Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed Interim
Consolidated Financial Statements
for the 9 months ended
30 September 2023

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Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Financial highlights

1. Selected consolidated financial data of PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 30 September 2023	m PLN 1 January – 30 September 2022	m EUR 1 January – 30 September 2023	m EUR 1 January – 30 September 2022
Insurance service result	3,002	2,943	656	628
Fees and commissions result	2,778	2,821	607	602
Net investment result	20,646	9,126	4,511	1,947
Profit before tax	11,736	4,971	2,564	1,060
Net profit, including:	9,049	3,474	1,977	741
- profit attributable to the equity holders of the Parent Company	4,158	2,560	908	546
- profit attributable to holders of non-controlling interests	4,891	914	1,069	195
Basic and diluted weighted average number of common shares	863,378,750	863,389,553	863,378,750	863,389,553
Basic and diluted earnings per common share (in PLN/EUR)	4.82	2.97	1.05	0.63

Data from the consolidated statement of financial position	m PLN 30 September 2023	m PLN 31 December 2022	m EUR 30 September 2023	m EUR 31 December 2022
Assets	466,380	429,178	100,608	91,511
Share capital	86	86	19	18
Equity attributable to equity holders of the Parent	28,679	26,255	6,187	5,598
Non-controlling interests	28,382	22,263	6,122	4,747
Total equity	57,061	48,518	12,309	10,345
Basic and diluted number of common shares	863,379,071	863,392,961	863,379,071	863,392,961
Book value per common share (in PLN/EUR)	33.22	30.41	7.17	6.48

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2023	m PLN 1 January – 30 September 2022	m EUR 1 January – 30 September 2023	m EUR 1 January – 30 September 2022
Net cash flows from operating activities	37,004	4,945	8,084	1,055
Net cash flows from investing activities	(35,166)	6,472	(7,683)	1,380
Net cash flows from financing activities	(2,757)	3,404	(602)	726
Total net cash flows	(919)	14,821	(201)	3,161

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 30 September 2023	m PLN 31 December 2022	m EUR 30 September 2023	m EUR 31 December 2022
Assets	50,078	45,935	10,803	9,794
Share capital	86	86	19	18
Total equity	19,121	15,824	4,125	3,374
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	22.14	18.33	4.78	3.91

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Data from the technical non-life insurance account and from the general profit and loss account	m PLN 1 January – 30 September 2023	m PLN 1 January – 30 September 2022	m EUR 1 January – 30 September 2023	m EUR 1 January – 30 September 2022
Gross written premiums	11,534	10,418	2,520	2,222
Non-life insurance technical result	1,014	1,022	222	218
Net profit or loss on investing activities[1)]	3,353	448	733	96
Net profit or loss	3,589	783	784	167
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)	4.16	0.91	0.91	0.19

[1)] Including the item “Share of the net profit (loss) of related parties accounted for using 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 2023	m PLN 31 December 2022	m EUR 30 September 2023	m EUR 31 December 2022
Assets	29,168	27,222	6,292	5,804
Total equity	4,413	3,984	952	849

Data from the technical life insurance account and from the general profit and loss account	m PLN 1 January – 30 September 2023	m PLN 1 January – 30 September 2022	m EUR 1 January – 30 September 2023	m EUR 1 January – 30 September 2022
Gross written premiums	6,819	6,306	1,490	1,345
Technical life insurance result	1,627	801	355	171
Net investment result	1,411	(396)	308	(84)
Net profit	1,271	545	278	116

4. Summary of consolidated quarterly performance

The net profit of PZU Group for the 9-month period ended 30 September 2023 was PLN 9,049 million and was higher by 160.5% than the net profit for the corresponding period of the preceding year. The net profit attributable to the parent company’s shareholders was PLN 4,158 million compared to PLN 2,560 million in 2022 (an increase by PLN 1,598 million).

The aROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2023 was 22.0%, which constitutes an increase by 6.7 percentage points in comparison to that for the corresponding period of the preceding year.

The following factors affected the PZU Group’s operations in the 9-month period ended 30 September 2023, as compared to the corresponding period of the preceding year:

- higher profitability on the operating activities of the corporate non-life insurance business as a result of better performance on investments (increases in revenues as a result of a higher level of interest rates in Poland as well as a higher level of assets to cover insurance contract liabilities), and also better performance on insurance services (mainly due to higher sales dynamics, of Auto Casco insurance products);
- better performance on the operating activities of the group and individually continued life insurance segment, mainly caused by the impact of a higher investment income allocated to the segment and lower claims and benefits as a result of the post-pandemic (COVID-19) mortality decline;
- better performance on the operating activities of the Individual protective insurance products segment, primarily, as a result of changes in financial revenues and expenses on insurance activities, and also better performance on insurance services;
- lower profitability of mass non-life insurance business, including primarily motor insurance products, partially mitigated by higher profitability on investments allocated to this business;
- better performance of the Baltic business due to higher revenues from insurance contracts triggered by higher sales of motor insurance and health insurance products, partially offset by higher liabilities on claims in the current year and a higher level of amortization of acquisition expenses;

- higher performance on operating activities of the investment business due to higher revenues from money market instruments as a result of higher interest rates in Poland and due to higher profitability on real estate portfolio caused by a higher level of income on currency hedging instruments, as well as by increases in rental income;
- higher performance of the banking business, in particular, due to an increase in the interest income as a result of increases in interest rates in 2022 and negative one-time effects from the previous year, including: 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), the accession to the Bank Protection System and a payment to the Borrower Support Fund.

Since Q1 2023, PZU Group has presented financial statements prepared according to IFRS 17, where the operating profit on the insurance activities is the profit on insurance services, which includes the amount of insurance revenue, i.e. remuneration to which the entity expects to be entitled in exchange for the insurance services provided during the period, less the insurance service expenses. The insurance service expenses consists of the claims incurred (excluding investment components), insurance service costs incurred, amortization of cash flows from the acquisition of insurance contracts, changes related to past service, i.e., changes in cash flows from the performance of contracts related to the liability for claims incurred, and losses on groups of contracts concerned and the reversal of such losses.

In contrast to the approach applied in standalone reporting based on PAS, for the purposes of the IFRS 17 reporting, PZU Group determines the profitability of a given contract or IFRS 17 portfolio at their initial recognition in the books at the level of the insurance contract for life insurance and the so-called IFRS 17 portfolio (for details please see section 6.1.2.1) for non-life insurance. During this process, a contract (or IFRS 17 portfolio) is measured and assigned to a group of contracts profitable at initial recognition or a group of contracts incurring future charges within a given cohort of contracts and a portfolio exposed to similar insurance risks. As a consequence of this process, PZU Group recognizes a new loss component (and revaluates the existing one), which in the first three quarters of 2023 was recognized at a total value for all segments of PLN 834 million (a y/y increase of PLN 28 million).

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

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated) [1)]	1 January – 30 September 2022 (restated) [1)]
Insurance service result before reinsurance		1,474	2,774	1,249	3,410
Insurance revenue	10.1.1 10.1.3	6,915	19,917	6,298	18,343
Insurance service expenses	10.1.3	(5,441)	(17,143)	(5,049)	(14,933)
Net income or expenses from reinsurance contracts held		(447)	228	(207)	(467)
Allocation of reinsurance premiums	10.1.2	(389)	(1,115)	(295)	(832)
Amounts recoverable from reinsurers	10.1.4	(58)	1,344	88	365
Change in the risk of non-performance by the reinsurer		-	(1)	-	-
Insurance service result		1,027	3,002	1,042	2,943
Insurance finance income or expenses		(357)	(1,232)	(145)	86
Reinsurance finance income or expenses		38	51	15	33
Interest income calculated using the effective interest rate	10.2	7,048	20,574	3,038	11,520
Other net investment income	10.3	141	430	(209)	(471)
Result on derecognition of financial instruments and investments	10.4	117	484	(154)	(329)
Movement in allowances for expected credit losses and impairment losses on financial instruments	10.5	(337)	(1,134)	(566)	(1,800)
Net movement in fair value of assets and liabilities measured at fair value	10.6	(27)	292	249	206
Fees and commissions result	10.7	924	2,778	935	2,821
Operating costs of banks	10.8	(1,533)	(4,628)	(1,299)	(3,992)
Interest expenses	10.9	(2,319)	(6,805)	(1,596)	(2,847)
Other operating income and expenses	10.10	(566)	(2,082)	(867)	(3,177)
Operating profit		**4,156**	**11,730**	**443**	**4,993**
Share of the net financial results of entities accounted for using the equity method		2	6	(5)	(22)
Profit before tax		**4,158**	**11,736**	**438**	**4,971**
Income tax	10.11	(945)	(2,687)	(185)	(1,497)
Net profit, including:		**3,213**	**9,049**	**253**	**3,474**
- profit attributable to the equity holders of the Parent Company		1,458	4,158	727	2,560
- profit (loss) attributable to holders of non-controlling interests		1,755	4,891	(474)	914

Weighted average basic and diluted number of common shares	10.12	863,358,236	863,378,750	863,400,190	863,389,553
Basic and diluted profit (loss) per common share (in PLN)	10.12	1.69	4.82	0.84	2.97

[1)] The restatement of the comparative data resulting from the first application of IFRS 17 is described in section 6.1, while the restatement of data resulting from the change of presentation of interest income from hedge derivatives – in section 6.2.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated) [1)]	1 January – 30 September 2022 (restated) [1)]
Net profit		3,213	9,049	253	3,474
Gross other comprehensive income		1,443	3,342	437	(1,161)
Subject to subsequent reclassification to profit or loss		1,450	3,422	522	(1,094)
Valuation of debt instruments		300	1,437	(309)	(2,753)
Measurement of loan receivables from clients		(2)	2	(4)	(9)
Insurance finance income or expenses		84	(985)	399	4,660
Reinsurance finance income or expenses		3	(16)	(18)	(135)
Foreign exchange translation differences		72	(19)	60	87
Cash flow hedging		993	3,003	394	(2,944)
Not to be reclassified to profit or loss in the future		(7)	(80)	(85)	(67)
Valuation of equity instruments		(28)	(81)	(85)	(84)
Reclassification of real property from property, plant and equipment to investment property		21	27	-	-
Actuarial gains and losses related to provisions for employee benefits		-	(26)	-	17
Tax recognized in other comprehensive income	10.11	(261)	(637)	(72)	238
Total net comprehensive income		**4,395**	**11,754**	**618**	**2,551**
- comprehensive income attributable to equity holders of the Parent Company		1,887	4,497	989	4,274
- comprehensive income attributable to holders of non-controlling interests		2,508	7,257	(371)	(1,723)

[1)] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.1.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 September 2023	31 December 2022 (restated) [1)]	1 January 2022 (restated) [1)]
Goodwill	10.13	2,836	2,808	2,778
Intangible assets	10.14	3,325	3,282	3,403
Deferred tax assets		2,433	3,098	3,077
Insurance contract assets	10.1.3	113	68	59
Reinsurance contract assets	10.1.4	3,569	2,327	1,539
Other assets	10.15	505	462	331
Property, plant and equipment	10.16	4,264	4,304	4,144
Investment property		3,169	3,021	2,773
Entities accounted for using the equity method	10.17	58	52	93
Assets pledged as collateral for liabilities	10.21	1,786	972	1,336
Assets held for sale	10.18	634	654	643
Loan receivables from clients	10.19	216,088	212,693	215,008
Financial derivatives	10.20	11,637	16,197	8,328
Investment financial assets	10.22	194,908	153,861	136,954
Measured at amortized cost		138,056	106,013	82,893
Measured at fair value through other comprehensive income		47,012	39,725	44,896
Measured at fair value through profit or loss		9,840	8,123	9,165
Receivables	10.23	6,050	9,419	6,782
Cash and cash equivalents		15,005	15,960	9,447
Total assets		**466,380**	**429,178**	**396,695**

[1)] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.1.

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Interim consolidated statement of financial position (continued)

Equity and liabilities	Note	30 September 2023	31 December 2022 (restated) [1)]	1 January 2022 (restated) [1)]
Equity				
Equity attributable to equity holders of the parent company		28,679	26,255	22,129
Share capital	10.27	86	86	86
Other capital		18,492	17,300	13,649
Retained earnings		10,101	8,869	8,394
Retained profit or loss		5,943	5,109	8,394
Net profit		4,158	3,760	-
Non-controlling interest		28,382	22,263	22,914
Total equity		**57,061**	**48,518**	**45,043**
Liabilities				
Insurance contract liabilities	10.1.3	41,003	37,428	40,566
Reinsurance contract liabilities	10.1.4	12	23	28
Subordinated liabilities	10.29	6,200	6,184	6,274
Liabilities on the issue of own debt securities	10.30	11,483	11,090	5,940
Liabilities to banks	10.31	7,211	7,720	7,470
Liabilities to clients under deposits	10.32	309,672	278,058	265,155
Financial derivatives	10.20	12,928	20,956	11,880
Other liabilities	10.33	15,720	14,625	11,153
Provisions	10.34	1,935	1,711	1,206
Deferred tax liabilities		3,127	2,832	1,952
Liabilities directly associated with assets classified as held for sale	10.18	28	33	28
Total liabilities		**409,319**	**380,660**	**351,652**
Total equity and liabilities		**466,380**	**429,178**	**396,695**

[1)] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.1.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 company												Non-controlling interest	Total equity
	Share capital	Other capital								Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Accumulated other comprehensive income					Retained profit or loss	Net profit			
					Revaluation reserve	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	10.27												2.6	
As at 1 January 2023	**86**	**(4)**	**15,315**	**1,721**	**(2,455)**	**2,714**	**(76)**	**(6)**	**91**	**8,869**	**-**	**26,255**	**22,263**	**48,518**
Total comprehensive income	**-**	**-**	**-**	**-**	**1,172**	**(797)**	**(13)**	**(4)**	**(19)**	**-**	**4,158**	**4,497**	**7,257**	**11,754**
Net profit (loss)	-	-	-	-	-	-	-	-	-	-	4,158	4,158	4,891	9,049
Net other comprehensive income	-	-	-	-	1,172	(797)	(13)	(4)	(19)	-	-	339	2,366	2,705
Transaction with the shareholders of the parent company	**-**	**-**	**357**	**497**	**-**	**-**	**-**	**-**	**-**	**(2,926)**	**-**	**(2,072)**	**(1,138)**	**(3,210)**
Distribution of financial result	-	-	1,653	497	-	-	-	-	-	(2,150)	-	-	(1,138)	(1,138)
PZU dividend	-	-	(1,296)	-	-	-	-	-	-	(776)	-	(2,072)	-	(2,072)
Other changes	**-**	**-**	**83**	**-**	**(84)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Sales of equity instruments designated at fair value through other comprehensive income	-	-	82	-	(82)	-	-	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	2	-	(2)	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	-	-	(1)	-	(1)
As at 30 September 2023	**86**	**(4)**	**15,755**	**2,218**	**(1,367)**	**1,917**	**(89)**	**(10)**	**72**	**5,943**	**4,158**	**28,679**	**28,382**	**57,061**

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Interim consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent company												Non-controlling interest	Total equity
	Share capital	Other capital								Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Accumulated other comprehensive income					Retained profit or loss	Net profit			
					Revaluation reserve	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	10.27												2.6	
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**-**	**-**	**3**	**69**	**2,651**	**-**	**17,080**	**22,914**	**39,994**
Change in the accounting policy – application of IFRS 17	-	-	-	-	-	(716)	22	-	-	5,743	-	5,049	-	5,049
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**(716)**	**22**	**3**	**69**	**8,394**	**-**	**22,129**	**22,914**	**45,043**
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,060)**	**3,792**	**(109)**	**3**	**88**	**-**	**2,560**	**4,274**	**(1,723)**	**2,551**
Net profit (loss)	-	-	-	-	-	-	-	-	-	-	2,560	2,560	914	3,474
Net other comprehensive income	-	-	-	-	(2,060)	3,792	(109)	3	88	-	-	1,714	(2,637)	(923)
Transaction with the shareholders of the parent company	**-**	**-**	**489**	**1,121**	**-**	**-**	**-**	**-**	**-**	**(3,285)**	**-**	**(1,675)**	**(903)**	**(2,578)**
Distribution of financial result	-	-	1,439	1,121	-	-	-	-	-	(2,560)	-	-	(903)	(903)
PZU dividend	-	-	(950)	-	-	-	-	-	-	(725)	-	(1,675)	-	(1,675)
Other changes	**-**	**1**	**10**	**-**	**(10)**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Transactions in 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)**	**3,076**	**(87)**	**6**	**157**	**5,109**	**2,560**	**24,729**	**20,288**	**45,017**

[1] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.1.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 September 2023	1 January – 30 September 2022 (restated)
Profit before tax		11,736	4,971
Adjustments		25,268	(26)
Movement in loan receivables from clients		(4,511)	(8,532)
Movement in liabilities under deposits		31,400	10,227
Movement in the valuation of assets measured at fair value		(292)	(206)
Interest income and expenses		(4,576)	(2,467)
Realized gains/losses from investing activities and impairment losses		649	1,927
Net foreign exchange differences		(235)	617
Amortization of intangible assets and depreciation of property, plant and equipment		1,019	1,011
Movement in insurance contract assets and liabilities		2,545	(581)
Movement in reinsurance contract assets and liabilities		(1,269)	(303)
Movement in receivables		(196)	(180)
Movement in liabilities		(565)	874
Cash flow on investment contracts		80	3
Acquisitions and redemptions of participation units and investment certificates of investment funds		845	(35)
Income tax paid		(851)	(1,087)
Other adjustments		1,225	(1,294)
Net cash flows from operating activities		**37,004**	**4,945**
Cash flow from investing activities			
Proceeds		1,516,346	401,129
- sale of investment property		2	7
- proceeds from investment property		311	273
- sale of intangible assets and property, plant and equipment		48	77
- sale of ownership interests and shares		955	430
- realization of debt securities		1,024,808	91,944
- closing of buy-sell-back transactions		319,869	186,078
- closing of term deposits with credit institutions		137,375	92,078
- realization of other investments		30,789	28,474
- interest received		1,949	1,627
- dividends received		175	120
- increase in cash due to consolidation of investment funds		2	-
- other investment proceeds		63	21

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Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	**Note**	**1 January – 30 September 2023**	**1 January – 30 September 2022** (restated)
Expenditures		(1,551,512)	(394,657)
- purchase of investment property		(19)	(96)
- expenditures for the maintenance of investment property		(163)	(163)
- purchase of intangible assets and property, plant and equipment		(835)	(578)
- purchase of ownership interests and shares		(680)	(1,214)
- purchase of ownership interests and shares in subsidiaries		(35)	(17)
- purchase of debt securities		(1,057,994)	(81,305)
- opening of buy-sell-back transactions		(321,530)	(188,246)
- purchase of term deposits with credit institutions		(140,023)	(93,948)
- purchase of other investments		(30,203)	(29,073)
- decrease in cash due to the change in the scope of consolidation		(12)	-
- other expenditures for investments		(18)	(17)
Net cash flows from investing activities		**(35,166)**	**6,472**
Cash flows from financing activities			
Proceeds		128,235	157,139
- proceeds from loans and borrowings	10.35	783	1,562
- proceeds on the issue of own debt securities	10.35	2,698	16,395
- opening of repurchase transactions	10.35	124,754	139,182
Expenditures		(130,992)	(153,735)
– dividends paid to equity holders of the parent		(2,072)	-
- dividends to owners of non-controlling interests		(1,138)	(903)
- repayment of loans and borrowings	10.35	(1,079)	(858)
- redemption of own debt securities	10.35	(2,262)	(13,384)
- closing of repurchase transactions	10.35	(123,957)	(138,211)
- interest on loans and borrowings	10.35	(8)	(22)
- interest on outstanding debt securities	10.35	(271)	(135)
- expenditures on leases	10.35	(205)	(222)
Net cash flows from financing activities		**(2,757)**	**3,404**
Total net cash flows		**(919)**	**14,821**
Cash and cash equivalents at the beginning of the period		15,960	9,447
Movement in cash due to foreign exchange differences		(36)	407
Cash and cash equivalents at the end of the period, including:		15,005	24,675
- restricted cash		59	52

Notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of PZU Group for 2022.

Parent company's quarterly standalone financial information

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

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

As the General Meeting of Shareholders of PZU has not made the decision referred to in Article 45 para. 1c of the Accounting Act in the matter of preparation of financial statements pursuant to IFRS, PZU's standalone statements are prepared in accordance with the Polish Accounting Standards (PAS) defined in the Accounting Act and in the implementing acts issued on the basis thereof, including, in particular:

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 9 months from 1 January to 30 September 2023.

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

Functional and presentation currency

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

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

FX rates

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

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

Due to the currency exchange restrictions in Ukraine and irregular quotations of the Ukrainian hryvnia by the NBP until 31 March 2023, PZU Group established an exchange rate for conversion of data of Ukrainian companies in accordance with the NBU Regulation (https://zakon.rada.gov.ua/laws/show/v0018500-22#n67), in keeping with which authorized institutions (banks) purchase and sell foreign currency, as commissioned by clients, in non-cash transactions:

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

The official exchange rate of the Ukrainian hryvnia to American dollar adopted by the NBU was converted into Polish zloty at the USD/PLN exchange rate announced by the NBP. In keeping with the aforementioned the PLN/UAH exchange rate was 0.1204 PLN/UAH on 31 December 2022. The average exchange rate was established by applying the aforementioned method at the end of each month in the period from January to March 2023.

As of 4 April 2023, the NBP resumed regular quoting of the hryvnia exchange rate, so the exchange rate as at 30 September 2023 was determined on the basis of the NBP exchange rate.

Currency	1 January – 30 September 2023	1 January – 30 September 2022	30 September 2023	31 December 2022
EUR	4.5773	4.6880	4.6356	4.6899
GBP	5.2644	5.5216	5.3464	5.2957
UAH	0.1151	0.1412	0.1183	0.1204

Going concern assumption

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

When making this assumption, the Management Board of PZU has taken into account in its assessment the impact of factors subject to uncertainty, including the macroeconomic situation and the armed conflict in Ukraine, which has been ongoing since 24 February 2022 (for additional information on this issue please see section 26.5).

Discontinued operations

In the 9-month period ended 30 September 2023, PZU Group did not discontinue any significant type of the activities carried out.

Seasonal or cyclical business

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

Glossary

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

Names of companies

Balta – Apdrošināšanas akciju sabiedrība "BALTA."

Alior Bank – Alior Bank SA.

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

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

Idea Bank – Idea Bank SA.

LD – Akcinė bendrovė "Lietuvos draudimas."

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

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

PZU Ukraina – PRJSC IC „PZU Ukraine".

PZU Ukraina Życie – PRJSC IC „PZU Ukraine Life Insurance".

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other terms

BFG – Bank Guarantee Fund [Bankowy Fundusz Gwarancyjny].

CIRS – Cross-currency interest rate swap.

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

CSM – contractual service margin.

EBC – European Central Bank.

Fed – Federal Reserve System.

FRA – Full retrospective approach.

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

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

IRS – Interest rate swap.

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

KNF – Polish Financial Supervision Authority.

LIC – Liability for incurred claims.

LRC – Liability for remaining coverage.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 September 2023.

MRA – Modified retrospective approach.

NBP – National Bank of Poland.

NBU – National Bank of Ukraine.

PAA – Premium allocation approach.

POCI – Purchased or originated credit-impaired financial assets.

PSR – Accounting Act of 29 September 1994 and regulations issued thereunder.

ROE attributable to the parent company – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity, less the minority interest at the beginning and at the end of the reporting period; the higher the ratio, the better the efficiency (Return on Equity).

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

Regulation on Current and Periodic Information – Regulation of the Minister of Finance on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent of 29 March 2018.

IASB – International Accounting Standards Board.

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

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office of Competition and Consumer Protection.

BFG Act – Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.

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

VaR – value at risk.

VFA – variable fee approach.

Financial leverage ratio – quotient of debt to the PZU Group's 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.

Cost/Income ratio, C/I ratio (banking sector) – The quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments; the lower the ratio, the better the efficiency (C/I Cost/Income).

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

2. Information on PZU and PZU Group

2.1 Key information on PZU Group

Key information on the Group	
Name of the reporting entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Legal form	Joint stock company [Spółka Akcyjna]
Registered office	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Country of registration	Poland
Registration address of the entity's offices	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Principal place of business	Poland
Core activities	Non-life insurance (65.12 according to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe)
National Court Register [Krajowy Rejestr Sądowy]	District Court of the Capital City of Warsaw, 13th Commercial Division of the National Court Register, Commercial Register – KRS 0000009831

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 2023	31 December 2022	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga (Latvia)	30.06.2014	100.00%	100.00%	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)	08.04.2004	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% 1)	46.81% 1)	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Kraków	07.06.2017	20.02%	20.02%	Call center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Development activities.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	No business conducted.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 2023	31 December 2022	
Consolidated companies – Pekao Group – continued						
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o.	Warsaw	20.07.2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Lease services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	Absource sp. z o.o.	Kraków	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
30	AL Finance sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activities.
31	Corsham sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
32	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities.
33	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – 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. [2]	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
41	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 2023	31 December 2022	
Consolidated companies – PZU Zdrowie Group – continued						
42	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
43	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
44	Centrum Medyczne Nowa 5 sp. z o.o.	Gorzów Wlkp.	30.12.2022	100.00%	100.00%	Medical services. http://www.nowa5.pl/
45	Boramed Centrum Medyczne sp. z o.o.	Warsaw	31.05.2023	100.00%	n/a	Medical services. https://www.boramed.pl/
Consolidated companies – other companies						
46	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
47	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
48	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
49	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
50	PZU Finance AB (publ.) in likvidation	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
51	PZU Finanse sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
52	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
53	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/
54	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
55	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
56	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activities.
57	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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 2023	31 December 2022	
Consolidated companies – other companies – continued						
58	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
59	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
60	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
61	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
62	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
63	UAB "B10 biurai"	Vilnius	14.03.2023	100.00%	n/a	Property management.
64	UAB "B10 apartamentai"	Vilnius	14.03.2023	100.00%	n/a	Property management.
Consolidated companies – Armatura Group						
65	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/
66	AQ SA in liquidation	Kraków	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
67	Aquaform Ukraine TOW in liquidation	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
68	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
69	PZU FIZ Sektora Nieruchomości 2 [3)]	Warsaw	21.11.2011	n/a	n/a	As above.
70	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	As above.
71	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	As above.
72	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	As above.
73	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	As above.
74	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	As above.
75	inPZU Akcje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	As above.
76	inPZU Obligacje Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	As above.
77	inPZU Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	As above.
78	inPZU Akcje Amerykańskie	Warsaw	28.10.2019	n/a	n/a	As above.
79	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	As above.
80	PZU FIZ Legato	Warsaw	11.08.2021	n/a	n/a	As above.
81	inPZU Akcje Rynku Surowców	Warsaw	15.12.2021	n/a	n/a	As above.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (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 2023	31 December 2022	
Consolidated companies – mutual funds – continued						
82	inPZU Akcje Rynku Złota	Warsaw	15.12.2021	n/a	n/a	As above.
83	inPZU Akcje Sektora Zielonej Energii	Warsaw	15.12.2021	n/a	n/a	As above.
84	inPZU Akcje Sektora Informatycznego	Warsaw	15.12.2021	n/a	n/a	As above.
85	inPZU Akcje Sektora Nieruchomości	Warsaw	15.12.2021	n/a	n/a	As above.
86	inPZU Akcje Europejskie	Warsaw	15.12.2021	n/a	n/a	As above.
87	inPZU Obligacje Inflacyjne	Warsaw	15.12.2021	n/a	n/a	As above.
88	PZU Akcji Globalnych Trendów	Warsaw	12.04.2023	n/a	n/a	As above.
89	inPZU Akcje Sektora Biotechnologii	Warsaw	7.09.2023	n/a	n/a	As above.
90	inPZU Akcje Sektora Cyberbezpieczeństwa	Warsaw	7.09.2023	n/a	n/a	As above.
91	inPZU Sektora Technologii Kosmicznych	Warsaw	7.09.2023	n/a	n/a	As above.
92	inPZU Akcje Sektora Zrównoważonej Gospodarki Wodnej	Warsaw	7.09.2023	n/a	n/a	As above.
93	inPZU Zielone Obligacje	Warsaw	7.09.2023	n/a	n/a	As above.
94	inPZU Obligacje Korporacyjne High Yield	Warsaw	7.09.2023	n/a	n/a	As above.
Associates						
95	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activities.
96	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
97	Krajowy Integrator Płatności SA [4)]	Poznań	31.03.2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

[1)] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.
[2)] On 31 October 2023, Centrum Medyczne św. Łukasza sp. z o.o. (the acquired company) and PZU Zdrowie SA (the acquiring company) were merged.
[3)] PZU FIZ Sektora Nieruchomości 2 conducts its investment activity through 30 (consolidated) subsidiary companies established under commercial law.
[4)] 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.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

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

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

The changes in the scope of consolidation and in the PZU Group's structure that occurred in the 9-month period ended 30 September 2023 are presented in the following sections.

2.3.1. Acquisition of Boramed Centrum Medyczne sp. z o.o.

On 31 May 2023, PZU Zdrowie SA acquired 370,000 shares in the share capital of Boramed Centrum Medyczne sp. z o.o. representing 100% of the shares in Boramed Centrum Medyczne sp. z o.o. and entitling the holder a total of 100% of the votes at the shareholders' meeting for PLN 35 million and a deferred payment of PLN 2 million. Deferred payment is subject to the terms and conditions set out in the acquisition agreement.

Boramed Centrum Medyczne sp. z o.o. has been consolidated since 31 May 2023.

The acquisition of Boramed Centrum Medyczne sp. z o.o. is aimed at the development of the network of own facilities of PZU Zdrowie, particularly in the area of gynecological care in Warsaw. Boramed Centrum Medyczne sp. z o.o. is one of the largest entities specializing in gynecology in the Warsaw metropolitan area, offering a comprehensive range of gynecological care. The company has world-class diagnostic equipment and an outstanding medical staff, providing its services to both individual and corporate clients. The development of medical service offerings and health insurance is one of the main elements in the implementation of the PZU Group's strategy. The goodwill recognized in the consolidated financial statements is a result of the planned increase in the scale of this service segment and the volume of benefits generated by health insurance, while improving the profitability of these services by leaving a portion of the margin in PZU Group.

Provisional accounting for the acquisition

The purchase price of shares of Boramed Centrum Medyczne sp. z o.o. was allocated on the basis of the company's book data of 31 May 2023 on the assumption that there were no material differences between the fair value and carrying amount of the acquired assets and liabilities.

As at the date of signing the condensed interim consolidated financial statements, the process of accounting for the acquisition of shares had not been completed. A credible and reliable calculation of the fair value of acquired assets and liabilities requires a large amount of data to be collected and processed in order to make correct calculations. Consequently, this process could not be completed between the date of obtaining control and the date of signing the consolidated financial statements.

Under IFRS 3, the process of accounting for the acquisition should be completed one year from the date of the transaction and such final accounting will be included in the PZU Group's consolidated financial statements for the year ended 31 December 2023.

The tables below present the provisional accounting for the acquisition.

Value of net assets acquired	Provisional accounting
Assets	**9**
Property, plant and equipment	7
Receivables	1
Cash and cash equivalents	1
Liabilities	**7**
Financial liabilities	6
Other liabilities	1
Value of net assets acquired	**2**

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Calculation of goodwill	Provisional accounting
Consideration transferred	35
Deferred payment	2
Net value of identifiable assets	(2)
Goodwill	**35**

Goodwill will not be deductible from taxable income.

2.3.2. Changes to consolidation of mutual funds

On 12 April 2023, the subfund PZU Akcji Globalnych Trendów was consolidated as a result of gaining control of the fund.

