	**29**	**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.

9.22 Loan receivables from clients

Loan receivables from clients	30 September 2022	31 December 2021
Measured at amortized cost	221,438	214,602
Measured at fair value through other comprehensive income	263	246
Measured at fair value through profit or loss	151	160
Total loan receivables from clients	**221,852**	**215,008**

(in millions of PLN)

Loan receivables from clients	30 September 2022	31 December 2021
Retail segment	**110,587**	**116,523**
Operating loans	202	214
Consumer finance	25,540	27,013
Consumer finance loans	4,230	4,284
Loan to purchase securities	15	32
Overdrafts in credit card accounts	1,116	1,106
Loans for residential real estate	78,605	82,923
Other mortgage loans	662	717
Other receivables	217	234
Business segment	**111,265**	**98,485**
Operating loans	39,914	31,859
Car financing loans	2	3
Investment loans	30,463	27,992
Receivables purchased (factoring)	8,579	7,393
Overdrafts in credit card accounts	119	157
Loans for residential real estate	62	76
Other mortgage loans	11,131	9,522
Finance lease	14,439	13,694
Other receivables	6,556	7,789
Total loan receivables from clients	**221,852**	**215,008**

9.23 Financial derivatives

Derivatives	30 September 2022		31 December 2021	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**16,852**	**23,891**	**6,706**	**10,372**
Fair value hedging instruments – swap transactions	163	6	24	91
Cash flow hedging instruments – swap transactions	122	7,434	30	3,513
Instruments held for trading, including:	16,567	16,451	6,652	6,768
- forward contracts	9	5	7	13
- SWAP transactions	16,454	16,322	6,621	6,729
- call options (purchase)	87	109	16	20
- put options (sale)	14	12	6	4
- cap floor options	3	3	2	2
Foreign exchange derivatives	**2,253**	**1,925**	**797**	**727**
Cash flow hedging instruments – swap transactions	184	3	63	31
Instruments held for trading, including:	2,069	1,922	734	696
- forward contracts	799	1,085	361	393
- SWAP transactions	1,109	709	287	254
- call options (purchase)	137	69	83	24
- put options (sale)	24	59	3	25
Equity derivatives – held for trading	**27**	**2**	**69**	**41**
- forward contracts	-	1	-	-
- call options (purchase)	27	1	69	41
Commodity derivatives – held for trading	**640**	**609**	**756**	**740**
- forward contracts	3	8	12	7
- SWAP transactions	637	601	729	717
- call options (purchase)	-	-	15	14
- put options (sale)	-	-	-	2
Total derivatives	**19,772**	**26,427**	**8,328**	**11,880**

(in millions of PLN)

9.24 Assets securing liabilities

Assets securing liabilities	30 September 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	2,563	141	-	2,704	131	911	48	1,090
Government securities	2,563	141	-	2,704	131	911	48	1,090
Domestic	2,563	141	-	2,704	131	911	48	1,090
Fixed rate	2,563	141	-	2,704	131	911	2	1,044
Floating rate	-	-	-	-	-	-	46	46
Buy-sell-back transactions	20	-	-	20	246	-	-	246
Assets securing liabilities, total	**2,583**	**141**	**-**	**2,724**	**377**	**911**	**48**	**1,336**

9.25 Investment financial assets

Investment financial assets	30 September 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	1,444	784	2,228	n/a	768	931	1,699
Participation units and investment certificates	n/a	n/a	4,854	4,854	n/a	n/a	5,816	5,816
Debt securities	68,251	36,770	2,460	107,481	74,052	44,128	2,418	120,598
Government securities	58,273	27,479	2,271	88,023	65,228	31,409	2,135	98,772
Domestic	58,036	24,829	2,143	85,008	64,958	28,664	1,952	95,574
Fixed rate	53,168	16,006	1,548	70,722	59,532	21,233	1,511	82,276
Floating rate	4,868	8,823	595	14,286	5,426	7,431	441	13,298
Foreign	237	2,650	128	3,015	270	2,745	183	3,198
Fixed rate	237	2,650	128	3,015	270	2,745	180	3,195
Floating rate	-	-	-	-	-	-	3	3
Other	9,978	9,291	189	19,458	8,824	12,719	283	21,826
Fixed rate	3,561	5,225	28	8,814	2,844	7,424	37	10,305
Floating rate	6,417	4,066	161	10,644	5,980	5,295	246	11,521
Other, including:	13,445	-	-	13,445	8,841	-	-	8,841
Buy-sell-back transactions	6,560	-	-	6,560	3,871	-	-	3,871
Term deposits with credit institutions	2,673	-	-	2,673	1,384	-	-	1,384
Loans	4,212	-	-	4,212	3,586	-	-	3,586
Investment financial assets, total	**81,696**	**38,214**	**8,098**	**128,008**	**82,893**	**44,896**	**9,165**	**136,954**

(in millions of PLN)

Equity instruments measured at fair value through other comprehensive income	30 September 2022	31 December 2021
PKN Orlen	758	-
Biuro Informacji Kredytowej SA	251	323
Grupa Azoty SA	242	243
PSP sp. z o.o.	101	94
Polimex-Mostostal SA	31	42
Astaldi SFP	16	14
Krajowa Izba Rozliczeniowa SA	14	16
Webuild SpA	10	15
Other	21	21
Equity instruments measured at fair value through other comprehensive income, total	**1,444**	**768**

On 29 September 2022, PZU acquired from the State Treasury 14,161,080 shares of PKN Orlen, representing 2.26% of PKN Orlen's share capital and the total number of votes at the Shareholder Meeting of PKN Orlen, for a total of PLN 756 million and classified them as shares measured at fair value through other comprehensive income. The transaction was in line with the 2021-2023 investment strategy for PZU and PZU Life's own risk portfolio. The purpose of the transaction was to achieve a positive result from the transaction - the decision on the exposure was made at a time when the valuation of PKN Orlen shares was under great pressure, and market analyses indicated the potential to increase in value and thus achieve a high return on investment. Depending on the market situation, PZU will consider selling all or part of its stake in PKN Orlen in subsequent quarters.

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 September 2022	31 December 2021
Lithuania	706	845
Romania	211	227
Latvia	184	155
Indonesia	170	132
Spain	140	17
Hungary	128	134
Italy	119	118
Ukraine	98	163
Bulgaria	81	87
France	80	14
Columbia	79	76
Croatia	78	154
Mexico	76	88
Brazil	73	70
Panama	70	76
Peru	69	74
Saudi Arabia	52	59
Morocco	51	44
Other	550 [1)]	665 [2)]
Total	**3,015**	**3,198**

[1)] The line item “Other” includes bonds issued by 52 countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million.
[2)] The line item “Other” includes bonds issued by 53 countries.

(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 September 2022	31 December 2021
K. Financial and insurance activities, of which:	7,108	8,375
Foreign banks	5,421	4,777
National Bank of Poland	28	1,870
Companies from the WIG-Banks Index	557	553
O. Public administration and defense, compulsory social security, of which:	5,268	5,354
Domestic local governments	5,263	5,345
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	1,982	2,329
Companies from the WIG-Energy Index	1,353	1,614
C. Manufacturing, of which:	1,788	1,818
Production and processing of crude oil refining products (including WIG-Fuels)	727	766
H. Transportation and storage	759	801
E. Water supply; sewerage, waste management and remediation activities	486	413
N. Administrative and support service activities	409	1,006
J. Information and communication	374	377
F. Construction	372	305
I. R. Accommodation and food service activities (including: WIG - hotels and restaurants), and arts, entertainment and recreation activities	314	335
L. Real estate activities	196	285
M. Professional, scientific and technical activity	188	196
B. Mining and quarrying	184	185
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	30	47
Total	**19,458**	**21,826**

9.26 Receivables

Receivables – carrying amount	30 September 2022	31 December 2021
Receivables on direct insurance, including:	2,510	2,694
- receivables from policyholders	2,390	2,604
- receivables from insurance intermediaries	98	89
- other receivables	22	1
Reinsurance receivables	99	63
Other receivables	10,321	6,661
- receivables from disposal of securities and margins [1)]	8,000	4,516
- receivables on account of payment card settlements	841	931
- trade receivables	438	310
- receivables from the state budget, other than corporate income tax receivables	117	98
- receivables by virtue of commissions concerning off-balance sheet products	158	170
- prevention settlements	39	33
- receivables from direct claims handling on behalf of other insurance undertakings	15	12
- receivables for acting as an emergency adjuster	7	8
- receivables on account of Corporate Income Tax	329	223
- receivables from security and bid deposits	66	54
- interbank and interbranch receivables	12	16
- other	299	290
Total receivables	**12,930**	**9,418**

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

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

(in millions of PLN)

9.27 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January - 30 September 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	52,210	-	-	15	52,225	58,460	-	-	8	58,468
Change attributable to modification of cash flows concerning the given instrument	(3)	-	-	-	(3)	(2)	(1)	-	-	(3)
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(37,436)	(2,075)	(1,837)	(289)	(41,637)	(40,618)	(4,955)	(2,570)	(1,132)	(49,275)
Assets from the statement of financial position	-	-	(1,369)	(9)	(1,378)	-	-	(1,678)	(57)	(1,735)
Reclassification to basket 1	11,126	(10,866)	(260)	-	-	7,958	(7,665)	(293)	-	-
Reclassification to basket 2	(11,782)	12,151	(369)	-	-	(15,055)	15,127	(72)	-	-
Reclassification to basket 3	(2,723)	(1,667)	4,390	-	-	(1,374)	(2,167)	3,541	-	-
Change in the composition of the Group	-	-	-	-	-	11,131	-	-	1,058	12,189
Other changes, including foreign exchange differences	(1,320)	(284)	301	352	(951)	(1,040)	(107)	267	(43)	(923)
End of the period	**192,650**	**25,729**	**12,095**	**5,376**	**235,850**	**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	(444)	-	-	(5)	(449)	(839)	-	-	(3)	(842)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	565	(470)	(1,306)	(148)	(1,359)	927	(395)	(1,202)	306	(364)
Assets from the statement of financial position	-	-	1,369	9	1,378	-	-	1,678	57	1,735
Reclassification to basket 1	(549)	435	114	-	-	(495)	360	135	-	-
Reclassification to basket 2	119	(295)	176	-	-	157	(161)	4	-	-
Reclassification to basket 3	90	273	(363)	-	-	111	372	(483)	-	-
Other changes, including foreign exchange differences	(26)	(297)	(442)	(225)	(990)	(19)	(98)	(40)	(118)	(275)
End of the period	**(1,312)**	**(2,152)**	**(6,773)**	**(4,175)**	**(14,412)**	**(1,067)**	**(1,798)**	**(6,321)**	**(3,806)**	**(12,992)**
Net carrying amount at the end of the period	**191,338**	**23,577**	**5,322**	**1,201**	**221,438**	**181,511**	**26,672**	**4,918**	**1,501**	**214,602**

In connection with the entry into force of KNF's “Recommendation R on principles for the classification of credit exposures, estimation and recognition of expected credit losses and management of credit risk” as of 1 January 2022, the PZU Group modified the criteria for identifying POCI assets, resulting in the identification of new POCI assets and the need to restate comparative data in terms of the gross value of loans and advances to clients measured at amortized cost and the value of the allowance for expected credit losses on these loans (presentation changes between Basket 3 and POCI assets). The change had no effect on the total net amount of loan receivables from clients.

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January - 30 September 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	7	-	-	-	7	-	-	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	(3)	(132)	-	-	(135)	(601)	(622)	-	-	(1,223)
Other changes	(6)	1	-	-	(5)	(4)	(2)	-	-	(6)
End of the period	**263**	**-**	**-**	**-**	**263**	**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)	-	-	-	-	-	(2)	2	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	-	2	-	-	2	4	19	-	-	23
Other changes	-	-	-	-	-	-	(1)	-	-	(1)
End of the period	**(4)**	**-**	**-**	**-**	**(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 September 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	7,420	-	-	-	7,420	26,513	-	-	-	26,513
Change in measurement	1,139	-	3	-	1,142	802	-	1	-	803
Changes attributable to sale, exclusion or expiration of the instrument	(12,565)	(42)	-	-	(12,607)	(11,476)	(8)	-	-	(11,484)
Assets from the statement of financial position	-	-	-	-	-	-	-	(1)	-	(1)
Reclassification to basket 1	269	(269)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(167)	167	-	-	-	(288)	288	-	-	-
Change in the composition of the Group	-	-	-	-	-	15	-	-	40	55
Other changes, including foreign exchange differences	712	(4)	-	15	723	481	1	1	(1)	482
End of the period	**70,705**	**206**	**38**	**54**	**71,003**	**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	(13)	-	-	-	(13)	(39)	-	-	-	(39)
Changes attributable to valuation or credit risk (excluding reclassification)	(26)	8	-	-	(18)	9	1	-	-	10
Changes attributable to sale, exclusion or expiration of the instrument	3	-	-	-	3	4	-	-	-	4
Assets from the statement of financial position	-	-	-	-	-	-	-	1	-	1
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Reclassification to basket 2	28	(28)	-	-	-	7	(7)	-	-	-
Other changes, including foreign exchange differences	(1)	1	(3)	(16)	(19)	-	-	(2)	(30)	(32)
End of the period	**(79)**	**(26)**	**(38)**	**(46)**	**(189)**	**(69)**	**(8)**	**(35)**	**(30)**	**(142)**
Net carrying amount at the end of the period	**70,626**	**180**	**-**	**8**	**70,814**	**73,828**	**346**	**-**	**9**	**74,183**

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

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January - 30 September 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	74,002	-	-	-	74,002	297,955	4	-	-	297,959
Change in measurement	(1,254)	17	-	-	(1,237)	(445)	(10)	-	-	(455)
Changes attributable to sale, exclusion or expiration of the instrument	(81,723)	(29)	-	-	(81,752)	(315,883)	(93)	-	-	(315,976)
Reclassification to basket 1	26	(26)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(27)	27	-	-	-	(94)	94	-	-	-
Change in the composition of the Group	-	-	-	-	-	313	-	-	-	313
Other changes, including foreign exchange differences	857	2	-	-	859	(445)	-	-	-	(445)
End of the period	**36,669**	**242**	**-**	**-**	**36,911**	**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)	2	4	-	-	6	12	(12)	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	7	-	-	-	7	20	-	-	-	20
Reclassification to basket 2	1	(1)	-	-	-	1	(1)	-	-	-
End of the period	**(45)**	**(23)**	**-**	**-**	**(68)**	**(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 September 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	24,408	-	-	-	24,408	33,091	-	-	-	33,091
Change in measurement	19	(3)	-	-	16	2	-	-	-	2
Change attributable to modification of cash flows concerning the given instrument	(263)	-	-	-	(263)	(399)	-	-	-	(399)
Changes attributable to sale, exclusion or expiration of the instrument	(22,845)	(11)	-	-	(22,856)	(32,411)	-	-	-	(32,411)
Reclassification to basket 2	(181)	181	-	-	-	-	-	-	-	-
Reclassification to basket 3	(150)	-	150	-	-	-	-	-	-	-
Change in the composition of the Group	-	-	-	-	-	161	-	-	-	161
Other changes, including foreign exchange differences	6	(6)	-	-	-	(12)	-	-	-	(12)
End of the period	**2,379**	**161**	**150**	**-**	**2,690**	**1,385**	**-**	**-**	**-**	**1,385**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(25)	10	(1)	-	(16)	(4)	-	-	-	(4)
Changes attributable to sale, exclusion or expiration of the instrument	1	1	-	-	2	-	-	-	-	-
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	**-**	**(15)**	**(2)**	**-**	**(17)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**2,379**	**146**	**148**	**-**	**2,673**	**1,384**	**-**	**-**	**-**	**1,384**

(in millions of PLN)

Loans	1 January - 30 September 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	693	-	-	-	693	1,418	-	-	-	1,418
Change in measurement	91	3	-	-	94	(10)	2	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	(147)	(4)	-	-	(151)	(1,204)	(6)	-	-	(1,210)
Reclassification to basket 1	74	(74)	-	-	-	-	-	-	-	-
End of the period	**4,233**	**-**	**-**	**-**	**4,233**	**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	(3)	-	-	-	(3)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	(13)	5	-	-	(8)	1	-	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	2	-	-	-	2
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Other changes	1	-	-	-	1	-	-	-	-	-
End of the period	**(21)**	**-**	**-**	**-**	**(21)**	**(5)**	**(6)**	**-**	**-**	**(11)**
Net carrying amount at the end of the period	**4,212**	**-**	**-**	**-**	**4,212**	**3,517**	**69**	**-**	**-**	**3,586**

Receivables	1 January – 30 September 2022	1 January – 31 December 2021
Gross carrying amount		
Beginning of the period	10,575	7,333
Changes in the period	3,555	3,242
End of the period	**14,130**	**10,575**
Expected credit losses		
Beginning of the period	(1,157)	(1,087)
Changes in the period	(43)	(70)
End of the period	**(1,200)**	**(1,157)**
Net carrying amount at the end of the period	**12,930**	**9,418**

9.28 Fair value

9.28.1. Description of valuation techniques

9.28.1.1. Debt securities and loans

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

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

The fair value of loans and debt securities for which an active market does not exist is measured using the discounted cash flow method. For floating-rate debt instruments, a reference curve reflecting the level of risk-free rates for discounting future flows is built on the basis of the relevant currency swap curve. However, for instruments based on a fixed interest rate - based on the quotes of treasury bonds in the given currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of a given debt instrument, a market sector spread published in news services is added to reflect the pricing of the risk for the relevant sector for the issuer's business sector and its rating.