On 7 September 2023, inPZU Akcje Sektora Biotechnologii, inPZU Akcje Sektora Cyberbezpieczeństwa, inPZU Sektora Technologii Kosmicznych, inPZU Akcje Sektora Zrównoważonej Gospodarki Wodnej, inPZU Zielone Obligacje, inPZU Obligacje Korporacyjne High Yield funds were registered and consolidated.

During 2023, the consolidation of the following funds was discontinued due to loss of control:

- as of 30 June 2023 – inPZU Puls Życia 2025 and inPZU Puls Życia 2050;
- as of 30 September 2023 – inPZU Puls Życia 2030, inPZU Puls Życia 2040, inPZU Puls Życia 2060, inPZU Obligacji Rynków Rozwiniętych.

2.4 Acquisition of Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych and Polski Gaz Towarzystwo Ubezpieczeń na Życie

On 4 September 2023, PZU (the "Buyer") entered into a conditional agreement with Orlen SA (the "Seller") for the sale of 2,000,000 shares in the share capital of Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych ("PG TUW"), constituting 100% of the shares in the share capital of PG TUW and entitling to 99.9997% of the votes at the Shareholder Meeting of PG TUW, with the Seller being the sole equity member of PG TUW.

PG TUW holds 1,525,000 shares in the share capital of Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie ("PG TUWnŻ") representing 100% of the shares in PG TUWnŻ and entitling PG TUWnŻ to 99.99992% of the votes at the Shareholder Meeting of PG TUWnŻ, with PG TUW being the sole equity member of PG TUWnŻ.

Performance of the contract is subject to the fulfillment of conditions precedent. Upon fulfillment of the conditions precedent, as of the closing date of the transaction, both PG TUW and PG TUWnŻ will become subsidiaries of PZU and will be consolidated in the consolidated financial statements of PZU Group.

The purpose of the transaction is to increase the PZU Group's written premiums, strengthen cooperation with the Seller's Group and increase the value of the PZU Group's assets under management accumulated by EPS participants.

2.5 Establishment of Alior Leasing Individual sp. z o.o.

Alior Leasing Individual sp. z o.o. was established on 29 August 2023 and was registered with the National Court Register on 23 October 2023. The share capital of Alior Leasing Individual sp. z o.o. amounts to PLN 100,000 and is divided into 100 shares with a nominal value of PLN 1,000. The company's shareholders are Alior Leasing sp. z o.o. (90% of shares) and AL Finance sp. z o.o. (10% of shares). Alior Leasing Individual sp. z o.o. will be consolidated.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

2.6 Non-controlling interests

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

Name of the entity	30 September 2023	31 December 2022
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%

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

Carrying amount of non-controlling interests	30 September 2023	31 December 2022
Pekao Group	22,646	18,184
Alior Bank Group	5,735	4,078
Other	1	1
Total	**28,382**	**22,263**

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

Assets	Pekao Group		Alior Bank Group	
	30 September 2023	31 December 2022	30 September 2023	31 December 2022
Goodwill	693	693	-	-
Intangible assets	2,057	2,009	391	390
Deferred tax assets	1,264	1,572	1,092	1,458
Other assets	170	111	69	48
Property, plant and equipment	1,894	1,706	733	744
Entities accounted for using the equity method	52	48	-	-
Assets held for sale	14	14	-	2
Assets pledged as collateral for liabilities	1,112	930	47	41
Loan receivables from clients	157,198	155,174	58,445	57,095
Financial derivatives	10,835	15,369	653	544
Investment financial assets	120,214	84,829	19,857	17,162
Measured at amortized cost	100,548	67,167	5,455	7,195
Measured at fair value through other comprehensive income	18,505	16,594	14,308	9,896
Measured at fair value through profit or loss	1,161	1,068	94	71
Receivables	3,634	5,976	1,572	2,663
Cash and cash equivalents	10,787	12,681	3,264	2,551
Total assets	**309,924**	**281,112**	**86,123**	**82,698**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2023	31 December 2022	30 September 2023	31 December 2022
Equity				
Equity attributable to equity holders of the parent company	28,315	22,736	8,425	5,991
Share capital	263	263	1,306	1,306
Other capital	21,443	18,828	5,820	4,229
Retained earnings	6,609	3,645	1,299	456
Non-controlling interests	12	12	-	-
Total equity	**28,327**	**22,748**	**8,425**	**5,991**
Liabilities				
Subordinated liabilities	2,846	2,789	1,174	1,164
Liabilities on the issue of own debt securities	9,912	10,338	1,624	752
Liabilities to banks	6,883	7,450	329	270
Liabilities to clients under deposits	239,141	208,696	71,244	70,025
Derivatives	11,649	18,698	982	1,935
Other liabilities	9,584	9,023	2,068	2,274
Provisions	1,561	1,347	275	285
Deferred tax liabilities	21	23	2	2
Total liabilities	**281,597**	**258,364**	**77,698**	**76,707**
Total equity and liabilities	**309,924**	**281,112**	**86,123**	**82,698**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2023	**PZU Group**	**Elimination of Pekao's data**	**Elimination of Alior Bank's data**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Insurance service result before reinsurance	2,774	-	-	1	2,775
Insurance revenue	19,917	-	-	-	19,917
Insurance service expenses	(17,143)	-	-	1	(17,142)
Net income or expenses from reinsurance contracts held	228	-	-	-	228
Allocation of reinsurance premiums	(1,115)	-	-	-	(1,115)
Amounts recoverable from reinsurers	1,344	-	-	-	1,344
Change in the risk of non-performance by the reinsurer	(1)	-	-	-	(1)
Insurance service result	3,002	-	-	1	3,003
Insurance finance income or expenses	(1,232)	-	-	-	(1,232)
Reinsurance finance income or expenses	51	-	-	-	51
Interest income calculated using the effective interest rate	20,574	(13,524)	(5,469)	170	1,751
Other net investment income	430	(238)	(27)	(4)	161
Result on derecognition of financial instruments and investments	484	(33)	(17)	-	434
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,134)	568	573	-	7
Net movement in fair value of assets and liabilities measured at fair value	292	(193)	(57)	-	42
Fees and commissions result	2,778	(2,116)	(582)	106	186
Operating costs of banks	(4,628)	3,450	1,359	(181)	-
Interest expenses	(6,805)	4,690	1,980	(50)	(185)
Other operating income and expenses	(2,082)	1,113	290	(42)	(721)
Operating profit (loss)	**11,730**	**(6,283)**	**(1,950)**	**-**	**3,497**
Share of the net financial results of entities accounted for using the equity method	6	(3)	-	-	3
Profit (loss) before tax	**11,736**	**(6,286)**	**(1,950)**	**-**	**3,500**
Income tax	(2,687)	1,416	488	-	(783)
Net profit (loss)	**9,049**	**(4,870)**	**(1,462)**	**-**	**2,717**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2022 (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
Insurance service result before reinsurance	3,410	-	-	(4)	3,406
Insurance revenue	18,343	-	-	-	18,343
Insurance service expenses	(14,933)	-	-	(4)	(14,937)
Net income or expenses from reinsurance contracts held	(467)	-	-	-	(467)
Allocation of reinsurance premiums	(832)	-	-	-	(832)
Amounts recoverable from reinsurers	365	-	-	-	365
Insurance service result	2,943	-	-	(4)	2,939
Insurance finance income or expenses	86	-	-	-	86
Reinsurance finance income or expenses	33	-	-	-	33
Interest income calculated using the effective interest rate	11,520	(6,735)	(3,589)	135	1,331
Other net investment income	(471)	(36)	702	(19)	176
Result on derecognition of financial instruments and investments	(329)	(12)	(25)	-	(366)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,800)	919	768	1	(112)
Net movement in fair value of assets and liabilities measured at fair value	206	(27)	(691)	-	(512)
Fee and commission result	2,821	(2,127)	(598)	107	203
Operating costs of banks	(3,992)	3,012	1,179	(199)	-
Interest expenses	(2,847)	1,636	1,090	(25)	(146)
Other operating income and expenses	(3,177)	1,932	596	4	(645)
Operating profit (loss)	**4,993**	**(1,438)**	**(568)**	**-**	**2,987**
Share of the net financial results of entities accounted for using the equity method	(22)	(4)	-	-	(26)
Profit (loss) before tax	**4,971**	**(1,442)**	**(568)**	**-**	**2,961**
Income tax	(1,497)	591	222	-	(684)
Net profit (loss)	**3,474**	**(851)**	**(346)**	**-**	**2,277**

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 30 September 2023	1 January – 30 September 2022	1 January – 30 September 2023	1 January – 30 September 2022
Net profit	4,870	851	1,462	346
Gross other comprehensive income	2,631	(3,236)	1,201	(984)
Subject to subsequent reclassification to profit or loss	2,589	(3,164)	1,185	(992)
Valuation of debt instruments	814	(992)	123	(215)
Measurement of loan receivables from clients	2	(9)	-	-
Foreign exchange translation differences	-	-	-	(2)
Cash flow hedging	1,773	(2,163)	1,062	(775)
Not to be reclassified to profit or loss in the future	42	(72)	16	8
Valuation of equity instruments	69	(90)	16	8
Actuarial gains and losses related to provisions for employee benefits	(27)	18	-	-
Tax recognized in other comprehensive income	(500)	615	(230)	188
Total net comprehensive income	**7,001**	**(1,770)**	**2,433**	**(450)**

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Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 September 2023	1 January – 30 September 2022	1 January – 30 September 2023	1 January – 30 September 2022
Net cash flows from operating activities	34,487	3,826	2,353	(286)
Net cash flows from investing activities	(34,359)	5,750	(2,359)	1,815
Net cash flows from financing activities	(2,003)	4,005	736	(248)
Total net cash flows	**(1,875)**	**13,581**	**730**	**1,281**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2023	1 January – 30 September 2022	1 January – 30 September 2023	1 January – 30 September 2022
Date of ratifying the dividend	6 June 2023	15 June 2022	-	-
Record date	4 July 2023	25 July 2022	-	-
Dividend payment date	18 July 2023	4 August 2022	-	-
Dividend per share (PLN)	5.42	4.30	-	-
Dividend attributable to PZU Group	285	226	-	-
Dividend attributable to non-controlling interest	1,138	903	-	-

3. Shareholder structure

As at the date of submission of this interim report, PZU's shareholding structure, including shareholders holding at least 5% of votes at the General Meeting of PZU, was as follows:

No.	Shareholder's name	Number of shares and votes at the General Meeting of Shareholders	Percentage held in the share capital and in the total number of votes at the General Meeting of Shareholders
1	State Treasury	295,217,300	34.1875%
2	Allianz Polska Otwarty Fundusz Emerytalny and Allianz Polska Dobrowolny Fundusz Emerytalny [1)]	45,743 212	5.2973%
3	Nationale Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny [1)]	44,115 366	5.1088%
4	Other shareholders	478,447 122	55.4064%
Total		**863,523,000**	**100%**

[1)] Number of shares held by the funds at the Annual General Meeting of PZU held on 13 September 2023.

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

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

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

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

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 2023 (i.e. 31 August 2023) 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 2023 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. Key management personnel – Management Board of the parent company and Directors of PZU Group

4.1 Management Board of the parent company

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

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

Until the date of signing the condensed interim financial statements, the composition of the Management Board had not changed.

4.2 Directors of PZU Group

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

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

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

On 6 June 2023, Dominik Witek and Ernest Bejda were appointed PZU Group Director, respectively at PZU and PZU Życie.

From 6 June 2023 until the date of signing the condensed interim consolidated financial statements, Directors of PZU Group were as follows:

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Andrzej Jaworski (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);

- Dorota Macieja (PZU);
- Sylwia Matusiak (PZU);
- Piotr Nowak (PZU Życie);
- Małgorzata Sadurska (PZU Życie);
- Małgorzata Skibińska (PZU i PZU Życie);
- Dominik Witek (PZU).

5. Supervisory Board of the parent company

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

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

On 7 June 2023, the Annual General Meeting of PZU appointed the Supervisory Board of PZU for a new term of office in the following composition:

- Marcin Chludziński – Member of the Supervisory Board;
- Agata Górnicka – Member of the Supervisory Board;
- Robert Jastrzębski – Member of the Supervisory Board;
- Marcin Kubicza – Member of the Supervisory Board;
- Elżbieta Mączyńska-Ziemacka – Member of the Supervisory Board;
- Krzysztof Opolski – Member of the Supervisory Board;
- Radosław Sierpiński – Member of the Supervisory Board;
- Józef Wierzbowski – Member of the Supervisory Board;
- Maciej Zaborowski – Member of the Supervisory Board.

On 5 June 2023, a shareholder of PZU, the State Treasury, exercising the right provided for in § 20(7) of PZU's Articles of Association, appointed Paweł Górecki to the Supervisory Board of PZU.

At the same time, as of the date of the Annual General Meeting of PZU, i.e. 7 June 2023, the mandates of two former members of the Supervisory Board of PZU – Piotr Wachowiak and Robert Śnitko – expired.

On 15 June 2023, Robert Jastrzębski was elected Chairman of the Supervisory Board of PZU and Paweł Górecki was appointed Deputy Chairman of the Supervisory Board of PZU.

On 30 August 2023, the PZU Supervisory Board elected Agata Górnicka as Secretary of the Supervisory Board.

On 13 September 2023, the Extraordinary General Meeting of PZU dismissed Elżbieta Mączyńska-Ziemacka from the PZU Supervisory Board.

From 14 September 2023 until the date of signing the condensed interim consolidated financial statements, composition of the Supervisory Board of PZU was as follows:

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

6. Key accounting policies, key estimates and judgments

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

6.1 Implementation of IFRS 17

On 18 May 2017, the IASB issued IFRS 17 Insurance Contracts, which replaced the current IFRS 4 – Insurance Contracts, applicable until the end of 2022.

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

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

According to the new standard:

- embedded derivatives, distinct investment components and the promise to transfer to a policyholder distinct goods or services other than insurance contract services are separated from the host insurance or reinsurance contracts and accounted for applying other relevant standards;
- the insurance and reinsurance contracts are divided into groups for which entity applies the recognition and measurement requirements of IFRS 17;
- the measurement method of a group of contracts in accordance with IFRS 17 is based on estimates of the present value of future fulfilment cash flows related to future and past service allocated to the group and on the contractual service margin (CSM) representing unearned profit;
- the profit from a group of insurance contracts is recognized in each period in which the insurance service is provided. If a group of contracts is expected to be onerous, the loss is recognized immediately in the full amount in the profit or loss.

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

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

The structure of presentation in the consolidated profit and loss account and in the consolidated statement of comprehensive income has changed significantly. In particular, written premiums, claims and expenses incurred in the period and change in insurance contract liabilities were reported under IFRS 4.

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

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

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

- the amount of insurance revenue reflecting the consideration to which the PZU Group is entitled in exchange for services provided in the period; and
- insurance service expenses which include incurred claims, amortization of insurance acquisition cash flows, changes relating to the past service and losses on groups of onerous contracts.

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

6.1.1. Transition date

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

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

At the transition date, PZU Group:

- derecognised any existing balances from the statement of financial position that would not exist had IFRS 17 always applied. These included technical reserves, certain deferred acquisition costs of insurance contracts, insurance receivables and payables, provisions for fees attributable to the existing insurance contracts which, in accordance with IFRS 17, are included in the measurement of insurance contracts;
- identified, recognized and measured each group of insurance contracts in accordance with one of the three methods described below;
- recognized all the resulting net differences in the consolidated equity.

The standard allows the use of three methods for the purpose of measuring financial items at the transition date:

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

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

Contract recognition date	Approach
2019 or later	• Full retrospective approach for contracts other than unit-linked • Fair value approach for unit-linked contracts
2015-2018	• Full retrospective approach for individually continued insurance contracts • Fair value approach for unit-linked contracts • Modified retrospective approach for other contracts
2014 and earlier	• Modified retrospective approach for individually continued insurance contracts and for traditional insurance contracts • Fair value approach for unit-linked contracts as well as annuities and endowment insurance contracts (JUŻ)

6.1.1.1. Full retrospective approach

In accordance with IFRS 17 paragraph C3, the PZU Group has applied the full retrospective approach unless it was impracticable. The PZU Group has determined that the application of the standard is impracticable within the meaning of paragraph 5 of the International Accounting Standard 8, i.e., the application of the requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy or to make a retrospective restatement of data if:

- the effects of the retrospective approach are not determinable;
- the retrospective application or retrospective restatement of data requires assumptions about what management's intent would have been in that period; or
- The retrospective application or retrospective restatement of data requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and
  - would have been available when the financial statements for that prior period were authorized for issue.

For those parts of the business for which the application of the full retrospective approach was impracticable (e.g. data were not collected at the required resolution, there were changes in IT systems preventing the preparation of the relevant data and there were profound changes in actuarial models making the retrospective application impracticable), the PZU Group applied simplifications as permitted by the standard.

6.1.1.2. Simplifications

Where the application of the full retrospective approach is considered as impracticable, PZU Group applies either the modified retrospective approach or the fair value approach, and a decision thereon is made individually for each group of contracts. Factors such as the availability of historical data and materiality are taken into account in the selection.

The following table presents simplifications which are allowed by the standard and which are applied by PZU Group:

Simplification	Approach adopted
Evaluation of the groups of contracts on the basis of information available at the transition date, instead of at the contract inception date	To the extent that the PZU Group did not have reasonable and documented information that would allow the full retrospective approach to be applied, decisions were made regarding the following issues, using reasonable and documented information available at the date of transition to the new standard instead of information available at the time of initial recognition: • the method of identifying groups of insurance contracts; • the assessment of whether an insurance contract corresponds to the definition of an insurance contract with direct participation features.
Failure to comply with the provisions of paragraph 22 to divide groups into those that do not include contracts issued more than one year apart.	For some groups of contracts for which the PZU Group used the modified retrospective approach or the fair value approach, contracts concluded at intervals of more than one year were included within the groups.
Use of historical cash flows in order to determine contractual service margins	To the extent that the PZU Group did not have reasonable and documented information to apply the full retrospective approach, future cash flows at the date of initial recognition of the group of insurance contracts were estimated as the amount of future cash flows at the date of transition (or at an earlier date if the future cash flows at the earlier date could be determined retrospectively), adjusted for cash flows known to have occurred between the date of initial recognition of the group of insurance contracts and the date of transition (or an earlier date).
Simplified calculation of a risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts	For groups of contracts for which the modified retrospective approach was used, to the extent that the PZU Group did not have reasonable and documented information to apply the full retrospective approach, the non-financial risk adjustment at the date of initial recognition of the group of insurance contracts (or later) was determined by adjusting the non-financial risk adjustment at the transition date by the expected release from risk prior to the transition date. The expected release from risk was determined by reference to the risk released for similar insurance contracts concluded by the PZU Group at the transition date.
Disaggregation of insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income	For some groups of contracts for which the PZU Group used the modified retrospective approach or the fair value approach, PZU's cumulative amount of finance income or expenses from insurance recognised in other comprehensive income at the transition date was determined as zero.

Modified retrospective approach

Where the application of the full retrospective approach is impracticable, IFRS 17 allows the application of modifications to such an approach – the so-called modified retrospective approach – to achieve the closest outcome to retrospective application possible. Modifications allowed by the standard cover assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition, estimates related to the contractual service margin or loss component and estimates of insurance finance income or expenses.

The modified retrospective approach is applied by the PZU Group solely for the groups of contracts without direct participation features. For groups of contracts with direct participation features, for which the full retrospective approach is impracticable, the PZU Group applies the fair value approach.

If the cases provided for in IFRS 17 and where the PZU Group has deemed the modified retrospective approach to be reasonable, the PZU Group has applied the following modifications to the full retrospective approach:

- the use of historical cash flows and reliable estimates of historical cash flows to estimate future cash flows and contractual service margin or loss component as at the initial recognition of a group of contracts or group of insurance contracts without direct participation features
- estimated risk adjustment for non-financial risk as at the date of initial recognition of a group of insurance contracts and its release before the transition date based on information available as at the transition date. Information used for such estimates include the calibrated risk adjustment for non-financial risk as at the transition date, estimated cash flows at the date of initial recognition of the group of insurance contracts and historical data available as at the transition date
- aggregation of groups of contracts issued more than one year apart.

In its estimations using the modified retrospective approach, the PZU Group did not apply the modifications allowed by IFRS 17 relating to the measurement of discount rates.

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

Fair value approach

The fair value approach as at the transition date was applied by the PZU Group for:

- pension and traditional insurance products issued before 1993, for which no reasonable or supportable information is available without incurring undue costs or making extra efforts which would make it feasible for the calculations to be made in accordance with the modified retrospective approach;
- unit-linked products for which the application of the MRA or FRA would result in excessive costs being incurred or efforts being made, which would be disproportionate to the extent of potential distortion of reported data which is considered insignificant.

With respect to contracts where the fair value approach has been applied, the PZU Group determined CSM as at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date. In determining fair value, the PZU Group applied the requirements of IFRS 13 Fair Value Measurement, except for the requirement that the fair value of a financial liability with a demand feature (e.g. a demand deposit) cannot be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The PZU Group has aggregated contracts issued more than one year apart into one group of insurance contracts in line with the fair value approach as at the transition date, because it did not have reasonable and supportable information allowing for disaggregation into groups of contracts issued within one year.

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

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

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

To measure the fair value of insurance contracts at the transition date as required by IFRS 13, PZU Group applied the income approach using cash flow discounting. In principle, this approach is consistent with the approach to measuring cash flows from the performance of contracts, in accordance with the guidance of IFRS 17. The differences lie in the approach to the measurement of the risk adjustment for non-financial risk - by taking into account a higher cost of capital (applicable in PZU Group and determined by the Capital Asset Pricing Model (CAPM) in the income approach).

6.1.1.3. Cash flow discounting

For the purposes of determining the discount rate curves for the measurement of liabilities for periods from 31 December 2015, PZU Group uses the risk-free discount rates published by EIOPA, and for earlier periods, i.e. years prior to the implementation of Solvency II Directive, PZU Group determined historical discount rate curves based on the bond market data and on the evaluation of availability of illiquid assets in the market. In addition, for periods prior to 2015, the discount rate curves have been adjusted (lowered) by a credit risk adjustment of 10 basis points, consistent with the EIOPA methodology. In applying discount rates, the assessment of liquidity of liabilities of a given product was also taken into account. The illiquidity premium was determined on the basis of market data and liquidity characteristics of individual groups of insurance contracts.

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

- The following columns of the table reflecting the impact of the application of IFRS 17 on the consolidated statement of financial position as at 1 January 2022 include respectively:
- “Reclassification”, i.e. balances measured in accordance with IFRS 4 carried from items that were recognised in the consolidated statement of financial position prepared in accordance with IFRS 4 to new items required under IFRS 17, i.e. “Assets under insurance contracts”, “Assets under reinsurance contracts”, “Liabilities under insurance contracts”, “Liabilities under reinsurance contracts”. Change in the total amount of equity and liabilities resulted from the fact that a part of balances (e.g. deferred acquisition expenses, prepayments or insurance receivables) were carried from assets to liabilities. The reclassifications do not influence the consolidated equity of the PZU Group;
- “Differences in measurement of insurance and reinsurance contract assets and liabilities” presents the effect of changed measurement of individual assets and liabilities as a result of the application of IFRS 17. The greatest part of the difference results from the application of the best estimate liability applying discounting based on current interest rates with regard to the approach applied to measure technical provisions in accordance with IFRS 4 - the difference in the valuation of assets and liabilities as at 1 January 2022 contributed to the growth of consolidated equity of the PZU Group by PLN 13,851 million;
- “Recognition of CSM” presents the value of future profits from insurance contracts in accordance with GMM and VFA methods recognised as at 1 January 2022. The recognition of CSM reduced consolidated equity of the PZU Group by PLN 7,778 million;
- “Recognition of RA” presents the adjustment due to non-financial risks resulting from the uncertainty of cash flows. The recognition of RA as at 1 January 2022 contributed to a decrease in consolidated equity of the PZU Group by PLN 1,024 million.

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

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

6.1.2. Insurance contracts and reinsurance contracts

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

Accounting policy	Decision made by PZU Group	Justification
Method for determining discount rate curves	In default approach curves determined in a bottom-up approach. However, if justified, PZU Group allows for a top-down approach to be applied.	Approach adopted for consistency with Solvency II discounting methodology
Recognition of finance income or expenses	For products other than unit-linked products, financial income and expenses are divided between profit or loss and other comprehensive income. For unit-linked products, finance income and expenses are fully recognized in profit or loss.	Decision made in order to reduce the volatility of the profit or loss and to keep the approach applied to the measurement of liabilities as consistent as possible with the approach applied to measurement of assets.
Risk adjustment for non-financial risk	Depending on a nature of the risk concerned, a risk adjustment for non-financial risks is determined using the VaR method or the cost-of-capital method.	Decision on the valuation method made taking into account the characteristics of a risk profile of the portfolio concerned, as referred to in section 6.1.2.1, in order to best reflect uncertainties of measurement associated with non-financial risks.

Accounting policy	Decision made by PZU Group	Justification
Contract grouping	For life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a year (“annual cohorts”). For non-life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a quarter (“quarterly cohorts”).	PZU Group considered that, for long-term life insurance contracts, the introduction of a period shorter than one year would lead to excessive complexity (storage of greater quantities of data), which would not be commensurate with the benefits obtained. However, for non-life insurance products, which are mostly short-term, the division into quarterly cohorts allows for the profitability to be assessed in a more accurate manner in situations in which tariffs change during the year.
Impact of accounting estimates made in the interim financial statements	PZU Group decided to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period (the so-called year-to-date reporting).	Consistency with the reporting according to IFRS 4 and with the reporting according to other accounting standards.

6.1.2.1. Identification and aggregation of insurance contracts

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

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

- portfolio – groups of contracts subject to similar risks and managed together;
- profitability – contracts belonging to the same profitability group – one of the three defined by IFRS 17:
  - the group of contracts that are onerous at the initial recognition;
  - the group of contracts that at the initial recognition have no significant possibility of becoming onerous subsequently;
  - the group of remaining contracts in the portfolio;
- cohorts – contracts issued within a period of no longer than one year.

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

- portfolio:
  - based on the risk characteristics of individual insurance contracts and based on existing insurance portfolio management processes;
- profitability:
  - for life insurance – at the level of an individual contract through the measurement of the insurance contract concerned;
  - for non-life insurance – all the contracts are treated as profitable unless there are facts or circumstances that indicate that they are not profitable. Profitability is assessed at the level of the IFRS 17 portfolio, but assessment may be moved to the level of the cohort for the given quarter or year;

- cohorts:
  - the decision has been made to group life insurance into annual cohorts and non-life insurance into quarterly cohorts, which allows a more accurate allocation of insurance contracts to profitability groups.

Insurance contracts may include one or more components subject to another IFRS if these were separate contracts. Such components may be as follows:

- embedded derivative instruments whose economic characteristics and risks are not strictly connected with economic characteristics and risks of the underlying contract and whose terms and conditions do not meet the definition of an insurance contract or a reinsurance contract as an independent instrument;
- separated investment components which are not related, to a large extent, to insurance components and with regard to which contracts of equivalent terms and conditions are sold or could be sold separately in the same market or in the same jurisdiction by entities selling insurance contracts or other entities;
- commitments to transfer separated goods or services other than services incorporated in the insurance contract to the insured.

The PZU Group analysed whether its products include insurance contracts that constitute one or more of the above components. As a result of that analysis, the PZU Group decided that it does not offer any products whose components constitute separate contracts subject to another IFRS.

6.1.2.2. Contract boundary

The measurement of an insurance contract covers solely the cash flows that are within the contract boundary. The contract boundary distinguishes future cash flows that relate to existing insurance contracts from those that relate to future insurance contracts that have not been issued yet.

The PZU Group sets that the contract boundary start at date of initial recognition of contract. Insurance contract is issued from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group becomes due;
- for a group of onerous contracts, when the group becomes onerous.

The PZU Group sets the contract boundary when the PZU Group cannot compel the policyholder to pay the premiums or when the PZU Group has no longer a substantive obligation to provide the policyholder with insurance contract services. The substantive obligation to provide services expires when:

- it is feasible in practice to reassess the risk for an individual insured and, consequently, a price or level of benefits can be established that fully reflects that risk (assessment at the level of an individual insured); or
- both of the following criteria are met:
  - the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks (individual policyholder assessment); or
  - the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

In the PZU Group, the approach to the contract boundary is largely consistent with the indicated end of the contract in the insurance contract as a legal document. The exemption is the contract boundary for life insurance riders. From a legal perspective, riders are mostly yearly renewable contracts. For the purpose of measurement in accordance with IFRS 17, riders are recognized and measured along with the main contract, unless it has been assessed that they constitute a separate insurance contract and should therefore be separated from the main contract. Contracts comprising additional risks linked with the main contract are modelled with account taken of renewals, and contract boundaries of riders are in line with the boundary of the main contract. In the case of unit-linked products with regular premiums, for an IFRS 17 measurement, the contract boundary occurs when the PZU Group no longer has a substantive obligation to provide the policyholder with insurance contract services, which in practice means including all forecast future cash flows in the measurement.

6.1.2.3. Modification of the insurance contract

A modification of the insurance contract changes the original terms and conditions of the contract on the basis of an agreement between the parties or as a result of amendments in legal regulations. It differs from an amendment resulting from any party to the contract exercising its rights that come within the original terms and conditions of the contract.

If terms and conditions of the insurance contract are modified and at least one of the following conditions is met, then the PZU Group derecognises the original contract and recognises the modified contract as a new contract. The conditions for contract modification as a result of which the PZU Group derecognises the contract are as follows:

- the contract is no longer subject to IFRS 17;
- the different components must be separated from the host insurance contract;
- the modified contract has substantially different contract boundary;
- the modified contract must be included in a different group of contracts at initial recognition;
- the modified contract meets the definition of an insurance contract with direct participation features, while the original contract no longer meets that definition, or vice versa;
- the contract no longer meets eligibility criteria for the application of PAA, while the original contract met those criteria.

In case of contract derecognition within the group of contracts, the PZU Group applies the following requirements:

- cash flows from contract allocated to the group, are adjusted in order to eliminate the present value of future cash flows and risk adjustment for non-financial risk related to rights and obligations that are derecognised within the group;
- the contractual service margin for the group is adjusted by changes in the value of cash flows described in Section 1 above; and
- the number of coverage units with regard to expected remaining services stipulated by the contract is adjusted in order to reflect derecognized coverage units within in the group and the contractual service margin recognised in the profit or loss of a given period is based on the adjusted number of coverage units.

6.1.2.4. Measurement methods

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

- GMM – general measurement model;

  The whole insurance contract liability is computed as a sum of:

  - fulfilment cash flows, which comprise: (1) estimates of future cash flows within the contract boundary; (2) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; (3) a risk adjustment for non-financial risk (RA), which reflects the compensation for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk; and
  - the contractual service margin (CSM) representing unearned profit; CSM is sensitive to changes in estimates of cash flows, resulting from changed non-economic assumptions. CSM cannot be negative – any losses on the contracts are recognized immediately in profit or loss;
- PAA – premium allocation approach:

  The premium allocation approach is a simplified approach, where the measurement of the liability for remaining coverage (LRC) is analogous with the unearned premium reserve mechanism under IFRS 4 (without a separate presentation of RA or CSM), whereas the liability for incurred claims (LIC) is measured in the same manner as for the general measurement model. PAA is applied for contracts which meet relevant eligibility criteria at initial recognition, allowing the application of the simplifications referred to in paragraphs 53 or 69 IFRS 17:

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

Group of insurance contracts may be measured with the PAA method even if they do not meet the above criteria, provided that the impact on the consolidated financial statements of the PZU Group will be deemed immaterial.