9.28.1.2. Equity-based financial assets

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

9.28.1.3. Participation units and investment certificates of mutual funds

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

9.28.1.4. Derivatives

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

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

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

9.28.1.5. Loan receivables from clients

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

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

9.28.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

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

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

9.28.1.8. Liabilities under deposits

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

9.28.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

9.28.2. Fair value hierarchy

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

- level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale);
- level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, for which there is a sufficient number of transactions of similar properties in the analyzed market, including free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk;
- level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method or the comparative method (if there is no adequate number of transactions of similar properties);
  - loan receivables from clients and liabilities to clients under deposits;

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

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

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

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

9.28.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 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	22,219	10,330	5,806	38,355	22,733	17,002	6,072	45,807
Equity instruments	1,043	-	401	1,444	297	-	471	768
Debt securities	21,176	10,330	5,405	36,911	22,436	17,002	5,601	45,039
Investment financial assets and assets securing liabilities measured at fair value through profit or loss	2,789	4,906	403	8,098	2,625	6,142	446	9,213
Equity instruments	512	-	272	784	615	57	259	931
Participation units and investment certificates	203	4,630	21	4,854	164	5,631	21	5,816
Debt securities	2,074	276	110	2,460	1,846	454	166	2,466
Loan receivables from clients	-	-	414	414	-	-	406	406
Measured at fair value through other comprehensive income	-	-	263	263	-	-	246	246
Measured at fair value through profit or loss	-	-	151	151	-	-	160	160
Financial derivatives	-	19,745	27	19,772	1	8,273	54	8,328
Investment property	-	161	2,782	2,943	-	166	2,607	2,773
Liabilities								
Derivatives	-	26,427	-	26,427	-	11,860	20	11,880
Liabilities to members of consolidated mutual funds	-	280	-	280	-	380	-	380
Investment contracts for the client's account and risk (unit-linked)	-	215	-	215	-	267	-	267
Liabilities on borrowed securities (short sale)	740	-	-	740	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 September 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 comprehensive 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	-	54	2	-	1,060	-	-	154	12	148
Reclassification from Level II [1)]	-	1,627	-	-	69	-	-	-	-	7
Reclassification from own properties	-	-	-	-	-	-	-	-	-	8
Reclassifications from assets held for sale	-	-	-	-	-	-	-	-	-	23
Profit or loss recognized in the profit and loss account:	-	70	(4)	-	2	(12)	(9)	7	5	(10)
- interest income calculated using the effective interest rate	-	119	-	-	-	(3)	-	7	5	-
- result on derecognition of financial instruments and investments	-	1	-	-	-	-	(8)	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(50)	(4)	-	2	(9)	(1)	-	-	(10)
Profits or losses recognized in other comprehensive income	(70)	(307)	-	-	-	-	-	(9)	-	-
Sales/settlements/repayments/conversion	-	(582)	-	-	(1,101)	(15)	(10)	(135)	(26)	-
Reclassification to assets held for sale or own properties	-	-	-	-	-	-	-	-	-	(1)
Reclassification to Level II [1)]	-	(1,058)	-	-	(86)	-	(1)	-	-	-
Foreign exchange differences	-	-	15	-	-	-	-	-	-	-
End of the period	**401**	**5,405**	**272**	**21**	**110**	**27**	**-**	**263**	**151**	**2,782**

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

(in millions of PLN)

Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 2021	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other 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 [1]	-	(874)	-	-	(5)	-	(4)	-	-	-
Change in the composition of the Group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	-	-	5	2	-	-	-	-	-	-
End of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**

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

(in millions of PLN)

9.28.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 September 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	-	-	224,796	224,796	221,438	-	-	214,781	214,781	214,602
Investment financial assets and assets securing liabilities measured at amortized cost	31,761	19,909	22,207	73,877	84,279	39,455	8,663	32,383	80,501	83,270
Debt securities	31,761	16,602	12,107	60,470	70,814	39,455	6,436	25,489	71,380	74,183
Buy-sell-back transactions	-	1,620	4,960	6,580	6,580	-	1,590	2,527	4,117	4,117
Term deposits with credit institutions	-	1,687	1,002	2,689	2,673	-	637	754	1,391	1,384
Loans	-	-	4,138	4,138	4,212	-	-	3,613	3,613	3,586
Liabilities										
Liabilities to banks	-	1,184	6,911	8,095	8,119	-	2,726	4,762	7,488	7,470
Liabilities to clients under deposits	-	-	276,350	276,350	276,582	-	-	264,818	264,818	265,155
Liabilities on the issue of own debt securities [1)]	-	8,540	609	9,149	9,105	-	5,418	539	5,957	5,940
Subordinated liabilities [1)]	-	2,830	3,352	6,182	6,189	-	2,748	3,520	6,268	6,274
Liabilities on account of repurchase transactions	-	2,100	132	2,232	2,281	-	846	359	1,205	1,207

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

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

In the period of 9 months ended on 30 September 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.

9.28.6. Reclassification between fair value hierarchy levels

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

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

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

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

(in millions of PLN)

In the period of 9 months ended on 30 September 2022, the following reclassifications of assets between fair value levels were made:

- corporate, municipal and Treasury bonds, which were measured using market price information for comparable financial instruments, as well as corporate, municipal and Treasury bonds and foreign exchange and interest rate derivatives, for which the impact of estimated credit parameters did not significantly affect the valuation, and capital market derivatives, for which the estimated volatility did not significantly affect the valuation, were reclassified from Level III to Level II;
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was significant and capital market derivatives for which estimated volatility exerted a significant impact on the measurement;
- reclassification from Level II to Level I was applied to government bonds measured using market quotations was discontinued 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 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 applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters was material and capital market derivatives for which the estimated volatility exerted a significant impact on the measurement;
- reclassification from Level I to Level II was applied to government bonds measured using information on the prices of comparable financial instruments and participation units in mutual funds for which measurement based on market quotations was discontinued due to a decline in market activity.

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

Both in the period of 9 months ended on 30 September 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.

9.30 Share capital

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

All the Shares have been fully paid for.

As at 30 September 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**			

(in millions of PLN)

9.30.1. 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 payout 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.

9.31 Technical provisions

Technical provisions	30 September 2022			31 December 2021		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**27,697**	**(2,385)**	**25,312**	**26,881**	**(2,539)**	**24,342**
Provision for unearned premiums	9,726	(910)	8,816	9,423	(1,139)	8,284
Provision for unexpired risk	32	-	32	42	-	42
Provision for outstanding claims and benefits	11,411	(1,197)	10,214	11,039	(1,119)	9,920
- for reported claims	4,288	(1,038)	3,250	4,024	(966)	3,058
- for not reported claims *(IBNR)*	4,769	(125)	4,644	4,748	(129)	4,619
- for claims handling expenses	2,354	(34)	2,320	2,267	(24)	2,243
Provision for the capitalized value of annuities	6,509	(271)	6,238	6,371	(280)	6,091
Provisions for bonuses and discounts for insureds	18	(7)	11	6	(1)	5
Other technical provisions	1	-	1	-	-	-
Technical provisions in life insurance	**22,350**	**-**	**22,350**	**23,292**	**(1)**	**23,291**
Provision for unearned premiums	107	-	107	113	(1)	112
Provision for unexpired risk	-	-	-	25	-	25
Life insurance provision	16,748	-	16,748	16,345	-	16,345
Provision for outstanding claims and benefits	691	-	691	676	-	676
- for reported claims	199	-	199	163	-	163
- for not reported claims *(IBNR)*	487	-	487	508	-	508
- for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	3	-	3	6	-	6
Other technical provisions	159	-	159	164	-	164
Unit-linked provision	4,642	-	4,642	5,963	-	5,963
Total technical provisions	**50,047**	**(2,385)**	**47,662**	**50,173**	**(2,540)**	**47,633**

9.32 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue date/Maturity date	Carrying amount 30 September 2022 (in PLN m)	Carrying amount 31 December 2021 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,281	2,266
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 /29 October 2027	1,290	1,255
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 /16 October 2028	569	553
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 /14 October 2033	207	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	360	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	411	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	221	225
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	623	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	73	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	154	150
Subordinated liabilities					**6,189**	**6,274**

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

9.33 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 September 2022	31 December 2021
Bonds	4,609	4,154
Certificates of deposit	3,552	695
Covered bonds	944	1,091
Total liabilities on the issue of own debt securities	**9,105**	**5,940**

(in millions of PLN)

9.34 Liabilities to banks

Liabilities to banks	30 September 2022	31 December 2021
Current deposits	1,175	821
One-day deposits	542	3
Term deposits	397	1,893
Loans received	5,518	4,658
Other liabilities	487	95
Liabilities to banks, total	**8,119**	**7,470**

9.35 Liabilities to clients under deposits

Liabilities to clients under deposits	30 September 2022	31 December 2021
Current deposits	209,345	241,112
Term deposits	65,664	23,067
Other liabilities	1,573	976
Liabilities to clients under deposits, total	**276,582**	**265,155**

(in millions of PLN)

9.36 Other liabilities

Other liabilities	30 September 2022	31 December 2021
Liabilities measured at fair value	**1,235**	**1,333**
Liabilities on borrowed securities (short sale)	740	686
Investment contracts for the client's account and risk (unit-linked)	215	267
Liabilities to members of consolidated mutual funds	280	380
Accrued expenses	**1,855**	**2,230**
Accrued expenses of agency commissions	403	381
Accrued payroll expenses	708	750
Accrued reinsurance expenses	331	725
Other	413	374
Deferred revenue	**601**	**502**
Other liabilities	**14,369**	**9,138**
Liabilities on account of repurchase transactions	2,281	1,207
Lease liabilities	1,356	992
Liabilities due under transactions on financial instruments	2,586	1,338
Liabilities to banks for payment documents cleared in interbank clearing systems	1,877	1,251
Liabilities on direct insurance	1,001	955
Liabilities on account of payment card settlements	477	404
Regulatory settlements	214	275
Liabilities for contributions to the Bank Guarantee Fund	738	629
Reinsurance liabilities	190	228
Estimated non-insurance liabilities	138	159
Liabilities to employees	98	101
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	24	18
Trade liabilities	323	652
Current income tax liabilities	327	147 [1)]
Liabilities on account of employee leaves	181	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	16	28
Insurance Guarantee Fund	13	13
Liability for the refund of loan costs	135	96
Liability for the Borrower Support Fund fee	157	-
Liabilities for direct claims handling	31	36
Liabilities to PZU shareholders for dividends	1,678	3
Other	363	356
Other liabilities, total	**18,060**	**13,203**

[1)] This includes PLN 72 million in tax liability in Sweden. Additional information on this issue is presented in item 24.6.

(in millions of PLN)

9.37 Provisions

Movement in provisions in the period ended 30 September 2022	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	496	298	-	(308)	12	498
Provision for retirement severance pays	267	21	(34)	(1)	(17)	236
Provision for disputed claims and potential liabilities	69	16	(11)	(20)	2	56
Provision for potential refunds of borrowing costs	120	34	(35)	-	-	119
Provision for legal risk pertaining to mortgage loans in Swiss francs	132	135	(7)	(3)	-	257
Provisions for refunds to clients of increased mortgage loan margins before the mortgage is established	-	135	-	-	-	135
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	28	-	(5)	-	-	23
Provision for post-mortem benefits	25	1	(1)	-	-	25
Other	30	14	(13)	(2)	-	29
Total provisions	**1,206**	**654**	**(106)**	**(334)**	**(3)**	**1,417**

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

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

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

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

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

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

One should highlight the application submitted on 29 January 2021 by the First President of the Supreme Court to the full composition of the Supreme Court's Civil Chamber regarding the question of resolution of the legal issues associated with CHF mortgage loans regarding, in particular, the following aspects:

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

In the opinion of the PZU Group, the Supreme Court ruling in the above issue may have significant impact on the further line of court rulings in this respect. However, it is uncertain if and when the Civil Chamber in its full composition will adopt a resolution on the aforementioned legal questions.

In addition, there is a trend in the market of common courts referring queries about various types of emerging doubts to the Supreme Court, as well as to the CJEU, which may also influence the future directions of judicial decisions. An example is the CJEU judgment of 8 September 2022, in which the CJEU answered the requests for a preliminary ruling questions made by the Warsaw-Śródmieście District Court in Warsaw. The CJEU stated that:

- a national court may not declare unfair not the entirety of a contract term, but only its element that make it unfair, if such removal would amount to a change of the content of the term that would affect its essence. This means that, in principle, the national court is limited to determining the unfairness of the entire contract term;
- if the national court determines that a contract term is unfair, which in a given case results in the possibility of continuing to maintain the validity of the entire contract despite the exclusion of the unfair terms, the national court may not replace these terms with a supplementary provision of national law. This means that in such a case the national court cannot apply the provisions of the Civil Code on converting installments using the average exchange rate of the National Bank of Poland;
- the national court, having found a contract term to be unfair, is not authorized to change the content of the term in order to maintain the validity of the contract, which cannot remain in force after the removal of the term, if the consumer in question has been informed of the consequences of the invalidity of the contract and has agreed to the consequences thereof. This means that if the consumer has agreed to the consequences of the invalidity of the contract (having been informed of them), the national court by a ruling cannot change the content of such a term, but must declare it invalid;

(in millions of PLN)

- the running of the 10-year statute of limitations for a consumer's claim for repayment of paid installments cannot begin from the time of delivery of each performance under the contract (repayment of each installment), even if the consumer was not able to assess the unfairness of the contract term on his own or did not become aware of the unfairness of the term, and without taking into account that the loan agreement provided for a much longer (30-year) repayment period. This means that the running of the 10-year statute of limitations for a consumer's claim for repayment of installments does not start from the date of repayment of each installment. In practice, it should be assumed that no consumer's claims for refund of paid installments are time-barred.

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

As of 30 September 2022, there were 2,610 individual lawsuits pending against the PZU Group relating to foreign currency mortgage loans that were granted in previous years with the total litigation value of PLN 853 million (as of 31 December 2021: 1,623 cases, with the litigation 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 the period of 9 months ended 30 September 2022, the PZU Group received 374 unfavorable court judgments in cases brought by borrowers, including 65 final judgments and 18 favorable judgments, including 5 that are final (in 2021: 125 unfavorable court judgments, including 20 final judgments, and 11 favorable judgments, including 4 final judgments).

The PZU Group recognizes that the legal risk on its outstanding portfolio of foreign currency mortgage loans as of the balance sheet date affects the expected cash flows from the portfolio and the level of expected credit loss under 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.

The tables below present the amounts of the 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 September 2022	31 December 2021
Impairment losses for loan receivables from clients (relating to balance sheet exposures)	878	516
individual provision	325	220
portfolio provision	553	296
Other provisions (relating to repaid exposures)	257	132
individual provision	93	52
portfolio provision	164	80
Total	**1,135**	**648**

Consolidated profit and loss account line items	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Movement in allowances for expected credit losses and impairment losses on financial instruments	(39)	(370)	(42)	(47)
Other operating expenses	(18)	(132)	(8)	(5)
Total	**(57)**	**(502)**	**(50)**	**(52)**

Although the legal risk related to the foreign currency mortgage portfolio has been one of the key topics in the banking sector in recent years, the history of data regarding the scale of lawsuits (in particular in terms of final judgments), or the line of court rulings in this area is still not stabilized. All of the above means that the process of determining the level of the provision requires a number of expert assumptions based on professional judgment each time.

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 Pekao's portfolio carried out as at 30 September 2022 was based on the following scenarios:

- The baseline scenario – considered 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, as well as the possible financial impact of losing a lawsuit, assuming the following possible outcomes:
  - invalidating the entire foreign currency 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.

  The baseline scenario as of 30 September 2022 takes into account the current state of the macroeconomic environment, including current trends in judicial decisions on foreign currency mortgage loans. This resulted in an increase in the expected number of litigation cases by approx. 40% over the assumptions made as of 31 December 2021. In addition, the PZU Group has updated its expectations including the probability distribution of possible outcomes and the expected financial impact of losing the litigation, taking into account the statistics for the litigation cases currently pending. In particular, the share of invalidations of loan agreements in possible resolution scenarios has risen to 90% (versus 80% at the end of 2021). No settlements with clients are assumed in this scenario;
- settlement scenario – possible under the current market conditions, in which the majority of clients (approx. 85% of the value of the portfolio) will qualify for the settlement option, based on the solutions implemented in the banking sector, as proposed by the chairman of the KNF. In the settlement scenario the financial effects are equal to the sum of the differences between the current balance of the FX mortgage 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 current market parameters, the costs of settlements would amount to approx. PLN 760 million. For agreements that are currently under dispute, an assessment is made regarding the possible propensity of clients to withdraw the lawsuit and conclude a settlement, taking into account the relationship of the benefit that can be obtained by the client from the settlement, relative to the potential benefit from the lawsuit (including the cost of pursuing the lawsuit) and the expected resolution of the litigation;
- negative scenario – possible in the situation of a significant deterioration of the macroeconomic environment, in particular, in terms of a significant intensification and deepening of the negative trend of unfavorable line of rulings of common courts on foreign currency mortgage loans, the number of possible lawsuits will be twice as high as assumed in the baseline scenario, with a higher probability of unfavorable court judgments. In terms of the probability distribution of possible resolutions of litigation cases, this scenario assumes a higher probability of invalidation of the entire foreign currency mortgage loan agreement (at 95% of resolutions – percentage levels unchanged from those adopted in 2021). No customer settlements 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 FX mortgage loans.