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

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

- VFA – variable fee approach:

  The liability measurement method used for IFRS 17 reporting of insurance contracts with direct participation features, is analogous to GMM, with the difference being that changes in the CSM in subsequent periods also include the impact of changing economic assumptions, and not just operating assumptions. The variable fee approach is used solely to measure selected products, after eligibility criteria are assessed, at initial recognition. The PZU Group applies VFA to unit-linked products which meet the eligibility criteria (the PZU Group assesses all its unit-linked products to meet the VFA eligibility criteria).

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

Liability for remaining coverage without loss component

Measurement at the initial recognition

Liability for remaining coverage (LRC) is a liability that corresponds to an entity's obligation to:

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

At initial recognition, the total insurance contract liability comprises the liability for remaining coverage. Moreover, the carrying amount is equal to zero for non-onerous contracts.

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

- the fulfilment cash flows described in section 6.1.2.5; and increased by
- the contractual service margin representing unearned profit.

The premium allocation approach does not account for the contractual service margin, risk adjustment for non-financial risk, or the adjustment to reflect the time value of money. The liability for remaining coverage at initial recognition is measured as:

- premiums received at the date of initial recognition;
- minus any insurance acquisition cash flows as at that date, unless the entity allows and decides to recognize these payments as expenses; and
- plus or minus any amount arising from the derecognition as at that date of:
  - any assets in respect of the insurance contract acquisition cash flows paid out prior to the initial recognition of the group of insurance contracts; and
  - any other assets or liabilities previously recognized in respect of cash flows relating to the group of contracts.

Subsequent measurement

Subsequent to initial recognition, as at the end of each reporting period, the LRC, excluding the CSM, is re-measured using the fulfilment cash flows related to the future coverage period, i.e., it comprises the present value of the best estimate of the cash flows required to meet the liability together with a risk adjustment for non-financial risk (RA).

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

- liability for remaining coverage at the beginning of the reporting period, which is equal to the value of this liability at the end of the previous reporting period;
- plus/minus estimated expected amounts related to the payments of premiums, claims and expenses which are to be incurred in the reporting period, as estimated as at the previous reporting date;
- plus/minus changes in estimates resulting from changes in assumptions relating to future services;
- plus/minus interest accreted on the present carrying amount of future cash flows and risk adjustment for non-financial risk within the reporting period, using a discount rate applied at initial recognition (so-called locked-in rate)
- plus/minus the remaining interest accreted using current discount rates.

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

- the carrying amount of this liability at the beginning of the period;
- plus the premiums received in the period;
- minus insurance acquisition cash flows;
- plus any amounts relating to the amortization of insurance acquisition cash flows recognized as an expense in the reporting period;
- plus any adjustment to a financing component, if applied;
- minus the amount recognized as insurance revenue for services provided in that period; and
- minus any investment component paid or transferred to the liability for incurred claims.

In the light of the foregoing, the PZU Group recognizes income and expenses for the following changes in the carrying amount of the liability for remaining coverage:

- insurance revenue – for the reduction in the liability for remaining coverage because of services provided in the period;
- insurance service expenses — for losses on groups of onerous contracts, and reversals of such losses;
- insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk.

Contractual service margin

Measurement at the initial recognition

The contractual service margin is set for non-onerous contracts at initial recognition and reflects unearned profit. It is then released as profit throughout the whole lifetime of a contract (group of contracts).

Contractual service margin may be defined as expected cash inflows minus expected cash outflows within the contract boundary, with risk adjustment for non-financial risk and time value of money.

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

- the initial recognition of an amount for the fulfilment cash flows;
- any cash flows arising from the contracts in the group at that date;
- the derecognition at the date of initial recognition of:

- any asset for insurance acquisition cash flows;
- any other asset or liability previously recognized for cash flows related to the group of contracts.

As a rule, contractual service margin may not be used to recognize losses over time. Loss identified on recognition of a group of contracts is recognized in the profit and loss account at an amount corresponding to the excess expected future outflows over the expected future inflows accounting for non-financial risk (through risk adjustment for non-financial risk). This approach is opposite to the manner in which expected profit from insurance business is recognized over time, proportionally to the insurance service provided.

Subsequent measurement

Contractual service margin as at the end of the reporting period reflects the profit in the group of insurance contracts that has not yet been recognized in profit or loss because it relates to future service to be provided under the contracts in the group.

As at the end of the reporting period, the carrying amount of the contractual service margin for a group of insurance contracts without direct participation features, measured in line with the general measurement model, equals the carrying amount as at the beginning of the reporting period adjusted for:

- the effect of any new contracts added to the group;
- interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates at initial recognition (so-called locked-in rates);
- changes in fulfilment cash flows relating to future services, except to the extent that:
  - such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss; or
  - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage;
- the effect of any currency exchange differences on the contractual service margin; and
- the amount recognized as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

At the end of each reporting period, the carrying amount of the contractual service margin for a group of insurance contracts with direct participation features, measured in line with the variable fee approach, equals the carrying amount as at the start of the reporting period adjusted for:

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

Loss component

Measurement at the initial recognition

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

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

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

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

Subsequent measurement

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

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

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

Liability for incurred claims

Measurement at the initial recognition

Liability for incurred claims (LIC) corresponds to the entity's obligation to:

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

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

The liability for incurred claims has to be established (separately for each type of insured event) once a single insured event of a contract occurred, comprising the expected claims payout for this single event, for which claims have not been fully paid yet.

Liability for incurred claims comprises cash flows related to the past service as at the reporting date. The measurement of this liability is based on the same requirements concerning (1) estimates of the future cash flows; (2) discount rates; and (3) risk adjustment for non-financial risk, which also apply to the liability for remaining coverage at initial and subsequent measurement.

Subsequent measurement

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

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

- liability for incurred claims as at the beginning of the reporting period, equal to the liability as at the end of the previous reporting period;
- plus/minus expected cash flows related to past service;
- plus the increase related to claims and expenses incurred in the period but not yet paid;
- plus/minus interest accreted on the best estimate of present value of liabilities and risk adjustment for non-financial risk in the reporting period using the discount rate applied at initial recognition (so-called locked-in rate);
- plus/minus the remaining interest accreted using current discount rates.

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

- insurance service expenses — for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;
- insurance service expenses — for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and
- insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk.

For the purpose of its computations, the PZU Group has decided to recognize the values on a compound basis from the beginning of the year to the reporting date (Year To Date – YTD). Because of this, the “previous reporting period” referred to in the points hereinabove is, in every case, the end of December of the preceding year.

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

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

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

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

Previously recognized impairment loss is reversed in the subsequent reporting period to the extent that the impairment has improved or no longer exists. In its IFRS 17 reporting, as at 30 June 2023, 31 December 2022 as well as at 1 January 2022, the PZU Group has recognized no assets relating to groups of insurance contracts expected to arise from renewals.

6.1.2.5. Significant judgements and estimation processes

Cash flows from the performance of insurance contracts

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

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

- are within the contract boundary;

- incorporate all information available about the amount, timing and uncertainty of those future cash flows;
- are explicit – the entity estimates the risk adjustment for non-financial risk separately from the other estimates; the entity also estimates the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates;
- reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables;
- are up to date.

Reinsurance contracts are modeled applying the same principles as for insurance contracts. However, taking into account the features of reinsurance contracts, at initial recognition (and similarly as at every subsequent reporting date), expected future cash flows include estimates of future cash flows from underlying insurance contracts expected to be issued in the future by the reinsured entity within the reinsurance contracts' boundaries.

Key assumptions

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

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

Insurance finance income or expenses

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

- for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders – discount rates determined at the date of initial recognition of a group of contracts;
- for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders, discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate.

Discounting cash flows

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 rates observed in the market and the liquidity characteristics of the insurance contracts. For groups of contracts with initial recognition after the transition date (i.e., after 1 January 2022), the PZU Group applies the EIOPA methodology to establish the underlying risk-free curve. The approach to discount rate curves used for the cohorts recognized before the transition date is described in section 6.1.1. In specific cases, a top-down approach may be applied, in which the yield curve is adjusted for any factors that are not relevant to the insurance contracts. A top-down approach may only be applied if a clearly identifiable reference portfolio exists.

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The table below shows the curves used to discount insurance contract cash flows for the main currencies. The 'No premium' rows present the base curves for IFRS 17 portfolios in which no illiquidity premium has been added (applicable to group insurance and J insurance products, bancassurance and unit-linked products). The 'Annuities' rows present curves for PLN and EUR, respectively, used for the purposes of discounting the selected non-life annuities. In the line “IK” – curves used for the purposes of discounting selected individual life insurance products, in particular, the individually continued insurance contracts portfolio and term insurance.

Portfolio duration	30 September 2023					31 December 2022					1 January 2022				
	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years
No premium															
PLN	4.77%	5.20%	5.74%	5.42%	4.62%	6.40%	6.74%	6.65%	6.01%	4.94%	2.66%	3.73%	3.57%	3.50%	3.52%
EUR	4.05%	3.29%	3.28%	3.21%	3.19%	3.18%	3.13%	3.09%	2.76%	2.85%	(0.59%)	(0.08%)	0.21%	0.46%	1.62%
USD	5.44%	4.36%	4.26%	4.20%	3.70%	5.07%	3.95%	3.75%	3.63%	2.82%	0.44%	1.28%	1.50%	1.67%	1.36%
GBP	5.44%	4.56%	4.30%	4.27%	3.88%	4.46%	4.06%	3.71%	3.53%	3.31%	0.78%	1.20%	1.11%	1.05%	0.75%
NOK	4.89%	4.29%	4.08%	3.91%	3.73%	3.46%	3.15%	3.20%	3.29%	3.36%	1.14%	1.78%	1.81%	2.23%	2.80%
Annuities															
PLN	5.10%	5.53%	6.07%	5.75%	4.95%	6.81%	7.15%	7.05%	6.42%	5.35%	2.83%	3.91%	3.75%	3.68%	3.69%
EUR	4.09%	3.33%	3.32%	3.25%	3.23%	3.23%	3.18%	3.14%	2.82%	2.90%	(0.57%)	(0.07%)	0.22%	0.47%	1.64%
IK															
PLN	4.99%	5.42%	5.96%	5.64%	4.84%	6.67%	7.01%	6.92%	6.28%	5.21%	2.77%	3.85%	3.69%	3.62%	3.63%

Risk adjustment for non-financial risk

In measuring insurance contracts, the PZU Group applied risk adjustment for non-financial risk (e.g. insurance risk, lapse risk, expense risk). The risk adjustment for non-financial risk is compensation for the uncertainty about the amount and timing of cash flows arising from the groups of insurance contracts. Due to different risk characteristics, the risk adjustment concerning cash flows related to the future coverage period (accounted for in the liability for remaining coverage) and past coverage period (accounted for in the liability for incurred claims) is estimated separately.

The PZU Group estimates the adjustment using the methods available, including the value-at-risk method (VaR) and techniques based on the cost of capital method.

At the entity’s level, the risk adjustment is established as a simple sum of risk adjustments for all groups of contracts in the portfolio, not accounting for any correlations between the groups. Finally, that value serves to establish the confidence level which takes into account the correlations and diversification effects between homogeneous risk groups. The parameters for risk adjustment are selected so that the final value of the risk adjustment for non-financial risk corresponds to a confidence level from the interval 75% - 85% determined by the PZU Group as the confidence level expected for the purpose of determining non-financial risk in IFRS 17 financial reporting.

Confidence levels for non-financial risk adjustment were 79% at 31 September 2023 and 31 December 2022, and 80% at 1 January 2022.

Coverage units

Contractual service margin, recognized in profit or loss for a given period, is determined by the PZU Group in line with the requirements of IFRS 17 based on *coverage units*. For each group of insurance contracts, the PZU Group identifies coverage units based on the product characteristics, considering for each contract the quantity of the benefits provided and expected coverage period. For each product segment, the PZU Group establishes coverage units in line with the following table:

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

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

The PZU Group's consolidated profit and loss account and consolidated comprehensive income statement separately present:

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

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

6.1.2.7. Reinsurance contracts

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

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

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

- Reinsurance contracts held are divided into three profitability groups:
  - contracts with a net gain at initial recognition (i.e. a net inflow);
  - contracts with a net cost of purchasing reinsurance (i.e. a net outflow) with no significant possibility of a net gain arising subsequent to initial recognition;
  - other contracts for which there is a net cost of purchasing reinsurance with a significant possibility of a net gain arising subsequent to initial recognition;

- Cash flows are within the contract boundary if they arise from substantive rights and obligations existing during the reporting period in which the entity:
  - is compelled to pay amounts to the reinsurer; or
  - has a substantive right to receive services from the reinsurer;
- The following models are applied to measure reinsurance contracts held:
  - general measurement model (GMM);
  - premium allocation approach (PAA);
- Outward reinsurance contracts are measured separately from the underlying insurance contracts to which they relate. The entity uses consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of underlying insurance contracts. In addition to using consistent assumptions, the PZU Group applies the following modifications to calculate the estimates of the present value of cash flows for reinsurance contracts held, compared to underlying insurance contracts:
  - the estimates of the present value of the future cash flows for the group of reinsurance contracts held include the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes;
  - estimated risk adjustment for non-financial risk is determined so that it represents the amount of risk being transferred by the holder to the reinsurer;
- Requirements for determining the contractual service margin at initial recognition are modified in relation to reinsurance contracts held to reflect the fact that there is no unearned profit in such groups of contracts, but instead a net cost or net gain on purchasing the reinsurance. Therefore, at initial recognition:
  - the PZU Group recognizes net cost or net gain on purchasing the group of reinsurance contracts held as a contractual service margin, measured at an amount equal to the sum of the fulfilment cash flows, the amount recognized at that date of any asset or liability previously recognized for cash flows related to the group of reinsurance contracts held, and any cash flows arising at that date; unless
  - the net cost of purchasing reinsurance coverage relates to events that occurred before the purchase of the group of reinsurance contracts held, in which case such a cost is immediately recognized in profit or loss as an expense.

  Furthermore, if losses from onerous insurance contracts are recognized at initial recognition, the PZU Group recognizes gain on reinsurance contracts held to the extent in which the reinsurance contracts held have been entered into before or at the same time as underlying contracts. If an entity may establish a loss-recovery component at initial recognition, the income related to it adjusts the initial contractual service margin;
- In respect of reinsurance contracts held, the PZU Group's consolidated statement of financial position, consolidated profit and loss account, and consolidated comprehensive income statement separately present:
  - Net expenses on reinsurance contracts held:
    - allocation of reinsurance premiums – the consideration to which the reinsurer expects to be entitled in exchange for services provided in the period;
    - amounts recoverable from reinsurers: recoveries of claims incurred in the current period, excluding any investment component; recoveries of expenses incurred in the current period; changes related to past service; loss recovery component and changes in assumptions (so-called unlocking) of the loss recovery component;
  - Reinsurance financial income or expenses:
    - the effect of the time value of money;
    - the effect of financial risks.

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

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

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

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

Approved by the regulation of the European Commission

Name of standard/ interpretation	Endorsement regulation	Effective date (according to IASB)	Comment
Amendments to IAS 12 - Income taxes	2023/2468	1 January 2023	The amendment addresses the potential impact of implementing the model rules of the global minimum tax (top-up tax). In December 2021, the Organization for Economic Cooperation and Development published Pillar Two model rules to ensure that large, multinational companies will be subject to a minimum tax rate of 15%. The amendment to IAS 12 introduces: • an exception that an entity does not recognize and does not disclose information about deferred tax assets and liabilities related to the global minimum income taxes. An entity has to disclose that it has applied the exception; • a disclosure requirement that an entity has to disclose separately its current tax expense (income) related to the global minimum tax; • a disclosure requirement that state that in periods in which the global minimum tax legislation is enacted or substantively enacted, but not yet in effect, an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to the global minimum tax; • the requirement that an entity applies the exception and the requirement to disclose that it has applied the exception immediately upon issuance of the amendments and retrospectively in accordance with IAS 8; The remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.

Not approved by the regulation of the European Commission

Name of standard/ interpretation	Date of issue by the IASB	Effective date (according to IASB)	Comment
Amendment to IAS 1 - Classification of liabilities as current and non-current	23 January 2020	1 January 2024	The amendment clarifies that conditions existing at the end of the reporting period are taken into account when determining the right to defer a liability, and that the classification does not depend on an entity's intention or expectation to exercise the option to defer a liability. The amendments will not have a significant impact on the consolidated financial statements of PZU Group.
Amendments to IFRS 16 - Leases	22 September 2022	1 January 2024	The amendment requires that when measuring lease liabilities arising from a sale-leaseback, the seller (lessee) should not recognize any gain or loss associated with the retained right of use. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.

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Name of standard/ interpretation	Date of issue by the IASB	Effective date (according to IASB)	Comment
Amendments to IAS 7 - Statement of Cash Flows and IFRS 7 - Financial Instruments – Disclosures	25 May 2023	1 January 2024	The amendments relate to disclosure requirements (qualitative and quantitative) on supplier financing arrangements. Entities will be required to disclose information to assess how supplier arrangements affect the entity's liabilities and cash flows and to understand the impact of supplier arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to the entity. The amendment introduces disclosure requirements on: • the terms and conditions of the supplier finance arrangements; • for the arrangements, as at the beginning and end of the reporting period: – the carrying amounts of financial liabilities that are part of the arrangement and the associated line item presented; – the carrying amount of financial liabilities disclosed referred to above for which suppliers have already received payment from the finance providers; – the range of payment due dates of financial liabilities referred to above and comparable trade payables that are not part of a supplier finance arrangement; and • the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of the arrangement. Supplier financing arrangements are also added as an example under the liquidity risk disclosure requirements. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.
Amendments to IAS 21 – The effects of changes in foreign exchange rates	16 August 2023	1 January 2025	The amendments relate to requirements to be applied by entities when the foreign currency is not exchangeable. The amendment i.e.: • specify when a currency is exchangeable and when it is not; • specify how an entity determines the exchange rate to apply when a currency is not exchangeable; • require the disclosure of additional information when a currency is not exchangeable- evaluation how a currency's lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.

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

6.2 Change in the presentation of interest income on derivative hedging instruments

To better reflect the economic sense of hedging transactions and make the profit and loss account of the PZU Group in 2023 more transparent, interest income from hedging instruments was carried from "Other net revenue from investments" to "Interest income calculated using the effective interest rate". In order to ensure the comparability of the data, the reclassification of comparative data was performed, as described below.

Consolidated profit and loss account	1 July – 30 September 2022 (restated)	Reclassification	1 July – 30 September 2022 (before restatement)	1 January – 30 September 2022 (restated)	Reclassification	1 January – 30 September 2022 (before restatement)
Interest income calculated using the effective interest rate	3,038	(149)	3,187	11,520	(101)	11,621
Other net investment income	(209)	149	(358)	(471)	101	(572)
Operating profit	**443**	**-**	**443**	**4,993**	**-**	**4,993**

6.3 Use of estimates and assumptions

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

6.3.1. Assets and liabilities under insurance and reinsurance contracts

Significant assumptions regarding the measurement of assets and liabilities under insurance and reinsurance contracts are presented in section 6.1.2.5.

6.3.2. Impairment and expected credit losses

6.3.2.1. Loan receivables from clients

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

Information on changes in impairment losses is presented in section 10.24.

6.3.2.2. Investment financial assets and receivables

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

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

6.3.3. Goodwill

PZU Group did not recognize any goodwill impairment losses in the 9-month period ended 30 September 2023.

6.3.4. Provision for potential refunds of borrowing costs

On an ongoing basis, the PZU Group monitors the value of estimated prepayments of consumer loans and takes into account the most recent data on incoming complaints and reimbursement amounts when calculating the value of the provision for potential reimbursements of loan costs. Detailed information on this subject is presented in section 10.34.

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

As at 30 September 2023, PZU Group assessed the probability of an impact of a legal risk of Swiss franc foreign currency mortgages on future expected cash flows from credit exposures and the probability of cash outflows.

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

For more information thereon please see section 10.34.

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

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

8. Correction of errors from previous years

In the 9-month period from 1 January to 30 September 2023, no corrections of errors from previous years were made.

9. Significant events after the end of the reporting period

9.1 Program for the issuance of Eurobonds at Pekao

On 31 October 2023, Pekao's Management Board adopted a resolution approving the establishment by Pekao, as issuer, of a program (the “EMTN Program”) for the issuance of medium-term Eurobonds (the “Eurobonds”).

The EMTN program was established under the following conditions:

- the amount of the EMTN Program will be a maximum of EUR 5,000 million or the equivalent amount in other currencies;
- The Eurobonds issued under the EMTN Program will be offered and sold outside the United States, for the account or benefit of persons other than U.S. persons, in accordance with Regulation S issued under the U.S. Securities Act of 1933). The Eurobonds will not be registered under the U.S. Securities Act or other state securities laws;
- The Eurobonds can be issued in euros, zlotys or other currencies in any number of tranches, with different interest and maturity structures;
- The Eurobonds can be issued as green or balanced bonds;
- The Eurobonds will be deposited with a common depositary and registered in the name of the entity designated as common depositary for Euroclear Bank SA/NV or Clearstream Banking, SA;
- Pekao will be able to apply for the admission of individual series of Eurobonds to official listing on the Luxembourg Stock Exchange, LuxSE, and admission to trading on a regulated market operated by LuxSE, Luxembourg Green Exchange, the Warsaw Stock Exchange or any other entity operating a regulated market within the meaning of Directive 2014/65/EU on markets in financial instruments (as amended),
- the issuance of each series of Eurobonds under the EMTN Program will be approved by separate resolutions of the Management Board of Pekao.

In connection with the EMTN Program, Pekao drafted a base prospectus, which was approved by the Commission de Surveillance du Secteur Financier in Luxembourg on 13 November 2023.

On 16 November 2023, Pekao completed its subscription of Eurobonds. 131 investors subscribed for 1,504,642 Eurobonds. Finally, 500,000 Eurobonds were allocated to 110 investors, with a reduction rate of 66.77%. The Eurobonds will be subscribed at 99.68% of their nominal value, and the total value of the subscription carried out, understood as the product of the number of Eurobonds included in the offering and the issue price, amounted to EUR 498,400 thousand. The margin, which is the basis for determining the interest rate, is 240 bps. The Eurobonds will be issued for a period of four years, with an option for Pekao to redeem them early – three years after its issuance. The Eurobonds are expected to be issued on 23 November 2023.

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9.2 The book-building process in connection with Alior Bank's intention to issue bonds

On 17 November 2023, Alior Bank's Management Board adopted a resolution approving the commencement of the book-building process in connection with its intention to issue Bonds, the obligations of which will constitute eligible obligations referred to in Art. 97a.1.2 of the BFG Act and obligations belonging to the sixth category referred to in Article 440.2.6 of the Act of 28 February 2003 – Bankruptcy Law ("Bonds").

The book-building process will be conducted exclusively with the participation of qualified investors, within the meaning of Article 2 pt. e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

The Bonds will be issued through a public offering in accordance with Article 32(1) of the Act of 15 January 2015 on bonds.

Key parameters of the bond issue scheduled are as follows:

- the maximum total nominal value of bond issue will be up to PLN 250 million, but having analyzed the reported demand for bonds, the Management Board of Alior Bank may decide to change the total nominal value of bond issue;
- the nominal value of a bond is PLN 500 thousand;
- bonds will not be secured by collateral;
- bonds may be issued in one or more series;
- bonds will bear interest at a variable rate. The exact parameters of the interest rate on the bonds will be determined during the book-building process;
- Alior Bank will apply for introducing bonds to the alternative trading system operated by the Giełda Papierów Wartościowych w Warszawie SA;
- the issue of bonds is planned for December 2023; however, Alior Bank will decide on the bond issue and its parameters after analyzing market conditions. Having analyzed the market conditions, Alior Bank may also decide not to issue bonds;

The detailed terms of the issue and the exact value of the bond issue will be determined by the Alior Bank's Management Board at a later date, taking into account the results of the book-building process.

10. Notes to the condensed interim consolidated financial statements

10.1 Insurance and reinsurance contracts

10.1.1. Insurance revenue

Insurance revenue	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Contracts not measured under the PAA	2,020	6,045	1,976	5,993
Amounts relating to changes in liabilities for the remaining coverage	1,852	5,547	1,822	5,518
Expected incurred claims and other insurance service expenses	1,522	4,474	1,484	4,555
Release of the risk adjustment for non-financial risk for the period	47	127	41	125
Contractual service margin recognized in profit or loss for services provided	323	1,039	333	932
Other (including experience adjustments for premium receipts)	(40)	(93)	(36)	(94)
Recovery of insurance acquisition cash flows	168	498	154	475
Contracts measured under the PAA	4,895	13,872	4,322	12,350
Total insurance revenue	**6,915**	**19,917**	**6,298**	**18,343**

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10.1.2. Allocation of reinsurance premiums

Allocation of reinsurance premiums	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Contracts not measured under the PAA	-	-	-	-
Contracts measured under the PAA	(389)	(1,115)	(295)	(832)
Allocation of reinsurance premiums, total	**(389)**	**(1,115)**	**(295)**	**(832)**

10.1.3. Movement in insurance contract assets and liabilities

Movement in insurance contract assets and liabilities 1 January – 30 September 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**22,481**	**642**	**737**	**12,373**	**1,127**	**37,360**
Assets	(73)	-	2	3	-	(68)
Liabilities	22,554	642	735	12,370	1,127	37,428
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(16,277)**	**(34)**	**5,276**	**10,410**	**68**	**(557)**
Insurance service result before reinsurance	(17,514)	(55)	5,265	9,531	(1)	(2,774)
Insurance revenue	(19,917)	-	-	-	-	(19,917)
Measured under the modified retrospective approach	(3,624)	-	-	-	-	(3,624)
Measured under the fair value	(49)	-	-	-	-	(49)
Other contracts	(16,244)	-	-	-	-	(16,244)
Insurance service expenses	3,292	(55)	4,420	9,487	(1)	17,143
Incurred claims and other insurance service expenses	-	(889)	4,420	9,487	(1)	13,017
Incurred in the period	-	(889)	4,422	8,517	250	12,300
Incurred in the past	-	-	(2)	970	(251)	717
Amortization of insurance acquisition cash flows	3,292	-	-	-	-	3,292
Losses and loss reversals on onerous contracts	-	834	-	-	-	834
Investment component	(889)	-	845	44	-	-
Net finance expenses from insurance contracts	1,237	21	11	892	70	2,231
Foreign exchange differences	-	-	-	(13)	(1)	(14)
Cash flows	**17,762**	**-**	**(5,259)**	**(8,406)**	**-**	**4,097**
Premiums received	21,158	-	-	-	-	21,158
Insurance service expenses paid, including investment components	-	-	(5,259)	(8,406)	-	(13,665)
Insurance acquisition cash flows	(3,396)	-	-	-	-	(3,396)
Other changes	(3)	-	(2)	(5)	-	(10)
End of the period	**23,963**	**608**	**752**	**14,372**	**1,195**	**40,890**
Assets	(127)	6	4	4	-	(113)
Liabilities	24,090	602	748	14,368	1,195	41,003

Assets resulting from acquisition expenses are disclosed as a part of liabilities for remaining coverage.