(in millions of PLN)

Parameter	Scenario	Impact on the amount of the provision 30 September 2022	Impact on the amount of the provision 31 December 2021
Number of cases brought to court	+20%	164	97
	-20%	(164)	(73)
Probability of losing the case	+10 p.p. (no more than 100%)	86	61
	-10 p.p.	(105)	(47)
Probability of the agreement invalidation scenario	+10 p.p. (no more than 100%)	81	53
	-10 p.p.	(98)	(37)

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

- the pace (observed to date and projected in future periods) of the influx of litigation cases concerning the legal risk of foreign currency mortgage loans and the resulting estimate of the percentage of the portfolio of foreign currency mortgages that will be subject to litigation;
- the estimated financial impact of invalidation or currency 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 (as reported by the Polish Bank Association) of litigation cases lost by banks, including the percentage of cases that ended in invalidation of the agreement and the percentage of cases that ended in the conversion of the agreements into Polish zlotys.

The provision for refunds of increased mortgage loan margins

The item includes a provision set up by banks for refunds to clients of increased mortgage loan margins prior to the establishment of a mortgage, in connection with the entry into force of the Act of 5 August 2022 amending the Act on Mortgage Loan and Supervision of Mortgage Loan Intermediaries and Agents and the Act amending the Act on Personal Income Tax, the Act on Corporate Income Tax and Certain Other Acts.

Provisions for guarantees and sureties given

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

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

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case, 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 the decision of the UOKiK President to the Court of Competition and Consumer Protection and received a response from the UOKiK President, in which he requested that the appeal be dismissed in its entirety.

(in millions of PLN)

9.38 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 September 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	682	2	177	(1)	5,518
Liabilities on the issue of debt securities	5,940	3,111	(11)	24	41	9,105
Bonds	4,154	422	(10)	20	23	4,609
Certificates of deposit	695	2,841	(1)	(1)	18	3,552
Covered bonds	1,091	(152)	-	5	-	944
Subordinated liabilities	6,274	(235)	151	(1)	-	6,189
Liabilities on account of repurchase transactions	1,207	971	155	-	(52)	2,281
Lease liabilities	992	(222)	296	1	289	1,356
Total	**19,071**	**4,307**	**593**	**201**	**277**	**24,449**

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

(in millions of PLN)

10. Assets securing 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 September 2022	31 December 2021
Carrying amount of financial assets pledged as collateral for liabilities	17,263	12,133
Repurchase transactions	2,597	1,205
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,014	1,027
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	306	275
Coverage of liabilities to be paid to the resolution fund (BFG)	586	489
Lombard and technical credit	8,436	5,481
Other loans	407	431
Issue of covered bonds	1,306	1,402
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	27	28
Derivative transactions	2,556	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	**17,263**	**12,133**

11. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2022	31 December 2021
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	70,955	68,948
- for renewable limits in settlement accounts and credit cards	4,810	4,813
- for loans in tranches	43,372	41,017
- guarantees and sureties given	8,811	9,531
- disputed insurance claims	922	785
- other disputed claims	188	190
- other, including:	12,852	12,612
- guaranteeing securities issues	4,517	5,240
- factoring	6,957	5,863
- intra-day limit	458	424
- letters of credit and commitment letters	826	947
- other	94	138

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

In the period of 9 months ended on 30 September 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.

12. Commentary to the condensed interim consolidated financial statements

In the period of 9 months ended 30 September 2022, gross written premium was PLN 19,042 million compared to PLN 18,250 million in the corresponding period of the previous year (+4.3%).

The increase in sales applied above all to the following:

- non-motor insurance portfolio, including:
  - in the corporate client segment, an increase in premiums written from the ADD and other insurance portfolio, including higher premiums from insurance of various financial risks, mainly as a result of higher sales of profit-loss insurance (including following damage to machinery);
  - in the mass client segment in natural catastrophe insurance and other property damage insurance, chiefly as a result of higher sales of subsidized crop insurance (as a result of the subsidy pool from the state budget greater than the year before), residential insurance and insurance for small and medium-sized enterprises;
- MOD insurance, in particular in the mass client segment, as a consequence of an increase in average premiums coupled with a larger number of contracts;
- portfolio of group health products concluded in a group or continued form;
- new endowment insurance products „Pewny Profit" and „Bezpieczne Jutro" offered in cooperation with Group's banks, enabling safe investment of capital without risk, with a guaranteed sum insured throughout the insurance period - sales stared in the third quarter of 2022;
- in the Baltic property and motor insurance companies.

The increases were partially offset by lower premiums in:

- the individual insurance segment, including investment products in the bancassurance channel as a result of restrained cooperation with one of the external distributors;
- mandatory insurance of farm building insurance in the mass client segment resulting from the high competitiveness of the market and the natural erosion of the portfolio (declining number of farms).

Investment income including interest expenses in the first 3 quarters of 2022 and in the first 3 quarters of 2021 was PLN 6,180 million and PLN 6,790 million, respectively. A decline in investment income was posted in investment activity, net of banking activity[1]. The income was lower than in Q3 2021 mainly due to last year's effect of an increase in the valuation of the logistics company's shares as a result of its IPO, and a decrease in the results on investment activities on the portfolio of assets covering investment products and lower results on market-priced debt instruments due to changes in yields. Lower investment results of the portfolio of assets held to cover the investment products alone do not affect the PZU Group's overall net result, because they are offset by the movement in net insurance claims and benefits. The impact of the above factors was partially offset by a higher result in treasury instruments measured at amortized cost mainly due to the impact of rising interest rates, as well as a higher result in the real estate portfolio.

At the same time, growth was posted in investment income from banking activity. The higher result was related in particular to an increase in interest income for both banks as a result of a series of interest rate hikes. The above effect was partially offset by recognized costs related to the modification of agreements for PLN mortgage loans granted to consumers due to their suspension of loan repayments (the so-called moratorium periods), in the amount of PLN 2,429 million at Pekao and PLN 502 million at Alior Bank, as well as legal risk allowances created for foreign currency mortgage loans by Pekao.

Net claims and benefits (including the movement in technical provisions) were PLN 11,045 million, down 7.7% from the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

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

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

At the same time, the following factors contributed to the increase in the net claims and benefits category:

- an increase in technical provisions for older versions of individually continued products, recognizing the expected effect of higher indexations. This expectation is based on the high level of the observed and expected inflation rate;
- in the mass customer segment – an increase in the claims ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of higher level of losses caused by atmospheric events (mainly hurricanes, spring ground frost and hailstorms) with a lower claims ratio in motor insurance;
- rising costs of utilization of benefits in outpatient health insurance, and an increase in benefits in riders related to hospital treatment and surgical operation as well as permanent disability and dismemberment in group and continued insurance, as a result of lower benefits last year due to lower number of reported claims.

In the first 3 quarters of 2022, acquisition expenses went up PLN 257 million compared to the corresponding period of the previous year. This increase was mainly due to the shift in the mix of products and sales channels, including a higher share of the multiagency channel in the mass insurance segment.

PZU Group's administrative expenses in the first 3 quarters of 2022 were PLN 5,563 million compared to PLN 5,071 million in the corresponding period of 2021, i.e. they were PLN 492 million higher than in the previous year.

Administrative expenses in the banking activity segment (net of adjustments on account of the valuation of assets and liabilities to fair value) increased by PLN 378 million (9.9%), mainly due to higher personnel and IT costs at Pekao. At the same time, the administrative expenses of the insurance segments in Poland were PLN 104 million higher compared to the previous year. Their change was largely due to rising personnel costs as a result of salary pressures, intensified sponsorship and brand image enhancement activities, increased real estate maintenance costs and equipment and furniture purchases in connection with the move to the new headquarters, implementation of the New Model of Group Work Organization and Tools, and aid support related to the situation in Ukraine.

The above effects were partially offset by lower costs due to greater use of leaves by employees and lower costs for project consulting services (Synergies, IFRS17, Distribution, #mojePZU).

In the first 3 quarters of 2022, the balance of other operating income and expenses was negative and stood at PLN 2,995 million, compared to the negative balance of PLN 1,901 million in 2021. The following contributed to this result:

- the accession of Alior Bank and Pekao to the Bank Protection System, which resulted in a contribution to the aid fund of PLN 214 million and PLN 482 million, respectively;
- contribution to the Borrower Support Fund in the amount of PLN 219 million;
- levy on financial institutions – the PZU Group's liability on account of this levy (in insurance and banking activity in total) in the first 3 quarters of 2022 was PLN 1,079 million compared to PLN 960 million in the corresponding period of the previous year. The higher burden was attributable in particular to banking activity and resulted from the increase in value of assets forming the taxable base (the rate of the levy did not change);
- provisions set up by Alior Bank and Pekao for refund of increased margins on mortgage loans prior to the establishment of the mortgage, in the total amount of PLN 135 million.

Operating profit in the first 3 quarters of 2022 was PLN 4,437 million, down by PLN 759 million (-14.6%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- lower results in the banking activities segment (PLN -662 million), in particular due to non-recurring events: costs associated with the modification of agreements for PLN mortgage loans granted to consumers due to the suspension of loan repayments (the so-called moratorium periods), the recognition of an additional provision for the legal risk related to foreign currency mortgage loans in Pekao, and contribution to the Commercial Bank Protection Scheme. In addition, the banks' results were burdened by a provision for refund of the additional margin on mortgages charged in the period until the establishment of the collateral and a contribution to the Borrower Support Fund;

- a decrease in the result in the foreign insurance segments, including mainly the companies in Ukraine, due to the recognition of asset impairment losses as a result of the assessment of the impact of the Russian Federation's invasion of Ukraine on 24 February 2022 on the PZU Group's operations, business continuity, financial position and going concern, and due to the downgrading of Ukraine's rating;
- higher profitability in group and individually continued insurance (PLN +118 million), on account of the decreased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- higher operating result in the corporate insurance segment (PLN +107 million) due to the increase in profitability of non-motor insurance and lower loss ratio in the motor insurance portfolio (MOD);
- higher profitability of the mass insurance segment (PLN +151 million) driven mainly by the lower loss ratio of the MOD insurance;
- a decrease in income from investing activities, excluding banking activities, mainly as a result of last year's increase in the valuation of shares of a logistics company following the very high valuation of the stock recorded during the 2021 IPO.

Net profit declined in comparison to the first 3 quarters of 2021 by PLN 783 million (-20.4%) to PLN 3,054 million. The net profit attributable to parent company shareholders was PLN 2,140 million, compared to PLN 2,373 million in 2021 (down 9.8%).

As at 30 September 2022, consolidated equity according to IFRS was PLN 35,863 million compared to PLN 41,658 million as at 30 September 2021. The decrease pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2022 to 30 September 2022 was 17.5%, just like in the previous year. In comparison with the consolidated equity as at 31 December 2021, equity decreased by PLN 4,131 million. The value of non-controlling interests decreased compared to the end of the previous year by PLN 2,626 million to PLN 20,288 million, its movement driven by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, earmarking PLN 1,129 million for dividends by Pekao (including PLN 903 million for minority shareholders) and the profit attributable to non-controlling owners of PLN 914 million (generated by Alior Bank and Pekao).

Equity attributable to the parent company's shareholders fell by PLN 1,505 million compared to the end of the previous year – driven by a decline in the valuation of debt securities and cash flow hedges measured at fair value through other comprehensive income, distribution of PZU's profit for 2021 in the amount of PLN 2,028 million increased by PLN 950 million transferred from the supplementary capital created from net profit for the year ended 31 December 2020, including the allocation of PLN 1,675 million for the payment of dividends, partially offset by the net result for the first 3 quarters of 2022 attributable to the parent company in the amount of PLN 2,140 million.

Total equity and liabilities as at 30 September 2022 increased compared to 31 December 2021 by PLN 30,320 million to PLN 432,449 million. This growth pertained mainly to liabilities to clients in the form of deposits (+PLN 11,427 million), derivatives (+PLN 14,457 million) and liabilities on the issue of own debt securities (+PLN 3,165 million).

The investment portfolio (investment financial assets, assets securing liabilities, investment properties and financial derivatives) as at 30 September 2022 totaled PLN 153,447 million and was up PLN 4,056 million versus the end of last year. The increase in deposits was mainly related to banking activities, including derivative financial instruments. Net of the banking business, the investment portfolio expanded in connection with investment performance and the inflow of premiums driven by business growth. Loan receivables as at 30 September 2022 were PLN 221,852 million, compared to PLN 215,008 million as at 31 December 2021.

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

Liabilities to clients in the form of deposits were the largest component of liabilities as at 30 September 2022. The increase in the amount thereof by PLN 11,427 million to PLN 276,582 pertained to clients' term deposits. At the same time, a drop in current deposits was recorded.

The value of technical provisions as at the end of Q3 2022 was PLN 50,047 million and accounted for 11.8% of total equity and liabilities. Compared to 31 December 2021, provisions declined by PLN 126 million. The change was driven mainly by lower policyholder risk provisions in individual and group investment products as a result of negative investment performance on the portfolio. This effect was partly offset by higher provision for unearned premiums in non-life insurance resulting mainly from developing sales of insurance and entering into several long-term property contracts with high unit values.

13. Equity management

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

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

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

The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- 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.

(in millions of PLN)

External capital requirements

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

Pursuant to Article 412 sec. 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2021 report published on 18 May 2022 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to Article 290 sec. 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

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

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

14. Segment reporting

14.1 Reportable segments

14.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation.

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

14.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

14.2 Inter-segment settlements

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

14.3 Segment's measure of profit

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

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

14.4 Accounting policies applied according to PAS

14.4.1. PZU

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

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

14.4.2. PZU Życie

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

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

The fundamental difference between PAS and IFRS in respect of accounting for insurance contracts and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance contracts. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 "Insurance contracts" on the classification of products as insurance contracts (subject to IFRS 4) or investment contracts (measured according to IAS 9 "Financial instruments").

In the case of the latter the written premium is not recognized.

14.5 Simplifications in the segmental note

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

- withdrawing from presenting data related to the allocation of all assets and liabilities to various segments – resulting from not preparing and not presenting such tables to the PZU Management Board. The main information delivered to the PZU Management Board consists of data regarding the results of given segments and managerial decisions are made on this basis, including decisions on resource allocation. The analysis of the segmental allocation of assets and liabilities is limited to a large extent to monitoring the fulfillment of the regulatory requirements;

(in millions of PLN)

- presenting the net result on investments as a single amount as the difference between the realized and unrealized revenues and the costs of investments – stemming from the internal assessment of the segmental results based on such a combined measure of investment results;
- not allocating other revenues and costs to the segment called „investments" besides realized and unrealized revenues and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation.

14.6 Quantitative data

Corporate insurance (non-life insurance)	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	779	2,389	592	2,054
Gross written premium – cross-segment	8	20	14	27
Gross written premiums	**787**	**2,409**	**606**	**2,081**
Movement in provision for unearned premiums and gross provision for unexpired risks	92	153	215	327
Gross earned premium	**879**	**2,562**	**821**	**2,408**
Reinsurers' share in gross written premium	(171)	(543)	(71)	(368)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(80)	(180)	(149)	(280)
Net earned premiums	**628**	**1,839**	**601**	**1,760**
Investment income, including:	51	107	30	57
external operations	51	107	30	57
intersegment operations	-	-	-	-
Other net technical income	16	35	11	27
Total income	**695**	**1,981**	**642**	**1,844**
Net insurance claims and benefits	(374)	(1,122)	(384)	(1,124)
Movement in other net technical provisions	(1)	(1)	-	-
Acquisition expenses	(137)	(396)	(131)	(385)
Administrative expenses	(39)	(111)	(30)	(99)
Reinsurance commissions and profit participation	16	47	13	41
Other	(9)	(55)	(3)	(41)
Insurance result	**151**	**343**	**107**	**236**

(in millions of PLN)

Mass insurance (non-life insurance)	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	2,763	8,474	2,569	7,953
Gross written premium – cross-segment	4	13	4	(3)
Gross written premiums	**2,767**	**8,487**	**2,573**	**7,950**
Movement in provision for unearned premiums and gross provision for unexpired risks	119	(205)	54	(319)
Gross earned premium	**2,886**	**8,282**	**2,627**	**7,631**
Reinsurers' share in gross written premium	(24)	(108)	(50)	(154)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(28)	(30)	21	58
Net earned premiums	**2,834**	**8,144**	**2,598**	**7,535**
Investment income, including:	190	438	108	287
external operations	190	438	108	287
intersegment operations	-	-	-	-
Other net technical income	21	65	20	79
Total income	**3,045**	**8,647**	**2,726**	**7,901**
Net insurance claims and benefits	(1,763)	(5,015)	(1,717)	(4,711)
Acquisition expenses	(645)	(1,824)	(556)	(1,590)
Administrative expenses	(182)	(512)	(157)	(486)
Reinsurance commissions and profit participation	10	28	1	26
Other	(75)	(254)	(63)	(221)
Insurance result	**390**	**1,070**	**234**	**919**

Group and individually continued insurance (life insurance)	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	1,793	5,361	1,757	5,267
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,793**	**5,361**	**1,757**	**5,267**
Movement in provision for unearned premiums and provision for unexpired risks	-	25	(40)	11
Gross earned premium	**1,793**	**5,386**	**1,717**	**5,278**
Reinsurers' share in gross written premium	-	(1)	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premiums	**1,793**	**5,385**	**1,717**	**5,278**
Investment income, including:	153	278	157	485
external operations	153	278	157	485
intersegment operations	-	-	-	-
Other net technical income	-	1	-	1
Total income	**1,946**	**5,664**	**1,874**	**5,764**
Net insurance claims and benefits and movement in other net technical provisions	(1,245)	(3,911)	(1,220)	(4,222)
Acquisition expenses	(102)	(319)	(99)	(284)
Administrative expenses	(185)	(542)	(162)	(486)
Other	(11)	(35)	(10)	(33)
Insurance result	**403**	**857**	**383**	**739**

(in millions of PLN)

Individual insurance (life insurance)	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	392	925	434	1,365
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**392**	**925**	**434**	**1,365**
Movement in the provision for unearned premiums	1	1	1	2
Gross earned premium	**393**	**926**	**435**	**1,367**
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 premiums	**393**	**926**	**434**	**1,366**
Investment income, including:	(15)	(390)	13	164
external operations	(15)	(390)	13	164
intersegment operations	-	-	-	-
Other net technical income	-	-	-	-
Total income	**378**	**536**	**447**	**1,530**
Net insurance claims and benefits and movement in other net technical provisions	(218)	(111)	(290)	(1,119)
Acquisition expenses	(53)	(166)	(60)	(164)
Administrative expenses	(26)	(71)	(19)	(61)
Other	(2)	(6)	(2)	(5)
Insurance result	**79**	**182**	**76**	**181**

Investments	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment income, including:	43	8	(65)	617
external operations	25	(49)	(79)	577
intersegment operations	18	57	14	40
Operating result	**43**	**8**	**(65)**	**617**

Banking activity	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Revenue from commissions and fees	1,292	3,776	1,212	3,389
external operations	1,256	3,671	1,173	3,272
intersegment operations	36	105	39	117
Investment income	2,008	8,605	1,799	5,325
external operations	2,008	8,605	1,799	5,325
intersegment operations	-	-	-	-
Total income	**3,300**	**12,381**	**3,011**	**8,714**
Fee and commission expenses	(384)	(1,051)	(328)	(870)
Interest expenses	(1,536)	(2,727)	(74)	(253)
Administrative expenses	(1,362)	(4,177)	(1,252)	(3,799)
Other	(639)	(2,470)	(295)	(1,174)
Operating result	**(621)**	**1,956**	**1,062**	**2,618**

(in millions of PLN)

Pension insurance	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment income, including:	4	8	2	3
external operations	4	8	2	3
intersegment operations	-	-	-	-
Other income	39	130	35	105
Total income	**43**	**138**	**37**	**108**
Administrative expenses	(9)	(28)	(14)	(45)
Other	(1)	(4)	(1)	(4)
Operating result	**33**	**106**	**22**	**59**

Insurance - Baltic States	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	609	1,720	454	1,363
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**609**	**1,720**	**454**	**1,363**
Movement in provision for unearned premiums and gross provision for unexpired risks	(45)	(163)	12	(29)
Gross earned premium	**564**	**1,557**	**466**	**1,334**
Reinsurers' share in gross written premium	(14)	(71)	(9)	(56)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(9)	9	(8)	7
Net earned premiums	**541**	**1,495**	**449**	**1,285**
Investment income, including:	(3)	(24)	5	32
external operations	(3)	(24)	5	32
intersegment operations	-	-	-	-
Total income	**538**	**1,471**	**454**	**1,317**
Net insurance claims and benefits	(322)	(895)	(280)	(795)
Acquisition expenses	(119)	(331)	(96)	(266)
Administrative expenses	(43)	(122)	(36)	(108)
Other	2	4	1	4
Insurance result	**56**	**127**	**43**	**152**

(in millions of PLN)

Insurance – Ukraine	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium – external	60	173	100	246
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**60**	**173**	**100**	**246**
Movement in provision for unearned premiums and gross provision for unexpired risks	1	30	(7)	(14)
Gross earned premium	**61**	**203**	**93**	**232**
Reinsurers' share in gross written premium	-	(14)	(28)	(69)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(8)	(28)	(1)	1
Net earned premiums	**53**	**161**	**64**	**164**
Investment income, including:	16	(62)	7	20
external operations	16	(62)	7	20
intersegment operations	-	-	-	-
Total income	**69**	**99**	**71**	**184**
Net insurance claims and benefits	(29)	(73)	(26)	(65)
Acquisition expenses	(11)	(34)	(30)	(81)
Administrative expenses	(8)	(24)	(9)	(27)
Other	2	11	5	17
Insurance result	**23**	**(21)**	**11**	**28**

Investment contracts	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Gross written premium	5	20	7	22
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**5**	**20**	**7**	**22**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premiums	**5**	**20**	**7**	**22**
Investment income, including:	(9)	(48)	1	11
external operations	(9)	(48)	1	11
intersegment operations	-	-	-	-
Other income	-	-	-	-
Total income	**(4)**	**(28)**	**8**	**33**
Net insurance claims and benefits and movement in other net technical provisions	6	34	(5)	(26)
Acquisition expenses	-	-	-	-
Administrative expenses	(1)	(2)	(1)	(2)
Operating result	**1**	**4**	**2**	**5**

(in millions of PLN)

Other segments	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Investment income, including:	4	21	(5)	4
external operations	4	21	(5)	4
intersegment operations	-	-	-	-
Other income	450	1,315	388	1,138
Total income	**454**	**1,336**	**383**	**1,142**
Costs	(475)	(1,400)	(394)	(1,163)
Other	11	37	3	23
Operating result	**(10)**	**(27)**	**(8)**	**2**

Reconciliations 1 January - 30 September 2022	Net earned premiums	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,839	107	(1,122)	(396)	(111)	343
Mass insurance	8,144	438	(5,015)	(1,824)	(512)	1,070
Group and individually continued insurance	5,385	278	(3,911)	(319)	(542)	857
Individual insurance	926	(390)	(111)	(166)	(71)	182
Investments	-	8	-	-	-	8
Banking activity	-	8,605	-	-	(4,177)	1,956
Pension insurance	-	8	-	(4)	(28)	106
Insurance – Baltic States	1,495	(24)	(895)	(331)	(122)	127
Insurance – Ukraine	161	(62)	(73)	(34)	(24)	(21)
Investment contracts	20	(48)	34	-	(2)	4
Other segments	-	21	-	-	-	(27)
Total segments	**17,970**	**8,941**	**(11,093)**	**(3,074)**	**(5,589)**	**4,605**
Presentation of investment contracts	(20)	51	(33)	-	-	-
Estimated salvage and subrogation	-	-	3	-	-	3
Valuation of properties	-	(6)	-	-	(1)	(7)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	14
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(17)	(49)
Consolidation adjustments [1)]	(29)	41	78	192	44	(129)
Consolidated data	**17,921**	**9,027 [2)]**	**(11,045)**	**(2,882)**	**(5,563)**	**4,437**

[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 September 2021 (restated)	**Net earned premiums**	**Investment income**	**Net insurance claims and benefits paid**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	1,760	57	(1,124)	(385)	(99)	236
Mass insurance	7,535	287	(4,711)	(1,590)	(486)	919
Group and individually continued insurance	5,278	485	(4,222)	(284)	(486)	739
Individual insurance	1,366	164	(1,119)	(164)	(61)	181
Investments	-	617	-	-	-	617
Banking activity	-	5,325	-	-	(3,799)	2,618
Pension insurance	-	3	-	(5)	(45)	59
Insurance – Baltic States	1,285	32	(795)	(266)	(108)	152
Insurance – Ukraine	164	20	(65)	(81)	(27)	28
Investment contracts	22	11	(26)	-	(2)	5
Other segments	-	4	-	-	-	2
Total segments	**17,410**	**7,005**	**(12,062)**	**(2,775)**	**(5,113)**	**5,556**
Presentation of investment contracts	(22)	(7)	26	-	-	-
Estimated salvage and subrogation	-	-	6	-	-	6
Valuation of properties	-	(4)	-	-	(2)	(6)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	3
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(16)	79	66	150	54	(353)
Consolidated data	**17,372**	**7,073** [2]	**(11,964)**	**(2,625)**	**(5,071)**	**5,196**

[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 September 2022**					**1 January – 30 September 2021**				
	Poland	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**
Gross written premium – external	17,149	1,720	173	-	19,042	16,641	1,363	246	-	18,250
Gross written premium – cross-segment	5	-	-	(5)	-	(4)	-	-	4	-
Revenue from commissions and fees	3,864	1	-	-	3,865	3,459	1	-	-	3,460
Investment income [1]	9,113	(24)	(62)	-	9,027	7,021	32	20	-	7,073

[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".

Geographic breakdown	**30 September 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]	7,090	322	3	-	7,415	7,261	281	5	-	7,547
Deferred tax assets	3,744	-	-	-	3,744	3,055	-	3	-	3,058
Assets	429,424	3,905	429	(1,309)	432,449	399,262	3,611	554	(1,298)	402,129

[1] Assets of companies based in Ukraine, adjusted for mutual interests between them.
[2] The sum of the following items of the consolidated statement of financial position: "Intangible assets" and "Property, plant and equipment".

(in millions of PLN)

14.7 Information on key customers

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

15. Commentary to segment reporting and investing activity

15.1 Corporate insurance – non-life insurance

During the first 3 quarters of 2022, in the corporate insurance segment, gross written premium increased by PLN 328 million (15.8% y/y) as compared to the first 3 quarters of 2021. The following factors were recorded concerning premiums:

- in the corporate client segment, an increase in premiums written from the ADD and other insurance portfolio (+53.6% y/y), including higher premiums from insurance of various financial risks, mainly as a result of higher sales of profit-loss insurance (including following damage to machinery) and an increase in written premiums in the marine and inland navigation insurance, Casco insurance of vessels and railway rolling stock;
- premium increase in insurance against fire and other damage to property (+22.6% y/y) as the offshoot of signing several high-value agreements, including in the group of construction and installation insurance and all-risk property insurance;
- higher motor insurance premiums (+2.8% y/y) as a result of an increase in MOD and a decline in motor TPL – the impact of higher average premiums in MOD as a consequence of the increase in the value of vehicles translating into an increase in sums insured, with a simultaneous slowdown in the sales of new vehicles and a deceleration in the lease market (impact of changes in the macroeconomic environment);
- higher premium in the third party liability portfolio (+9.6% y/y).

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	2,409	2,081	15.8%
Net earned premiums	1,839	1,760	4.5%
Investment income	107	57	87.7%
Net insurance claims and benefits	(1,122)	(1,124)	(0.2%)
Acquisition expenses	(396)	(385)	2.9%
Administrative expenses	(111)	(99)	12.1%
Reinsurance commissions and profit-sharing	47	41	14.6%
Other	(21)	(14)	50.0%
Insurance result	**343**	**236**	**45.3%**
acquisition expense ratio (including reinsurance commission) 1)	19.0%	19.5%	(0.5) p.p.
administrative expense ratio 1)	6.0%	5.6%	0.4 p.p.
loss ratio 1)	61.0%	63.9%	(2.9) p.p.
combined ratio (COR) 1)	86.0%	89.0%	(3.0) p.p.

1) Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

Net insurance claims and benefits slipped 0.2% y/y while net earned premium edged up by 4.5% y/y, translating into improvement in the loss ratio by 2.9 percentage points y/y. The decline in the loss ratio in the segment was driven by:

- lower loss ratio in the motor insurance group, including a significant improvement in MOD insurance and deterioration in motor TPL insurance – the impact of a lower frequency of claims than a year ago with a simultaneous increase in the average claim paid and the depreciation of the PLN against the EUR in foreign currency claims;

- improved loss ratio in the non-motor insurance portfolio as a result of lower claim level in natural catastrophe insurance and increased loss ratio in insurance of various financial risks and general TPL insurance (in the period under analysis there were several events with a high unit value).

The increase in investment income allocated to the segment on the basis of transfer prices, compared to the same period of the previous year, resulted in particular from a higher level of market rates and insurance provisions. The exchange rate effect was partly offset at the level of the PZU Group's overall net result by the changed level of insurance liabilities covered by foreign currency assets.

Acquisition expenses (including reinsurance commissions) were PLN 349 million, up 1.5% from the corresponding period last year, which, considering the increase in the net earned premium by 4.5% y/y, represented a 0.5 p.p. y/y improvement in the acquisition expense ratio.

The year-on-year increase in administrative expenses by 12.1% (+PLN 12 million) is mainly due to an increase in property maintenance costs and the purchase of equipment and furniture in connection with the move to the new headquarters, and he implementation of the New Model of Group Work Organization and Tools.

The effect was compounded by higher marketing and advertising costs strengthening the brand image, as well as the cost of base salaries and mandate agreements.

After the first 3 quarters of 2022, the corporate insurance segment generated an operating result of PLN 343 million, signifying a 45.3% increase compared to the corresponding period of the previous year. The higher result was primarily the consequence of the increase in profitability of non-motor insurance and lower loss ratio in the MOD insurance portfolio.

15.2 Mass insurance – non-life insurance

In the first 3 quarters of 2022, in the mass insurance segment, gross written premium increased by PLN 537 million (+6.8% y/y) compared to the corresponding period of 2021. This change resulted primarily from the following:

- higher written premium in motor insurance (+6.8% y/y), mainly as a result of a significant increase in premium in MOD – the impact of the increase in average premiums resulting from the rising value of vehicles translating into an increase in sums insured with a higher number of contracts. This effect is partially limited by decline in new passenger car registrations (recorded especially in the dealer channel);
- increase in premiums from natural catastrophe insurance and insurance for other property claims, mainly due to higher sales of subsidized insurance of agricultural crops (the impact of a higher pool of subsidies from the state budget than in the previous year) and insurance of buildings and real estate partly offset by lower premiums from mandatory insurance of farm building due to the significant competition on the market and the natural erosion of the portfolio (declining number of farms);
- Increased written premium in third party liability insurance, including TPL offered with SME, PZU Dom and Professional TPL insurance;
- lower premium in ADD and other insurance, chiefly as a result of the slowdown of the sales of insurance offered in cooperation with the Group's banks for cash loans – a decline in demand for mortgages in the face of high interest rates and greater restrictions on calculating creditworthiness. The effect was partially offset by an increase in the written premium in travel insurance and provision of PZU Auto Pomoc assistance services.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	8,487	7,950	6.8%
Net earned premiums	8,144	7,535	8.1%
Investment income	438	287	52.6%
Net insurance claims and benefits	(5,015)	(4,711)	6.5%
Acquisition expenses	(1,824)	(1,590)	14.7%
Administrative expenses	(512)	(486)	5.3%
Reinsurance commissions and profit-sharing	28	26	7.7%
Other	(189)	(142)	33.1%
Insurance result	**1,070**	**919**	**16.4%**
acquisition expense ratio (including reinsurance commission) [1]	22.1%	20.8%	1.3 p.p.
administrative expense ratio [1]	6.3%	6.4%	(0.1) p.p.
loss ratio [1]	61.6%	62.5%	(0.9) p.p.
combined ratio (COR) [1]	89.9%	89.7%	0.2 p.p.

[1] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

Net insurance claims and benefits increased 6.5% y/y while net earned premium increased 8.1%, translating into improvement of the loss ratio by 0.9 percentage point as compared to the first 3 quarters of 2021.

This change was driven mainly by:

- lower motor insurance claims resulting from a significant improvement in the loss ratio in MOD and deterioration in motor TPL insurance – the effect of positive claims development in previous years partially offset by deterioration in the loss ratio in the current year (the impact of an increase in average claims paid, including the depreciation of the PLN against the EUR in foreign currency claims) and a higher frequency of claims in motor TPL;
- an increase in the loss ratio in non-motor insurance, including insurance against fire and other damage to property, mainly as a result of higher level of losses caused by atmospheric events (hurricanes, spring ground frost and hailstorms) offset slightly by an improvement in the building and real estate insurance (PZU Dom) and PZU Auto Pomoc.

The increase in investment income allocated to the segment on the basis of transfer prices, resulted in particular from a higher level of market rates and insurance provisions. The exchange rate effect was partly offset at the level of the PZU Group's overall net result by the changed level of insurance liabilities covered by foreign currency assets.

In the first 3 quarters of 2022, acquisition expenses (including reinsurance commissions) amounted to PLN 1,796 million, up by PLN 232 million (+14.8% y/y) from the corresponding period last year, which, considering the 8.1% increase in the net earned premium, represented a 1.3 p.p. y/y deterioration of the acquisition expense ratio. The factor driving the change in the level of acquisition expenses was a change in the mix of products and sales channels, including a higher share of the multiagency channel.

The year-on-year increase in administrative expenses by 5.3% (+PLN 26 million) is mainly due to an increase in property maintenance costs and the purchase of equipment and furniture in connection with the move to the new headquarters, and the implementation of the New Model of Group Work Organization and Tools, the intensification of sponsorship and brand image enhancement activities, and higher base salaries and mandate agreements.