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Movement in insurance contract assets and liabilities 1 January – 30 September 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**24,983**	**578**	**700**	**13,043**	**1,203**	**40,507**
Assets	(86)	6	18	3	-	(59)
Liabilities	25,069	572	682	13,040	1,203	40,566
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(19,362)**	**(14)**	**5,630**	**5,843**	**(253)**	**(8,156)**
Insurance service result before reinsurance	(16,610)	(22)	5,639	7,698	(115)	(3,410)
Insurance revenue	(18,343)	-	-	-	-	(18,343)
Measured under the modified retrospective approach	(3,460)	-	-	-	-	(3,460)
Measured under the fair value	(42)	-	-	-	-	(42)
Other contracts	(14,841)	-	-	-	-	(14,841)
Insurance service expenses	2,907	(22)	4,505	7,658	(115)	14,933
Incurred claims and other insurance service expenses	-	(828)	4,505	7,658	(115)	11,220
Incurred in the period	-	(828)	4,507	7,893	235	11,807
Incurred in the past	-	-	(2)	(235)	(350)	(587)
Amortization of insurance acquisition cash flows	2,907	-	-	-	-	2,907
Losses and loss reversals on onerous contracts	-	806	-	-	-	806
Investment component	(1,174)	-	1,134	40	-	-
Net finance expenses from insurance contracts	(2,756)	8	(9)	(1,900)	(143)	(4,800)
Foreign exchange differences	4	-	-	45	5	54
Cash flows	**16,210**	**-**	**(5,575)**	**(7,798)**	**-**	**2,837**
Premiums received	19,239	-	-	-	-	19,239
Insurance service expenses paid, including investment components	-	-	(5,575)	(7,798)	-	(13,373)
Insurance acquisition cash flows	(3,029)	-	-	-	-	(3,029)
Other changes	32	4	(3)	42	3	78
End of the period	**21,863**	**568**	**752**	**11,130**	**953**	**35,266**
Assets	(63)	-	2	4	-	(57)
Liabilities	21,926	568	750	11,126	953	35,323

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts	1 January – 30 September 2023						
			CSM				
	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	CSM, total	Total
Beginning of the period	**8,054**	**1,373**	**4,428**	**77**	**3,657**	**8,162**	**17,589**
Assets	(300)	46	25	-	172	197	(57)
Liabilities	8,354	1,327	4,403	77	3,485	7,965	17,646
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(297)**	**129**	**(47)**	**2**	**357**	**312**	**144**
Insurance service result before reinsurance	(1,149)	(23)	(200)	2	245	47	(1,125)
Changes that relate to future services	(874)	100	227	12	847	1,086	312
Contracts initially recognized in the period	(638)	99	-	-	859	859	320
Changes that adjust the CSM	(211)	(1)	227	12	(13)	226	14
Changes on onerous contracts	(25)	2	-	-	1	1	(22)
Changes that relate to current services	(279)	(123)	(427)	(10)	(602)	(1,039)	(1,441)
CSM recognized for services provided	-	-	(427)	(10)	(602)	(1,039)	(1,039)
Changes in risk adjustments for non-financial risks for the period	-	(123)	-	-	-	-	(123)
Experience adjustment for current service	(279)	-	-	-	-	-	(279)
Changes that relate to past services – changes for claims and other insurance service expenses	4	-	-	-	-	-	4
Net finance expenses from insurance contracts	852	152	153	-	112	265	1,269
Foreign exchange differences	-	-	-	-	-	-	-
Cash flows	**1,052**	**-**	**-**	**-**	**-**	**-**	**1,052**
Premiums received	6,855	-	-	-	-	-	6,855
Insurance service expenses paid, including investment component	(5,258)	-	-	-	-	-	(5,258)
Insurance acquisition cash flows	(545)	-	-	-	-	-	(545)
Other changes	5	-	-	-	(1)	(1)	4
End of the period	**8,814**	**1,502**	**4,381**	**79**	**4,013**	**8,473**	**18,789**
Assets	(460)	74	29	-	256	285	(101)
Liabilities	9,274	1,428	4,352	79	3,757	8,188	18,890

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts	1 January – 30 September 2022						
			CSM				
	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	CSM, total	Total
Beginning of the period	**11,159**	**1,605**	**4,545**	**113**	**3,120**	**7,778**	**20,542**
Assets	(299)	59	25	-	162	187	(53)
Liabilities	11,458	1,546	4,520	113	2,958	7,591	20,595
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(3,632)**	**(341)**	**(161)**	**(37)**	**361**	**163**	**(3,810)**
Insurance service result before reinsurance	(988)	(9)	(318)	(37)	299	(56)	(1,053)
Changes that relate to future services	(682)	121	111	(30)	795	876	315
Contracts initially recognized in the period	(513)	100	-	-	752	752	339
Changes that adjust the CSM	(117)	21	111	(30)	43	124	28
Changes on onerous contracts	(52)	-	-	-	-	-	(52)
Changes that relate to current services	(310)	(130)	(429)	(7)	(496)	(932)	(1,372)
CSM recognized for services provided	-	-	(429)	(7)	(496)	(932)	(932)
Changes in risk adjustments for non-financial risks for the period	-	(130)	-	-	-	-	(130)
Experience adjustment for current service	(310)	-	-	-	-	-	(310)
Changes that relate to past services – changes for claims and other insurance service expenses	4	-	-	-	-	-	4
Net finance expenses from insurance contracts	(2,644)	(332)	157	-	62	219	(2,757)
Foreign exchange differences	-	-	-	-	-	-	-
Cash flows	**333**	**-**	-	-	-	-	**333**
Premiums received	6,405	-	-	-	-	-	6,405
Insurance service expenses paid, including investment component	(5,574)	-	-	-	-	-	(5,574)
Insurance acquisition cash flows	(498)	-	-	-	-	-	(498)
Other changes	(3)	3	7	1	1	9	9
End of the period	**7,857**	**1,267**	**4,391**	**77**	**3,482**	**7,950**	**17,074**
Assets	(249)	45	22	-	135	157	(47)
Liabilities	8,106	1,222	4,369	77	3,347	7,793	17,121

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10.1.4. Movement in reinsurance contract assets and liabilities

Movement in reinsurance contract assets and liabilities 1 January – 30 September 2023	LRC		Contracts not under PAA	LIC – Contracts under PAA		Total
	excluding the loss recovery component	loss recovery component		estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(68)**	**-**	**-**	**(2,035)**	**(201)**	**(2,304)**
Assets	(116)	-	-	(2,011)	(200)	(2,327)
Liabilities	48	-	-	(24)	(1)	23
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**1,119**	**-**	**-**	**(1,333)**	**(49)**	**(263)**
Net income or expenses from reinsurance contracts held	1,118	-	-	(1,301)	(45)	(228)
Allocation of reinsurance premiums	1,115	-	-	-	-	1,115
Amounts recoverable from reinsurers	-	-	-	(1,299)	(45)	(1,344)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(226)	(33)	(259)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(1,073)	(12)	(1,085)
Reinsurance investment component	3	-	-	(3)	-	-
Effect of changes in non-performance risk of reinsurers	-	-	-	1	-	1
Net finance income from reinsurance contracts	-	-	-	(36)	(5)	(41)
Foreign exchange differences	1	-	-	4	1	6
Cash flows	**(1,184)**	**-**	**-**	**195**	**-**	**(989)**
Premiums paid	(1,184)	-	-	-	-	(1,184)
Claims recovered and expenses paid	-	-	-	195	-	195
Other changes	-	-	-	(1)	-	(1)
End of the period	**(133)**	**-**	**-**	**(3,174)**	**(250)**	**(3,557)**
Assets	(149)	-	-	(3,170)	(250)	(3,569)
Liabilities	16	-	-	(4)	-	12

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Movement in reinsurance contract assets and liabilities 1 January – 30 September 2022	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss recovery component	**loss recovery component**	**Contracts not under PAA**	**estimates of the present value of the future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**(48)**	**-**	**-**	**(1,284)**	**(179)**	**(1,511)**
Assets	(98)	-	-	(1,265)	(176)	(1,539)
Liabilities	50	-	-	(19)	(3)	28
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**828**	**-**	**-**	**(225)**	**(34)**	**569**
Net income or expenses from reinsurance contracts held	834	-	-	(321)	(46)	467
Allocation of reinsurance premiums	832	-	-	-	-	832
Amounts recoverable from reinsurers	-	-	-	(319)	(46)	(365)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(308)	(52)	(360)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(11)	6	(5)
Reinsurance investment component	2	-	-	(2)	-	-
Net finance income from reinsurance contracts	-	-	-	105	13	118
Foreign exchange differences	(6)	-	-	(9)	(1)	(16)
Cash flows	**(994)**	**-**	**-**	**231**	**-**	**(763)**
Premiums paid	(994)	-	-	-	-	(994)
Claims recovered and expenses paid	-	-	-	231	-	231
Other changes	2	-	-	23	1	26
End of the period	**(212)**	**-**	**-**	**(1,255)**	**(212)**	**(1,679)**
Assets	(251)	-	-	(1,234)	(211)	(1,696)
Liabilities	39	-	-	(21)	(1)	17

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

Non-PAA insurance and reinsurance contracts	Contracts issued 1 January – 30 September 2023			Contracts issued 1 January – 30 September 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	2,874	2,436	5,310	2,336	2,474	4,810
Present value of claims and insurance service expenses	2,493	2,236	4,729	2,021	2,293	4,314
Present value of insurance acquisition cash flows	381	200	581	315	181	496
Present value of cash inflows	(3,810)	(2,138)	(5,948)	(3,161)	(2,162)	(5,323)
Risk adjustment for non-financial risks	77	22	99	73	27	100
CSM	859	-	859	752	-	752
Losses recognized on initial recognition	-	(320)	(320)	-	(339)	(339)
Reinsurance contracts						
Present value of cash outflows	-	-	-	-	-	-
Present value of cash inflows	-	-	-	-	-	-
Risk adjustment for non-financial risks	-	-	-	-	-	-
CSM	-	-	-	-	-	-

Non-PAA insurance contracts	Contracts issued 1 July – 30 September 2023			Contracts issued 1 July – 30 September 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	868	603	1,471	772	564	1,336
Present value of claims and insurance service expenses	748	551	1,299	676	520	1,196
Present value of insurance acquisition cash flows	120	52	172	96	44	140
Present value of cash inflows	(1,164)	(532)	(1,696)	(1,030)	(499)	(1,529)
Risk adjustment for non-financial risks	27	5	32	21	7	28
CSM	269	-	269	237	-	237
Losses recognized on initial recognition	-	(76)	(76)	-	(72)	(72)
Reinsurance contracts						
Present value of cash outflows	-	-	-	-	-	-
Present value of cash inflows	-	-	-	-	-	-
Risk adjustment for non-financial risks	-	-	-	-	-	-
CSM	-	-	-	-	-	-

In the period from 1 January to 30 September 2023 and in the period from 1 January to 30 September 2022, the PZU Group did not buy any insurance or reinsurance contracts.

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10.2 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Loan receivables from clients	4,638	13,823	1,442	7,626
Debt securities measured at fair value through other comprehensive income	748	2,257	402	905
Debt securities measured at amortized cost	1,051	2,852	656	1,665
Buy-sell-back transactions	169	481	127	252
Term deposits with credit institutions	111	278	54	97
Loans	109	342	91	187
Receivables purchased	204	570	175	409
Hedge derivatives	(213)	(747)	(149)	(101)
Receivables	14	56	29	59
Cash and cash equivalents	217	662	211	421
Interest income calculated using the effective interest rate, total	**7,048**	**20,574**	**3,038**	**11,520**

10.3 Other net investment income

Other net investment income	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Dividend income, including:	51	93	11	47
Investment financial assets measured at fair value through profit or loss	15	28	11	20
Investment financial assets measured at fair value through profit or loss	36	65	-	27
Foreign exchange differences	56	235	(253)	(617)
Income on investment property	86	262	75	226
Investment property maintenance expenses	(41)	(128)	(33)	(95)
Investment activity expenses	(14)	(42)	(7)	(21)
Other	3	10	(2)	(11)
Total other net investment income	**141**	**430**	**(209)**	**(471)**

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10.4 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Investment financial assets	3	70	(38)	(141)
Debt instruments measured at fair value through other comprehensive income	(12)	(9)	-	(11)
Financial instruments measured at fair value through profit or loss	1	63	(41)	(136)
Equity instruments	16	35	(8)	(18)
Participation units and investment certificates	20	41	(52)	(101)
Debt instruments	(35)	(13)	19	(17)
Instruments measured at amortized cost	14	16	3	6
Loan receivables from clients measured at amortized cost	(4)	4	12	(1)
Derivatives	107	407	(116)	(179)
Short sale	11	4	(12)	(8)
Receivables	-	(1)	-	-
Result on derecognition of financial instruments and investments, total	**117**	**484**	**(154)**	**(329)**

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Investment financial assets	(8)	13	15	(43)
Debt instruments measured at fair value through other comprehensive income	2	16	12	12
Instruments measured at amortized cost	(10)	(3)	3	(55)
- debt instruments	(6)	(8)	(3)	(28)
- term deposits with credit institutions	1	3	12	(16)
- loans	(5)	2	(6)	(11)
Loan receivables from clients	(329)	(1,129)	(576)	(1,690)
Measured at amortized cost	(329)	(1,132)	(576)	(1,690)
Measured at fair value through other comprehensive income	-	3	-	-
Guarantees and sureties granted	12	(6)	15	10
Receivables	(12)	(14)	(15)	(65)
Cash and cash equivalents	-	2	(5)	(12)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(337)**	**(1,134)**	**(566)**	**(1,800)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Investment financial instruments measured at fair value through profit or loss	327	457	198	(258)
Equity instruments	(38)	56	(67)	(198)
Debt securities	312	184	282	386
Participation units and investment certificates	53	217	(17)	(446)
Derivatives	(365)	41	49	331
Measurement of liabilities to members of consolidated mutual funds	10	(20)	11	63
Investment contracts for the client's account and risk (unit-linked)	-	(26)	9	52
Investment property	(3)	(171)	(24)	8
Loan receivables from clients	4	11	6	10
Net movement in fair value of assets and liabilities measured at fair value, total	**(27)**	**292**	**249**	**206**

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10.7 Fees and commissions result

Fees and commissions result	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Revenue from commissions and fees	**1,367**	**4,015**	**1,316**	**3,865**
Banking activity	1,219	3,598	1,188	3,463
Margin on foreign exchange transactions with clients	246	791	274	799
Brokerage fees	57	157	45	145
Fiduciary activity	20	56	19	59
Payment card and credit card services	427	1,193	371	1,026
Fees on account of insurance intermediacy activities	8	26	5	18
Loans and borrowings	137	414	126	363
Bank account-related services	96	288	117	388
Transfers	77	230	77	229
Cash operations	29	84	32	91
Receivables purchased	21	68	21	60
Guarantees, letters of credit, collections, promises	24	71	26	75
Commissions on leasing activity	26	78	23	69
Other commission	51	142	52	141
Revenue and payments received from funds and mutual fund management companies	109	307	88	269
Pension insurance	38	107	39	130
Other	1	3	1	3
Fee and commission expenses	**(443)**	**(1,237)**	**(381)**	**(1,044)**
Costs of card and ATM transactions, including card issue costs	(337)	(930)	(293)	(779)
Commissions on acquisition of banking clients	(29)	(76)	(23)	(64)
Fees for the provision of ATMs	(13)	(36)	(7)	(29)
Costs of awards to banking clients	(6)	(19)	(4)	(13)
Costs of bank transfers and remittances	(11)	(36)	(12)	(36)
Additional services attached to banking products	(6)	(17)	(7)	(18)
Brokerage fees	(9)	(24)	(6)	(20)
Cost of operation of bank accounts	(1)	(4)	(1)	(4)
Cost of banknote operations	(7)	(20)	(7)	(20)
Cost of custody activities	(6)	(19)	(6)	(20)
Other commissions	(18)	(56)	(15)	(41)
Fee and commission result, total	**924**	**2,778**	**935**	**2,821**

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10.8 Operating costs of banks

Operating costs of banks	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Consumption of materials and energy	36	155	25	82
Third party services	293	834	236	789
Taxes and charges	16	48	15	46
Employee expenses	868	2,654	734	2,218
Depreciation of property, plant and equipment	120	382	121	376
Amortization of intangible assets	95	279	99	283
Other, including:	105	276	69	198
- advertising	63	158	38	108
- other	42	118	31	90
Operating costs of banks, total	**1,533**	**4,628**	**1,299**	**3,992**

10.9 Interest expenses

Interest expenses	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Term deposits	1,085	3,140	576	813
Current deposits	503	1,490	313	607
Own debt securities issued	322	909	248	502
Hedge derivatives	210	677	242	473
Loans	13	42	26	59
Repurchase transactions	86	276	119	246
Bank loans contracted by PZU Group companies	58	163	30	68
Leases	18	44	30	52
Other	24	64	12	27
Total interest expenses	**2,319**	**6,805**	**1,596**	**2,847**

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10.10 Other operating income and expenses

Other operating income and expenses	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Other operating income	**538**	**1,355**	**380**	**1,118**
Revenues on the sales of products, merchandise and services by non-insurance companies	324	876	258	771
Revenues from direct claims handling on behalf of other insurance undertakings	34	111	35	114
Reversal of provisions	77	117	13	25
Reimbursement of the costs of pursuit of claims	12	40	11	36
Other	91	211	63	172
Other operating expenses	**(1,104)**	**(3,437)**	**(1,247)**	**(4,295)**
Levy on financial institutions	(377)	(1,118)	(370)	(1,079)
Expenses of the core business of non-insurance and non-banking companies	(344)	(977)	(275)	(838)
Direct claims handling expenses on behalf of other insurance undertakings	(37)	(118)	(34)	(117)
Compulsory payments to banking market institutions	(2)	(46)	(4)	(41)
Bank Guarantee Fund	-	(249)	57	(364)
Cost of fees for the bank protection system	-	-	(60)	(696)
Costs of the Borrower Support Fund fee	-	-	(219)	(219)
Expenditures for prevention activity	(13)	(45)	(5)	(24)
Establishment of provisions	(173)	(385)	(165)	(341)
Amortization of intangible assets purchased in company acquisition transactions	(19)	(58)	(25)	(74)
Recognition of impairment losses for non-financial assets	(18)	(34)	(3)	(107)
Donations	(16)	(54)	(2)	(37)
Costs of pursuit of claims	(24)	(76)	(20)	(62)
Unallocated costs in insurance activities	(60)	(169)	(40)	(97)
Other	(21)	(108)	(82)	(199)
Other operating income and expenses, total	**(566)**	**(2,082)**	**(867)**	**(3,177)**

10.11 Income tax

Total amount of current and deferred tax	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Recognized in the profit and loss account, including:	(945)	(2,687)	(185)	(1,497)
- current tax	(1,002)	(2,344)	(615)	(1,161)
- deferred tax	57	(343)	430	(336)
Recognized in other comprehensive income, including:	(261)	(637)	(72)	238
- current tax	(12)	(22)	-	-
- deferred tax	(249)	(615)	(72)	238
Total	**(1,206)**	**(3,324)**	**(257)**	**(1,259)**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Income tax on other comprehensive income items	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Gross other comprehensive income	1,443	3,342	437	(1,161)
Income tax	(261)	(637)	(72)	238
Debt instruments	(60)	(274)	53	506
Insurance finance income or expenses	(15)	188	(71)	(868)
Financial income and expenses from reinsurance	(1)	3	4	26
Cash flow hedging	(188)	(570)	(75)	559
Equity instruments measured at fair value through other comprehensive income	5	15	16	16
Actuarial gains and losses related to provisions for employee benefits	-	5	-	(3)
Reclassification of real property from property, plant and equipment to investment property	(3)	(4)	-	-
Loan receivables from clients	1	-	1	2
Net other comprehensive income	**1,182**	**2,705**	**365**	**(923)**

The PZU Group is comprised of units operating in different countries and subject to different tax regulations. Regulations on tax on goods and services, corporate income tax, personal income tax or social security contributions are subject to relatively frequent changes. The regulations applicable in the countries where the PZU Group operates also include many ambiguities, which result in different opinions on the legal interpretation of tax regulations both between public authorities and between public authorities and companies. Tax and other settlements (e.g. customs and foreign exchange settlements) may be controlled by authorities (in Poland for five years), which have the right to impose high penalties. Additional liabilities identified during such controls must be paid together with high interest. This generates tax risk, as a result of which amounts disclosed in the financial statements may change later after they are finally determined by tax authorities.

10.12 Earnings per share

Earnings per share	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022 (restated)	1 January – 30 September 2022 (restated)
Net profit attributable to the equity holders of the parent company	1,458	4,158	727	2,560
Weighted average basic and diluted number of common shares	863,358,236	863,378,750	863,400,190	863,389,553
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)	(164,764)	(144,250)	(122,810)	(133,447)
Basic and diluted earnings (losses) per common share (in PLN)	1.69	4.82	0.84	2.97

In 9 months ended respectively 30 September 2023 and 30 September 2022, there were no transactions or events resulting in the dilution of earnings per share.

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10.13 Goodwill

Goodwill	30 September 2023	31 December 2022
Pekao [1]	1,715	1,715
LD [2]	511	518
Medical companies	342	307
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	42	42
Other	5	5
Goodwill, total	**2,836**	**2,808**

[1] Includes goodwill resulting from the purchase of Pekao Investment Management SA and the acquisition of Idea Bank.

[2] Includes goodwill resulting from the purchase of a branch of LD in Estonia.

10.14 Intangible assets

Intangible assets by group	30 September 2023	31 December 2022
Software, licenses and similar assets	1,496	1,556
Trademarks	522	523
- Pekao	340	340
- other	182	183
Customer relations	289	347
- Pekao	234	282
- other	55	65
Intangible assets under development	837	832
Other intangible assets	181	24
Intangible assets, total	**3,325**	**3,282**

10.15 Other assets

Other assets	30 September 2023	31 December 2022 (restated)
Deferred IT expenses	216	205
Accrued direct claims handling receivables	44	47
Costs settled over time	147	117
Inventories	31	56
Tax settlements on real properties, means of transport and land	10	-
Settlements of payments made to the Company Social Benefit Fund	15	-
Other assets	42	37
Total other assets	**505**	**462**

10.16 Property, plant and equipment

Property, plant and equipment by group	30 September 2023	31 December 2022
Equipment and machinery	648	629
Means of transport	219	222
Property, plant and equipment under construction	272	405
Real property	2,731	2,675
Other property, plant and equipment	394	373
Total property, plant and equipment	**4,264**	**4,304**

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10.17 Entities accounted for using the equity method

Associates	30 September 2023	31 December 2022
Krajowy Integrator Płatności SA	51	48
Sigma BIS SA	7	4
RUCH SA	-	-
Associates, total	**58**	**52**

10.18 Assets and liabilities held for sale

Assets held for sale by classification before transfer	30 September 2023	31 December 2022
Groups held for sale	**298**	**302**
Assets	326	335
Investment property	297	316
Receivables	4	4
Other assets	1	-
Cash and cash equivalents	24	15
Liabilities directly associated with assets classified as held for sale	28	33
Other liabilities	13	15
Deferred tax liabilities	15	18
Other assets held for sale	**308**	**319**
Property, plant and equipment	15	18
Investment property	293	301
Assets and groups of assets held for sale	**634**	**654**
Liabilities directly associated with assets classified as held for sale	**28**	**33**

The “Investment property” line item and the “Groups held for sale” section mainly include real properties held for sale by the investment fund of the real property sector.

10.19 Loan receivables from clients

Loan receivables from clients	30 September 2023	31 December 2022
Measured at amortized cost	215,802	212,255
Measured at fair value through other comprehensive income	92	254
Measured at fair value through profit or loss	194	184
Total loan receivables from clients	**216,088**	**212,693**

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Loan receivables from clients	30 September 2023	31 December 2022
Retail segment	**109,322**	**108,537**
Operating loans	192	191
Consumer finance	25,147	24,809
Consumer finance loans	4,328	4,292
Loans to purchase securities	14	14
Overdrafts in credit card accounts	1,163	1,123
Loans for residential real estate	77,616	77,220
Other mortgage loans	628	647
Car financing loans	1	2
Other receivables	233	239
Business segment	**106,766**	**104,156**
Operating loans	34,472	35,005
Car financing loans	-	1
Investment loans	30,515	30,107
Receivables purchased (factoring)	9,434	8,224
Overdrafts in credit card accounts	99	109
Loans for residential real estate	46	59
Other mortgage loans	10,577	9,872
Finance lease	16,001	14,935
Other receivables	5,622	5,844
Total loan receivables from clients	**216,088**	**212,693**

10.20 Financial derivatives

Derivatives	30 September 2023		31 December 2022	
	Assets	Liabilities	Assets	Liabilities
Related to interest rates	**10,164**	**11,786**	**14,426**	**19,625**
Fair value hedging instruments – swap transactions	105	1	125	5
Cash flow hedging instruments – swap transactions	736	2,423	285	5,168
Instruments carried as held for trading, including:	9,323	9,362	14,016	14,452
- forward contracts	112	139	45	36
- swap transactions	9,134	9,142	13,870	14,303
- call options (purchase)	57	65	83	97
- put options (sale)	17	13	15	13
- cap floor options	3	3	3	3
Related to exchange rates	**1,037**	**763**	**1,300**	**896**
Cash flow hedging instruments – swap transactions	113	141	48	1
Instruments carried as held for trading, including:	924	622	1,252	895
- forward contracts	336	283	544	322
- swap transactions	548	302	652	529
- call options (purchase)	28	12	28	5
- put options (sale)	12	25	28	39
Related to prices of securities	**21**	**3**	**26**	**3**
- call options (purchase)	20	2	26	2
- forward contracts	1	1	-	1
Related to commodity prices	**415**	**376**	**445**	**432**
- forward contracts	4	4	5	3
- swap transactions	344	305	440	429
- call options (purchase)	67	67	-	-
Total	**11,637**	**12,928**	**16,197**	**20,956**

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10.21 Assets pledged as collateral for liabilities

Assets pledged as collateral for liabilities	30 September 2023				31 December 2022			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Debt securities	710	1,041	35	1,786	41	879	52	972
Government securities	710	1,041	35	1,786	41	879	52	972
Domestic	710	1,041	35	1,786	41	879	52	972
Fixed rate	710	994	22	1,726	41	791	51	883
Floating rate	-	47	13	60	-	88	1	89
Assets pledged as collateral for liabilities, total	**710**	**1,041**	**35**	**1,786**	**41**	**879**	**52**	**972**

10.22 Investment financial assets

Investment financial assets	30 September 2023				31 December 2022			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	1,052	959	2,011	n/a	1,648	830	2,478
Participation units and investment certificates	n/a	n/a	4,930	4,930	n/a	n/a	4,876	4,876
Debt securities	119,274	45,960	3,951	169,185	91,605	38,077	2,417	132,099
Government securities	79,403	32,511	3,756	115,670	68,590	26,683	2,160	97,433
Domestic	69,472	26,972	2,674	99,118	62,918	23,973	2,023	88,914
Fixed rate	62,898	16,967	1,728	81,593	58,616	14,984	1,630	75,230
Floating rate	6,574	10,005	946	17,525	4,302	8,989	393	13,684
Foreign	9,931	5,539	1,082	16,552	5,672	2,710	137	8,519
Fixed rate	9,931	5,539	1,082	16,552	5,672	2,710	137	8,519
Other	39,871	13,449	195	53,515	23,015	11,394	257	34,666
Fixed rate	32,200	9,992	47	42,239	16,418	7,334	63	23,815
Floating rate	7,671	3,457	148	11,276	6,597	4,060	194	10,851
Other, including:	18,782	-	-	18,782	14,408	-	-	14,408
Buy-sell-back transactions	8,757	-	-	8,757	7,071	-	-	7,071
Term deposits with credit institutions	5,654	-	-	5,654	3,068	-	-	3,068
Loans	4,371	-	-	4,371	4,269	-	-	4,269
Investment financial assets, total	**138,056**	**47,012**	**9,840**	**194,908**	**106,013**	**39,725**	**8,123**	**153,861**

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Equity instruments measured at fair value through other comprehensive income	30 September 2023	31 December 2022
Orlen SA	388	910
Biuro Informacji Kredytowej SA	321	270
Grupa Azoty SA	177	284
PSP sp. z o.o.	92	79
Krajowa Izba Rozliczeniowa SA	22	15
Webuild SpA	12	10
Other	40	80
Equity instruments measured at fair value through other comprehensive income, total	**1,052**	**1,648**

PZU's decision to acquire PKN Orlen's shares was made in 2022, at a time when the valuation of PKN Orlen's shares was under great pressure, and market analyses indicated the potential to increase their value and thus achieve a high return on investment. In accordance with earlier statements, once the expected return on investment is achieved, a systematic sale of the stake held is being implemented. In the nine months ended 30 September 2023, the PZU Group sold shares with a fair value at the time of sale of PLN 495 million and a gross realized gain of PLN 91 million.

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 2023	31 December 2022
France	4,365	1,864
Germany	3,534	2,557
USA	3,265	1,226
Lithuania	748	717
Austria	668	3
Spain	597	142
The Netherlands	462	-
Belgium	373	-
Romania	273	209
Latvia	254	180
Croatia	233	76
Indonesia	159	176
Hungary	131	128
Columbia	126	75
Italy	114	114
Saudi Arabia	110	48
Ukraine	103	78
Panama	97	66
Bulgaria	86	78
Mexico	84	78
Serbia	62	30
Peru	58	64
Brazil	50	66
Other	600 [1)]	544 [2)]
Total	**16,552**	**8,519**

[1)] The item "Other" comprises bonds issued by 46 countries towards which the balance sheet liability per country does not exceed PLN 50 million.

[2)] The item "Other" comprises bonds issued by 49 countries.

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

Carrying amount of debt securities issued by corporations, local authorities and the National Bank of Poland	30 September 2023	31 December 2022
K. Financial and insurance activities, including:	40,330	22,256
Foreign banks	9,531	5,864
National Bank of Poland	29,164	14,594
Companies from the WIG-Banks Index	572	562
O. Public administration and defense, compulsory social security, of which:	5,977	5,313
Domestic local governments	5,977	5,309
D. Electricity, gas, steam, hot water and air conditioning production and supply, including:	1,679	1,914
Companies from the WIG-Energy Index	1,117	1,308
C. Manufacturing, including:	1,387	1,676
Production and processing of crude oil refining products (including WIG-Fuels)	514	707
E. Water supply; sewerage, waste management and remediation activities	748	584
N. Administrative and support service activities	652	620
H. Transportation and storage	638	679
J. Information and communication	463	365
U. Extra-territorial organizations and teams	410	-
F. Construction	360	373
I. R. Accommodation and food service activities (including: WIG - hotels and restaurants), and arts, entertainment and recreation activities	278	298
M. Professional, scientific and technical activity	274	187
L. Real estate activities	183	185
B. Mining and quarrying	135	192
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	1	24
Total	**53,515**	**34,666**

10.23 Receivables

Receivables	30 September 2023	31 December 2022 (restated)
Receivables from direct insurance	142	141
Receivables from sale of securities and security deposits [1)]	3,139	6,401
Receivables on account of payment card settlements	1,414	1,358
Trade receivables	588	507
Receivables from the state budget, other than corporate income tax receivables	72	118
Receivables from commissions on off-balance sheet products	175	165
Prevention settlements	44	52
Receivables from direct claims handling on behalf of other insurance undertakings	8	16
Receivables on account of Corporate Income Tax	66	305
Receivables from security and bid deposits	62	64
Interbank and interbranch receivables	8	14
Other	332	278
Total receivables	**6,050**	**9,419**

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

As at 30 September 2023 and 31 December 2022, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

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10.24 Expected credit losses and impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	185,358	24,135	12,167	5,154	226,814	182,578	28,470	11,239	5,307	227,594
Recognition of instruments at the time of acquisition, creation, granting	51,415	-	-	166	51,581	52,210	-	-	15	52,225
Change attributable to modification of cash flows concerning the given instrument	(2)	-	-	-	(2)	(3)	-	-	-	(3)
Changes attributable to valuation, sale, exclusion or expiration of the instrument (excluding reclassification)	(40,440)	(4,797)	(1,545)	(949)	(47,731)	(37,436)	(2,075)	(1,837)	(289)	(41,637)
Assets from the statement of financial position	-	-	(1,389)	(36)	(1,425)	-	-	(1,369)	(9)	(1,378)
Reclassification to stage 1	6,282	(6,006)	(276)	-	-	11,126	(10,866)	(260)	-	-
Reclassification to stage 2	(9,947)	10,306	(359)	-	-	(11,782)	12,151	(369)	-	-
Reclassification to stage 3	(1,982)	(1,995)	3,977	-	-	(2,723)	(1,667)	4,390	-	-
Other changes, including foreign exchange differences	645	(5)	420	366	1,426	(1,320)	(284)	301	352	(951)
End of the period	**191,329**	**21,638**	**12,995**	**4,701**	**230,663**	**192,650**	**25,729**	**12,095**	**5,376**	**235,850**
Expected credit losses										
Beginning of the period	(1,618)	(2,043)	(7,310)	(3,588)	(14,559)	(1,067)	(1,798)	(6,321)	(3,806)	(12,992)
Establishment of allowances for newly acquired, created, granted instruments	(532)	-	-	(121)	(653)	(444)	-	-	(5)	(449)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument (excluding reclassification)	776	(270)	(1,524)	402	(616)	565	(470)	(1,306)	(148)	(1,359)
Assets from the statement of financial position	-	-	1,389	36	1,425	-	-	1,369	9	1,378
Reclassification to stage 1	(350)	324	26	-	-	(549)	435	114	-	-
Reclassification to stage 2	165	(255)	90	-	-	119	(295)	176	-	-
Reclassification to stage 3	120	341	(461)	-	-	90	273	(363)	-	-
Other changes, including foreign exchange differences	3	53	(145)	(369)	(458)	(26)	(297)	(442)	(225)	(990)
End of the period	**(1,436)**	**(1,850)**	**(7,935)**	**(3,640)**	**(14,861)**	**(1,312)**	**(2,152)**	**(6,773)**	**(4,175)**	**(14,412)**
Net carrying amount at the end of the period	**189,893**	**19,788**	**5,060**	**1,061**	**215,802**	**191,338**	**23,577**	**5,322**	**1,201**	**221,438**

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Loan receivables from clients measured at fair value through other comprehensive income	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount										
Beginning of the period	254	-	-	-	254	115	131	-	-	246
Recognition of instruments at the time of acquisition, creation, granting	-	-	-	-		150	-	-	-	150
Change in measurement	(1)	-	-	-	(1)	7	-	-	-	7
Changes attributable to sale, exclusion or expiration of the instrument (excluding reclassification)	(167)	-	-	-	(167)	(3)	(132)	-	-	(135)
Other changes	6	-	-	-	6	(6)	1	-	-	(5)
End of the period	**92**	-	-	-	**92**	**263**	**-**	**-**	**-**	**263**
Expected credit losses										
Beginning of the period	(4)	-	-	-	(4)	(2)	(2)	-	-	(4)
Establishment of allowances for newly acquired, created, granted instruments	-	-	-	-	-	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	1	-	-	-	1	-	-	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	-	2	-	-	2
End of the period	**(1)**	-	-	-	**(1)**	**(4)**	**-**	**-**	**-**	**(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.