The increase in the result in the mass insurance segment by PLN 151 million (+16.4% y/y) as compared to the first 3 quarters of 2021, resulted primarily from the higher net earned premium, particularly evident in the non-motor insurance portfolio (mainly insurance against fire and other damage to property) and a decrease in the loss ratio in MOD insurance.

15.3 Group and individually continued insurance – life insurance

Gross written premium was higher than in the corresponding period of the previous year by PLN 94 million (1.8%), which was mainly the result of the following:

(in millions of PLN)

- attracting further contracts in group health insurance products or individually continued products. At the end of September 2022, PZU Życie had more than 2.6 million in-force contracts of this type;
- increased revenues on riders in group protection products, with the pressure of increased departures of insureds from groups (work establishments);
- active up-selling of other insurance riders as part of individually continued products, including in the malignant neoplasm insurance rider introduced last year.

Data from the profit and loss account – group and individually continued insurance	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	5,361	5,267	1.8%
Group insurance (periodic premium)	3,808	3,725	2.2%
Individually continued insurance (periodic premium)	1,553	1,542	0.7%
Net earned premiums	5,385	5,278	2.0%
Investment income	278	485	(42.7)%
Net insurance claims and benefits and movement in other net technical provisions	(3,911)	(4,222)	(7.4)%
Acquisition expenses	(319)	(284)	12.3%
Administrative expenses	(542)	(486)	11.5%
Other	(34)	(32)	6.3%
Insurance result	**857**	**739**	**16.0%**
acquisition expense ratio [1)]	6.0%	5.4%	0.6 p.p.
administrative expense ratio [1)]	10.1%	9.2%	0.9 p.p.
insurance margin [1)]	16.0%	14.0%	0.0 p.p.

[1)] Ratios calculated using gross written premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

The decrease in investment income, which is comprised of income allocated according to transfer prices and income from investment products, resulted from worse performance on investment products, especially Employee Pension Schemes, combined with higher income allocated in protection products.

At the same time income from investment products does not affect the result of the group and individually continued insurance segment because it is offset by changes in insurance liabilities.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 3,911 million, which signifies a y/y decline of PLN 311 million, or 7.4%. This change was driven by the following factor in particular:

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

The foregoing effects were partially offset by the following:

- an increase in technical provisions for older versions of individually continued products, recognizing the expected effect of higher indexations in the years to come – this expectation is based on the high level of the observed and expected inflation rate;
- increasing medical benefits in outpatient health insurance with a simultaneous growing portfolio of these products;
- an increase in benefits in riders related to critical illness, surgical operations and hospital treatment, as well as permanent disability and dismemberment in group and continued insurance, as a result of lower benefits last year due to lower number of reported claims;
- higher benefits paid in Employee Pension Schemes (EPS, a third pillar pension security product) on account of reaching the retirement age and the higher amount of transfer payments;

(in millions of PLN)

- the lower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, provisions were released for PLN 7 million, PLN 5 million less than in the corresponding period of 2021.

Acquisition expenses in the group and individually continued insurance segment were PLN 319 million, signifying a y/y increase of PLN 35 million, or 12.3%.

The year-on-year increase in administrative expenses by 11.5% (+PLN 56 million) is mainly the result of rising personnel costs as a result of salary pressures and lower use of vacations by employees, intensified sponsorship and brand image enhancement activities, increased real estate maintenance costs and equipment and furniture purchases in connection with the move to the new headquarters, modernization of IT systems, and implementation of the New Model of Group Work Organization and Tools, and aid support related to the situation in Ukraine. This effect is partially offset by lower costs of project consulting services (Synergies, IFRS17, Distribution, #mojePZU).

The insurance result in the group and individually continued insurance segment increased compared to the corresponding period of 2021 by PLN 118 million (+16.0%) to PLN 857 million. The decreased loss ratio had a positive effect on the performance, mainly on account of deaths of the insured and co-insured in the group protection portfolio and in continued insurance.

15.4 Individual insurance - life insurance

The decrease in gross written premium by PLN 440 million (-32.2%) to PLN 925 million compared the corresponding period of 2021 was the result of:

- a decrease in the sale of investment products in the bancassurance channel as a result of restrained cooperation with Bank Millennium;
- lower sales of individual investment products in the proprietary network as a result of the withdrawal of the Cel na Przyszłość (Goal for the Future) product from sale at the end of December 2021 and lower realization of IRA.

At the same time, positive deviations were recorded in the case of premiums for protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation under the contracts in the portfolio exceeds the value of lapses. Additionally, since third quarter of 2022 the sales of new endowment insurance products „Pewny Profit” and „Bezpieczne Jutro” offered in cooperation with Group’s banks has started. These products enable safe investment of capital without risk, with a guaranteed sum insured throughout the insurance period.

Data from the profit and loss account – individual insurance	**1 January – 30 September 2022**	**1 January – 30 September 2021**	**% change**
Gross written premiums	925	1,365	(32.2)%
Net earned premiums	926	1,366	(32.2)%
Investment income	(390)	164	x
Net insurance claims and benefits and movement in other net technical provisions	(111)	(1,119)	(90.1)%
Acquisition expenses	(166)	(164)	1.2%
Administrative expenses	(71)	(61)	16.4%
Other	(6)	(5)	20.0%
Insurance result	**182**	**181**	**0.6%**
acquisition expense ratio [1)]	17.9%	12.0%	5.9 p.p.
administrative expense ratio [1)]	7.7%	4.5%	3.2 p.p.
insurance margin [1)]	19.7%	13.3%	6.4 p.p.

[1)] Ratios calculated using gross written premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

The decrease in investment income, which is comprised of income allocated according to transfer prices and income from investment products, was related in particular to the deterioration of funds’ performance in the portfolio of investment products. At the same time income from investment products does not affect the result of the individual insurance segment because it is offset by changes in insurance liabilities.

(in millions of PLN)

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 111 million, signifying a decrease in this item by PLN 1,008 million compared to the corresponding period of 2021. The lower change in provisions compared to last year was driven by lower investment income in investment insurance and lower sales of these products in both proprietary and banking channels (lower inflow of new investment premiums).

The above was offset by business growth in protection insurance in proprietary channels.

In Q3 2022, acquisition expenses in the individual insurance segment increased 1.2% to PLN 166 million. The increase in commissions from sales of protection insurance in the banking channel was partially offset by lower commissions from lower sales of bank investment products.

The year-on-year increase in administrative expenses by 16.4% to PLN 71 million results from rising personnel costs as a result of salary pressures and lower use of vacations by employees, intensified sponsorship activities, increased real estate maintenance costs and equipment and furniture purchases in connection with the move to the new headquarters, modernization of IT systems, and implementation of the New Model of Group Work Organization and Tools. This effect is partially offset by lower costs of project consulting services (Synergies, IFRS17, Distribution, #mojePZU) and advertising campaigns related to life products.

The segment's operating result rose in comparison to last year by PLN 1 million to PLN 182 million and despite a significant decline in sales of investment products remains stable.

15.5 Bank segment

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

Banking activity (m PLN)	1 January – 30 September 2022	1 January – 30 September 2021	% change
Fee and commission income and expenses	2,725	2,519	8.2%
Investment income	8,605	5,325	61.6%
Interest expenses	(2,727)	(253)	977.9%
Administrative expenses	(4,177)	(3,799)	9.9%
Other	(2,470)	(1,174)	110.4%
Total	**1,956**	**2,618**	**(25.3)%**

After the first 3 quarters of 2022, the banking activity segment generated PLN 1,956 million in operating profit (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies a decrease by PLN 662 million compared to the corresponding period of 2021. The lower result was mainly related to higher interest expenses and other operating expenses.

In Q3 2022, Pekao contributed PLN 1,416 million to operating profit (without amortization of intangible assets acquired as part of the acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 540 million.

The key element of the segment's income is investment income, which increased to PLN 8,605 million y/y (61.6% y/y) in 2022. Investment income consists of interest income, dividend revenue, the trading result and the result on impairment losses. The segment income was positively impacted by higher net interest income due to a series of interest rate hikes initiated in October 2021. On the other hand, there was a negative impact from the recognition of costs related to the modification of agreements for PLN mortgage loans granted to consumers due to their suspension of loan repayments (the so-called moratorium periods), in the amount of PLN 2,429 million at Pekao and PLN 502 million at Alior Bank.

At the end of Q3 2022, the loan receivables portfolio at the two banks combined increased by 3.1% compared to the end of 2021. The y/y increase in interest income was mainly due to the interest rate hikes (by a total of 500 bps after Q3 2022). In Q3, the cost of allowances for expected credit losses and impairment losses on financial instruments in totaled PLN 925 million in Pekao and PLN 768 million in Alior Bank, and was higher y/y by PLN 381 million and PLN 23 million, respectively. The increase in Pekao is part of an additional provision recognized for the legal risk of foreign currency mortgage loans (the total value of the provision is PLN 462 million, the result on the allowances was charged with PLN 334 million, the amount of PLN 128 million to other operating expenses).

The profitability of the banks in the PZU Group in Q3 2022 measured by the net interest margin ratio for Pekao and Alior Bank was 2.71% and 4.27%, respectively. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks recorded an increase in interest margins due to a series of interest rate hikes initiated in October 2021, partially offset by the effect of moratorium periods.

The net fee and commission income in the banking activity segment amounted to PLN 2,725 million and was 8.2% higher than in the corresponding period of last year. The main reasons for the improvement in commission income were margins on foreign currency transactions (increased customer activity) and card commissions.

The segment's administrative expenses totaled PLN 4,177 million and consisted of Pekao's expenses of PLN 2,997 million and Alior Bank's expenses of PLN 1,179 million.

The increase in costs by 9.9% y/y was caused mainly by higher personnel costs and IT costs in Pekao.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 364 million) and the levy on other financial institutions (PLN 836 million). Other significant charges included the costs incurred for the contribution to the newly established Institutional Protection System (IPS), PLN 696 million, the contribution to the Borrower Support Fund (PLN 219 million), as well as the remaining amount of Pekao's provision for the legal risk related to foreign currency mortgage loans, PLN 128 million. In addition, provisions were established for refund of increased margins on mortgage loans prior to the establishment of the mortgage, in the amount of PLN 112 million in Pekao and PLN 23 million in Alior Bank. As a result, the Cost/Income[3] ratio stood at 47% for both banks. This ratio was 49% for Bank Pekao and 42% for Alior Bank, respectively.

15.6 Investments

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

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

The impact of the above factors was partially offset by a higher result in treasury instruments measured at amortized cost mainly due to the impact of rising interest rates, as well as a higher result in the real estate portfolio.

[3] Ratio used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415).

(in millions of PLN)

15.7 Pension insurance

Pension insurance	1 January – 30 September 2022	1 January – 30 September 2021	% change
Investment income	8	3	166.7%
Other income	130	105	23.8%
Income	**138**	**108**	**27.8%**
Administrative expenses	(28)	(45)	(37.8)%
Other	(4)	(4)	0.0%
Operating result	**106**	**59**	**79.7%**

Revenue on core business in the pension insurance segment after Q3 2022 and after Q3 2021 was PLN 138 million and PLN 108 million, respectively. The PLN 30 million increase in revenues was mainly due to revenues from the overpayment to the Insurance Guarantee Fund (no revenues on this account was recorded in 2021) and higher investment income.

The segment's administrative expenses dropped by PLN 17 million y/y (-37.8%). The main contributing factor was the lack of a surcharge on the Insurance Guarantee Fund for Q3 2022, while in the same period in 2021 the surcharge amounted to PLN 16 million.

At the end of Q3 2022, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 132.5 billion, down 29.5% from the end of 2021. The decline in assets was attributable to the negative performance of the funds, which averaged a return of -6.3% in September, compared to last September's average performance of -27.3%. In this period OFE PZU's assets fell 29.9% to PLN 18.1 billion. In the period from January to September 2022, OFE PZU's rate of return was -28.8%, which resulted from worse conditions on the stock market.

15.8 Baltic States

Data from the profit and loss account – Baltic States segment	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	1,720	1,363	26.2%
Net earned premiums	1,495	1,285	16.3%
Investment income	(24)	32	x
Net insurance claims and benefits	(895)	(795)	12.6%
Acquisition expenses	(331)	(266)	24.4%
Administrative expenses	(122)	(108)	13.0%
Other	4	4	0.0%
Insurance result	**127**	**152**	**(16.4)%**
EUR exchange rate in PLN	4.6880	4.5585	2.8%
acquisition expense ratio [1)]	22.1%	20.7%	1.4 p.p.
administrative expense ratio [1)]	8.2%	8.4%	(0.2) p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

As part of the Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is provided by: LD – leader of the Lithuanian market, Balta – leader in Latvia and the LD branch in Estonia. Life insurance is sold by PZU LT GD in Lithuania.

The Lithuanian non-life insurance market share as at the end of September 2022 was 28.9%, while the life insurance market share was 6.5%. During the same period, PZU Group's share of the Estonian non-life insurance market reached 15.3%. At the end of June 2022, the share in the Latvian non-life insurance market was 29.1%.

On account of its activity in the Baltic States, the PZU Group generated as at the end of Q3 2022 an insurance result of PLN 127 million compared with PLN 152 million at the end of September of last year.

(in millions of PLN)

This result was driven by the following factors:

- an increase in gross written premium. It was PLN 1,720 million, up PLN 357 million (i.e. 26.2%) compared to the corresponding period of the previous year. Sales were up PLN 352 million and were generated in non-life insurance, chiefly as a result of a considerable growth in sales of motor TPL and MOD insurance (by 24.2% y/y) as a result of increased tariffs in the region, and property insurance (by 19.4% y/y) as a result of sales growth in the affinity channel. Thanks to the increase in the number of policies, there were also higher (by 44.1% y/y) sales in the health insurance area. In life insurance, sales climbed PLN 5 million;
- higher net earned premium. It was PLN 1,495 million and was PLN 210 million (or 16.3%) higher than the amount at the end of Q3 last year;
- lower investment income. At the end of Q3 2022, as a result of the lower valuation of investment assets, an investment loss of PLN 24 million, down PLN 56 million in comparison with the corresponding period of the previous year, was recorded;
- increase in net claims and benefits. They amounted to PLN 895 million and were PLN 100 million (or 12.6%) higher than at the end of September last year. The loss ratio in non-life insurance stood at 61.3%, up 1.3 p.p. from the end of Q3 2021. In life insurance the value of benefits was PLN 22 million, down PLN 41 million higher from the corresponding period of the previous year;
- higher acquisition expenses. The segment's expenditures amounted to PLN 331 million, 24.4% higher than in the corresponding period last year. The acquisition expense ratio calculated on the basis of net earned premium dropped by 1.4 p.p. and stood at 22.1%;
- increase in administrative expenses. They were PLN 122 million, up 13.0% from the comparable period last year. The administrative expense ratio was 8.2%, recording a 0.2 p.p. decrease relative to the corresponding period of the previous year.

15.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	173	246	(29.7)%
Net earned premiums	161	164	(1.8)%
Investment income	(62)	20	x
Net insurance claims and benefits	(73)	(65)	12.3%
Acquisition expenses	(34)	(81)	(58.0)%
Administrative expenses	(24)	(27)	(11.1)%
Other	11	17	(35.3)%
Insurance result	**(21)**	**28**	**x**
exchange rate UAH/PLN	0.1412	0.1394	1.3%
acquisition expense ratio [1)]	21.1%	49.4%	(28.3) p.p.
administrative expense ratio [1)]	14.9%	16.5%	(1.6) p.p.

[1)] Ratios calculated using net earned premium, used as Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures (ESMA 2015/1415). The exact definition of the ratios along with an explanation of their usefulness is presented in section 1 of the glossary.

As part of the Ukrainian operations, the PZU Group has in its offering non-life insurance and life insurance products through the following companies: PZU Ukraine and PZU Ukraine Life.

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

According to NBU data, the share in the Ukrainian non-life insurance market stood at 4.2% at the end of September, while the share in the life insurance market was 8.4%.

Due to the was lasting since 24 February 2022, the National Bank of Ukraine does not publish data on insurance markets.

The Ukraine segment closed Q3 2022 with an operating loss of PLN 21 million, compared to a PLN 28 million profit at the end of September of the previous year. The segment's result was affected by an analysis of the recoverability of assets held, carried out, among other things, as a result of the downgrading of the country's rating, which resulted in the recognition of impairment losses totaling PLN 94 million.

Factors affecting this segment's performance:

- decrease in net earned premium by PLN 3 million (-1.8% y/y) and gross written premium. Gross written premium amounted to PLN 173 million and fell by PLN 73 million (-29.7% y/y) compared to the same period the year before. Since the outbreak of the war on 24 February 2022, PZU Ukraine's sales processes have been conducted on a limited basis. Offices are closed wherever hostilities are ongoing. Sales are conducted both in the area of renewals and new business in three main business lines: motor TPL, MOD and Green Card, property insurance and personal insurance. The biggest restrictions have been placed on property insurance – the country has been divided into three zones: red (occupied territories), where conclusion of agreements is prohibited; blue (territories adjacent to the occupied territories or recaptured from the Russian Federation), where conclusion of agreements is possible under the strict control of underwriters; and green (western and central parts of the country) with no restrictions on sales. In the first three quarters of 2022, motor TPL and MOD insurance, Green Card insurance and travel insurance accounted for the largest share of sales. PZU Ukraine Life halted sales in all distribution channels after the war broke out. As of June, the company resumed sales of short-term products with limited risk through the banking channel, and as of July, sales of new business policies with limited risk and sums insured were resumed through the agency and brokerage channels;
- a decline of PLN 82 million in investment income (from PLN 20 million at the end of Q3 2021 to PLN -62 million after September 2022). The value of investment income at the end of Q3 2022 has been charged with an impairment loss;
- net claims and benefits higher at PLN 73 million (12.3% y/y). The nationwide declaration of martial law on 24 February excluded insurers' liability for damages resulting from hostilities. PZU Ukraine made payments under motor TPL and MOD insurance in accordance with the terms of the insurance contracts and applicable legislation. At PZU Ukraine Life, benefit payments were made only upon receipt of complete documentation;
- lower acquisition expenses. They stood at PLN 34 million compared to PLN 81 million at the end of Q3 of the previous year;
- administrative expenses lower by PLN 3 million, at PLN 24 million.