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Debt investment financial assets measured at amortized cost	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	91,515	236	24	63	91,838	73,897	354	35	39	74,325
Recognition of instruments at the time of acquisition, creation, granting	218,413	-	-	-	218,413	7,420	-	-	-	7,420
Change in measurement	777	(2)	-	-	775	1,139	-	3	-	1,142
Changes attributable to sale, exclusion or expiration of the instrument (excluding reclassification)	(192,013)	(26)	-	-	(192,039)	(12,565)	(42)	-	-	(12,607)
Reclassification to stage 1	-	-	-	-	-	269	(269)	-	-	-
Reclassification to stage 2	(336)	336	-	-	-	(167)	167	-	-	-
Other changes, including foreign exchange differences	1,190	(1)	1	25	1,215	712	(4)	-	15	723
End of the period	**119,546**	**543**	**25**	**88**	**120,202**	**70,705**	**206**	**38**	**54**	**71,003**
Expected credit losses										
Beginning of the period	(87)	(28)	(24)	(53)	(192)	(69)	(8)	(35)	(30)	(142)
Establishment of allowances for newly acquired, created, granted instruments	(19)	-	-	-	(19)	(13)	-	-	-	(13)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	5	-	-	5	(26)	8	-	-	(18)
Changes attributable to sale, exclusion or expiration of the instrument	5	1	-	-	6	3	-	-	-	3
Reclassification to stage 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to stage 2	11	(11)	-	-	-	28	(28)	-	-	-
Other changes, including foreign exchange differences	-	-	(1)	(17)	(18)	(1)	1	(3)	(16)	(19)
End of the period	**(90)**	**(33)**	**(25)**	**(70)**	**(218)**	**(79)**	**(26)**	**(38)**	**(46)**	**(189)**
Net carrying amount at the end of the period	**119,456**	**510**	**-**	**18**	**119,984**	**70,626**	**180**	**-**	**8**	**70,814**

As at 30 September 2023 and 30 September 2022 allowances for expected credit losses in relation to buy-sell-back transactions amounted zero.

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Debt investment financial assets measured at fair value through other comprehensive income	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount										
Beginning of the period	38,719	237	-	-	38,956	44,788	251	-	-	45,039
Recognition of instruments at the time of acquisition, creation, granting	838,117	-	-	-	838,117	74,002	-	-	-	74,002
Change in measurement	923	(10)	-	-	913	(1,254)	17	-	-	(1,237)
Changes attributable to sale, exclusion or expiration of the instrument (excluding reclassification)	(832,135)	(75)	-	-	(832,210)	(81,723)	(29)	-	-	(81,752)
Reclassification to stage 1	17	(17)	-	-	-	26	(26)	-	-	-
Reclassification to stage 2	(66)	66	-	-	-	(27)	27	-	-	-
Other changes, including foreign exchange differences	1,221	4	-	-	1,225	857	2	-	-	859
End of the period	**46,796**	**205**	**-**	**-**	**47,001**	**36,669**	**242**	**-**	**-**	**36,911**
Expected credit losses										
Beginning of the period	(45)	(21)	-	-	(66)	(54)	(26)	-	-	(80)
Establishment of allowances for newly acquired, created, granted instruments	(5)	-	-	-	(5)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	8	8	-	-	16	2	4	-	-	6
Changes attributable to sale, exclusion or expiration of the instrument	5	12	-	-	17	7	-	-	-	7
Reclassification to stage 2	3	(3)	-	-	-	1	(1)	-	-	-
End of the period	**(34)**	**(4)**	**-**	**-**	**(38)**	**(45)**	**(23)**	**-**	**-**	**(68)**

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.

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Term deposits with credit institutions	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	2,814	140	136	-	3,090	1,385	-	-	-	1,385
Recognition of instruments at the time of acquisition, creation, granting	103,193	-	-	-	103,193	24,408	-	-	-	24,408
Change in measurement	(2)	-	(1)	-	(3)	19	(3)	-	-	16
Changes attributable to sale, exclusion, expiration or modification of cash flows related to the instrument (excluding reclassification)	(100,414)	(134)	(52)	-	(100,600)	(23,108)	(11)	-	-	(23,119)
Reclassification to stage 2	(166)	166	-	-	-	(181)	181	-	-	-
Reclassification to stage 3	-	-	-	-	-	(150)	-	150	-	-
Other changes, including foreign exchange differences	(6)	(1)	1	-	(6)	6	(6)	-	-	-
End of the period	**5,419**	**171**	**84**	**-**	**5,674**	**2,379**	**161**	**150**	**-**	**2,690**
Expected credit losses										
Beginning of the period	(1)	(11)	(10)	-	(22)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	(9)	-	-	-	(9)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	-	1	-	1	(25)	10	(1)	-	(16)
Changes attributable to sale, exclusion or expiration of the instrument	-	11	-	-	11	1	1	-	-	2
Reclassification to stage 2	9	(9)	-	-	-	27	(27)	-	-	-
Reclassification to stage 3	-	-	-	-	-	1	-	(1)	-	-
Other changes, including foreign exchange differences	-	(1)	-	-	(1)	(1)	1	-	-	-
End of the period	**(1)**	**(10)**	**(9)**	**-**	**(20)**	**-**	**(15)**	**(2)**	**-**	**(17)**
Net carrying amount at the end of the period	**5,418**	**161**	**75**	**-**	**5,654**	**2,379**	**146**	**148**	**-**	**2,673**

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Loans	1 January – 30 September 2023					1 January – 30 September 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,300	-	-	-	4,300	3,522	75	-	-	3,597
Recognition of instruments at the time of acquisition, creation, granting	1,696	3	-	-	1,699	693	-	-	-	693
Change in measurement	81	-	-	-	81	91	3	-	-	94
Changes attributable to sale, exclusion or expiration of the instrument (excluding reclassification)	(1,680)	-	-	-	(1,680)	(147)	(4)	-	-	(151)
Reclassification to stage 1	-	-	-	-	-	74	(74)	-	-	-
Reclassification to stage 2	(639)	639	-	-	-	-	-	-	-	-
End of the period	**3,758**	**642**	**-**	**-**	**4,400**	**4,233**	**-**	**-**	**-**	**4,233**
Expected credit losses										
Beginning of the period	(31)	-	-	-	(31)	(5)	(6)	-	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(12)	-	-	-	(12)	(3)	-	-	-	(3)
Changes attributable to valuation or credit risk level (excluding reclassification)	3	(1)	-	-	2	(13)	5	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	12	-	-	-	12	-	-	-	-	-
Reclassification to stage 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to stage 2	6	(6)	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	1	-	-	-	1
End of the period	**(22)**	**(7)**	**-**	**-**	**(29)**	**(21)**	**-**	**-**	**-**	**(21)**
Net carrying amount at the end of the period	**3,736**	**635**	**-**	**-**	**4,371**	**4,212**	**-**	**-**	**-**	**4,212**

Receivables	1 January – 30 September 2023	1 January – 30 September 2022 (restated)
Gross carrying amount		
Beginning of the period	9,859	7,242
Changes in the period	(3,360)	3,646
End of the period	**6,499**	**10,888**
Expected credit losses		
Beginning of the period	(440)	(460)
Changes in the period	(9)	6
End of the period	(449)	(454)
Net carrying amount at the end of the period	**6,050**	**10,434**

10.25 Fair value

10.25.1. Description of valuation techniques

10.25.1.1. Debt securities and borrowings

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

10.25.1.2. Equity-based financial assets

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

10.25.1.3. Participation units and investment certificates of mutual funds

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

10.25.1.4. Derivatives

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

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

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

10.25.1.5. Loan receivables from clients

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

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

10.25.1.6. 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.

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

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

10.25.1.8. Liabilities under deposits

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

10.25.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

10.25.2. Fair value hierarchy

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

- level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid listed quoted securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale);
- level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, forward rate agreements ;
  - 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 contributors of consolidated investment 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 indicators, 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

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Measured assets	Unobservable data	Description	Impact on measurement
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 m2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation
Equity instruments 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.	

10.25.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 2023				31 December 2022			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets and assets pledged as collateral for liabilities measured at fair value through other comprehensive income	27,512	16,394	4,147	48,053	23,429	11,200	5,975	40,604
Equity instruments	585	-	467	1,052	1,254	-	394	1,648
Debt securities	26,927	16,394	3,680	47,001	22,175	11,200	5,581	38,956
Investment financial assets and assets pledged as collateral for liabilities measured at fair value through profit or loss	3,556	6,040	279	9,875	2,813	4,951	411	8,175
Equity instruments	708	-	251	959	578	-	252	830
Participation units and investment certificates	256	4,673	1	4,930	215	4,645	16	4,876
Debt securities	2,592	1,367	27	3,986	2,020	306	143	2,469
Loan receivables from clients	-	-	286	286	-	-	438	438
Measured at fair value through other comprehensive income	-	-	92	92	-	-	254	254
Measured at fair value through profit or loss	-	-	194	194	-	-	184	184
Financial derivatives	-	11,618	19	11,637	-	16,172	25	16,197
Investment property	-	213	2,956	3,169	-	160	2,861	3,021
Liabilities								
Derivatives	-	12,927	1	12,928	-	20,956	-	20,956
Liabilities to members of consolidated mutual funds	-	419	-	419	-	305	-	305
Investment contracts for the client's account and risk (unit-linked)	-	266	-	266	-	238	-	238
Liabilities on borrowed securities (short sale)	453	-	-	453	875	-	-	875

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Movement in assets and liabilities classified as level III of the fair value hierarchy in the period ended 30 September 2023	Investment financial assets and assets pledged as collateral for liabilities measured at fair value through other comprehensive income		Investment financial assets and assets pledged as collateral for 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	**394**	**5,581**	**252**	**16**	**143**	**25**	**-**	**254**	**184**	**2,861**
Purchase/opening of the position/granting	-	214	-	-	352	-	-	-	39	41
Reclassification from Level II [1)]	-	524	-	-	36	-	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	-	-	-	182
Profit or loss recognized in the profit and loss account:	-	216	20	-	6	5	1	12	(1)	(148)
- interest income calculated using the effective interest rate	-	157	-	-	2	-	-	12	(1)	-
- result on derecognition of financial instruments and investments	-	2	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	57	20	-	4	5	1	-	-	(148)
Profits or losses recognized in other comprehensive income	73	243	-	-	-	-	-	4	-	20
Sales/settlements/repayments/conversions	-	(960)	(21)	(15)	(451)	(11)	-	(178)	(28)	-
Reclassification to level II [1)]	-	(2,138)	-	-	(59)	-	-	-	-	-
End of the period	**467**	**3,680**	**251**	**1**	**27**	**19**	**1**	**92**	**194**	**2,956**

[1)] Information on the restatements is presented in section 10.25.6.

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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 pledged as collateral for liabilities measured at fair value through other comprehensive income		Investment financial assets and assets pledged as collateral for 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
Reclassification 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/conversions	-	(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 10.25.6.

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10.25.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 September 2023					31 December 2022				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	216,704	216,704	215,802	-	-	212,467	212,467	212,255
Investment financial assets and assets pledged as collateral for liabilities measured at amortized cost	48,862	60,146	25,112	134,120	138,766	40,218	36,396	20,448	97,062	106,054
Debt securities	48,862	49,628	16,728	115,218	119,984	40,218	32,226	10,170	82,614	91,646
Buy-sell-back transactions	-	5,484	3,270	8,754	8,757	-	2,277	4,794	7,071	7,071
Term deposits with credit institutions	-	5,034	628	5,662	5,654	-	1,893	1,187	3,080	3,068
Loans	-	-	4,486	4,486	4,371	-	-	4,297	4,297	4,269
Liabilities										
Liabilities to banks	-	1,060	6,182	7,242	7,211	-	1,637	6,117	7,754	7,720
Liabilities to clients under deposits	-	-	309,925	309,925	309,672	-	-	278,277	278,277	278,058
Liabilities on the issue of own securities [1]	-	9,935	1,750	11,685	11,483	-	10,315	821	11,136	11,090
Subordinated liabilities [1]	-	2,847	3,381	6,228	6,200	-	2,788	3,331	6,119	6,184
Liabilities on account of repurchase transactions	-	1,113	615	1,728	1,730	-	930	1	931	931

[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.

10.25.5. Changes in the method of measurement of fair value of financial instruments measured at fair value

During 9 months ended 30 September 2023 and in 2022 there were no changes in the method of measurement of fair value of financial instruments measured at fair value whose value would be important from the point of view of consolidated financial statements.

10.25.6. Reclassification between fair value hierarchy levels

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

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

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

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

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During 9 months ended 30 September 2023 the following reclassifications of assets between fair value levels were made:

- corporate bonds which were measured using market price information for comparable financial instruments, as well as corporate and municipal bonds 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;
- corporate bonds for which the impact exerted by the estimated credit parameters on the measurement was significant were reclassified from level II to level III;
- government bonds measured using market quotations were reclassified from level II to level I due to an increase in market activity.

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.

10.26 Reclassification of financial assets as a result of changes in the purpose or use of those assets

During 9 months ended 30 September 2023 the classification of financial assets was not changed as a result of changes in the purpose or use of those assets.

10.27 Share capital

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

All the Shares have been fully paid for.

As at 30 September 2023 and 31 December 2022

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

10.28 Distribution of the parent company's profit

Information about the distribution of the parent company's profit is presented in Section 22.

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10.29 Subordinated liabilities

	Nominal value	Currency	Interest rate	Issue date/Maturity date	Carrying amount 30 September 2023	Carrying amount 31 December 2022
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,280	2,333
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,295	1,270
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	572	560
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	208	204
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	360	352
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	411	403
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	221	229
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	626	612
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	73	71
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	154	150
Subordinated liabilities					**6,200**	**6,184**

"Nominal value" is the nominal value of the whole issue. In turn, the carrying amount of subordinated liabilities corresponds to the value recognized in the consolidated statement of financial position. As a part of bonds issued by PZU Group companies was acquired or purchased by other entities, that part is eliminated from the consolidated financial statements. That is why the carrying amount of certain classes of bonds is smaller than the full nominal value of instruments issued by the Group.

10.30 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 September 2023	31 December 2022
Bonds	8,961	3,488
Certificates of deposit	1,527	6,646
Covered bonds	995	956
Liabilities on the issue of own debt securities, total	**11,483**	**11,090**

10.31 Liabilities to banks

Liabilities to banks	30 September 2023	31 December 2022
Current deposits	1,206	855
One-day deposits	289	868
Term deposits	460	508
Loans received	4,971	5,271
Other liabilities	285	218
Liabilities to banks, total	**7,211**	**7,720**

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10.32 Liabilities to clients under deposits

Liabilities to clients under deposits	30 September 2023	31 December 2022
Current deposits	217,741	206,298
Term deposits	90,888	70,655
Other liabilities	1,043	1,105
Liabilities to clients under deposits, total	**309,672**	**278,058**

10.33 Other liabilities

Other liabilities	30 September 2023	31 December 2022 (restated)
Liabilities measured at fair value	**1,138**	**1,418**
Liabilities on borrowed securities (short sale)	453	875
Investment contracts for the client's account and risk (unit-linked)	266	238
Liabilities to members of consolidated mutual funds	419	305
Accrued expenses	**1,377**	**1,261**
Accrued payroll expenses	781	726
Other	596	535
Deferred revenue	**327**	**346**
Other liabilities	**12,878**	**11,600**
Liabilities on account of repurchase transactions	1,730	931
Lease liabilities	1,582	1,296
Liabilities due under transactions on financial instruments	1,706	2,283
Liabilities to banks for payment documents cleared in interbank clearing systems	2,002	2,331
Liabilities on direct insurance	504	470
Liabilities on account of payment card settlements	1,081	923
Regulatory settlements	329	573
Liabilities for contributions to the Bank Guarantee Fund	738	738
Estimated non-insurance liabilities	108	162
Liabilities to employees	111	116
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	34	27
Trade liabilities	363	486
Current income tax liabilities	1,604	328
Liabilities on account of employee leaves	173	162
Liabilities to the state budget other than for income tax	156	153
Liabilities on account of donations	10	13
The PZU Group banks' liabilities for insurance of bank products offered to the bank's clients	27	14
Insurance Guarantee Fund	13	14
Liability for the refund of loan costs	80	132
Liabilities for direct claims handling	33	32
Investment contracts with guaranteed and fixed terms – measured at amortized cost	63	-
Other	431	416
Other liabilities, total	**15,720**	**14,625**

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10.34 Provisions

Movement in provisions in the period ended 30 September 2023	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	514	395	-	(389)	-	520
Provision for retirement severance pays	265	58	(15)	(1)	-	307
Provision for disputed claims and potential liabilities	88	71	(17)	(16)	-	126
Provision for potential refunds of borrowing costs	127	-	(34)	(2)	-	91
Provision for legal risk pertaining to mortgage loans in Swiss francs	479	280	(15)	(85)	-	659
Provisions for refunds to clients of increased mortgage loan margins before the mortgage is established	123	-	(15)	(7)	-	101
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	21	-	(3)	-	-	18
Provision for post-mortem benefits	25	1	-	-	-	26
Other	30	25	-	(7)	-	48
Total provisions	**1,711**	**830**	**(99)**	**(507)**	**-**	**1,935**

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**

Provision for potential refunds of borrowing costs

The PZU Group monitors on an ongoing basis estimated amounts of consumer loan prepayments made before 11 September 2019, i.e. before the publication of the CJEU judgement 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. The 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. The 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. The 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 was up to the national court, however the CJEU did not rule out the possibility of supplementing the gap resulting from the abusiveness of the conversion clauses using national supplementary provisions. However, subsequent CJEU rulings have ruled out the possibility of supplementing the gap after eliminating the prohibited provision by national law, with the consequence that countries' courts find loan agreements unenforceable after removing the abusive provision (the conversion clause) and declare the agreement unenforceable, with the result that courts determine the invalidity of the loan agreement.

The CJEU rulings provide interpretative guidelines for the aforementioned directive for Polish courts. An unfavorable line of jurisprudence has become entrenched in Swiss franc mortgage loan cases, resulting in courts issuing judgments establishing the invalidity of loan agreements and ordering borrowers to return loan installments paid to banks as undue consideration.

So far, there has been no resolution of the full panel of the Civil Chamber of the Supreme Court addressing the issues covered by the request of the First President of the Supreme Court, in particular the following aspects:

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

According to the PZU Group, the Supreme Court's ruling remains valid only with regard to the last issue, as the other issues have been prejudged by preliminary rulings issued by the CJEU. It should also be noted that it is uncertain if the Civil Chamber in its full composition will adopt a resolution on this question.

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

- a national court may not declare unfair 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;
- 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 instalments does not start from the date of repayment of each instalment. In practice, it should be assumed that no consumer's claims for refund of paid instalments are time-barred.

On 15 June 2023, the CJEU announced its ruling in Case C-520/21, in which it resolved a preliminary question from the District Court for Warsaw-Śródmieście, stating that in the context of declaring a mortgage loan contract invalid in its entirety on the grounds that it cannot continue to be in force after the unfair terms have been removed from it, Articles 6(1) and 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts must be interpreted as follows:

- the aforementioned provisions do not preclude the judicial interpretation of national law, according to which the consumer is entitled to demand compensation from the credit institution beyond the reimbursement of monthly installments and costs paid for the execution of this contract and beyond the payment of statutory default interest from the date of the demand for payment, provided that the objectives of Council Directive 93/13/EEC and the principle of proportionality are respected, and;
- the aforementioned provisions preclude the judicial interpretation of national law, according to which a credit institution has the right to demand compensation from a consumer beyond the return of the principal paid for the performance of that contract and beyond the payment of statutory interest for late payment from the date of the demand for payment.

Given the judgement, banks cannot claim any compensation for the use of principal. In turn, as regards consumer claims against banks, the CJEU referred to the national law and pointed out that the referring court had to assess, in the light of all circumstances of the dispute, whether taking consumer claims into account is consistent with the proportionality rule. The PZU Group is not aware of any consumer claims of that type, including their legal basis, scope or character. At the same time, the judgment does not literally address the admissibility of the bank's claim for judicial indexation of the principal amount. The current views expressed are that such a claim is not covered by the prohibition of this ruling. On this topic, the national court has already referred a preliminary question to the CJEU.

As of 30 September 2023, there were 5,005 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 1,726 million (as of 31 December 2022: 2,989 cases with the litigation value of PLN 998 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

Since 2 October 2023, Pekao has been offering customers a new settlement offer aimed at borrowers with active (not fully repaid) CHF loan agreements, including those in litigation with Pekao. As part of the settlement, a new debt balance is determined = [loan amount disbursed] + [contractual interest at a fixed rate of 2%] – [total repayments made by the customer]. If the balance so designated is negative, the loan will be cancelled and Pekao will return the overpayment to the customer. For a positive balance, the remaining amount will bear interest at a fixed rate of 2% (for the first 5 years), and thereafter at Pekao's current offer.

During 9 months ended 30 September 2023, in cases instituted by borrowers, 828 court judgements against the PZU Group were issued, including 139 valid judgements, as well as 26 court judgements favorable for the PZU Group, including 2 valid judgements (2022: 580 court judgements against the PZU Group were issued, including 97 valid judgements, and 24 court judgements favorable for the PZU Group, including 5 valid judgements).

During 9 months ended 30 September 2023, the PZU Group did not make any significant changes in its assumptions and methodology of the calculation of provisions in comparison with those presented in the consolidated financial statements of the PZU Group for 2022.

The provisions are always estimated on the basis of expert assumptions and professional judgement.

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.

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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 2023	31 December 2022
Impairment losses for loan receivables from clients	1,849	1,824
individual provision	626	394
portfolio provision	1,223	1,430
Other provisions	659	479
individual provision	348	182
portfolio provision	311	297
Total	**2,508**	**2,303**

Impact of movement in provision on items of the consolidated profit and loss account	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Movement in allowances for expected credit losses and impairment losses on financial instruments	17	(26)	(39)	(370)
Other operating expenses	(62)	(195)	(18)	(132)
Other net investment income	(77)	(10)	-	-
Total	**(122)**	**(231)**	**(57)**	**(502)**

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

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

Provisions for guarantees and sureties given

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

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

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of the 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.

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10.35 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 September 2023	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,271	(304)	15	(20)	9	4,971
Liabilities on the issue of debt securities	11,090	374	27	22	(30)	11,483
Bonds	3,488	5,364	86	24	(1)	8,961
Certificates of deposit	6,646	(5,107)	(6)	(1)	(5)	1,527
Covered bonds	956	117	(53)	(1)	(24)	995
Subordinated liabilities	6,184	(209)	225	-	-	6,200
Liabilities on account of repurchase transactions	931	797	74	-	(72)	1,730
Lease liabilities	1,296	(205)	37	-	454	1,582
Total	**24,772**	**453**	**378**	**2**	**361**	**25,966**

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**

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11. Financial assets pledged as collateral for liabilities and contingent liabilities

The table presents the carrying amount of collaterals by type of liabilities.

Financial assets pledged as collateral for liabilities and contingent liabilities	**30 September 2023**	**31 December 2022**
Carrying amount of financial assets pledged as collateral for liabilities	14,905	13,267
Repurchase transactions	1,728	931
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	912	962
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	413	415
Coverage of liabilities to be paid to the resolution fund (BFG)	742	739
Lombard and technical credit	8,377	6,483
Other loans	249	317
Issue of covered bonds	1,416	1,262
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	29	36
Derivative transactions	1,012	2,094
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House	27	28
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**14,905**	**13,267**

12. Contingent assets and liabilities

Contingent assets and liabilities	**30 September 2023**	**31 December 2022**
Contingent assets, including:	4	6
- guarantees and sureties received	4	6
Contingent liabilities	79,084	80,676
- for renewable limits in settlement accounts and credit cards	5,081	4,829
- for loans in tranches	50,978	53,634
- guarantees and sureties given	9,137	8,521
- disputed insurance claims	944	933
- other disputed claims	391	187
- other, including:	12,553	12,572
- guaranteeing securities issues	2,959	4,158
- factoring	7,695	7,192
- intra-day limit	435	449
- letters of credit and commitment letters	1,279	688
- other	185	85

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

In the 9-month period ended 30 September 2023 and in 2022, neither PZU nor its subsidiaries granted any sureties for loans or borrowings or any guarantees, jointly to a single entity or its subsidiary, if the total amount of the outstanding sureties or guarantees would be significant, except for the matter described below.

On 26 October 2023, PZU concluded with Alior Bank Annex No. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time, and concluded with the Counterparty Annex No. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time defines the rules for PZU to issue insurance guarantees for unfunded credit protection within an exposure limit under instructions from, and in favor of, Alior Bank.

The maximum exposure limit for the guarantees issued pursuant to Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is PLN 4,000 million. The limit is in force for a period of 3 years and is a revolving limit, meaning that the expiry of a guarantee makes the "freed up" amount available within the limit minus any possible disbursements under a guarantee.

The fee for extending the guarantee will depend, among other things, on portfolio amortization. In addition, a counter-guarantee premium may be included in the remuneration, the issuance of which PZU may instruct the Counterparty to issue.

At present, it is not possible to state the amount of the fee for a guarantee since it will depend on the amount of the guaranteed sum and the quality of the portfolio collateralizing the guarantee. The issuance of every guarantee will be preceded by an application from Alior Bank and an evaluation and valuation of the portfolio presented for that guarantee.

Details of individual guarantees issued by PZU under Annex No. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time will be made public separately by PZU.

Alior Bank will present a declaration of voluntary submission to enforcement in the form of a notary deed to collateralize the payment of the fee for a guarantee under the executed Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time.

The maximum term of the guarantees issued under Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is 5 years. Alior Bank's share of the due and payable receivables by virtue of the accounts receivable is 10%.

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time contemplates contractual penalties that may be due to PZU from Alior Bank if Alior Bank breaches certain obligations stemming from Annex no. 2 to the Agreement. The total maximum amount of contractual penalties cannot exceed PLN 3 million. Annex no. 2 to the Agreement does not rule out the possibility of pursuing damages exceeding the sum total of the contractual penalties.

Annex no. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time defines the rules for the Counterparty to provide counter guarantees under instructions from PZU issued in favor of Alior Bank. The available counter guarantee limit is PLN 3,200 million. The available limit will be reduced each time when each counter guarantee is extended, by the guaranteed amount specified in the counter-guarantee; the available counter-guarantee limit is renewable, which means that the limit is renewed when a counter-guarantee expires.

13. Commentary to the condensed interim consolidated financial statements

In the 9-month period ended 30 September 2023, gross insurance revenue was PLN 19,917 million, as compared to PLN 18,343 million in the corresponding period of the preceding year (an increase by PLN 1,574 million, i.e.: +8.6% (+PLN 1,291 million after reinsurance premium allocation). The increase concerned primarily:

- Mass non-life insurance segment (+PLN 740 million of gross revenue, +PLN 734 million after reinsurance premium allocation), including an increase in the amortization of liabilities for remaining coverage (LRC) as a consequence of higher sales, mainly, of Auto Casco insurance products (an increase in the average premium) and non-motor insurance (including housing insurance and PZU Auto Pomoc). The effect on the Auto Casco and motor third party liability insurance portfolios was driven by a higher number of contracts made, due in part to the availability of vehicles greater than in the preceding year). The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (higher share of multi-agency channel in the portfolio);
- Corporate non-life insurance segment (+PLN 492 million of gross revenue, +PLN 190 million after reinsurance premium allocation), including an increase in the amortization of liabilities (LRC) as a consequence of a higher sales, mainly, of Auto

Casco insurance products (an increase in the average premium, better matching of the offer to the customer's risk profile and recovery in the leasing financing market) and, to a lesser degree, non-motor insurance products, including as a consequence of growth in the all-risk, machinery damage and loss of profit insurance portfolios. The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs;

- insurance products in the Baltic countries segment (+PLN 326 million of gross revenue, +PLN 323 million after reinsurance premium allocation) as a result of higher sales in non-life insurance segment, including motor third party liability and auto casco insurance products (due to higher fees in the region), as well as health and non-life insurance products;
- insurance revenue in the individual protective insurance segment (up PLN 65 million y/y) as a result of higher contractual service margin release as a consequence of observed demographic changes, including lower mortality rates;

At the same time, lower insurance revenue was recorded in the group and individually continued life insurance segment (-PLN 13 million of gross revenue) as a result of lower premiums needed to cover expected claims and benefits, mainly as a consequence of the expected return to lower mortality rates prior to the COVID-19 pandemic, with high utilization of health insurance benefits, partially offset by an increase in contractual service margins allocated to the first three quarters mainly due to lower expected mortality and expected gradual improvement in profitability in group health insurance and higher revenues to cover higher acquisition expenses – the impact of the increasing share of remuneration for intermediaries.

Insurance service expenses were PLN 17,143 million, i.e. increased by PLN 2,210 million, i.e. by 14.8%, as compared to the corresponding period of the previous year. Expenses adjusted for the amounts recoverable from reinsurers increased by PLN 1,231 million, and this resulted from:

- in the mass non-life insurance segment, higher net liabilities for the current year's claims, costs including amortization of acquisition costs (impact of growing share of multiagency channel in the portfolio), release of a lower net excess of prior years' claims reserves over the current projected value of payouts;
- in the corporate non-life insurance segment, higher y/y net liabilities for the current year's claims, amortization of acquisition costs, and the release of a lower net excess of prior years' claims reserves over the current projected value of payouts;
- higher liabilities for the current year's claims in the Baltic countries segment as a result of the increase in the value of the portfolio, administrative expenses attributable to the insurance business mainly due to higher personnel costs and amortization of acquisition costs;
- lower claims and benefits in the group and individually continued life insurance segment as a result of the post-pandemic (COVID-19) mortality decline (portfolio particularly vulnerable to an impact of the increased pandemic and civilization disease mortality – the aging of the portfolio);
- an increase in current period claims in the individual protective life insurance segment, including term insurance and bancasurance;
- higher administrative expenses attributable to the insurance activities in the insurance business segments in Poland mainly due to an increase in employment costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters) and IT expenses for group work tools.

The finance revenue and expenses on the insurance activities in the first three quarters of 2023 were -PLN 1,232 million, as compared to +PLN 86 million in the corresponding period of 2022 (and together with the finance revenue and expenses on the reinsurance activities, respectively, -PLN 1,181 million and +PLN 119 million). The increase in expenses was influenced in particular by the increase in the value of investments at policyholder risk in the investment insurance segment and the effect of changes in interest rates on the effect of shortening the discount period.

Investment income together with interest expense in the first quarter of 2023 and in the first quarter of 2022 was, respectively, PLN 13,841 million and PLN 6,279 million. This increase was most influenced by the positive change in investment income generated from banking activities. The higher result was related in particular to an increase in interest income of both banks as a result of a series of interest rate increases in 2022, expenses recognized in the first three quarters of 2022 related to the modification of PLN mortgage loan agreements granted to consumers due to their suspension of loan repayments (so-called moratorium periods), in the amount of PLN 2,429 million at Pekao and PLN 502 million at Alior Bank, and a lower level of legal risk allowances for foreign currency mortgage loans created by Pekao.

Investment income also increased excluding banking activities[1]. They were higher than in the first three quarters of 2022 mainly due to:

- higher investment results in the portfolio of assets to cover the investment products;
- higher income from variable-rate instruments as a result of the higher level of interest rates in Poland;
- higher income on the real estate portfolio (higher revenues from swap points on the currency hedging instruments, as well as rental income).

Better performance on the portfolio of assets covering investment products did not affect the PZU Group's total net profit, as it was offset by the insurance finance income or expenses.

In the first three quarters of 2023, the balance of other operating income and expenses was negative and stood at PLN 2,082 million, compared to the negative balance of PLN 3,177 million in the corresponding period of 2022. The operating revenues and expenses were affected by the following factors:

- accession of Alior Bank and Pekao to the Bank Protection System in 2022, resulting in a contribution to the aid fund of PLN 696 million recognized in the first three quarters of 2022;
- contribution to the Borrower Support Fund in the amount of PLN 219 million in 2022;
- lower fees to the Bank Guarantee Fund by PLN 115 million, the total burden on banks in the first three quarters of 2023 reached PLN 249 million;
- a higher charge for the legal risk provision for foreign currency mortgage loans, charged to other operating expenses, of PLN 195 million as compared to PLN 132 million in the first three quarters of 2022;
- levy on financial institutions – on the PZU Group's operations (including both the insurance activities and the banking activities) in the first quarter of 2023 was PLN 1,118 million, as compared to PLN 1,079 million in the corresponding period of the preceding year. A higher tax levy was imposed, in particular, on the banking activities and resulted from an increase in the assets subject to taxation.