15.10 Investment contracts

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

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

Gross written premium generated on investment contracts in Q3 2022 decreased by PLN 2 million to PLN 20 million compared to the corresponding period of the previous year.

(in millions of PLN)

Data from the profit and loss account – investment contracts	1 January – 30 September 2022	1 January – 30 September 2021	% change
Gross written premiums	20	22	(9.1)%
Group insurance	-	-	-
Individual insurance	20	22	(9.1)%
Net earned premiums	20	22	(9.1)%
Investment income	(48)	11	x
Net insurance claims and benefits and movement in other net technical provisions	34	(26)	x
Acquisition expenses	-	-	-
Administrative expenses	(2)	(2)	-
Other	-	-	-
Operating result	**4**	**5**	**(20.0)%**
operating profit margin	20.0%	22.7%	(2.7) p.p.

The investment result in the segment of investment contracts deteriorated by PLN 59 million compared to the previous year, chiefly due to the lower rate of return on IRSAs.

Additionally, investment income does not affect the result of the investment contracts segment because it is offset by changes in insurance liabilities.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 60 million y/y to PLN -34 million, mostly due to the difference in investment income in unit-linked products described above (the investment result is negative). In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses totaled PLN 2 million, signifying no change versus the previous year. The segment's operating result was PLN 1 million lower than in the corresponding period last year and amounted to PLN 4 million.

16. Impact of non-recurring events on operating results

In H1 2022, an increase in technical provisions for older versions of individually continued products, recognizing the expected effect of higher indexations in the next 12 months in the gross amount of PLN 203 million. This expectation is based on the high level of the observed and expected inflation rate.

In addition, the PZU Group's result in Q3 2022 was burdened by non-recurring effects related to banking activities including:

- costs associated with the accession of Pekao and Alior Bank to the Bank Protection System in the gross amount of PLN 482 million and PLN 214 million, respectively;
- updating the provision for legal risk related to foreign currency mortgage loans at Pekao in the gross amount of PLN 462 million;
- costs related to the modification of agreements for PLN mortgage loans granted to consumers due to their suspension of loan repayments (the so-called moratorium periods), in the gross amount of PLN 2,429 million at Pekao and PLN 502 million at Alior Bank.

In addition, due to the Russian Federation's invasion of Ukraine on 24 February 2022, PZU's Management Board assessed the impact of this event on the PZU Group's operations, business continuity, financial position and going concern. As a result of this analysis and due to the downgrading of Ukraine's rating, the PZU Group decided to recognize write-downs in the consolidated income statement for H1 2022, mainly for financial assets and receivables. The impact of these write-downs on the PZU Group's consolidated net result reached PLN 94 million.

In the corresponding period of 2021, a higher result on investing activity was recorded owing to the IPO of a logistics company held in the portfolio of a mutual fund managed by TFI PZU. The increase in revenue driven by this event was PLN 518 million in the 9-month period ended 30 September 2021.

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

17.1 Macroeconomic environment

17.1.1. Gross domestic product

In Q2 2022, GDP growth slowed to 5.8% y/y from 8.6% in the first quarter. The deceleration in GDP growth was primarily the result of a marked reduction in the contribution of inventory changes after a period of unusually high accumulation of raw materials and production components in previous quarters. The contribution of inventory changes to GDP growth declined to 1.8 percentage points in Q2 from 6.7 percentage points in Q1 of this year. Household consumption growth also slowed slightly (from 6.7% y/y in Q1 to 6.4% y/y in Q2 of this year). Investment growth, meanwhile, accelerated - to 6.6% y/y in Q2 (vs. 4.7% y/y a quarter earlier). The contribution of net exports also improved, subtracting only 0.7 percentage points from GDP growth, compared to -2.7 percentage points in the first quarter.

Economic activity data for the third quarter point to a slight acceleration in growth relative to the second quarter, although we will probably see a lower y/y GDP growth rate in y/y terms than in the second quarter, due to statistical base effects. These effects of the higher base from last year can be seen in the short-term indicators. Industrial production sold was 9.7% higher in Q3 than a year ago, compared to 11.3% y/y a quarter earlier, despite the fact that in m/m terms in the July-September period it recorded systematic increases. The growth rate of construction and assembly production in Q3 averaged 3.4% higher than a year earlier, compared to 9.3% in Q2 2022. Retail sales in the third quarter of this year rose 2.8% y/y, following a 9% y/y increase in Q2.

17.1.2. Labor market and consumption

In the third quarter of this year, average monthly nominal gross wages in the corporate sector rose by 14.5% y/y (compared to 13.7% y/y in the second quarter of this year). With a high increase in consumer prices, however, the purchasing power of the salary thus defined was 1.3% lower than a year ago.

Average employment in the corporate sector increased by 2.8% y/y in the third quarter of this year (following a 2.3% y/y increase in Q2). In September, the registered unemployment rate was 5.1% (1 percentage point lower than a year ago and 0.1 percentage point lower than at the end of Q2). In September 2022, the seasonally adjusted rate of economic unemployment (according to Eurostat, using a harmonized methodology for EU countries) stood at 2.6%, clearly below the European Union average (6.0%) and the euro area (6.6%).

Consumer sentiment deteriorated in the third quarter of this year, despite the good situation of workers in the labor market. This was a direct result of rising inflation and uncertainty about the outlook for the economic situation of households. A decline in real terms in consumer purchasing power and a high base contributed to a slowdown in retail sales growth in Q3, despite the presence of increased numbers of migrants from Ukraine in Poland. Consumers mainly reduced demand for durable goods. It is also likely that the growth rate of household consumption has decreased.

17.1.3. Inflation, monetary policy, interest rates

A gradual acceleration of price growth was observed in individual months to 17.2% in September this year (vs. 15.5% y/y in June). High inflation was driven by large increases in energy and food prices, among other factors. Rising electricity prices for businesses were also passed on to goods and services from the so-called “core” part of the CPI basket. The passing on of rising producer costs to final prices of goods and services for households was supported by a favorable labor market situation. In addition, the rise in inflation was a global phenomenon. It was fostered by the clash between strong post-pandemic demand growth and limited supply of means of production with continuing disruptions in supply chains - both as a result of the pandemic and additional strong supply shocks caused by the outbreak of war in Ukraine.

The move of CPI inflation away from the NBP's inflation target (2.5%) led to a continuation of NBP rate hikes in the third quarter. The NBP reference rate at the end of the third quarter was 6.75%.

17.1.4. Public finance

According to Statistics Poland's notification of 21 October of this year, the deficit in the government and local government sector in 2021 stood at 1.8% of GDP, and the sector's debt at 53.8% of GDP. Revenue growth, which contributed to the strong deficit reduction, was the result of good market conditions and high consumer price growth.

The government's actions aimed to mitigate the effects of inflation and changes in the tax system (including a reduction in the PIT rate from 17% to 12%), are a significant burden to the government and local government sector this year. In addition, the public finance sector also bears the cost of supporting refugees from Ukraine. On the other hand, high growth rate of prices and nominal GDP have contributed to improvement of the income side of the sector. In net terms, however, the budget result is likely to be worse than last year. The government, in the fiscal notification sent to Eurostat in October, assumed that the deficit would rise to 4.7% of GDP across the public finance sector. The sector's debt projected in the draft budget act for 2022 is 51.7% of GDP (data according to the ESA2010 methodology).

17.1.5. Situation on financial markets

Situation on financial markets in the first three quarters of 2022 was mainly shaped by geopolitical tensions, including the Russia-Ukraine war and its consequences for the Polish and global economies. The market was influenced by rising inflation and the process of monetary tightening in Poland, as well as monetary tightening in the U.S. and prospects for tightening in the euro area. In the first half of the year, fears seemed to prevail in the financial market that inflation could spiral out of control for central banks which, in turn, fed spiraling expectations of interest rate hikes. However, fears of a slowdown of the economic growth have already intensified in the third quarter, generated mainly by a decline in household purchasing power and a strong increase in uncertainty following the price shock caused by Russia’s armed aggression against Ukraine.

17.1.5.1. Bond market

In the first three quarters of 2022, the entire Polish yield curve shifted sharply upward. Yields on one-year bonds rose from 3.47% at the end of 2021 to 7.55% at the end of September 2022, on two-year bonds from 3.35% to 7.49%, on five-year bonds from 3.99% to 7.41%, and on 10-year bonds from 3.71% to 7.16% (Refinitiv Datastream data). The spread in relation to the German 10-year bond, which was 388 bps at the end of 2021, widened to 506 bps at the end of March (Refinitiv Datastream data). The rise in yields on Polish government bonds was related to the strong rise in inflation and inflation expectations, the tightening of monetary policy by the National Bank of Poland, and the slowing of loan growth in the banking sector and the consequent drastic slowing of the money supply, which limited the banking sector's ability to absorb further issues. The NBP reference rate between the end of 2021 and the end of September 2022 rose 500 bps to 6.75%.

The rise in Polish bond yields was supported by the situation in the core markets. Faced with rising inflation, the U.S. central bank has been raising interest rates since March, signaling room for further hikes. The Fed has also begun a gradual reduction in its total balance sheet value, limiting asset reinvestment, which further supports tightening monetary conditions. Faced with rising inflation, also the ECB has changed its stance. At the end of H1 of the year, it announced interest rate hikes, which it implemented by raising the deposit rate from -0.5% at the end of 2021 to 0.75% at the end of Q3 2022.

17.1.5.2. Equity market

At the end of Q3 in relation to the end of 2021, Warsaw Stock Exchange indexes declined. The WIG20 index fell 39.2%, and the WIG index fell 33.7% (WSE, Refinitiv Datastream data). This was influenced by the Fed's and ECB's interest rate hikes, poor global market sentiment amid an expected slowdown in growth/recession in Europe and the U.S., and the continuing war in Ukraine, negatively affecting investor sentiment especially in Central and Eastern European markets.

17.1.5.3. Currency market

The euro to PLN exchange rate increased from 4.58 at the end of 2021 to 4.85 at the end of Q3 2022 (NBP). Meanwhile, immediately after the outbreak of the war, the euro exchange rate reached the level of PLN 5 (average rate of 4.96 compared to 4.54 on 23 February). The NBP's actions helped calm the market situation and limit increases in the EUR/PLN exchange rate in the first half of 2022. In Q3, we saw another wave of weakening of the Polish zloty, a result of the rise in dollar rates, the strengthening of the dollar and a flight from risky assets, as well as fears of intensifying inflationary pressures in Europe. Consequently, at its peak, the EUR/PLN exchange rate reached 4.85, while the USD/PLN rate reached 4.98.

The euro to USD exchange rate fell from 1.13 at the end of 2021 to 0.98 at the end of September 2022 (Refinitiv Eikon data). The strengthening of the dollar is the result of further rate hikes in the U.S. and an improved economic outlook against the euro area amid the effects of the war in Ukraine. The dollar's increased attractiveness in global markets has also translated into the exchange rate of the U.S. currency denominated in Polish zloty, which rose in H1 2022 from 4.06 at the end of December 2021 to 4.95 (Refinitiv Eikon data). The Swiss franc to PLN exchange rate increased from 4.45 at the end of 2021 to 5.01 at the end of Q3 2022 (Refinitiv Eikon data).

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

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

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

Macroeconomic and geopolitical factors

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

In 2022, the **armed conflict between Russia and Ukraine poses a particular threat which materializes primarily through an increase of the level of uncertainty and increase in gas and oil prices** (and, to a lesser extent, through disruptions in trade with Russia, Belarus and Ukraine). Natural gas is broadly used in many energy-intensive production processes. Additionally, the cost of gas is an important part of the budgets of households. The shock of rising prices may contribute to a deeper than currently expected weakening of the rate of growth in consumption and may suppress the GDP growth rate even further. Increased uncertainty may, in turn, exacerbate sentiments among investors.

The increase in gas, oil and food prices – depending on the magnitude and persistence of this growth – may also push the inflation rate even higher.

The increase in risk aversion, on a regional and global level, due to the Russia-Ukraine conflict may result in outflow of foreign capital, further decreases in stock market indices, or continuation of the depreciation of the Polish zloty. It may also work to further increase bond yields, although the actions in the monetary policy will also be important in this case. If the NBP decides that there is still a serious risk of rising inflation in the medium term, the MPC may decide to raise interest rates again, which would further depress demand in the economy relative to current forecasts. If the supply shocks pose a threat of a major deceleration of GDP growth – and the risk of a persistently high inflation in the medium term clearly diminishes – the NBP may opt for a more dovish monetary policy.

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

A risk factor, which may cause a weakening of economic activity in Poland, as well as in other countries, is a possible **resurgence of the tensions in supply chains and transport** and the related further pressure on the prices of raw materials, components and finished products. The imbalance of demand and supply with continued disruptions in logistics chains raises the prices of goods, materials, but also labor with the high levels of CPI inflation. This generates pressure on the costs of property claims that premium increases may not be able to keep up with.

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

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

In addition, in an environment of recovering demand and an improving labor market, the higher inflation is already resulting in tighter monetary policy. There is a risk that the central banks' response will prove too strong, causing an excessive cooling of the economy leading even to a global recession. In turn, too weak a response from central banks could mean an extended period of high inflation. The uncertainty about the level of inflation in Poland in 2023 is also related to the possibility that the government will extend the Anti-Inflation Shields.

The economic environment, in particular the **actions of the Monetary Policy Council** with respect to interest rates and the reserve requirement, play a key role in the functioning of the banking sector. A very low interest rate environment has a negative effect on the sector's performance (by affecting the banks' net interest income), which could be felt in 2021. However, the interest rate hike cycle starting in late 2021 should be more beneficial to the performance of the banking sector. On the other hand, administrative measures aimed to mitigate the cost of rate increases to households (such as so-called moratorium periods) will work to limit the banking sector's profits. The relatively high level of inflation and the need to bring it down makes the scenario of lowering NBP rates still in 2022 unlikely.

On the one hand, an **increase in market interest rates** contributes to financial stability, because it helps improve profitability and financial standing of banks and insurers. On the other hand, however, it carries risks to financial stability by contributing to a deterioration of the quality of banks' loan portfolios. The increase in yields on market-priced bonds in the portfolios of banks and insurers, results in a reduction in their face value. The effects of this for insurance companies depend on the difference in the durations of assets and liabilities.

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

On the other hand, slower-than-expected GDP growth in Poland may result in reduced household and corporate spending on purchases of motor insurance policies (for instance, due to softer sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for life insurance products, in particular as a result of a smaller pool of benefits offered by companies. Poorer financial standing of companies may result in an increase in credit risk (in particular in the banking segment) and higher loss ratio on the financial insurance portfolio, further weakening of the growth rate of new mortgage loans and a weaker growth rate of consumer loans.

Market factors (specific to individual sectors)

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

- after the economic slowdown caused by the COVID-19 pandemic, there is a risk of a deepening economic crisis as a result of the Russian-Ukrainian conflict, with socio-economic consequences, in particular deterioration of the financial standing of businesses and the related problems with maintaining and paying for the policies;
- high uncertainty as to the growth of new car sales, mainly in the dealership channel and financed by leasing companies, which may result in lower sales of motor insurance;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro and the continuing limited availability of spare parts (due to COVID-19);
- reduced demand for voluntary insurance due to a higher inflation rate, higher unemployment and a decline in employment caused by the pandemic;
- slower economic growth in Poland – the more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth;
- changes in trends and behavior of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase of insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates;
- introduction of additional regulations or financial burdens on insurance undertakings.

The risk of continued high inflation and interest rates can, in turn, cause:

- an increase in the value of future compensation from policies issued on an ongoing basis;
- increased risk of deterioration of banks' loan portfolio (rise in interest rates).

Other risks:

- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and rivalry to attract clients (with an impact exerted on the mass and corporate insurance segments);
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and the quality of the product offering as well as fostering entry and exit obstacles for clients to overcome with independent intermediaries (with an impact being exerted in particular on the group and individually continued insurance segment);
- availability of medical personnel in public health care centers (affecting health products);
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- growing price pressure to harmonize the management fee rates to the limits introduced in the ECS Act, which are max. 0.5% for the annual management fee and 0.1% for the success fee.

Legal and regulatory

The additional risk factor is the potential necessity of establishing additional provisions to cover customer claims in litigations related to Swiss franc loans.

After the CJEU confirmed that domestic courts have the ultimate power for identifying unfair clauses in FX loan agreements, the judgments of the Polish Supreme Court will be of key importance in this matter. The judgments of the Supreme Court will determine the domestic line of judgments in the matter of Swiss franc loans and consequently the scale of provisioning required from domestic banks to cover the claims of CHF clients for the use of unfair contractual clauses in FX mortgage loan agreements. Because the exposure of the PZU Group's banks to foreign currency loans is limited compared to other banks operating in Poland, the direct impact of this risk on the Group will be limited.

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

In addition, the Crowdfunding Act has had a significant impact on the banking sector, as a result of which clients with PLN mortgage loan agreements have been given the right to suspend repayment of a total of 8 loan installments (4 installments in H2 2022 and 4 installments in 2023). On the basis of the aforementioned act, lenders were also obliged to make additional payments to the Borrower Support Fund in the total amount of PLN 1.4 billion by 31 December 2022.

18. Management Board's position on previously published result forecasts

PZU did not publish any standalone or consolidated result forecasts.

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

In the 9-month period ended 30 September 2022 Alior Bank redeemed on time its EUR001 series bonds (4 February 2022) with a par value of PLN 10 million and P1A series bonds (16 May 2022) with a par value of PLN 150 million. On 31 March 2021, Alior Bank redeemed on time its G series bonds with a par value of PLN 193 million. On 29 April 2021, it redeemed its B series bonds (Meritum Bank) with a par value of PLN 67 million. On 6 December 2021, it redeemed its I and I1 series bonds with a total par value of PLN 183 million.

20. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2022, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no corrective measures were taken until the end of the reporting period.

21. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance contracts, foreign currency loan agreements, disputes concerning labor relationships and disputes relating to contractual obligations. Typical administrative proceedings involving the PZU Group companies include proceedings related to the possession of real properties. Such proceedings and litigation are usually of a typical and repetitive nature and usually no particular case is of 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 September 2022, the total value of the disputes in all 252,280 cases (as at 31 December 2021: 284,223 cases) pending before courts, arbitration bodies and public administration authorities in which PZU Group entities take part, was PLN 8,723 million (as at 31 December 2021: PLN 8,516 million).

This amount included PLN 5,370 million (as at 31 December 2021: PLN 4,723 million) of liabilities and PLN 3,365 million (as at 31 December 2021: PLN 3,793 million) of accounts receivable of PZU Group companies.

During the 9-month period ended 30 September 2022 and by the date of signing of the condensed interim consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, 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.

21.1 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 the costs of the trial.

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

On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In its decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, evidentiary hearings have taken place. On 6 April 2022, the Regional Court in Warsaw issued a decision admitting evidence in the form of an opinion of a scientific institute to determine the amount of the damage sustained by MSC and J.P Morgan, in the form of loss of profit, as a result of the adoption of Resolution No. 8/2007 by the PZU Ordinary Shareholder Meeting on 30 June 2007, excluding from distribution the profit for the 2006 financial year and the non-payment of this profit in 2007. The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 September 2022, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

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

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

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

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

PBG's bankruptcy proceedings ended on 20 July 2016 with a final decision of the Bankruptcy Court.

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million.

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

21.3 Class action against Alior Bank

Alior Bank is a defendant in one class action case (suit was filed on 5 March 2018) brought by an individual representing a group of 84 natural and legal persons and 3 individual cases to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland (Funds). With the decision of 27 September 2019 the court resolved to examine the case in a group procedure.

By letter dated 15 July 2021, the claim was expanded to include a group of another 283 people. At the same time, declarations of withdrawal from the group were filed by 14 persons. The court has not issued an order to determine the composition of the group. The lawsuits were filed to establish liability (not for payment, i.e. damages), so the PZU Group does not expect any cash outflow from these proceedings other than litigation costs, which it estimates at PLN 600 thousand.

Alior Bank is also a defendant in 104 cases brought by purchasers of the Funds' investment certificates for payment (damages). The total value of the subject matter of litigation in these cases is PLN 71 million.

Due to the ongoing fund liquidation proceedings, the PZU Group assesses that until the proceedings are completed and the final value of the investment certificates is determined, all (existing and future) actions for payment are unjustified. 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 September 2022, no provision was established in relation to these actions.

21.4 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)

22. Evaluation of the PZU Group companies' standing by rating agencies

Issuer rating

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency S&P Global Ratings (S&P). Rating assigned to PZU and PZU Życie results from an analysis of financial data, competitive position, management and corporate strategy as well as the sovereign rating. The rating also includes a rating outlook, which is an assessment of the future position of the Company in the event of the occurrence of specific circumstances.

Current rating

PZU and PZU Życie hold an S&P rating of A- with a stable outlook. S&P last reviewed the rating on 28 June 2022.

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

Company name	Rating and outlook	Last change	Previous rating and outlook	Date of change
PZU				
Financial strength rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
PZU Życie				
Financial strength rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019
Credit rating	A- /Stable/	6 April 2020	A- /Positive/	14 June 2019

Poland's credit rating

On 30 September 2022, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

23. Related party transactions

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

In the 9-month period ended 30 September 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.

(in millions of PLN)

23.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January - 30 September 2022 and as at 30 September 2022		1 January - 31 December 2021 and as at 31 December 2021		1 January – 30 September 2021 and as at 30 September 2021	
	Key management	Other related parties [1)]	Key management	Other related parties [1)]	Key management	Other related parties [1)]
Gross written premium	-	2	-	3	-	2
in non-life insurance	-	2	-	3	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	2	-	1
Costs	-	32	-	22	-	12
Investment financial assets	-	-	-	3	-	3
Loan receivables from clients	-	-	1	-	1	-
Receivables	-	1	-	-	-	-
Liabilities under deposits	4	44	2	14	2	14
Other liabilities	-	3	-	6	-	3
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	1	-	-	-	-

[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.

24. Other information

24.1 Inspections by the KNF Office

24.1.1. 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 a report on the implementation of the recommendation.

On 28 January 2022, KNF asked for additional clarification and documents, which were provided by PZU on 14 February 2022. On 25 March 2022, KNF submitted 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, supplementing the documentation on the implementation of the recommendation. Following KNF's call of 10 June 2022, PZU provided additional clarification on 24 June 2022, and on 21 July 2022, a meeting was held between PZU and KNF representatives to discuss the process of implementing the recommendation. On 29 July, 30 September and 14 October 2022, PZU submitted additional documentation and explanations to KNF.

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

24.1.2. PZU Życie

In the period from 22 August to 21 October 2022, KNF inspected PZU Życie's compliance with the law in terms of the use of insurance agents and agents offering supplementary insurance.

Up to the date of signing the condensed interim consolidated financial statements PZU Życie has not received the inspection report.

24.2 UOKiK proceedings against Alior Bank

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

On 21 November 2019, the UOKiK President issued a decision to initiate proceedings against Alior Bank in the case of recognition of the provisions of the template contract as abusive (ref. no. DOIK-611-1/19/ARO) pertaining to 3 clauses included in the template contract 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 the keeping of accounts and records related to this trading by the Alior Bank SA Brokerage Office", concerning the prerequisites for suspension of the presentation of offers of the financial instruments, proceedings in the event of an erroneous quote, the sources of quotes that can be relied on by the consumer. The UOKiK President challenged the wording of the provisions in question as, among other things, imprecise. Alior Bank has been in correspondence with the UOKiK President 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 Competition and Consumer Protection Act. On 17 October 2022, Alior Bank received the decision of the UOKiK President concluding the proceedings in this case. In the decision, the UOKiK President declared the aforementioned clauses abusive and prohibited the use of the in the regulations, and imposed on Alior Bank an obligation to remove the ongoing effects of the violation of the prohibition on the use of abusive contractual provisions referred to in Article 385[1] § 1 of the Civil Code in template contracts concluded with clients. The obligation to remove the ongoing effects of the violation of the prohibition is in line with Alior Bank's commitment made during the proceedings.

As of 30 September 2022, the PZU Group has not identified reasons to establish provisions for the above cases.

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

In December 2021 Alior Bank and Alior Leasing sp. z o.o. received repeated (new) summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw on account of the management plan. The summons was based on the same factual and legal circumstances as the previous one, discontinued 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 of signing the consolidated financial statements, no claims have been filed on this account. The PZU Group believes that there are no circumstances justifying recognition of a provision on this account.

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

24.4 PZU's planned bond issue

On 15 February 2022 the PZU Management Board adopted a resolution on submitting 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 nominal value of PLN 2,250 million with a maturity date of 29 July 2027 (Series A Bonds). The terms and conditions for the issue of Series A Bonds contemplated PZU’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, PZU's Supervisory Board gave a positive opinion on the Management Board's motion on the issue of the bonds, and on 25 March 2022, PZU's Shareholder Meeting approved the bond issue.

On 31 May 2022, in connection with the unfavorable market situation the PZU Management Board made the decision to discontinue work on the bond issue and, as a consequence, not to take advantage of the option of early redemption of Series A bonds.

24.5 Conflict in Ukraine

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

As a result of this analysis and due to the downgrading of Ukraine's rating, the PZU Group recognized in the consolidated income statement for H1 2022, among others:

- increased allowance for 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 of 30 September 2022, the total net assets (assets less liabilities and adjusted for mutual interests between PZU Ukraine and PZU Ukraine Life) of the three companies operating in Ukraine (PZU Ukraine, PZU Ukraine Life and LLC SOS Services Ukraine) amounted to PLN 19 million (as of 31 December 2021: PLN 70 million).

Consolidated assets (after excluding mutual interests between PZU Ukraine and PZU Ukraine Life) of these companies amounted to PLN 429 million (as of 31 December 2021: PLN 554 million), including, among others:

- investment financial assets of PLN 234 million (as of 31 December 2021: PLN 322 million), of which PLN 98 million (as of 31 December 2021: PLN 159 million) are instruments issued by the Ukrainian government, and PLN 136 million (as of 31 December 2021: PLN 163 million) are term deposits;
- reinsurers' share in technical provisions of PLN 80 million (as of 31 December 2021: PLN 134 million), of which PLN 25 million (as of 31 December 2021: PLN 47 million) was PZU's share.

The companies' liabilities amounted to PLN 410 million (31 December 2021: PLN 484 million), including:

- technical provisions of PLN 358 million (as of 31 December 2021: PLN 414 million);
- other liabilities PLN 52 million (as of 31 December 2021: PLN 70 million).

As at 30 September 2022, the banks in the PZU Group held PLN 333 million in bank credit exposures (as at 31 December 2021: PLN 335 million) and PLN 186 million in bank off-balance sheet exposures (as at 31 December 2021: PLN 317 million) to entities that are residents of Ukraine, Russia or Belarus.

Other than the aforementioned assets of companies with operations in Ukraine and exposures to Alior Bank and Pekao, the PZU Group had no significant exposure to markets subject to hostilities or sanctions. All of the bonds held on 31 December 2021 issued by the governments of Russia (90 million PLN), Belarus (1.6 million PLN) and Ukraine (4 million PLN) were sold by 3 March 2022 (the realized loss was 13 m PLN and was charged to the PZU Group's consolidated income statement in Q1 2022).

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

- operational processes are carried out with ongoing alignment to the situation, all important processes are executed (onsite and remotely), while ensuring the continuation and execution of critical processes, all IT systems are accessible;
- Ukraine has been divided into three zones - red (occupied territories - conclusion of agreements is prohibited), blue (territories adjacent to the occupied territories or recaptured from the Russian Federation - conclusion of agreements is possible under the strict control of underwriters) and green (western and central parts of Ukraine - no restrictions on sales);
- PZU Ukraine's sales processes are conducted on a limited basis - offices are closed wherever there are hostilities, the company sells both new and renewal insurance in all three main business lines (in motor, property and personal insurance) through all channels.

  In the three quarters of 2022, the largest share of sales came from motor insurance - compulsory TPL, Green Card and MOD - as well as health and travel (accident) insurance;
- PZU Ukraine Life's sales processes were initially halted in all sales channels, but as of June 2022 the company resumed sales through the banking channel of short-term products with limited risk and additional territorial restrictions on underwriting and insurance amounts, and as of July 2022 resumed sales of new business policies not requiring underwriting, with restrictions on risk and insurance amounts, in the agency and brokerage sales channels;
- the functionality of the full cycle of claims handling is ensured - in PZU Ukraine Life payments are made with complete documentation and withdrawal amounts payments are made as far as possible. PZU Ukraine carries out MOD and TPL insurance payouts in accordance with the terms of insurance contracts and applicable legislation - the company carries out payouts only if it has a complete set of documents, while the declaration of martial law throughout the country excludes the insurer's liability for losses incurred due to acts of war;
- the contact center and hotline are running without interruptions (LLC SOS Services Ukraine);
- companies maintain a personnel policy ensuring that labor relations are matched with the actual status of employees who are non-working, mobilized, staying abroad, to whom the companies currently cannot offer work due to limited operations, apply “suspension of employment contracts” - in accordance with the regulations following from Ukraine’s Act on the organization of labor relations during martial law of 15 March 2022;

- the liquidity of the companies is ensured, and employee and other obligations, including administrative and tax obligations, are serviced on an ongoing basis to the extent technically possible;
- the companies focus on ensuring cybersecurity, information security and physical server security.

In addition, as of 24 February 2022, the NBU has introduced and maintained restrictions affecting the conduct of business in Ukraine, including:

- a temporary ban on the purchase of foreign currencies;
- a ban on international money transfers from Ukraine.

In addition, as part of the so-called "wartime regulation" of the market, on 6 March 2022, the NBU adopted Resolution No. 39 on the regulation of the activity of non-banking financial services market participants, non-banking financial groups, payment market participants, debt collection companies and legal entities licensed to provide money transport services to banks, under which sanctions will not be applied for violations of regulatory criteria and standards for capital adequacy, solvency, liquidity, profitability, asset quality and risk of the insurer's business during the martial law period. Within 4 months of the end or lifting of martial law, insurers will be required to demonstrate compliance with mandatory industry criteria and standards.

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

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

Due to the aforementioned extraordinary circumstances, the Ukrainian companies of the PZU Group will not meet the sales targets set for 2022. As of the date of signing the condensed interim consolidated financial statements, the determination of the possibility of maintaining business continuity (materialization of the risk of full loss of operating capacity) of the Ukrainian companies in the PZU Group is subject to uncertainty due to the possibility of, among other things:

- long-term continuation and escalation of hostilities;
- airstrikes conducted across the country;
- devastation of critical infrastructure, communications and Internet access;
- lack of access to key systems, including by destroying the companies' physical infrastructure;
- cessation of the handling of all internal money transfers by the Ukrainian banking system;
- unavailability of employees.

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

24.6 Tax on foreign exchange differences in Sweden

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

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

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

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

PZU Finance AB may initiate court proceedings in Sweden from the first instance before an administrative court.

24.7 Pekao and Alior Bank joining the protection scheme

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. A 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 obligations arising from participation in the system. The goal of the protection system is:

- ensuring the liquidity and solvency of banks-participants under the terms and to the extent specified in the protection system agreement;
- supporting:
  - the conduct of resolution of a bank that is a joint stock company by BFG;
  - takeover of a bank that is 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. The incorporated company, under the name System Ochrony Banków Komercyjnych SA, is the management company of the protection system.

On 14 September 2022, the Extraordinary Shareholder Meeting of System Ochrony Banków Komercyjnych adopted a resolution on additional contributions to the aid fund by participant banks in the amount of 0.038% of each participant bank's guaranteed funds, as of the last day of the second quarter of 2022.

The total cost of the fee for the aid fund established at the protection system management unit amounted to PLN 696 million in the PZU Group (PLN 482 million at Pekao and PLN 214 million at Alior Bank) and was charged to the consolidated income statement in Q2 2022 (PLN 636 million) and Q3 2022 (PLN 60 million).