The operating profit for the first three quarters of 2023 was PLN 11,730 million and was higher by PLN 6,737 million (+134.9%) compared to the result in the corresponding period of the previous year. This was caused in particular by the following factors:

- Higher performance in the banking business segment (+PLN 6,235 million), in particular, due to an increase in the interest income as a result of increases in interest rates in 2022, negative one-time effects from the previous year, including: 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), the accession to the Bank Protection System and a payment to the Borrower Support Fund. In addition, there were lower compulsory payment to the Bank Guarantee Fund (BFG) in the first three quarters of 2023, and the positive effects were partially offset by higher operating costs of banks, mainly in Pekao due to the indexation of salaries and higher property maintenance costs;
- Higher operating result in the group and individually continued life insurance segment (+PLN 141 million), mainly as a result of higher investment income allocated to the segment and lower claims and benefits as a result of the decline in mortality after the COVID-19 pandemic (the group and individually continued life insurance portfolio, due to the high and increasing average age of the insured, was particularly exposed to the impact of increased mortality caused by the pandemic and civilization diseases);
- Higher profitability on the operating activities of the corporate non-life insurance business (+PLN 104 million) as a result of better performance on investments (increases in revenues as a result of a higher level of interest rates in Poland , as well as a higher level of assets to cover insurance contract liabilities), and also better performance on insurance services (mainly due to higher dynamics of Auto Casco insurance products sales);
- Higher performance on operating activities of the investment business (+PLN 96 million) due to higher revenues from money market instruments as a result of higher interest rates in Poland and due to higher profitability on real estate portfolio caused by a higher level of income on currency hedging instruments, as well as by increases in rental income;

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

- Better performance of the Baltic business (+PLN 66 million) due to higher revenues from insurance contracts triggered by higher sales of motor insurance and health insurance products, partially offset by higher liabilities on claims in the current year and a higher level of amortization of acquisition expenses;
- Better performance on the operating activities of the individual protective life insurance products segment (+PLN 52 million), primarily, as a result of changes in financial revenues and expenses on insurance activities, and also better performance on insurance services;
- Lower profitability of mass non-life insurance business (-PLN 5 million), including primarily motor insurance products, partially mitigated by higher profitability on investments allocated to this business.

The net profit was higher by PLN 5,575 million (+160.5%) than that for the first three quarters of 2022 and amounted to PLN 9,049 million. The net profit attributable to the parent company's shareholders was PLN 4,158 million compared to PLN 2,560 million in 2022 (an increase by 62.4%).

The consolidated equity according to IFRS at 30 September 2023 was PLN 57,061 million, as compared to PLN 45,017 million at 30 September 2022. The increase resulted from an increase in equity attributable to equity shareholders of the parent company and an increase in non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2023 to 30 September 2023 was 20.2% and was higher by 5.6 p.p. than that for the previous year. The adjusted return on equity attributable to the parent company (aROE[3]) for the period from 1 January 2023 to 30 September 2023 was 22.0% and was higher by 6.7 p.p. than a year ago. The consolidated equity increased by PLN 8,543 million, as compared to the consolidated equity at 31 December 2022. The value of non-controlling interests increased compared to the end of the previous year by PLN 6,119 million to PLN 28,382 million, its movement driven by the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, earmarking PLN 1,423 million for dividends by Pekao (including PLN 1,138 million for minority shareholders) and the profit attributable to non-controlling owners of PLN 4,891 million (generated by Alior Bank and Bank Pekao). The equity attributable to equity holders of the parent company increased by PLN 2,424 million as compared to the yearend 2022 – as the effect of :

- an increase in the valuation of debt instruments measured at fair value through other comprehensive income;
- an increase in the net profit attributable to the parent company in the first three quarters of 2023 in the amount of PLN 4,158 million.

The above increases were partially offset by the distribution of PZU's profit for 2022 in the amount of PLN 1,637 million plus the amount of PLN 1,296 million transferred from the supplementary capital created from the net profit for the year ended 31 December 2021, including the appropriation of PLN 2,072 million for the payment of dividends, and the negative effect of the change in discount rates for the valuation of insurance liabilities due to the decrease in the discount curve.

The total of equity and liabilities at 30 September 2023 was higher by PLN 37,202 than at 31 December 2022 and amounted to PLN 466,380 million. The increase resulted primarily from an increase in the liabilities towards clients from deposits (+PLN 31,614 million), and liabilities from insurance contracts (+PLN 3,575 million).

The investment portfolio (investment financial assets, assets pledged as collateral for liabilities, investment properties and financial derivatives) at 30 September 2023 totaled PLN 211,500 million and was higher by PLN 37,449 million, as compared to that at the end of the preceding year. The increase in investments was mainly related to the banking activities including debt instruments at Pekao. The investment portfolio, excluding banks, increased due to inflow of premiums as a result of the growth in business, as well as the profit or loss on investments. At 30 September 2023 loan receivables from clients were PLN 216,088 million, as compared to PLN 212,693 million at 31 December 2022.

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

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

The largest liabilities at 30 September 2023 were liabilities to clients under deposits. Their increase by PLN 31,614 million to PLN 309,692 million resulted from an increase in liabilities towards clients from both current and term deposits.

The liabilities from insurance contracts at the end of the first three quarters of 2023 were PLN 41,003 million and constituted 8.8% of the total equity and liabilities. Compared to 31 December 2022, the balance of these liabilities increased by PLN 3,575 million and was related in particular to the decline in interest rates as well as an increase in the BEL estimate on a high unit value claim, with no major impact on the result due to deep reinsurance coverage.

14. Equity management

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

In keeping with the Policy, PZU Group endeavors to:

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

The capital management policy is based on the following principles:

- 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:
  - not more than 20% will increase retained earnings (supplementary capital) for purposes of organic development and innovations, and implementation of development 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 fulfilment of the conditions specified in the capital policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

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

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

The PZU Group's solvency ratio as at 31 December 2022, published in the PZU Group's 2021 solvency and financial condition report, was 240%.

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

15. Segment reporting

15.1 Reportable segments

15.1.1. 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)	IFRS	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)	IFRS	Broad scope of property, accident, TPL and motor insurance products offered to retail clients and entities in the small and medium-sized enterprise sector by PZU and Link4.	As above.
Group insurance and individually continued insurance (life insurance)	IFRS	Group insurance products offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons with a legal relationship with the policyholder (e.g. employer, trade union) accede to the insurance product granted and individually continued insurance products under which the policyholder acquires the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (non-investment contracts) and health insurance.	No aggregation.
Individual protective insurance products (life insurance)	IFRS	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 and health insurance.	No aggregation.

Segment	Accounting standards	Segment description	Aggregation criteria
Unit-linked life insurance	IFRS	Unit-linked insurance with significant insurance risk (investment agreements that are not investment contracts).	No aggregation.
Investments	IFRS	The segment includes investments of free funds, i.e. the surplus of the investment portfolio over the level allocated to pay insurance liabilities of PZU and PZU Życie and the operating result of TFI PZU.	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 individual clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to the similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	IFRS	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 the similarity of the regulatory environment of their operations.
Investment contracts	IFRS	PZU Życie products that do not transfer any significant insurance risk within the meaning of IFRS 17 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed return and some unit-linked products).	No aggregation.
Other	IFRS	Other products and services not classified into any of the above segments.	

15.1.2. Description of differences in the basis for segment separation and the basis for the measurement of profit or loss of a segment in comparison with the previous annual consolidated financial statements

The PZU Group changed the basis for the measurement of profit or loss of certain segments in comparison with the previous annual consolidated financial statements.

In the case of segments of corporate insurance (non-life insurance), mass insurance (non-life insurance), group and individually continued insurance (life insurance), individual protection insurance (life insurance), investments and investment contracts, the profit or loss of segments was measured in accordance with the Polish Accounting Standard till the end of 2022. Starting from consolidated financial statements for periods started 1 January 2023, the profit or loss of those segments is measured in accordance with the IFRS. In particular for insurance segments, the profit or loss on insurance services is measured in accordance with IFRS 17.

In addition, in accordance with IFRS 17, in the segments of group and individually continued insurance and individual insurance, a new segment of life insurance of investment character was separated and disclosed.

Data for comparative periods were restated accordingly to recognize the results of segments in accordance with the new structure and method of measurement of profit and loss.

15.1.3. 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 countries (covering Lithuania – LD, PZU LT GD, Latvia – Balta and Estonia – LD branch);
- Ukraine.

15.2 Segment's measure of profit

The PZU Group's fundamental measure of the segment's profit is IFRS-based profit from operating activities.

15.3 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 fulfilment of the regulatory requirements;
- presenting the net result on investments as a single amount as the difference between the realized and unrealized revenue 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 revenue and costs to the segment called „investments" besides realized and unrealized revenue and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation.

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15.4 Quantitative data

1 July – 30 September 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activity	Pension	Other	Total
Insurance service result before reinsurance	550	434	388	58	(5)	45	4	-	-	-	-	-	1,474
Insurance revenue	1,059	3,151	1,828	161	11	642	63	-	-	-	-	-	6,915
Amortization of liabilities for remaining coverage (PAA)	910	2,434	-	-	-	519	40	-	-	-	-	-	3,903
Expected claims and benefits (GMM, VFA)	-	-	1,222	34	2	2	7	-	-	-	-	-	1,267
Expected expenses (GMM, VFA)	-	-	236	24	(7)	2	-	-	-	-	-	-	255
Release of the contractual service margin (GMM, VFA)	-	-	270	44	6	3	-	-	-	-	-	-	323
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	33	4	9	1	-	-	-	-	-	-	47
Recovery of insurance acquisition cash flows	149	717	108	53	2	115	16	-	-	-	-	-	1,160
Other income	-	-	(41)	2	(1)	-	-	-	-	-	-	-	(40)
Insurance service expenses	(509)	(2,717)	(1,440)	(103)	(16)	(597)	(59)	-	-	-	-	-	(5,441)
Claims incurred in the period (without the investment component)	(465)	(1,838)	(1,147)	(27)	(3)	(436)	(34)	-	-	-	-	-	(3,950)
Expenses incurred in the period	(51)	(204)	(202)	(21)	(1)	(63)	(9)	-	-	-	-	-	(551)
Run-off of claim reserves from prior years	145	54	-	-	-	18	-	-	-	-	-	-	217
Amortization of loss component	34	89	99	5	4	35	-	-	-	-	-	-	266
Recognition of the loss component	(23)	(101)	(82)	(7)	(14)	(36)	-	-	-	-	-	-	(263)
Amortization of insurance acquisition cash flows	(149)	(717)	(108)	(53)	(2)	(115)	(16)	-	-	-	-	-	(1,160)

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1 July – 30 September 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activity	Pension	Other	Total
Net income or expenses from reinsurance contracts held	(424)	(19)	-	-	-	(4)	-	-	-	-	-	-	(447)
Allocation of reinsurance premiums	(342)	(41)	-	-	-	(6)	-	-	-	-	-	-	(389)
Amounts recoverable from reinsurers, including:	(82)	22	-	-	-	2	-	-	-	-	-	-	(58)
Incurred claims	94	21	-	-	-	2	-	-	-	-	-	-	117
Incurred expenses	(1)	-	-	-	-	-	-	-	-	-	-	-	(1)
Run-off of claim reserves from prior years	(175)	1	-	-	-	-	-	-	-	-	-	-	(174)
Insurance service result	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance service result	**126**	**415**	**388**	**58**	**(5)**	**41**	**4**	**-**	**-**	**-**	**-**	**-**	**1,027**
Insurance finance income or expenses	(47)	(104)	(130)	(25)	(51)	-	-	-	-	-	-	-	(357)
Financial income and expenses from reinsurance	30	8	-	-	-	-	-	-	-	-	-	-	38
Investment income	105	234	214	29	51	9	2	-	(10)	6,334	5	(31)	6,942
Fees and commissions result	-	-	-	-	-	-	-	1	26	894	39	(36)	924
Operating costs of banks	-	-	-	-	-	-	-	-	-	(1,620)	-	87	(1,533)
Interest expenses	-	-	-	-	-	-	-	-	(57)	(2,273)	-	11	(2,319)
Other operating income and expenses	-	-	-	-	-	-	-	-	(29)	(383)	(5)	(149)	(566)
Operating profit	**214**	**553**	**472**	**62**	**(5)**	**50**	**6**	**1**	**(70)**	**2,952**	**39**	**(118)**	**4,156**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

1 January – 30 September 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activity	Pension	Other	Total
Insurance service result before reinsurance	190	1,220	939	176	8	218	23	-	-	-	-	-	2,774
Insurance revenue	3,014	8,921	5,471	480	31	1,834	166	-	-	-	-	-	19,917
Amortization of liabilities for remaining coverage (PAA)	2,576	6,913	-	-	-	1,484	105	-	-	-	-	-	11,078
Expected claims and benefits (GMM, VFA)	-	-	3,589	104	2	7	24	-	-	-	-	-	3,726
Expected expenses (GMM, VFA)	-	-	683	68	(9)	6	-	-	-	-	-	-	748
Release of the contractual service margin (GMM, VFA)	-	-	870	141	18	10	-	-	-	-	-	-	1,039
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	94	13	18	2	-	-	-	-	-	-	127
Recovery of insurance acquisition cash flows	438	2,008	326	153	5	325	37	-	-	-	-	-	3,292
Other income	-	-	(91)	1	(3)	-	-	-	-	-	-	-	(93)
Insurance service expenses	(2,824)	(7,701)	(4,532)	(304)	(23)	(1,616)	(143)	-	-	-	-	-	(17,143)
Claims incurred in the period (without the investment component)	(1,325)	(5,222)	(3,610)	(74)	(10)	(1,190)	(81)	-	-	-	-	-	(11,512)
Expenses incurred in the period	(155)	(630)	(610)	(64)	(4)	(189)	(25)	-	-	-	-	-	(1,677)
Run-off of claim reserves from prior years	(940)	132	-	-	-	91	-	-	-	-	-	-	(717)
Amortization of loss component	125	345	286	10	12	111	-	-	-	-	-	-	889
Recognition of the loss component	(91)	(318)	(272)	(23)	(16)	(114)	-	-	-	-	-	-	(834)
Amortization of insurance acquisition cash flows	(438)	(2,008)	(326)	(153)	(5)	(325)	(37)	-	-	-	-	-	(3,292)

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

1 January – 30 September 2023	**Corporate insurance**	**Mass insurance**	**Group and individually continued insurance**	**Individual protective insurance**	**Investment insurance**	**Baltic States**	**Ukraine**	**Investment contracts**	**Investments**	**Banking activity**	**Pension**	**Other**	**Total**
Net income or expenses from reinsurance contracts held	300	(60)	-	-	-	(10)	(2)	-	-	-	-	-	228
Allocation of reinsurance premiums	(980)	(117)	-	-	-	(18)	-	-	-	-	-	-	(1,115)
Amounts recoverable from reinsurers, including:	1,281	57	-	-	-	8	(2)	-	-	-	-	-	1,344
Incurred claims	213	29	-	-	-	8	(2)	-	-	-	-	-	248
Incurred expenses	10	1	-	-	-	-	-	-	-	-	-	-	11
Run-off of claim reserves from prior years	1,058	27	-	-	-	-	-	-	-	-	-	-	1,085
Change in the risk of non-performance by the reinsurer	(1)	-	-	-	-	-	-	-	-	-	-	-	(1)
Insurance service result	**490**	**1,160**	**939**	**176**	**8**	**208**	**21**	**-**	**-**	**-**	**-**	**-**	**3,002**
Insurance finance income or expenses	(100)	(227)	(379)	(70)	(439)	(17)	-	-	-	-	-	-	(1,232)
Financial income and expenses from reinsurance	43	8	-	-	-	-	-	-	-	-	-	-	51
Investment income	268	599	625	86	446	35	28	2	243	18,332	14	(32)	20,646
Fees and commissions result	-	-	-	-	-	1	-	2	74	2,699	107	(105)	2,778
Operating costs of banks	-	-	-	-	-	-	-	-	-	(4,800)	-	172	(4,628)
Interest expenses	-	-	-	-	-	-	-	-	(171)	(6,670)	-	36	(6,805)
Other operating income and expenses	-	-	-	-	-	-	-	-	(86)	(1,369)	(24)	(603)	(2,082)
Operating profit	**701**	**1,540**	**1,185**	**192**	**15**	**227**	**49**	4	**60**	**8,192**	**97**	**(532)**	**11,730**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

1 July – 30 September 2022 (restated)	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Invest-ments	Banking activities	Pension	Other	Total
Insurance service result before reinsurance	352	396	380	59	(14)	63	13	-	-	-	-	-	1,249
Insurance revenue	871	2,860	1,812	137	7	545	66	-	-	-	-	-	6,298
Amortization of liabilities for remaining coverage (PAA)	755	2,226	-	-	-	437	45	-	-	-	-	-	3,463
Expected claims and benefits (GMM, VFA)	-	-	1,194	39	-	2	9	-	-	-	-	-	1,244
Expected expenses (GMM, VFA)	-	-	214	26	(3)	3	-	-	-	-	-	-	240
Release of the contractual service margin (GMM, VFA)	-	-	284	42	5	2	-	-	-	-	-	-	333
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	33	4	4	-	-	-	-	-	-	-	41
Recovery of insurance acquisition cash flows	116	634	107	42	1	101	12	-	-	-	-	-	1,013
Other income	-	-	(20)	(16)	-	-	-	-	-	-	-	-	(36)
Insurance service expenses	(519)	(2,464)	(1,432)	(78)	(21)	(482)	(53)	-	-	-	-	-	(5,049)
Claims incurred in the period (without the investment component)	(364)	(1,670)	(1,194)	(20)	(4)	(355)	(33)	-	-	-	-	-	(3,640)
Expenses incurred in the period	(38)	(200)	(180)	(19)	(1)	(57)	(8)	-	-	-	-	-	(503)
Run-off of claim reserves from prior years	(4)	70	-	-	-	29	-	-	-	-	-	-	95
Amortization of loss component	32	66	95	4	2	55	-	-	-	-	-	-	254
Recognition of the loss component	(29)	(96)	(46)	(1)	(17)	(53)	-	-	-	-	-	-	(242)
Amortization of insurance acquisition cash flows	(116)	(634)	(107)	(42)	(1)	(101)	(12)	-	-	-	-	-	(1,013)

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1 July – 30 September 2022 (restated)	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Invest-ments	Banking activities	Pension	Other	Total
Net income or expenses from reinsurance contracts held	(166)	(30)	-	-	-	(2)	(9)	-	-	-	-	-	(207)
Allocation of reinsurance premiums	(234)	(42)	-	-	-	(6)	(13)	-	-	-	-	-	(295)
Amounts recoverable from reinsurers, including:	68	12	-	-	-	4	4	-	-	-	-	-	88
Incurred claims	54	3	-	-	-	5	4	-	-	-	-	-	66
Incurred expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Run-off of claim reserves from prior years	14	9	-	-	-	(1)	-	-	-	-	-	-	22
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance service result	**186**	**366**	**380**	**59**	**(14)**	**61**	**4**	**-**	**-**	**-**	**-**	**-**	**1,042**
Insurance finance income or expenses	(25)	(82)	(118)	(21)	96	5	-	-	-	-	-	-	(145)
Financial income and expenses from reinsurance	11	4	-	-	-	-	-	-	-	-	-	-	15
Investment income	67	221	184	31	(91)	(2)	16	(1)	(73)	1,985	4	17	2,358
Fees and commissions result	-	-	-	-	-	-	-	1	19	908	39	(32)	935
Operating costs of banks	-	-	-	-	-	-	-	-	-	(1,527)	-	228	(1,299)
Interest expenses	-	-	-	-	-	-	-	-	(69)	(1,536)	-	9	(1,596)
Other operating income and expenses	-	-	-	-	-	-	-	-	(19)	(450)	(5)	(393)	(867)
Operating profit	**239**	**509**	**446**	**69**	**(9)**	**64**	**20**	**-**	**(142)**	**(620)**	**38**	**(171)**	**443**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

1 January – 30 September 2022 (restated)	**Corporate insurance**	**Mass insurance**	**Group and individually continued insurance**	**Individual protective insurance**	**Life investment insurance**	**Baltic States**	**Ukraine**	**Investment contracts**	**Invest-ments**	**Banking activities**	**Pension**	**Other**	**Total**
Insurance service result before reinsurance	858	1,269	906	154	(6)	161	68	-	-	-	-	-	3,410
Insurance revenue	2,522	8,181	5,484	415	24	1,508	209	-	-	-	-	-	18,343
Amortization of liabilities for remaining coverage (PAA)	2,164	6,405	-	-	-	1,206	143	-	-	-	-	-	9,918
Expected claims and benefits (GMM, VFA)	-	-	3,698	113	-	7	32	-	-	-	-	-	3,850
Expected expenses (GMM, VFA)	-	-	630	73	(5)	7	-	-	-	-	-	-	705
Release of the contractual service margin (GMM, VFA)	-	-	802	108	14	8	-	-	-	-	-	-	932
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	101	12	11	1	-	-	-	-	-	-	125
Recovery of insurance acquisition cash flows	358	1,776	313	144	3	279	34	-	-	-	-	-	2,907
Other income	-	-	(60)	(35)	1	-	-	-	-	-	-	-	(94)
Insurance service expenses	(1,664)	(6,912)	(4,578)	(261)	(30)	(1,347)	(141)	-	-	-	-	-	(14,933)
Claims incurred in the period (without the investment component)	(1,367)	(4,866)	(3,783)	(65)	(15)	(989)	(82)	-	-	-	-	-	(11,167)
Expenses incurred in the period	(112)	(581)	(536)	(56)	5	(163)	(25)	-	-	-	-	-	(1,468)
Run-off of claim reserves from prior years	171	328	-	-	-	88	-	-	-	-	-	-	587
Amortization of loss component	90	223	335	17	4	159	-	-	-	-	-	-	828
Recognition of the loss component	(88)	(240)	(281)	(13)	(21)	(163)	-	-	-	-	-	-	(806)
Amortization of insurance acquisition cash flows	(358)	(1,776)	(313)	(144)	(3)	(279)	(34)	-	-	-	-	-	(2,907)

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1 January – 30 September 2022 (restated)	**Corporate insurance**	**Mass insurance**	**Group and individually continued insurance**	**Individual protective insurance**	**Life investment insurance**	**Baltic States**	**Ukraine**	**Investment contracts**	**Invest-ments**	**Banking activities**	**Pension**	**Other**	**Total**
Net income or expenses from reinsurance contracts held	(372)	(69)	-	-	-	(7)	(19)	-	-	-	-	-	(467)
Allocation of reinsurance premiums	(678)	(111)	-	-	-	(15)	(28)	-	-	-	-	-	(832)
Amounts recoverable from reinsurers, including:	306	42	-	-	-	8	9	-	-	-	-	-	365
Incurred claims	325	13	-	-	-	10	9	-	-	-	-	-	357
Incurred expenses	3	-	-	-	-	-	-	-	-	-	-	-	3
Run-off of claim reserves from prior years	(22)	29	-	-	-	(2)	-	-	-	-	-	-	5
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance service result	**486**	**1,200**	**906**	**154**	**(6)**	**154**	**49**	**-**	**-**	**-**	**-**	**-**	**2,943**
Insurance finance income or expenses	(65)	(208)	(339)	(103)	772	29	-	-	-	-	-	-	86
Reinsurance finance income or expenses	22	11	-	-	-	-	-	-	-	-	-	-	33
Investment income	154	542	477	89	(768)	(23)	(62)	1	102	8,582	8	24	9,126
Fees and commissions result	-	-	-	-	-	1	-	2	60	2,725	130	(97)	2,821
Operating costs of banks	-	-	-	-	-	-	-	-	-	(4,342)	-	350	(3,992)
Interest expenses	-	-	-	-	-	-	-	-	(136)	(2,727)	-	16	(2,847)
Other operating income and expenses	-	-	-	-	-	-	-	-	(62)	(2,281)	(16)	(818)	(3,177)
Operating profit	**597**	**1,545**	**1,044**	**140**	**(2)**	**161**	**(13)**	**3**	**(36)**	**1,957**	**122**	**(525)**	**4,993**

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Geographic breakdown	1 January – 30 September 2023					1 January – 30 September 2022 (restated)				
	Poland	Baltic States	Ukraine	Not allocated	Consoli-dated value	Poland	Baltic States	Ukraine	Not allocated	Consoli-dated value
Insurance revenue	17,917	1,834	166	-	19,917	16,626	1,508	209	-	18,343
Fees and commissions result	2,777	1	-	-	2,778	2,820	1	-	-	2,821
Investment profit or loss [1]	20,583	35	28	-	20,646	9,211	(23)	(62)	-	9,126

[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 2023					31 December 2022 (restated)				
	Poland	Baltic States	Ukraine [1]	Not allocated	Consoli-dated value	Poland	Baltic States	Ukraine [1]	Not allocated	Consoli-dated value
Non-current assets other than financial assets [2]	7,281	305	3	-	7,589	7,264	319	3	-	7,586
Deferred tax assets	2,426	6	1	-	2,433	3,092	6	-	-	3,098
Assets	463,692	3,518	402	(1,232)	466,380	426,846	3,208	356	(1,232)	429,178

[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".

15.5 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 revenue of the PZU Group.

16. Note on reporting by segment

16.1 Corporate insurance– non-life insurance

During the first three quarters of 2023, revenues from insurance products in the corporate insurance segment increased as compared to the corresponding period of 2022 by PLN 492 million, i.e.: +19.5 y/y (+PLN 190 million y/y after reinsurance premium allocation). The increase resulted from an increase in the amortization of liabilities (LRC) as a consequence of a higher sales, mainly, of Auto Casco insurance products, and to a lesser degree from an increase in non-motor insurance products. In Auto Casco, this is mainly the impact of the increase in average premiums resulting from higher sums insured (increasing value of vehicles) and better matching of the offer to the customer's risk profile. An effect reinforced by the recovery in the leasing financing market. The increase in liability amortization in non-motor insurance is mainly a consequence of the growth of the all-risk, machinery damage and loss of profit insurance portfolio.

The higher level of revenue from insurance contracts is also triggered by a PLN 80 million higher y/y level of premiums allocated to cover acquisition expenses as a consequence of growing sales and a simultaneous increase in commission expenses.

Insurance service expenses adjusted by amounts recoverable from reinsurers increased by PLN 185 million y/y (+13.6% y/y) which together with an increase in the net revenues from insurance products by 10,3% y/y resulted in the profitability measured by the mixed ratio (COR) decreasing by 2.3 percentage point. An increase in the net insurance service expenses is a result of:

- Higher net liabilities (y/y) for the current year's claims and higher expenses, including acquisition expenses and administrative expenses attributable to the insurance activities. The increase in administrative expenses results primarily from higher personnel costs and in real estate costs (including, indexation of lease prices and utility prices);
- release of a lower net excess of prior years' claims reserves over the current projected value of payouts.

The PLN 114 million (+74.0% y-o-y) increase in net investment income compared to the comparable period last year was due in particular to an increase in the required balance of assets to cover liabilities, as well as higher interest rates offset in part by the negative impact of foreign exchange differences. At the level of the PZU Group's overall net result, this currency effect was offset by the changed level of insurance liabilities covered by foreign currency assets.

The finance income and expenses on insurance activities (after reinsurance allocation) were -PLN 57 million, which translates into an increase in expenses by PLN 14 million y/y triggered mainly by fluctuations in interest rates.

After the first three quarters of 2023, the segment achieved an PLN 190 million gross profit from insurance services, despite an increase in Q1 2023 of more than PLN 1.2 billion in the provision to a prior years' event (a claim by a customer from the fuel industry) – a claim due to the high level of reinsurance (more than 98%) without a significant impact on the result from net insurance services, which amounted to PLN +490 million.

After the first three quarters of 2023, the corporate insurance segment (property and personal insurance) achieved PLN 701 million in operating profit, an increase by 17.4% year-on-year. The increase resulted primarily from better performance on investments and a simultaneous increase in the net insurance service result.

16.2 Mass insurance – non-life insurance

During the first three quarters of 2023, gross revenues from insurance products in the mass insurance segment increased as compared to the first three quarters of 2022 by PLN 740 million, i.e.: +9.0 y/y (+PLN 734 million y/y after reinsurance premium allocation). The increase resulted from an increase in the amortization of liabilities (LRC) as a consequence of a higher sales in the second half of 2022, mainly, of Auto Casco insurance products and of non-motor insurance products. In Auto Casco, it is mainly the impact of an increase in the average premium resulting from the increasing value of vehicles (which translates into an increase in the sums insured), and of tariff changes. The effect on the Auto Casco portfolio was driven by a higher number of contracts – the impact of, among other things, the availability of vehicles greater than in the preceding year). The increase in liability amortization in non-motor insurance is mainly a consequence of premium growth from housing insurance, offered to small and medium-sized enterprises, and PZU Auto Pomoc.

The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales and a simultaneous increase in commission costs (higher share of multi-agency channel in the portfolio).

Insurance service expenses adjusted by amounts recoverable from reinsurers increased by PLN 774 million y/y (+11.3% y/y) , which together with an increase in the net revenues from insurance contracts by 9,1% y/y resulted in the profitability measured by the mixed ratio (COR) decreasing by 1.7 percentage point. An increase in the net insurance service expenses is a product of:

- higher liabilities (y/y) for the current year's claims and business expenses, including acquisition expenses (an impact of growing share of multi-agency channel in the portfolio) and administrative expenses attributable to the insurance activities. The increase in administrative expenses results primarily from higher personnel costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters) and IT expenses for group work tools;
- recognition of a loss component, including on the inward reinsurance portfolio with PZU Group companies as a consequence of increased claims inflation, but in an amount that does not exceed the amortization from the opening balance sheet (the effect of better matching the offer to the customer's risk profile);
- release of a lower y/y net excess of prior years' claims reserves over the current projected value of payouts.

The PLN 57 million (+10.5% y-o-y) increase in net investment income compared to the comparable period last year was due in particular to an increase in the required balance of assets to cover liabilities, as well as higher interest rates offset in part by the negative impact of foreign exchange differences. At the level of the PZU Group's overall net result, this currency effect was offset by the changed level of insurance liabilities covered by foreign currency assets.

The finance income and expenses on insurance net were -PLN 219 million, which translates into an increase in expenses by PLN 22 million y/y triggered mainly by fluctuations in interest rates.

A drop in the operating profit in the mass insurance segment by PLN 5 million (-0.3% y/y), as compared to the first three quarters of 2022 was mainly caused by deterioration in the profitability on insurance services, mainly motor insurance products partially mitigated by improvement in the investment income allocated to the segment.

16.3 Group and individually continued insurance – life insurance

During 9 months of 2023, revenues from insurance contracts in the group and individually continued insurance segment decreased as compared to the corresponding period of 2022 by PLN 13 million, i.e.: -0.2% y/y . The lower revenues are a product of:

- a lower premium required to cover expected claims and benefits, a result of an expected return to lower pre-pandemic mortality rates while high utilization of health insurance benefits (the effect of health debt realization after the two-year pandemic in an environment of high medical services inflation);
- higher revenues to cover higher acquisition expenses – the impact of the increasing share of remuneration for intermediaries;
- a PLN 68 million y/y increase in contractual service margin allocated to the first three quarters of 2023 mainly due to lower expected mortality and expected gradual improvement in profitability in group health insurance (impact of ongoing cyclical portfolio tariff-setting). At the same time, the y/y growth rate of contractual service margin release significantly weakened in Q3 2023 as a result of a temporary increase in the utilization of health insurance benefits (the effect of health debt realization after the pandemic and a high medical services inflation).

Insurance service expenses adjusted by amounts recoverable from reinsurers decreased by PLN 46 million y/y (-1.0% y/y) which together with a decrease in the net revenues from insurance contracts by 0.2% y/y resulted in the profitability measured by the ratio of insurance service result to revenues from insurance contracts increasing by 0.6 percentage points. A decrease in the net insurance service expenses is a product of:

- lower claims and benefits as a result of the post-pandemic (COVID-19) mortality decline (portfolio particularly vulnerable to an impact of the increased pandemic and civilization disease mortality – the ageing of the portfolio);
- higher administrative expenses (+PLN 74 million y/y) as a result of higher personnel costs and in real estate costs (indexation of rental prices, utilities, costs of the new headquarters and IT expenses for group work tools.

An increase by PLN 148 million (+31.0% y/y) in the investment income, as compared to the corresponding period of the previous year, was triggered in particular by an increase in revenues from floating rate instruments due to higher interest rates in Poland, as well as a higher required level of assets to cover liabilities.

The finance income and expenses on insurance were -PLN 379 million, which translates into an increase in expenses by PLN 40 million y/y triggered mainly by fluctuations in interest rates.

The increase y/y in the operating profit in the group and individually continued insurance segment by PLN 141 million (+13.5% y/y) was mainly caused by the impact of a higher investment income allocated to the segment. The effect was partially offset by increased finance expenses from insurance.

16.4 Individual protective insurance products – life insurance

During the first three quarters of 2023, revenues from insurance contracts in the individual protective insurance segment increased as compared to the first three quarters of 2022 by PLN 65 million, i.e.: +15.7% y/y (+PLN 65 million y/y after reinsurance premium allocation). Within revenues, there was a higher y/y increase in the contractual service margin in the main product groups, among other things, as a consequence of the observed demographic changes, including lower mortality rates and the expected gradual improvement in profitability in group health insurance, among other factors. The effect was partially offset by a lower level of premiums written to cover expenses (-PLN 5 million y/y). Higher insurance revenues are also the result of an increase in the value of other revenues (+36 million y/y) – in 2022 the negative impact of the high level of cancellations of bancassurance contracts (increase in credit insurance premium refunds mainly from single premium contracts).

Insurance service expenses adjusted by amounts recoverable from reinsurers increased by PLN 43 million (+16.5% y/y) which together with an increase in the net revenues from insurance contracts by 15,7% y/y resulted in the profitability measured by the ratio of insurance result to revenues from insurance contracts decreasing by 0.4 percentage points. An increase in the net insurance service expenses is a product of:

- higher administrative expenses as a consequence of, among other things, increases in personnel costs and real estate costs (including, indexation of lease prices and utility prices);
- an increase in current period claims in term insurance and bancassurance.

The level of investment income was slightly lower than in the comparable period last year (-PLN 3 million, or -3.4% y/y) following a reduction in the average required rate of return in the newer product groups.

The finance income and expenses on insurance were -PLN 70 million, which results from an decrease in expenses by PLN 33 million y/y.

The increase in the operating profit in the individual protection insurance business by PLN 52 million, i.e. almost a 40% increase compared to the profit achieved in the first three quarters of 2022, was a result, mainly, of changes in finance income and expenses, and also better performance on insurance services result and stable investments income allocated to the segment (-PLN 3 million y/y).

16.5 Life investment insurance

During 9 months of 2023, the investment life insurance segment reported an operating profit of PLN 15 million, a result increase by PLN 17 million y/y. The y/y change is a result of an increase in sales of a new endowment insurance product with the guaranteed sum assured marketed in the second half of 2022, and of higher fees charged to customers as a consequence of lower insurance equity funds.

The investment income was PLN 446 million, as compared to the investment loss generated in the previous year (-PLN 768 million), in particular, on the PPE products, Multi-currency Investment Program and IKE products. However, the increase in the investment income had no effect on the PZU Group's total net profit, as it is offset by a change in the level of finance expenses on insurance activities.

16.6 Baltic States

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

The Lithuanian non-life insurance market share measured by the gross written premium at the end of September 2023 was 29.8%, while the life insurance market share was 6.7%. The share in the Estonian non-life insurance market was 15.5%. At the end of June 2023, the share in the Latvian non-life insurance market was 29.1%.

On account of its activity in the Baltic states, PZU Group generated at the end of the third quarter of 2023, the operating profit of PLN 227 million compared with PLN 161 million at the end of September of last year.

In the period from January to September 2023, there was an increase in insurance contract revenues by PLN 326 million, or -21.6% y/y, including allocated reinsurance premiums by PLN 323 million, compared to the corresponding period of 2022. Within revenues, there was an increase in the amortization of liabilities (LRC) as a consequence of a higher sales. Sales higher by PLN 349 million were generated in the non-life insurance segment chiefly as a result of a considerable growth in sales of motor third party and auto casco insurance (by 21.8% y/y in the functional currency) due to an increase of tariffs in the region and non-life insurance (by 29.7% y/y in the functional currency) due to, among other things, the conclusion of new contracts of significant value, and health insurance (by 36.8% in the functional currency) as a result of a higher number of policies. In life insurance, sales climbed PLN 3 million. The higher level of revenue from insurance contracts is also triggered by a higher y/y level of premiums allocated to cover acquisition costs as a consequence of growing sales.

Insurance service expenses adjusted by amounts due from reinsurers increased by PLN 269 million y/y (+20.1%). Non-life insurance business saw an increase of PLN 268 million (+20.2% y/y), which, with a 21.8% y/y increase in net insurance contract revenues, represents a 1.1 p.p. improvement in profitability measured by the mixed ratio (COR).

An increase in the net insurance service expenses of the segment is a product of:

- higher y/y compensation and benefits liabilities due to the increase in the value of the portfolio;
- release of a higher y/y net excess of prior years' claims reserves over the current projected value of payouts;
- change of a loss component with an effect on the insurance service result PLN +1 million y/y as a product of the recognition of a new loss component lower by PLN 49 million as compared to the corresponding period of the preceding year, and of

changes in assumptions for active cohorts from the preceding years having an effects on the profit in the amount of -PLN 48 million y/y;

- a 16.0% y/y increase in administrative expenses, mainly due to higher personnel costs. At the same time, the segment's ratio of administrative expenses calculated to net insurance revenues decreased by 0.5 p.p. to 10.4%;
- PLN 46 million higher amortization of acquisition cash flow. The acquisition expense ratio was 17.9% recording a 0.8 p.p. y/y decrease.

The finance income and expenses on insurance net were -PLN 17 million, which translates into an increase in expenses by PLN 46 million y/y triggered mainly by fluctuations in interest rates.

The increase in investment income compared to the comparable period last year was due in particular to an increase in income from floating rate instruments.

16.7 Ukraine

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

As a result of the outbreak of the war, operational activities since 24 February 2022, have been carried out by both companies on a very limited basis. In the areas affected by hostilities, all outlets are closed. Clients can buy selected groups of insurance remotely. Products available for sale include compulsory insurance: Green Card and motor TPL, as well as some voluntary insurance: motor MOD, non-life and travel. In the case of life insurance, there are sales of short-term products with limited risk.

The share in the Ukrainian non-life insurance market measured by the gross written premium stood at 3.9% at the end of June 2023, while the share in the life insurance market was 8.2%.

The Ukraine segment closed Q3 2023 with an operating profit of PLN 49 million, compared to a loss of PLN 13 million profit at the end of September of the previous year.

During the first three quarters of 2023, there was a year-on-year decrease in insurance contract revenues by PLN 43 million, or -20.6% y/y (-2.7% y/y in functional currency), including allocated reinsurance premiums by PLN 15 million, as a result of a decline in sales growth in the second half of 2022. Y/y sales increased by PLN 11 million, or +6.4%, with an increase in functional currency of UAH 375 million, or 30.6% y/y. Non-life and other personal insurance sales increased by PLN 19 million, or +14.8%, with a 40.8% y/y increase in the functional currency, mainly as a result of increases in sales of Green Card insurance (by 106.3% y/y), motor third-party liability and auto casco insurance (in total by 44.8% y/y) and health insurance (in total by 63.6% y/y). Sales of life insurance products decreased by PLN 8 million, i.e. by 20.1% y/y, and in the functional currency by 2.0% y/y.

Insurance service expenses adjusted by amounts due from reinsurers increased by PLN 13 million y/y, or +9.8% (in functional currency by +35.9%). An increase in the net insurance service expenses of the segment is a product of:

- lower y/y compensation and benefits liabilities;
- 3 million higher amortization of acquisition cash flow (in functional currency, an increase of UAH 83 million, or +34.4% y/y). The acquisition expense ratio rose by 3.5 p.p. to 22.3%.

The value of administrative expenses remained unchanged at PLN 25 million (in functional currency, an increase of 22.5%, or UAH 40 million). The segment's ratio of administrative expenses calculated to net insurance revenues increased by 1.2 p.p. to 15.1%;

The result from investments stood at PLN 28 million, up by PLN 90 million y/y.

16.8 Investment contracts

The segment includes PZU Życie products that do not transfer any significant insurance risk within the meaning of IFRS 17 and that do not meet the definition of an insurance contract, including some products with a guaranteed return and unit-linked. These products are recognized in accordance with the requirements of IFRS 9.

During the first three quarters of 2023, the investment contracts segment introduced PZU Stabilne Jutro life and endowment insurances.

At the same time, sales of new products did not offset cancellations in the unit-linked portfolio that are investment contracts, which translated into a slight increase in operating profit by PLN 1 million y/y.

16.9 Investments

The segment includes investments of free funds, i.e. the surplus of the investment portfolio over the level allocated to pay insurance liabilities of PZU and PZU Życie and the operating result of TFI PZU. In the first three quarters of 2023, the profit in the investment segment increased, as compared to the corresponding period of 2022, by PLN 141 million (+138.2% y/y), which was triggered by:

- higher income on the real estate portfolio due to higher revenues from swap points on the currency hedging instruments, as well as rental income;
- negative performance on the private equity portfolio as a result of the downturn in the technology market, in which the portfolio funds are primarily invested;
- higher portfolio performance of listed stocks due to better market conditions;
- higher performance on the sovereign bonds portfolio, as a result of the deceleration of last year's yield increases;
- higher income on money market instruments as a result of higher interest rates in Poland;
- higher allocation to insurance segments.

Higher investment profit was accompanied by higher interest expenses (by PLN 35 million y/y) as a result of higher interest rate level in Poland.

Operating result in the investment segment amounted to PLN 60 million in the first three quarters of 2023, compared to a negative level in the comparable period last year (PLN -36 million), particularly as a result of a higher result from investments in free funds.

16.10 Banking activity

The banking activity segment consists of the following groups: Pekao and Alior Bank.
After Q3 2023, the banking activity segment generated PLN 8,192 million in operating profit (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies an increase by PLN 6,235 million as compared to the corresponding period of 2022. The higher profit was mainly related to higher interest income resulting from operating in a high interest rate environment and thanks to lower costs related to the modification of PLN mortgage loan agreements granted to consumers due to their suspension of loan repayments (moratorium periods).

After Q3 2023, Pekao contributed PLN 6,226 million to the operating profit (without amortization of intangible assets acquired as part of the acquisition transaction) in the “Banking activities” segment, while the Alior Bank’s contribution was PLN 1,927 million.

The key element of the segment’s income is the investment result for 2023, which was PLN 18,332 million, i.e. increased by PLN 9,750 million, i.e. by 114%. 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 continued high interest rates. In addition, as part of interest income in the second quarter of the year, Pekao recorded a one-time income of PLN 80.3 million, in connection with the updating of a provision related to the modification of PLN mortgage loan agreements granted to consumers due to their suspension of loan repayments (so-called moratorium periods). Results after Q3 2023 are also affected by lower legal risk provisions for foreign currency mortgages.

At the end of Q3 2023, the loan receivables portfolio at the two banks combined decreased by PLN 5.9 billion (2.6%) compared to the corresponding period in 2022, mainly due to the repayment of a significant credit exposure in the corporate segment at Pekao (app. PLN 5.4 billion).

After the first three quarters of 2023, the value of allowances for expected credit losses and impairment losses on financial instruments totaled PLN 564 million at Pekao, down by PLN 362 million y/y, and PLN 573 million at Alior Bank, down by PLN 195 million y/y, mainly due to lower provisions for legal risk on CHF foreign currency mortgage loans.

Pekao's profitability after the first three quarters of 2023, as measured by the net interest margin ratio, is 4.22, an increase of 1.5 p.p. over the value after the first three quarters of 2022. The value of Alior Bank's interest margin after the first three quarters of 2023 is 5.93%, up 1.66 p.p. compared to the corresponding period in 2023. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. At both banks, interest margins have increased due to the interest rate hike cycle underway in 2022 and completed in the first half of 2023.

The fee and commission result in the banking activity segment was PLN 2,699 million and was by 1% lower than in the corresponding period of the preceding year. A decrease in relation to 2022 was mainly caused by lower bank account revenues and the effect of lower brokerage commissions at Alior Bank, as well as the effect of higher card and ATM transaction costs. The main reason for the lower commission income was the adjustment of the offering to market conditions and the high margin on foreign exchange transactions with customers last year at Pekao.

The total operating expenses were PLN 4,800 million and consisted of the Pekao operating expenses amounting to PLN 3,441 million and of the Alior Bank operating expenses of PLN 1,359 million. The increase by 11% y/y was caused mainly by higher personnel costs (indexation of salaries) and higher real estate maintenance expenses due to higher electricity prices.

In addition, other contributors to the operating result included other operating income and expenses, where the main components were the BFG fees (PLN 249 million) and the levy on other financial institutions (PLN 855 million). The negative balance of other operating income and expenses was PLN 912 million lower compared to the comparable period of 2022, due to lower fees from the bank protection system (-PLN 696 million y/y) and lower fees to the BGF (-PLN 115 million y/y). The cost/income ratio stood at 32% for both banks. This ratio was 31% for Pekao and 33% for Alior Bank.

16.11 Pension insurance

The operating profit in the pension insurance segment amounted to PLN 97 million in the first three quarters of 2023, or 20.5% less than in the corresponding period in 2022.

Factors affecting the operating result and its movement:

- a decrease in net fee and commission income to PLN 107 million, with the change due to the recognition in the first three quarters of 2022 of income from the overpayment to the Insurance Guarantee Fund (PLN 25 million) and from the reserve account (PLN 6 million), as well as higher fund management fees in 2023 (by PLN 5.5 million);
- an increase in the negative balance of other operating income and expenses to -PLN 24 million, mainly due to higher costs of fund operations (a PLN 7 million surcharge on the Insurance Guarantee Fund);
- the investment result increase by PLN 6 million to the level of PLN 14 million, attributable to the increase in market interest rates.

17. Impact of non-recurring events on operating results

In the first three quarters of 2023, PZU Group's result was burdened as a result of updating the provision for risk related to foreign currency mortgage loans at Pekao in the amount of PLN 222 million.

In the corresponding period last year, PZU Group's result in 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 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.

18. Information on changes in economic circumstances and business conditions which have a material impact on the fair value of financial assets and liabilities

18.1 Macroeconomic environment

18.1.1. Gross domestic product

Available data on economic activity for the current year indicate slight declines in GDP in the first half of the year (0.3% in the first quarter, and 0.6% y/y in the second quarter) against GDP growth of 5.3% on average in 2022. They were primarily the result of declines in household consumption and strong adjustments on the inventory side, resulting in a negative contribution to GDP growth from changes in this economic category. Household sector consumption reduced GDP by 1.3 p.p. in the first quarter, and by 1.6 p.p. in the second quarter. The inventory adjustment, in turn, subtracted as much as 4.4 p.p. from GDP growth in the first quarter and 3.0 p.p. in the second one. The contribution of net exports, however, improved, adding 4.6 p.p. and 2.1 p.p. to GDP, respectively, as compared to 0.2 p.p. in 2022.

Investment growth accelerated solidly this year, to 6.8% y/y in the first quarter and 10.5% in the second quarter from an average of 1.2% in 2021 and 4.9% in 2022.

18.1.2. Labor market and consumption

In the third quarter of this year, average monthly nominal gross wages in the corporate sector rose by 10.8% y/y (compared to 13.3% and 12.2% y/y in the first and second quarters of this year, respectively). With a high increase in consumer prices, the purchasing power of wages defined this way decreased in the first half of the year, but in the third quarter average wages had already increased in real terms by 1.1%.

Average employment in the corporate sector increased by 0.1% y/y in the third quarter of this year (following a 0.9% i Q1 and 0.5% y/y increase in Q2 this year). In September, the registered unemployment rate was 5.0% (0.1 p.p. lower than a year ago and at the end of June of this year). In September 2023, the seasonally adjusted rate of economic unemployment (according to Eurostat, using a harmonized methodology for EU countries) stood at 2.8%, clearly below the European Union average (6.0%) and the euro area (6.5%).

Consumer sentiment has been steadily improving this year, although pessimists still have the upper hand. In the first and second quarters of this year, a decline in consumer wages' purchasing power in real terms and a high baseline contributed to a decline in retail sales. Consumers mainly reduced demand for durable goods. This also translated into a decline in household consumption (down 2% y/y in the first quarter and 2.8% y/y in the second quarter of this year).

18.1.3. Inflation, monetary policy, interest rates

At the end of the third quarter 2023 price growth for goods and consumption services was 8.2% y/y (as compared to 18.4% y/y in February 2023).

Declining but still high CPI inflation y/y, which remains well above the NBP's inflation target (2.5%), was accompanied in the first half of the year by a stabilization of interest rates set by the Monetary Policy Council, at the September 2022 level. The decline in y/y inflation to single-digit levels with the prospect of continued disinflation resulted in a 75 bps rate cut by the Monetary Policy Council in September 2023. As a result, the NBP reference rate at the end of Q3 2023 was 6.00%.

18.1.4. Public finance

As notified, the deficit in the government and local government sector in 2022 stood at 3.7% of GDP, and the sector's debt at 49.3% of GDP.

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

The negative balance of government revenues and expenditures is likely to get even worse this year. The continuation of the anti-inflation shields with increased levels of arms spending, according to the notification tables, could increase the deficit to 5.6% of GDP, although the debt-to-GDP ratio should remain at 2022 levels.

18.1.5. Situation on financial markets

Over the course of the first three quarters of 2023, financial markets have moved from discounting further rate hikes by central banks (a process that likely ended in Q3), to discounting rate cuts. This was influenced by comments announcing a soft landing of the economy in the US and symptoms of recession in the Eurozone. At the time, most raw materials, excluding oil, were getting cheaper. The conflict in Ukraine became less significant as a determinant of risk volatility in the markets.

Looking at individual quarters, in Q1 2023, the situation in the financial markets was mainly shaped by expectations that the Fed and ECB would halt rate hikes, while the end of the year was dominated by problems in the banking sector in the US (Silicon Valley Bank) and Europe (Credit Suisse). In Q2, we saw some relief as regards the concerns about the banking sector and a return to pricing in rate hikes by the Fed, amid favorable data from the U.S. labor market and a slower-than-expected decline in y/y inflation in the Eurozone. Q3 2023 is showing increasingly clear signs of the end of the rate hike cycle, in the face of increasing signs of consolidation of recessionary trends in Europe and the first signs of a moderate slowdown in the US. The conflict in Ukraine had a gradually diminishing impact on the valuation of commodities and financial instruments.

18.1.5.1. Bond market

Over the three quarters, the domestic yield curve fell from 6.73% at the end of 2022 to 5.03% at the end of Q3 2023 in the 2-year paper segment, from 6.88% to 5.26% for 5-year securities, and from 6.88% to 5.92% for 10-year securities (Refinitiv Eikon data). The spread against 10-year German bonds narrowed during the period from 432 bps to 248 bps. (Refinitiv Eikon data). The decline in yields from January to September 2023 was not a uniform process, with the strongest downward movements occurring in Q1 and Q3, despite the periods of increases that preceded them, the main trend remained downward. This process was driven by a decline in PPI y/y and CPI y/y inflation, as well as expected and executed (in Q3) NBP rate cuts.

The backdrop to these processes has been declines in prices of raw materials in global markets, as well as growing symptoms of recession in the Eurozone. The latter were reflected in reductions in German government bond yields and declines in EUR IRS rates. Increases in US treasury yields only temporarily halted reductions in yields on the long end of the domestic curve.

18.1.5.2. Equity market

Perturbations in the U.S. and European banking sectors stalled in Q1 2023 the rebound in stock markets related to the discounting of the end of rate hikes this year by the Fed and ECB. The second wave of discounts was observed in Q3 2023, when fears of rate hikes in the Eurozone led to the revaluation of shares in Europe. During the three quarters, share indices on the Warsaw Stock Exchange have risen significantly. The WIG index gained 12.1% and the WIG20 gained 5.2% (Refinitiv Eikon data).

18.1.5.3. Currency market

From the end of December 2022 to the end of September 2023, the euro to PLN exchange rate declined minimally, from 4.6908 to 4.6274 (Refinitiv Eikon). We saw a break in the strengthening of the PLN to the EUR in February, in response to the sharp strengthening of the dollar against the euro, and in September, as part of the discounting of political risks associated with the upcoming elections in Poland and in response to another wave of EURUSD decline.

The euro to USD exchange rate moved from 1.0702 at the end of 2022 to 1.0570 at the end of September 2023 (Refinitiv Eikon data). The dollar's strengthening is a consequence of the markets' growing conviction of a soft landing for the U.S. economy, with the realization of recessionary forecasts in the European economy. The dollar's increased attractiveness in global markets also translated into the USDPLN exchange rate, which rose in Q3, but declined from 4.3775 by the end of 2022 to 4.3701 by the end of September 2023 (Refinitiv Eikon data). The Swiss franc to PLN exchange rate switched from 4.7434 at the end of 2022 to 4.7787 at the end of Q3 2023 (Refinitiv Eikon data), discounting continuing geopolitical uncertainty in Europe.

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

Due to the scope of PZU Group's business (insurance sector in Poland, the Baltic States and Ukraine, mutual and pension funds sector and also banking sector), the key factors which will shape the environment in which the Group will operate and which may have a direct impact on the development and performance of the Group in the medium term, in particular in 2024, may be divided into the following three categories:

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

Macroeconomic and geopolitical factors

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

The unfinished Russia-Ukraine armed conflict remains a threat. The main risks associated with it are price shocks in the food, gas and oil markets. In particular, the risk of a gas shortage in Europe in the 2023–2024 season still cannot be ruled out, although in view of filled gas storage facilities (the EU reached the goal of filling storage facilities at around 90% as early as mid-August this year, in Poland the current fill rate is 100%), the likelihood of an industry halt due to a shortage is currently low. Despite fears of a deterioration of the investment climate in Poland, so far the war across our eastern border has had no such effect. According to the Statistics Poland (GUS), capital expenditures of non-financial enterprises employing 50+ people increased by 10.4% y/y in the first half of 2023. Investments by companies are supported by, among other things, the acceleration of the energy transition. What is more, the declared value of foreign investments finalized by PAIH in H1 2023 rose to a record EUR 4.94 billion, and Poland ranks high in global rankings of business services or IT services competitiveness. What the further course of the conflict will be, however, may affect the situation on the Polish stock market, the exchange rate of the zloty or the yields of Polish securities.

The Hamas attack on Israel represents another major geopolitical risk. Above all, it could raise concerns about access to energy resources extracted in the Middle East (oil and gas) and consequently raise their prices. It may also cause price increases in the transportation of the aforementioned raw materials and other goods transported through the Suez Canal, which lies in the vicinity of the conflict, as a result of increased insurance rates on Europe-Asia logistics routes lying in this zone. Finally, there may also be an increase in the cost of financing in dollars in response to the risk of increased U.S. financial involvement in the next – after Ukraine – conflict. An additional risk is the possibility of a worsening migration crisis.

Geopolitical risks are also associated with the intensification of the rivalry between the U.S. and China, and more broadly with the fragmentation of economic cooperation and the ongoing erosion of multilateralism. This is guided, among other things, by the desire to ensure security of supply by increasing the resilience of supply chains, reducing their vulnerability to geopolitical tensions. Fragmentation, however, could lead to higher prices and greater price differentiation between regions. This is especially true for the prices of critical raw materials.

A key consequence is a possible slowdown in the rate of disinflation. Current inflation forecasts indicate that it will gradually decline in 2024, but may still be above inflation targets in many countries. In addition to geopolitical factors, the further path of disinflation in the world will be influenced by the course of the green transition (and so-called "greenflation"). In Poland, the further development of the price index may also be strongly influenced by decisions on the side of fiscal policy (possibly withdrawal of protective measures, i.e. VAT cuts, interventions in the electricity or gas market). The course of the disinflation process in Poland in 2024 will also be influenced by changes in the area of labor costs (an increase in the minimum wage from 3.6 thousand to 4.24 thousand as of January and 4.3 thousand as of July 2024, the dynamics of average wages with a still relatively low unemployment rate, or a possible higher indexation of wages in the public sector).

A weaker rebound in activity in the external environment and slower-than-expected GDP growth in Poland are possible. Growth in the eurozone in 2024 is currently forecast at 1.2%–1.3% (vs. 3.3% growth in 2022 and about 0.7–0.8% this year), while a recession is likely in the German economy this year (-0.5% according to the IMF forecast, -0.4% in the European Commission's forecast vs. 1.8% growth in 2022), with a possible rebound of about 1% next year. Despite the fading effects of supply shocks caused by the war in Ukraine, tighter financing conditions and further monetary policy responses could negatively impact GDP dynamics next year. There is also some risk in the real estate sector, which is going through a serious crisis in China, and there are worrying signals from this industry from other countries as well (including Germany, the UK).

Market factors (specific to individual sectors)

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 claims ratio in the property insurance sector, the following hazards also exist:

- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro and problems in global supply chains (the impact of sanctions against Russia and military action in Ukraine) translating into a lack of availability of components for the production of cars and limited availability of spare parts;
- 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;
- reduced demand for voluntary insurance due to a higher inflation rate, higher unemployment and a decline in employment;
- slower economic growth in Poland – the more challenging financial standing of companies may result in elevated credit risk, a higher claims 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;
- the aging of the population and its impact on the development of new market segments (e.g., changes in consumer preferences);
- the impact of digitization on changing and improving sales and service processes in the insurance sector;
- demographic changes and the aging society and the ensuing changes in the mortality and fertility levels;
- constant price pressure in group insurance and the battle for client ownership (and client data), thereby cutting the insurer’s margins, reducing the quality of the product and fostering entry and exit obstacles for clients to overcome with independent intermediaries;
- the demand for specialized doctors exceeding the supply, which may slow down growth and affect margins (in health insurance).

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);
- the long-term impact of inflation on, among other things, the economic and financial situation of customers, including purchasing capacity (possible deceleration of sales growth, rising operating costs), as well as the loss of value of sums insured in portfolio policies (there is a significant need to index sums insured).

Legal and regulatory factors

An additional risk factor is the emergence of further regulations or financial burdens on insurance companies, banks, including for the insurance business:

- the impact of the changes proposed by the European Commission as part of the RIS (Retail Investment Strategy) package, which specifically affect the distribution of investment-grade life insurance contracts (Group 3 and Group 1 products);
- EU DORA regulations – the need to enhance security in the digital financial sector.

In addition to the economic environment, particularly the Monetary Policy Council's policies regarding interest rates, 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 issue of foreign currency mortgage loans remains among the risk factors, as well as potential rulings by the Court of Justice of the European Union, the Supreme Court or other state institutions in this regard, and so-called "moratorium periods" and mortgage loans offered at an interest rate of 2%. The burden of the "moratorium periods" was observed in Q3 2022, and this factor will remain present in 2023 as well. For each quarter of the year, borrowers will be entitled to one month of credit vacation. A mortgage loan with an interest rate of 2%, on the other hand, is a solution offered to people up to the age of 45 who do not have and have not had an apartment, house or cooperative right to an apartment or house. The maximum value of such a loan is PLN 500,000 for a single person and PLN 600,000 for a married couple or parents with a child. For 10 years of loan repayment, the government will subsidize the loan installment, and the subsidy will cover the difference between the actual interest rate and the 2% offered.

19. Management Board's position on previously published forecasts

PZU did not publish standalone or consolidated forecasts.

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

During 9 months ended 30 September 2023 PZU did not issue, redeem or repay any debt or equity securities.

20.1 Alior Bank

On 26 June 2023 Alior Bank issued 3-year bonds, with a total nominal value of PLN 400 million. Liabilities resulting from those bonds constitute Alior Bank's eligible liabilities within the meaning of Art. 97a.1.2 of the BGF Act. The bonds have an option giving Alior Bank the right to redeem them early on any business day from and including 26 June 2025. The bonds are unsecured and have been listed on the primary market on Catalyst.

The nominal value of one bond is PLN 400,000 and they bear interest at a variable rate of WIBOR 6M + 3.1% margin.

20.2 Pekao

On 3 April 2023, Pekao issued 3-year senior non-preferred notes ("SNP bonds") with the total nominal value of PLN 750 million. The SNP bonds have an option giving Pekao the right to redeem them early within 2 years from the date of issue, subject to approval by the BGF. SNP bonds, in accordance with Art. 97A.1.2 of the BGF Act will be Pekao's eligible liabilities. The bonds were listed on the ATS Catalyst market.

On 28 July 2023, Pekao issued:

- 4-year series SN2 senior non-preferred notes ("Series SN2 SNP Bonds") with the total nominal value of PLN 350 million;
- 2-year series SP1 senior preferred notes ("Series SP1 SNP Bonds") with the total nominal value of PLN 750 million.

SN2 series SNP bonds and SP1 series SP Bonds, in accordance with Art. 97A.1.2 of the BGF Act will be Pekao's eligible liabilities.

SN2 series SNP bonds have an option giving Pekao the right to redeem them early within 3 years from the date of issue, while SP1 series SP bonds have an option giving Pekao the right to redeem them early within 1 year from the date of issue, subject to BFG approval.

The nominal value of one SN2 series SNP bond and one SP1 series SP bond is PLN 500,000. The interest rate on the bonds is as follows:

- SN2 series SNP bonds – for the first 3 years – fixed – 7.5%, then – variable – WIBOR6M + 2.19% margin;
- SP1 series SP bonds – variable – WIBOR6M + 1.35% margin.

21. Payment default or violation of material regulations of the loan agreement

During 9 months ended 30 September 2023 neither PZU nor PZU subsidiaries failed to repay any loans or borrowings or violated any material regulations of loan agreements without remedy actions taken till the end of the reporting period.

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

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

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

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

According to the proposal of PZU's Management Board, which was favorably evaluated by PZU's Supervisory Board, the record date was set for 7 September 2023, and the dividend was paid on 28 September 2023.

The 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 2023 issued on 6 December 2022.

23. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance contracts, foreign currency loan agreements, disputes concerning labor relationships and disputes relating to contractual obligations. Typical administrative proceedings involving the PZU Group companies include proceedings related to the possession of real properties. Such proceedings and litigation are usually of a typical and repetitive nature and usually no particular case is of 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 2023, the total value of disputes in all 247,387 cases (31 December 2022: 265,937) pending before courts, arbitration bodies and public administration authorities in which PZU Group entities take part, was PLN 11,119 million (31 December 2022: PLN 9,033 million). Of that amount, PLN 7,062 million (31 December 2022: PLN 5,586 million) relates to relates to liabilities and PLN 4,057 million (31 December 2022: PLN 3,447 million) to receivables of PZU Group companies.

During 9 months ended 30 September 2023 and till the date of the abridged mid-year consolidated financial statements, PZU Group companies were no parties to any pending proceedings before courts, competent arbitration authorities or public authority authorities concerning liabilities or receivables of PZU or PZU's direct or indirect subsidiaries whose unit value would be material, except for issues described above.