24.8 Approval of the base prospectus for the program to issue banking securities by Alior Bank

On 24 August 2022, KNF approved Alior Bank's base prospectus drafted in connection with Alior Bank's bank securities issuance program, under which Alior Ban's maximum indebtedness under issued and unredeemed bank securities may not exceed PLN 5,000 million. Alior Bank intends to conduct public offerings of bank securities in the territory of Poland and, in the case of selected series, to apply for their admission and introduction to trading on the regulated market operated by the Warsaw Stock Exchange.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	30 September 2022	30 June 2022	31 December 2021	30 September 2021
I. Intangible assets, including:	286,591	286,608	299,215	288,254
- goodwill	-	-	-	-
II. Investments	38,635,866	38,164,605	39,250,562	41,076,897
1. Real property	287,596	290,451	297,328	300,170
2. Investments in related parties, including:	13,630,592	13,538,573	14,641,582	15,305,421
- investments in related parties measured by the equity method	13,073,147	12,744,851	13,961,463	14,645,994
3. Other financial investments	24,717,678	24,335,581	24,311,652	25,471,306
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-	-
IV. Receivables	2,952,176	3,067,297	2,403,594	3,460,789
1. Receivables on direct insurance	1,381,433	1,642,988	1,623,557	1,296,571
1.1. From subordinated entities	3,014	7,675	13,839	17,629
1.2. From other entities	1,378,419	1,635,313	1,609,718	1,278,942
2. Reinsurance receivables	207,401	163,237	215,755	260,560
2.1. From subordinated entities	122,933	129,372	173,758	222,846
2.2. From other entities	84,468	33,865	41,997	37,714
3. Other receivables	1,363,342	1,261,072	564,282	1,903,658
3.1. Receivables from the state budget	8,098	6,271	4,511	3,491
3.2. Other receivables	1,355,244	1,254,801	559,771	1,900,167
a) from subordinated entities	601,599	644,630	35,365	1,290,099
b) from other entities	753,645	610,171	524,406	610,068
V. Other assets	286,588	459,288	269,278	298,647
1. Property, plant and equipment	116,017	110,222	123,443	121,122
2. Cash	170,571	349,066	145,835	177,525
3. Other assets	-	-	-	-
VI. Prepayments and accruals	2,518,583	2,743,020	2,243,572	2,165,695
1. Deferred tax assets	-	-	-	-
2. Deferred acquisition costs	1,741,045	1,809,167	1,601,223	1,550,779
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	777,538	933,853	642,349	614,916
VII. Unpaid share capital	-	-	-	-
VIII. Treasury shares	-	-	-	-
Total assets	**44,679,804**	**44,720,818**	**44,466,221**	**47,290,282**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2022	30 June 2022	31 December 2021	30 September 2021
I. Equity	13,976,212	13,347,402	15,776,367	16,373,983
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	7,694,696	7,694,696	7,347,436	7,347,430
3. Revaluation reserve	5,412,647	5,025,396	6,314,244	6,670,726
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	-	-
6. Net profit (loss)	782,517	540,958	2,028,335	2,269,475
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	2,281,395	2,295,092	2,265,739	2,253,939
III. Technical provisions	25,480,545	25,854,081	24,837,097	24,162,962
IV. Reinsurers' share in technical provisions (negative figure)	(2,036,703)	(2,136,060)	(2,161,952)	(1,671,572)
V. Estimated salvage and subrogation (negative figure)	(89,206)	(84,947)	(98,206)	(78,093)
1. Gross estimated salvage and subrogation	(91,418)	(86,876)	(100,985)	(80,124)
2. Reinsurers' share in estimated salvage and subrogation	2,212	1,929	2,779	2,031
VI. Other provisions	540,092	580,346	574,656	714,662
1. Provisions for pension benefits and other compulsory employee benefits	49,862	64,627	46,361	55,145
2. Deferred tax liability	472,355	498,107	512,983	630,414
3. Other provisions	17,875	17,612	15,312	29,103
VII. Liabilities for reinsurers' deposits	-	-	-	-
VIII. Other liabilities and special-purpose funds	3,420,495	3,596,326	1,755,771	4,566,828
1. Liabilities on direct insurance	415,350	532,619	415,398	409,170
1.1. To subordinated entities	10,001	17,212	7,636	20,124
1.2. To other entities	405,349	515,407	407,762	389,046
2. Reinsurance liabilities	154,830	229,550	184,421	164,994
2.1. To subordinated entities	17,179	17,849	18,722	21,775
2.2. To other entities	137,651	211,701	165,699	143,219
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-	-
4. Liabilities to credit institutions	-	-	125,253	27,193
5. Other liabilities	2,725,185	2,704,554	925,033	3,848,943
5.1. Liabilities to the state budget	159,180	149,310	60,215	194,364
5.2. Other liabilities	2,566,005	2,555,244	864,818	3,654,579
a) to related parties	46,508	151,245	229,394	197,510
b) to other entities	2,519,497	2,403,999	635,424	3,457,069
6. Special-purpose funds	125,130	129,603	105,666	116,528
IX. Prepayments and accruals	1,106,974	1,268,578	1,516,749	967,573
1. Accrued expenses	877,194	1,042,348	1,316,816	803,933
2. Negative goodwill	-	-	-	-
3. Deferred income	229,780	226,230	199,933	163,640
Total equity and liabilities	**44,679,804**	**44,720,818**	**44,466,221**	**47,290,282**

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2022	30 June 2022	31 December 2021	30 September 2021
Carrying amount	13,976,212	13,347,402	15,776,367	16,373,983
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	16.19	15.46	18.27	18.96
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	16.19	15.46	18.27	18.96

2. Interim statement of off-balance sheet line items

Off-balance sheet items	30 September 2022	30 June 2022	31 December 2021	30 September 2021
1. Contingent receivables, including:	3,445,234	3,174,330	3,703,939	3,726,720
1.1. Guarantees and sureties received	2,967	2,499	2,492	2,496
1.2. Other [1)]	3,442,267	3,171,831	3,701,447	3,724,224
2. Contingent liabilities, including:	1,158,127	1,079,015	1,203,395	1,277,656
2.1. Guarantees and sureties given	6,757	6,858	93,637	94,313
2.2. Accepted and endorsed bills of exchange	-	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-	-
5. Third party assets not recognized in assets	222,287	145,527	142,495	143,591
6. Other off-balance sheet line items	-	-	-	-
Total off-balance sheet line items	**4,825,648**	**4,398,872**	**5,049,830**	**5,147,967**

[1)] This item includes chiefly: security received in the form of a transfer of the debtor's assets, a mortgage on the debtor's assets, other contingent receivables, etc.

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
I. Premium income (1-2-3+4)	3,300,647	9,491,147	3,051,746	8,877,620
1. Gross written premium	3,115,128	10,418,312	2,796,894	9,603,753
2. Reinsurers' share in gross written premium	150,826	518,052	93,241	434,185
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	(439,281)	200,631	(453,152)	125,973
4. Reinsurers' share in the movement in provision for unearned premiums	(102,936)	(208,482)	(105,059)	(165,975)
II. Net investment income (including costs) transferred from the general profit and loss account	64,331	186,871	51,032	156,938
III. Other net technical income	31,043	89,407	29,428	99,943
IV. Claims and benefits (1+2)	2,046,187	5,850,068	1,998,049	5,574,456
1. Net claims and benefits paid	1,988,257	5,484,976	1,882,092	5,063,430
1.1. Gross claims and benefits paid	2,066,209	5,713,976	1,902,209	5,136,698
1.2. Reinsurers' share in claims and benefits paid	77,952	229,000	20,117	73,268
2. Movement in provision for outstanding claims and benefits, net of reinsurance	57,930	365,092	115,957	511,026
2.1. Movement in provision for outstanding claims and benefits, gross	60,622	444,412	183,300	616,746
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	2,692	79,320	67,343	105,720
V. Movement in other technical provisions, net of reinsurance	-	-	-	-
1. Movement in other technical provisions, gross	-	-	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-	-	-
VI. Net bonuses and discounts with the movement in provisions	445	4,415	713	3,190
VII. Insurance activity expenses	917,074	2,622,810	818,296	2,381,927
1. Acquisition expenses, including:	748,431	2,143,868	667,483	1,919,309
- movement in deferred acquisition costs	68,123	(139,822)	24,080	(177,117)
2. Administrative expenses	192,291	546,533	164,323	517,635
3. Reinsurance commissions and profit participation	23,648	67,591	13,510	55,017
VIII. Other net technical charges	70,319	268,408	55,602	227,706
IX. Movement in loss ratio (risk) equalization provisions	-	-	-	-
X. Technical result of non-life insurance	**361,996**	**1,021,724**	**259,546**	**947,222**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
I. Technical result of non-life insurance or life insurance	361,996	1,021,724	259,546	947,222
II. Investment income	423,795	1,486,079	1,550,268	2,178,918
1. Investment income on real estate	1,242	4,468	1,565	4,791
2. Investment income from related parties	234,698	907,805	1,385,226	1,531,381
2.1. On ownership interests or shares	225,724	883,134	1,382,649	1,524,095
2.2. On borrowings and debt securities	7,816	22,685	2,432	6,830
2.3. On other investments	1,158	1,986	145	456
3. Other financial investment income	176,079	479,802	132,144	390,923
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	41	499	237	772
3.2. On debt securities and other fixed income securities	142,099	409,802	119,139	356,687
3.3. On term deposits with credit institutions	726	862	-	-
3.4. On other investments	33,213	68,639	12,768	33,464
4. Gain on revaluation of investments	-	1,230	11	11
5. Gain on realization of investments	11,776	92,774	31,322	251,812
III. Unrealized investment gains	243,843	450,589	64,000	142,968
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V. Investment activity expenses	70,275	211,092	29,487	92,348
1. Real estate maintenance expenses	479	1,561	482	1,730
2. Other investment activity expenses	7,523	23,202	8,387	24,686
3. Loss on revaluation of investments	-	-	-	-
4. Loss on realization of investments	62,273	186,329	20,618	65,932
VI. Unrealized investment losses	214,203	356,874	62,475	153,514
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	64,331	186,871	51,032	156,938
VIII. Other operating income	69,947	184,146	50,554	148,915
IX. Other operating expenses	146,925	424,511	118,055	349,230
X. Operating profit (loss)	603,847	1,963,190	1,663,319	2,665,993
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	(297,824)	(920,786)	(79,989)	(160,134)
XIV. Profit (loss) before tax	306,023	1,042,404	1,583,330	2,505,859
XV. Income tax	64,464	259,887	66,985	236,384
a) current part	96,685	147,401	120,864	209,068
b) deferred part	(32,221)	112,486	(53,879)	27,316
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**241,559**	**782,517**	**1,516,345**	**2,269,475**

(in thousands of PLN)

	1 July – 30 September 2022	1 January – 30 September 2022	1 July – 30 September 2021	1 January – 30 September 2021
Net profit (loss) (annualized) [1)]	958,359	1,046,222	6,015,934	3,034,280
Weighted average number of ordinary shares	863,523,000	863,523,000	863,523,000	863,523,000
Profit (loss) per ordinary share (PLN)	0.28	0.91	1.76	2.63
Weighted average diluted number of ordinary shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted earnings (losses) per ordinary share (PLN)	0.28	0.91	1.76	2.63

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

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 30 September 2022	1 January – 31 December 2021	1 January – 30 September 2021
I. Equity at the beginning of the period (Opening Balance)	15,776,367	17,688,602	17,688,602
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	15,776,367	17,688,602	17,688,602
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	7,347,436	8,458,089	8,458,089
2.1. Change in supplementary capital	347,260	(1,110,653)	(1,110,659)
a) additions (by virtue of):	1,297,135	953,167	953,161
- distribution of profit (above the statutorily required amount)	1,295,995	953,039	953,039
- from revaluation reserve – by sale and liquidation of fixed assets	1,140	128	122
b) decreases	949,875	2,063,820	2,063,820
2.2. Supplementary capital at the end of the period	7,694,696	7,347,436	7,347,430
3. Revaluation reserve at the beginning of the period	6,314,244	7,225,381	7,225,381
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	6,314,244	7,225,381	7,225,381
3.1. Change in the revaluation reserve	(901,597)	(911,137)	(554,655)
a) additions (by virtue of):	342,092	938,487	736,135
- valuation of financial investments	316,020	863,534	731,902
- additions by virtue of disposal of available for sale instruments	5,565	4,386	4,233
- additions by virtue of hedge accounting	20,507	70,567	-
b) reductions (by virtue of)	1,243,689	1,849,624	1,290,790
- valuation of financial investments	1,200,563	1,464,327	1,005,922
- reductions by virtue of the disposal of instruments available for sale	16,915	159,372	157,347
- sale of fixed assets	1,140	128	122
- reductions by virtue of hedge accounting	25,071	225,797	127,399
3.2. Revaluation reserve at the end of the period	5,412,647	6,314,244	6,670,726

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2022	1 January – 31 December 2021	1 January – 30 September 2021
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	2,028,335	1,918,780	1,918,780
5.1. Retained earnings at the beginning of the period	2,028,335	1,918,780	1,918,780
a) changes in the accepted accounting policies	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,028,335	1,918,780	1,918,780
a) increases	949,875	2,063,820	2,063,819
b) decreases	2,978,210	3,982,600	3,982,599
- transfers to supplementary capital	1,295,995	953,039	953,039
- disbursement of dividends	1,675,235	3,022,330	3,022,330
- transfers/charges to the Company Social Benefit Fund	6,980	7,231	7,230
5.3. Retained earnings at the end of the period	-	-	-
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	-	-	-
6. Net result	782,517	2,028,335	2,269,475
a) net profit	782,517	2,028,335	2,269,475
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	13,976,212	15,776,367	16,373,983

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	**1 January – 30 September 2022**	**1 January – 31 December 2021**	**1 January – 30 September 2021**
A. Cash flows from operating activities			
I. Proceeds	12,088,079	14,850,921	10,896,326
1. Proceeds on direct activity and inward reinsurance	11,093,854	13,764,263	10,211,856
1.1. Proceeds on gross premiums	10,761,927	13,547,894	10,060,433
1.2. Proceeds on subrogation, salvage and claim refunds	279,874	181,473	125,826
1.3. Other proceeds on direct activity	52,053	34,896	25,597
2. Proceeds from outward reinsurance	311,669	327,521	228,194
2.1. Payments received from reinsurers for their share of claims paid	169,350	114,749	67,504
2.2. Proceeds on reinsurance commissions and profit participation	139,481	212,265	160,421
2.3. Other proceeds from outward reinsurance	2,838	507	269
3. Proceeds from other operating activity	682,556	759,137	456,276
3.1. Proceeds for acting as an emergency adjuster	347,408	371,208	286,006
3.2. Disposal of intangible assets and property, plant and equipment other than investments	1,573	5,766	4,002
3.3. Other proceeds	333,575	382,163	166,268
II. Expenditures	11,173,199	13,447,030	9,861,511
1. Expenditures on direct activity and inward reinsurance	8,955,547	10,903,711	8,105,932
1.1. Gross premium refunds	238,148	276,375	202,704
1.2. Gross claims and benefits paid	5,285,121	6,394,776	4,715,498
1.3. Acquisition expenditures	1,570,057	2,011,883	1,500,000
1.4. Administrative expenditures	1,299,429	1,513,013	1,134,971
1.5. Expenditures for claims handling and pursuit of subrogation	217,374	296,440	216,107
1.6. Commissions paid and profit-sharing on inward reinsurance	193,484	268,598	218,267
1.7. Other expenditures on direct activity and inward reinsurance	151,934	142,626	118,385
2. Expenditures on outward reinsurance	989,706	967,988	815,441
2.1. Premiums paid for reinsurance	976,628	967,892	815,284
2.2. Other expenditures on outward reinsurance	13,078	96	157
3. Expenditures on other operating activity	1,227,946	1,575,331	940,138
3.1. Expenditures for acting as an emergency adjuster	181,185	184,582	135,787
3.2. Purchase of intangible assets and property, plant and equipment other than investments	68,076	100,981	75,908
3.3. Other operating expenditures	978,685	1,289,768	728,443
III. Net cash flows from operating activities (I-II)	**914,880**	**1,403,891**	**1,034,815**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2022	1 January – 31 December 2021	1 January – 30 September 2021
B. Cash flow on investing activity			
I. Proceeds	74,941,582	57,349,591	45,666,783
1. Sale of real estate	6,844	6,580	5,707
2. Sale of ownership interests and shares in related parties	-	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	51,917	544,377	288,317
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	-	-
5. Realization of debt securities issued by other entities	1,130,386	662,461	536,763
6. Liquidation of term deposits with credit institutions	13,606,827	3,287,781	2,617,343
7. Realization of other investments	59,420,922	50,712,885	41,498,609
8. Proceeds from real estate	542	8,048	5,649
9. Interest received	387,726	545,484	402,131
10. Dividends received	335,686	1,579,403	309,952
11. Other investment proceeds	732	2,572	2,312
II. Expenditures	75,530,114	55,787,803	46,631,519
1. Purchase of real estate	20	1,084	851
2. Purchase of ownership interests and shares in subordinated entities	171,825	4,564	28
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	918,088	387,830	318,776
4. Purchase of debt securities issued by related parties and extension of loans to these parties	40,000	2,800	-
5. Purchase of debt securities issued by other entities	383,344	1,137,979	1,135,648
6. Purchase of term deposits with credit institutions	13,691,086	3,318,676	2,628,086
7. Purchase of other investments	60,308,528	50,862,675	42,493,785
8. Expenditures to maintain real estate	1,436	47,947	36,006
9. Other expenditures for investments	15,787	24,248	18,339
III. Net cash flows from investing activities (I-II)	**(588,532)**	**1,561,788**	**(964,736)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2022	1 January – 31 December 2021	1 January – 30 September 2021
C. Cash flows from financing activities			
I. Proceeds	2,246,449	1,576,772	64,486
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	2,246,449	1,576,772	64,486
3. Other financial proceeds	-	-	-
II. Expenditures	2,547,397	4,520,507	83,771
1. Dividends	-	3,022,331	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury shares	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	2,466,123	1,451,709	37,305
5. Interest on loans and borrowings and issued debt securities	81,274	46,467	46,466
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(300,948)**	**(2,943,735)**	**(19,285)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**25,400**	**21,944**	**50,794**
E. Balance sheet change in cash, including:	24,736	21,378	53,068
- movement in cash due to foreign exchange differences	(664)	(566)	2,274
F. Cash at the beginning of the period	145,835	124,457	124,457
G. Cash at the end of the period (F+/-E), including:	170,571	145,835	177,525
- restricted cash	64,903	42,697	59,124

7. Introduction

This quarterly standalone financial information on PZU has been prepared in accordance with PAS for the reasons described in the Introduction and supplemented with the definition of PAS.

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2021.

9. Changes in accounting policies

In the 9-month period ended 30 September 2022, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

Name	Position	
Beata Kozłowska-Chyła	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Ernest Bejda	Member of the PZU Management Board	.... (signature)
Małgorzata Kot	Member of the PZU Management Board	.... (signature)
Krzysztof Kozłowski	Member of the PZU Management Board	.... (signature)
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, 23 November 2022