23.1 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 Annual General 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 the supplementary capital;
- PLN 20 million was transferred to the Social Benefit Fund.

In its judgment of 22 January 2010, the Regional Court in Warsaw repealed the aforementioned resolution adopted by PZU's Annual General 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 Annual General 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 Annual 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. 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 lawsuit includes a claim for damages for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P.. Morgan), as minority shareholders of PZU, a share in the profit for the 2006 financial year, following the adoption of Resolution No. 8/2007 by the PZU Ordinary Shareholder Meeting on 30 June 2007. 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 2023, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Annual General 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.

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

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

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

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

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

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million. Accordingly, the total value of claims pursued by PZU on this account was PLN 32 million. In respect of claims for the amount of over PLN 66 million, on 24 October 2018 PZU filed an objection to the judge commissioner against the refusal to accept the submitted claim. With the decision of 23 January 2020 the Court accepted PZU's objection and increased PZU's claim on the fourth supplementary list of claims to PLN 83 million. On 8 September 2022, the trustee in bankruptcy requested a statement regarding the possible disposal of the reported claim and an indication of the amount of repayments to satisfy it. PZU provided the relevant statement. The consequence of the above was an amendment to the fourth supplementary list of claims, based on a court order of 4 September 2023, reducing PZU's claim to PLN 70 million. The final list of claims submitted against the bankruptcy estate of Hydrobudowa has not been determined yet. Bankruptcy proceedings against Hydrobudowa are pending and the determination of the final list of claims is merely an initial step in these proceedings that precedes the drafting of the distribution plan (after the liquidation of the bankruptcy estate).

23.3 Lawsuits against Alior Bank

23.3.1. Class action

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 320 natural and legal persons and 4 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). On 8 March 2023 the Regional Court in Warsaw decided to define the composition of the group. This ruling was not final as at the date of these abridged mid-year consolidated statements. The value of the extended lawsuit is around PLN 104 million.

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

23.3.2. Other lawsuits

Alior Bank is also a defendant in 155 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 52 million.

In the PZU Group's opinion, each payment case requires an individual approach. The final value of the investment certificates will be determined upon completion of the liquidation. After analysis and selection of cases, those were singled out in which certain risk factors justify the establishment of a provision. Its calculation also took into account a possible increase in the scale of lawsuits. The total value of the provision as of 30 September 2023 was PLN 78 million.

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

On 6 August 2019, the KNF issued a decision pursuant to Article 167 sec. 2 item 1 in conjunction with Article 167(1)(1) of the Act on Trading in Financial Instruments imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and its Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (at Alior Bank's request), on 3 December 2019, 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. The KNF lodged a cassation appeal to the Supreme Court of Administration. As at the date of signing the condensed interim consolidated financial statements, the Supreme Court of Administration did not review the appeal.

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

Issuer rating

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

Current rating

A- / Stable

Last affirmation and outlook

On 27 June 2023, S&P affirmed the PZU's financial strength rating and credit rating at A- with a stable outlook.

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in millions of PLN)

Last change and outlook

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

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

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

Poland's rating

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

On 23 June 2023, S&P conducted a periodic review of Poland's rating. Poland's credit rating remained unchanged.

25. Related party transactions

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

During 9 months ended 30 September 2023 neither PZU nor PZU's subsidiaries made any transactions with related parties which were of material significance individually or collectively and were executed on terms other than on an arm's length basis.

25.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 September 2023		1 January – 30 September 2022	
	Key management	Other related parties [1)]	Key management	Other related parties [1)]
Insurance revenue	-	-	-	2
Other income	-	1	-	-
Expenses	-	32	-	32

[1)] Associates accounted for using the equity method.

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	30 September 2023		31 December 2022	
	Key management	Other related parties [1)]	Key management	Other related parties [1)]
Loan receivables from clients	1	-	-	-
Receivables	-	1	-	1
Liabilities under deposits	4	51	4	41
Other liabilities	-	4	-	4
Contingent assets	-	-	-	-
Contingent liabilities	-	2	-	2

[1)] Associates accounted for using the equity method.

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

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

26. Other information

26.1 Inspections by the KNF Office

26.1.1. PZU

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 post-inspection recommendations, which were implemented starting from statements prepared as at 31 December 2022, which PZU communicated on 6 February 2023.

In the period from 12 June to 10 August 2023, the PFSA carried out an inspection of claim handling procedures at PZU. PZU is awaiting the post-inspection report.

26.1.2. PZU Życie

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

Between 10 January and 10 March 2023, the FSA carried out an audit at PZU Życie on the preparation of financial statements for solvency purposes and the valuation of assets and liabilities for solvency purposes. On 4 May 2023 PZU Życie received an inspection report and submitted its related comments on 17 May 2023.

26.2 Tax liabilities in Sweden

In 2014-2015 PZU Finance AB, a subsidiary of PZU, issued 5-year bonds of a nominal amount of EUR 850 million, which matured in July 2019. Inflows from the issue were transferred to PZU in the form of two borrowings of EUR 850 million in total. Payment due dates and amounts of the borrowings were adjusted to payments related to the bonds. PZU repaid the borrowings to PZU Finance AB on 28 June 2019.

In 2018, due to doubts concerning the taxation of foreign exchange gains and losses under the Swedish Conversion Act (2000:46) if a reporting currency is euro, PZU Finance AB applied for an individual interpretation to the Swedish Council for Tax Interpretation (Skatterättsnämnden). On 13 March 2019 PZU Finance AB received the interpretation, based on which foreign exchange gains and losses resulting from the repayment of the borrowing are subject, while foreign exchange gains and losses resulting from the repayment of bonds, are not subject to taxation. In the opinion of the PZU Group, the Council's interpretation means that a different approach would be applied in the territory of Sweden in relation to companies reporting in euro than to companies reporting in Swedish crowns, which would be contrary to the assumptions of the above act and Art. 63 of the Treaty on the Functioning of the European Union (TFEU) concerning a need to ensure free capital flow in the EU or Art. 49 and 54 of the TFEU concerning the freedom of establishment).

On 3 April 2019 PZU Finance AB challenged the individual tax interpretation of the Swedish Council for Tax Interpretation before the Supreme Administrative Court (Högsta förvaltningsdomstolen). On 4 May 2020 the Supreme Administrative Court rejected the request of PZU Finance AB and annulled the individual interpretation as not providing for a sufficient basis for the individual tax interpretation, which meant that the interpretation should not have been issued.

At the same time, on 27 August 2020, PZU Finance AB filed its tax return during the disclosure procedure for 2019, where it presented the above situation and calculated its tax liabilities on the assumption that foreign exchange gains and losses resulting from the repayment of bonds constituted its deductible expenses. On 22 December 2020 PZU Finance AB received the tax office's tax decision confirming that the tax had been calculated correctly. The decision was not binding and final. Given duties for the purpose of which the company was established, on 4 May 2021 the Meeting of Shareholders decided to start liquidation procedures in relation to PZU Finance AB. On 23 June 2021 PZU Finance AB received a preliminary, and on 21 December 2021 a binding negative, decision concerning the correction of its tax obligations for 2019 from the tax office. 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 paid SEK 159 million (SEK 155 million of the principal amount + SEK 4 million of interest) directly to the tax office in Sweden. On 10 November 2022 PZU Finance AB appealed against the tax decision and filed its lawsuit concerning the determination of tax for 2019 with the Administrative Court in Stockholm. The court proceedings are ongoing.

26.3 Proceedings instituted by the Office of Competition and Consumer Protection (UOKiK) against Alior Bank

On 27 September 2019 the UOKiK President decided to initiate proceedings against Alior Bank in order to recognize regulations of a contract form as impermissible (Ref. No. RPZ.611.4.2019.PG). That included 11 (modification) clauses incorporated by Alior Bank into contract forms based on which Alior Bank unilaterally amended its contracts with consumers. The UOKiK President questioned those regulations and claimed that they were, among others, imprecise and made it impossible for consumers to verify the premises for an amendment. Alior Bank exchanged correspondence concerning that case with the UOKiK President and presented a schedule based on which pending consequences of the violation would be removed from contracts entered into with customers. Further talks concerning the adjustment of the modification clauses to the UOKiK President's expectations would only be possible with the UOKiK President's prior consent.

As at 30 September 2023, the PZU Group has not identified reasons to establish provisions for the above case.

UOKiK is conducting an investigation (mark: RWR.405.4.2021.ET) in order to preliminarily determine whether Alior Bank's actions taken after clients report unauthorized payment transactions, as referred to in the Payment Services Act of 19 January 2011, may justify the initiation of proceedings for practices that violate the collective interests of consumers or proceedings for recognition of the provisions of the model contract as prohibited. These proceedings are conducted "in the case." Alior Bank is not a party to the proceedings. It only delivered documentation and information requested by UOKiK. Till the date of the consolidated financial statements, Alior Bank did not receive any correspondence from UOKiK where UOKiK would make reservations against Alior Bank in connection with its practices. In its communications UOKiK reported that the proceedings concerning practices that violated collective consumer interests had been initiated against 9 other banks, whose practices had been verified during explanatory proceedings similar to those conducted in relation to Alior Bank. As Alior Bank applies a practice similar to the one questioned in the case of 9 other banks, it is likely to receive a decision on the institution of proceedings concerning practices that violate collective consumer interests, as well. At present, it is not possible to estimate the consequences of potential proceedings for Alior Bank, including in particular how UOKiK would expect Alior Bank to remove the consequences of the violation and whether Alior Bank would be charged for a cash penalty. Such estimations could only be made based on the justification of the decision on the initiation of the proceedings. In addition, UOKiK's charges raise doubts in the whole banking sector as to the compliance of those charges with European law. The Payment Services Act, which UOKiK refers to in the context of the charges, does not reflect the directive implemented therein to the full extent. As a result of that, the Polish Banks Association made may filings with UOKiK and the Ministry of Finance suggested that the regulations should be adjusted to the directive in the amended Payment Services Act. In the opinion of Alior Bank, the amounts requested to date could be recovered in court if UOKiK's decision is negative. For the remaining amount, Alior Bank maintained a provision of PLN 2.5 million as at 30 September 2023.

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

In December 2021, Alior Bank and Alior Leasing sp. z o.o. received summons to the ad hoc arbitration court from former members of the Management Board of Alior Leasing sp. z o.o. Based on legal opinions, the PZU Group assesses the probability that the dismissed members of the Management Board of Alior Leasing will receive benefits resulting from the management program through court proceedings as less than 50%. Therefore, as at 30 September 2023, the PZU Group has not recognized a provision on this account.

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 the consolidated financial statements, no claims were reported. In the opinion of the PZU Group, there are no reasons for establishing a provision for that purpose.

Not to weaken its status and position in the court, if the proceedings are initiated, the PZU Group does not disclose any further information concerning the above third party claims.

26.5 Conflict in Ukraine

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

As at 30 September 2023, total net assets (assets deducted by liabilities and adjusted by mutual shares between PZU Ukraina and PZU Ukraina Życie) of three companies operating in Ukraine (PZU Ukraina, PZU Ukraina Życie and LLC SOS Services Ukraine) amounted to PLN 38 million (as of 31 December 2022: PLN 25 million).

The assets (net of the shares held mutually between PZU Ukraina and PZU Ukraina Życie) of these companies subject to consolidation totaled PLN 403 million (as of 31 December 2022: PLN 357 million), including, without limitation:

- investment financial assets of PLN 263 million (31 December 2022: PLN 207 million), including PLN 103 million (31 December 2022: PLN 78 million) of instruments issued by the government of Ukraine and PLN 160 million (31 December 2022: PLN 129 million) of term deposits);
- assets under reinsurance contracts of PLN 41 million) (31 December 2022: PLN 42 million), including PLN 33 million (31 December 2022: PLN 31 million) of PZU's share.

Liabilities of the companies amounted PLN 365 million (31 December 2022: PLN 332 million), including liabilities under insurance contracts of PLN 354 million (31 December 2022: PLN 322 million).

Due to the martial law, which has been in force in the whole territory of Ukraine since 24 February 2022 (extended till 15 November 2023) and active military actions in the eastern and southern regions, as well as air attacks all over the country, Ukrainian companies of the PZU Group operate under war restrictions and legal conditions stemming from so called "war regulations".

One of such war regulations enforced by the NBU on 24 February 2022 provided for a ban on international cash transfers from Ukraine, as a result of which insurance undertakings are not able to make international reinsurance payments to non-residents.

On 14 February 2023 the NBU's resolution of 10 February 2023 came into force. On the basis of that resolution insurers can pay international reinsurance liabilities (except mandatory motor liability insurance) provided that they are prior verified and recorded in the list of insurers authorized to make reinsurance operations with foreign reinsurers. On the basis of the NBU's decision, since 13 March 2023 PZU Ukraina has been recorded in the list of authorized insurers, which confirms that the position of the company is stable.

As at the date of the mid-year consolidated financial statements, the going concern assumption for Ukrainian companies of the PZU Group is uncertain (there is a risk that the companies will lose all of their operating capacities) due to, among others:

- long-lasting military actions and their escalation;
- continuation of long-range weapons fire on civilian and military facilities, including critical infrastructure facilities, leading to significant civilian casualties and disruption of utility services such as energy, heating and water supply;
- lack of access to key systems, including by destroying the companies' physical infrastructure;
- cessation of the handling of all internal money transfers by the Ukrainian banking system;
- unavailability of employees.

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

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

1. Interim balance sheet

ASSETS	30 September 2023	30 June 2023	31 December 2022	30 September 2022
I. Intangible assets, including:	299,079	299,812	297,878	286,591
- goodwill	-	-	-	-
II. Investments	44,264,348	43,666,748	40,164,786	38,635,866
1. Real estate	282,219	277,628	282,935	287,596
2. Investments in related parties, including:	17,118,482	15,977,338	14,591,047	13,630,592
- investments in related parties accounted for using the equity method	16,578,353	15,500,406	14,118,751	13,073,147
3. Other financial investments	26,863,647	27,411,782	25,290,804	24,717,678
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-	-
IV. Receivables	2,508,146	3,345,319	2,526,929	2,952,176
1. Receivables from direct insurance	1,791,327	1,922,235	1,917,402	1,381,433
1.1. From subordinated entities	2,650	2,415	2,777	3,014
1.2. From other entities	1,788,677	1,919,820	1,914,625	1,378,419
2. Reinsurance receivables	262,545	313,081	172,788	207,401
2.1. From subordinated entities	172,003	239,717	139,416	122,933
2.2. From other entities	90,542	73,364	33,372	84,468
3. Other receivables	454,274	1,110,003	436,739	1,363,342
3.1. Receivables from the state budget	51,441	61,722	31,846	8,098
3.2. Other receivables	402,833	1,048,281	404,893	1,355,244
a) from subordinated entities	29,803	910,447	30,564	601,599
b) from other entities	373,030	137,834	374,329	753,645
V.Other assets	281,318	344,567	264,576	286,588
1. Property, plant and equipment	126,224	124,467	133,856	116,017
2. Cash	155,094	220,100	130,720	170,571
3. Other assets	-	-	-	-
VI. Prepayments and accruals	2,725,479	2,962,086	2,680,863	2,518,583
1. Deferred income tax assets	-	-	-	-
2. Capitalized acquisition costs	1,883,792	1,950,486	1,756,710	1,741,045
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	841,687	1,011,600	924,153	777,538
VII. Unpaid share capital	-	-	-	-
VIII. Treasury shares	-	-	-	-
Total assets	**50,078,370**	**50,618,532**	**45,935,032**	**44,679,804**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2023	30 June 2023	31 December 2022	30 September 2022
I. Equity	19,120,546	17,242,574	15,824,143	13,976,212
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	7,252,581	7,252,420	7,694,696	7,694,696
3. Revaluation reserve	8,193,027	7,216,307	6,406,321	5,412,647
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	-	-
6. Net profit (loss)	3,588,586	2,687,495	1,636,774	782,517
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	2,279,583	2,329,135	2,333,305	2,281,395
III. Technical provisions	29,271,325	29,517,075	27,570,942	25,480,545
IV. Reinsurers' share in technical provisions (negative figure)	(4,235,455)	(4,327,657)	(3,657,686)	(2,036,703)
V. Estimated salvage and subrogation (negative figure)	(100,872)	(92,895)	(104,005)	(89,206)
1. Gross estimated salvage and subrogation	(106,057)	(97,541)	(107,805)	(91,418)
2. Reinsurers' share in estimated salvage and subrogation	5,185	4,646	3,800	2,212
VI. Other provisions	854,440	959,290	615,028	540,092
1. Provisions for pension benefits and other compulsory employee benefits	44,753	58,557	43,513	49,862
2. Deferred tax liabilities	788,297	879,686	554,443	472,355
3. Other provisions	21,390	21,047	17,072	17,875
VII. Liabilities for reinsurers' deposits	-	-	-	-
VIII. Other liabilities and special-purpose funds	1,457,216	3,715,871	1,449,961	3,420,495
1. Liabilities on direct insurance	428,173	450,341	448,296	415,350
1.1. To subordinated entities	14,257	15,952	11,974	10,001
1.2. To other entities	413,916	434,389	436,322	405,349
2. Reinsurance liabilities	284,398	553,988	193,348	154,830
2.1. To subordinated entities	21,049	21,769	16,668	17,179
2.2. To other entities	263,349	532,219	176,680	137,651
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-	-
4. Liabilities to credit institutions	-	-	-	-
5. Other liabilities	613,797	2,577,778	699,867	2,725,185
5.1. Liabilities to the state budget	125,273	72,686	96,992	159,180
5.2. Other liabilities	488,524	2,505,092	602,875	2,566,005
a) to related entities	67,069	57,031	68,133	46,508
b) to other entities	421,455	2,448,061	534,742	2,519,497
6. Special-purpose funds	130,848	133,764	108,450	125,130
IX. Prepayments and accruals	1,431,587	1,275,139	1,903,344	1,106,974
1. Accrued expenses	1,167,215	1,006,092	1,653,158	877,194
2. Negative goodwill	-	-	-	-
3. Deferred income	264,372	269,047	250,186	229,780
Total equity and liabilities	**50,078,370**	**50,618,532**	**45,935,032**	**44,679,804**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

Interim balance sheet (continued)

	30 September 2023	30 June 2023	31 December 2022	30 September 2022
Carrying amount	19,120,546	17,242,574	15,824,143	13,976,212
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	22.14	19.97	18.33	16.19
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (in PLN)	22.14	19.97	18.33	16.19

2. Interim statement of off-balance sheet line items

Off-balance sheet line items	30 September 2023	30 June 2023	31 December 2022	30 September 2022
1. Contingent receivables, including:	3,028,096	2,947,178	3,045,272	3,445,234
1.1. Guarantees and sureties received	2,047	1,909	2,718	2,967
1.2. Other [1)]	3,026,049	2,945,269	3,042,554	3,442,267
2. Contingent liabilities, including:	1,400,227	1,401,609	1,144,871	1,158,127
2.1. Guarantees and sureties given	4,992	6,003	9,082	6,757
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	156,508	230,894	233,081	222,287
6. Other off-balance sheet line items	-	-	-	-
Total off-balance sheet line items	**4,584,831**	**4,579,681**	**4,423,224**	**4,825,648**

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

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
I. Premiums (1-2-3+4)	6,888,030	10,325,924	3,300,647	9,491,147
1. Gross written premium	7,990,265	11,533,615	3,115,128	10,418,312
2. Reinsurers' share in written premium	456,307	622,766	150,826	518,052
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	405,537	179,985	(439,281)	200,631
4. Reinsurers' share in the movement in provision for unearned premiums	(240,391)	(404,940)	(102,936)	(208,482)
II. Net investment income (including costs) transferred from the general profit and loss account	123,174	188,790	64,331	186,871
III. Other net technical income	91,444	126,565	31,043	89,407
IV. Claims and benefits (1+2)	4,313,325	6,336,886	2,046,187	5,850,068
1. Net claims and benefits paid	3,892,224	5,794,169	1,988,257	5,484,976
1.1. Gross claims and benefits paid	3,995,609	5,968,724	2,066,209	5,713,976
1.2. Reinsurers' share in claims and benefits paid	103,385	174,555	77,952	229,000
2. Movement in provision for outstanding claims and benefits, net of reinsurance	421,101	542,717	57,930	365,092
2.1. Movement in provision for outstanding claims and benefits, gross	1,509,193	1,525,917	60,622	444,412
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	1,088,092	983,200	2,692	79,320
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	(1,862)	(720)	445	4,415
VII. Insurance activity expenses	1,981,963	2,992,184	917,074	2,622,810
1. Acquisition expenses, including:	1,613,876	2,432,911	748,431	2,143,868
- movement in capitalized acquisition costs	(143,661)	(127,082)	68,123	(139,822)
2. Administrative expenses	429,416	646,380	192,291	546,533
3. Reinsurance commissions and profit participation	61,329	87,107	23,648	67,591
VIII. Other net technical charges	185,860	299,340	70,319	268,408
IX. Movement in loss ratio (risk) equalization provisions	-	-	-	-
X. Technical result of non-life insurance	**623,362**	**1,013,589**	**361,996**	**1,021,724**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
I. Technical result of non-life insurance or life insurance	623,362	1,013,589	361,996	1,021,724
II. Investment income	817,055	2,153,203	423,795	1,486,079
1. Investment income on real estate	2,085	3,305	1,242	4,468
2. Investment income from related parties	298,601	1,292,923	234,698	907,805
2.1. On ownership interests or shares	284,517	1,273,297	225,724	883,134
2.2. On borrowings and debt securities	11,511	16,217	7,816	22,685
2.3. On other investments	2,573	3,409	1,158	1,986
3. Other financial investment income	409,595	597,206	176,079	479,802
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	37,345	37,574	41	499
3.2. On debt securities and other fixed income securities	280,453	430,122	142,099	409,802
3.3. On term deposits with credit institutions	2,952	3,048	726	862
3.4. On other investments	88,845	126,462	33,213	68,639
4. Gain on revaluation of investments	8,858	8,858	-	1,230
5. Gain on realization of investments	97,916	250,911	11,776	92,774
III. Unrealized investment gains	(49,625)	65,597	243,843	450,589
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V.Investment activity expenses	71,797	92,305	70,275	211,092
1. Real estate maintenance expenses	8,318	12,051	479	1,561
2. Other investment activity expenses	16,946	25,617	7,523	23,202
3. Loss on revaluation of investments	1,263	1,263	-	-
4. loss on realization of investments	45,270	53,374	62,273	186,329
VI. Unrealized investment losses	(36,601)	120,379	214,203	356,874
VII. Net investment income after including costs transferred to the revenue account of non-life insurance	123,174	188,790	64,331	186,871
VIII. Other operating income	136,642	197,574	69,947	184,146
IX. Other operating expenses	337,905	502,144	146,925	424,511
X.Operating profit (loss)	1,031,159	2,526,345	603,847	1,963,190
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties accounted for using the equity method	997,924	1,347,277	(297,824)	(920,786)
XIV. Profit (loss) before tax	2,029,083	3,873,622	306,023	1,042,404
XV. Income tax	166,033	285,036	64,464	259,887
a) current part	75,102	211,474	96,685	147,401
b) deferred part	90,931	73,562	(32,221)	112,486
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**1,863,050**	**3,588,586**	**241,559**	**782,517**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

	1 July – 30 September 2023	1 January – 30 September 2023	1 July – 30 September 2022	1 January – 30 September 2022
Net profit (loss) (annualized) [1)]	7,391,448	4,797,926	958,359	1,046,222
Weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Profit (loss) per common share (in PLN)	2.16	4.16	0.28	0.91
Weighted average diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted profit (loss) per common share (in PLN)	2.16	4.16	0.28	0.91

[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 2023**	**1 January – 31 December 2022**	**1 January – 30 September 2022**
I. Equity at the beginning of the period (opening balance)	**15,824,143**	**15,776,367**	**15,776,367**
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (opening balance), after adjustments to ensure comparability	**15,824,143**	**15,776,367**	**15,776,367**
1. Share capital at the beginning of the period	**86,352**	**86,352**	**86,352**
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	**7,694,696**	**7,347,436**	**7,347,436**
2.1. Change in supplementary capital	(442,115)	347,260	347,260
a) increases (by virtue of):	853,879	1,297,135	1,297,135
- distribution of profit (above the statutorily required amount)	853,612	1,295,995	1,295,995
- from revaluation reserve – by sale and liquidation of fixed assets	267	1,140	1,140
b) decreases	1,295,994	949,875	949,875
2.2. Supplementary capital at the end of the period	7,252,581	7,694,696	7,694,696
3. Revaluation reserve at the beginning of the period	**6,406,321**	**6,314,244**	**6,314,244**
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (opening balance), after adjustments to ensure comparability	**6,406,321**	**6,314,244**	**6,314,244**
3.1. Change in the revaluation reserve	1,786,706	92,077	(901,597)
a) additions (by virtue of):	1,994,605	904,081	342,092
- valuation of financial investments accounted for using the equity method	1,090,831	314,344	16,574
- valuation of financial investments classified to the portfolio of financial assets held for sale	773,670	549,693	303,342
- valuation of financial investments held for hedge accounting	109,849	34,479	16,611
- disposal of instruments held for sale	20,255	5,565	5,565
b) reductions (by virtue of)	207,899	812,004	1,243,689
- valuation of financial investments accounted for using the equity method	1,678	123,469	291,363
- valuation of financial investments classified to the portfolio of financial assets held for sale	146,331	669,704	935,411
- valuation of financial investments held for hedge accounting	-	-	-
- disposal of instruments held for sale	59,890	17,691	16,915
- disposal of fixed assets	-	1,140	-
3.2. Revaluation reserve at the end of the period	**8,193,027**	**6,406,321**	**5,412,647**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2023	1 January – 31 December 2021	1 January – 30 September 2022
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	1,636,774	2,028,335	2,028,335
5.1. Retained earnings at the beginning of the period	1,636,774	2,028,335	2,028,335
a) changes in the accepted accounting principles (policy)	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	1,636,774	2,028,335	2,028,335
a) increases	1,295,994	949,875	949,875
b) decreases	2,932,768	2,978,210	2,978,210
- transfers to supplementary capital	853,612	1,295,995	1,295,995
- disbursement of dividends	2,072,455	1,675,235	1,675,235
- transfers/charges to the Company Social Benefit Fund	6,701	6,980	6,980
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 principles (policy)	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	-	-	-
6. Net profit or loss	3,588,586	1,636,774	782,517
a)net profit	3,588,586	1,636,774	782,517
b)net loss	-	-	-
c) charges to profit	-	-	-
II. Equity at the end of the period (closing balance)	19,120,546	15,824,143	13,976,212

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	**1 January – 30 September 2023**	**1 January – 31 December 2022**	**1 January – 30 September 2022**
A.Cash flows from operating activities			
I. Proceeds	13,289,379	16,090,563	12,088,079
1. Proceeds on direct activity and inward reinsurance	12,566,674	14,812,738	11,093,854
1.1. Proceeds on gross premiums	12,311,342	14,440,245	10,761,927
1.2. Proceeds on subrogation, salvage and claim refunds	185,494	310,343	279,874
1.3. Other proceeds on direct activity	69,838	62,150	52,053
2. Proceeds from outward reinsurance	260,252	417,372	311,669
2.1. Payments received from reinsurers for their share of claims paid	152,697	240,217	169,350
2.2. Proceeds on reinsurance commissions and profit participation	107,493	173,998	139,481
2.3. Other proceeds from outward reinsurance	62	3,157	2,838
3. Proceeds from other operating activity	462,453	860,453	682,556
3.1. Proceeds for acting as an emergency adjuster	213,657	424,786	347,408
3.2. Disposal of intangible assets and property, plant and equipment other than investments	1,761	1,652	1,573
3.3. Other proceeds	247,035	434,015	333,575
II. Expenditures	12,112,180	14,561,574	11,173,199
1. Expenditures on direct activity and inward reinsurance	9,960,837	11,751,182	8,955,547
1.1. Gross premium refunds	694,079	323,958	238,148
1.2. Gross claims and benefits paid	5,534,377	6,871,398	5,285,121
1.3. Acquisition expenditures	1,782,446	2,095,324	1,570,057
1.4. Administrative expenditures	1,359,773	1,751,069	1,299,429
1.5. Expenditures for claims handling and pursuit of subrogation	212,672	290,713	217,374
1.6. Commissions paid and profit-sharing on inward reinsurance	199,038	242,682	193,484
1.7. Other expenditures on direct activity and inward reinsurance	178,452	176,038	151,934
2. Expenditures on outward reinsurance	1,086,664	1,135,355	989,706
2.1. Premiums paid for reinsurance	1,067,662	1,115,978	976,628
2.2. Other expenditures on outward reinsurance	19,002	19,377	13,078
3. Expenditures on other operating activity	1,064,679	1,675,037	1,227,946
3.1. Expenditures for acting as an emergency adjuster	92,517	219,727	181,185
3.2. Purchase of intangible assets and property, plant and equipment other than investments	83,693	110,425	68,076
3.3. Other operating expenditures	888,469	1,344,885	978,685
III. Net cash flows from operating activities (I-II)	**1,177,199**	**1,528,989**	**914,880**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2023	1 January – 31 December 2022	1 January – 30 September 2022
B.Cash flows from investing activity			
I. Proceeds	145,971,593	104,089,320	74,941,582
1. Sale of real estate	1,494	6,844	6,844
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	501,587	55,538	51,917
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	944,488	1,148,141	1,130,386
6. Liquidation of term deposits with credit institutions	21,747,039	20,978,955	13,606,827
7. Realization of other investments	121,024,417	80,454,839	59,420,922
8. Proceeds from real estate	579	710	542
9. Interest received	447,485	560,305	387,726
10. Dividends received	1,302,972	883,146	335,686
11. Other investment proceeds	1,532	842	732
II. Expenditures	144,854,268	103,701,952	75,530,114
1. Purchase of real estate	43	34	20
2. Purchase of ownership interests and shares in related parties	22,400	171,850	171,825
3. Purchase of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	53,386	980,675	918,088
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	40,005	40,000
5. Purchase of debt securities issued by other entities	2,236,209	432,416	383,344
6. Purchase of term deposits with credit institutions	21,785,651	21,002,554	13,691,086
7. Purchase of other investments	120,732,401	81,051,922	60,308,528
8. Expenditures to maintain real estate	7,988	1,893	1,436
9. Other expenditures for investments	16,190	20,603	15,787
III. Net cash flows from investing activities (I-II)	**1,117,325**	**387,368**	**(588,532)**

Condensed Interim Consolidated Financial Statements for the 9 months ended 30 September 2023 (in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2023	1 January – 31 December 2022	1 January – 30 September 2022
C.Cash flows from financing activities			
I. Proceeds	116,119	2,848,029	2,246,449
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	116,119	2,848,029	2,246,449
3. Other financial proceeds	-	-	-
II. Expenditures	2,389,803	4,774,164	2,547,397
1. Dividends	2,072,456	1,675,235	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury shares	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	116,140	3,017,655	2,466,123
5. Interest on loans and borrowings and issued debt securities	201,207	81,274	81,274
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(2,273,684)**	**(1,926,135)**	**(300,948)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**20,840**	**(9,778)**	**25,400**
E. Balance sheet change in cash, including:	24,374	(15,115)	24,736
- movement in cash due to foreign exchange differences	3,534	(5,337)	(664)
F. Cash at the beginning of the period	130,720	145,835	145,835
G. Cash at the end of the period (F+/-E), including:	155,094	130,720	170,571
- restricted cash	56,918	37,578	64,903

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2022.

9. Changes in accounting policies

In the 9-month period ended 30 September 2023, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

First name and surname	Function	
Beata Kozłowska – Chyła	President of 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	Head of the Accounting Bureau	.... (signature)

Warsaw, 22 November 2023