Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Consolidated Financial Statements
for the year ended 31 December 2019
prepared in accordance with International Financial Reporting Standards

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(in millions of PLN)

Consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 December 2019	1 January – 31 December 2018 (restated) [1)]
Gross written premiums	10	24,191	23,470
Reinsurers' share in gross written premium		(1,012)	(755)
Net written premiums		**23,179**	**22,715**
Movement in net provision for unearned premiums		(89)	(365)
Net earned premiums		**23,090**	**22,350**
Revenue from commissions and fees	11	4,139	4,109
Net investment income	12	12,391	10,944
Net result on realization of financial instruments and investments	13	278	(15)
Movement in allowances for expected credit losses and impairment losses on financial instruments	14	(2,166)	(1,804)
Net movement in fair value of assets and liabilities measured at fair value	15	837	770
Other operating income	16	1,492	1,693
Claims, benefits and movement in technical provisions		(16,085)	(14,980)
Reinsurers' share in claims, benefits and movement in technical provisions		390	417
Net insurance claims and benefits paid	**17**	**(15,695)**	**(14,563)**
Fee and commission expenses	18	(860)	(754)
Interest expenses	19	(2,129)	(2,046)
Acquisition expenses	20	(3,363)	(3,130)
Administrative expenses	21	(6,606)	(6,609)
Other operating expenses	23	(4,324)	(3,858)
Operating profit		**7,084**	**7,087**
Share of the net financial results of entities measured by the equity method		(4)	(1)
Profit before tax		**7,080**	**7,086**
Income tax	24	(1,895)	(1,718)
Net profit, including:		**5,185**	**5,368**
– profit attributable to the equity holders of the Parent Company		3,295	3,213
– profit (loss) attributed to holders of non-controlling interest		1,890	2,155
Weighted average basic and diluted number of common shares	25	863,285,340	863,347,220
Basic and diluted profit (loss) per common share (in PLN)	25	3.82	3.72

[1)] Information on restatement of data for the period from 1 January to 31 December 2018 is presented in section 5.3.

Warsaw, 11 March 2020

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2019	1 January – 31 December 2018
Net profit		5,185	5,368
Other comprehensive income	24	496	(98)
Subject to subsequent transfer to profit or loss		489	150
Valuation of debt instruments measured at fair value through other comprehensive income		393	15
Foreign exchange translation differences		(4)	36
Cash flow hedging		100	99
Not to be reclassified to profit or loss in the future		7	(248)
Valuation of equity instruments measured at fair value through other comprehensive income		2	(247)
Reclassification of real property from property, plant and equipment to investment property		6	3
Actuarial gains and losses related to provisions for employee benefits		(1)	(4)
Total net comprehensive income		**5,681**	**5,270**
– comprehensive income attributable to equity holders of the Parent Company		3,657	3,027
– comprehensive income attributable to holders of non-controlling interest		2,024	2,243

(in millions of PLN)

Consolidated statement of financial position

Assets	**Note**	**31 December 2019**	**31 December 2018**
Goodwill	26	4,053	3,871
Intangible assets	27	3,096	3,180
Other assets	28	734	562
Deferred acquisition expenses	29	1,574	1,546
Reinsurers' share in technical provisions	41	1,856	1,512
Property, plant and equipment	30	4,226	3,184
Investment property	31	1,981	1,697
Entities measured by the equity method	32	11	17
Loan receivables from clients	33	194,868	182,054
Financial derivatives	34	3,107	2,487
Investment financial assets	35	111,416	101,665
Measured at amortized cost		45,938	45,234
Measured at fair value through other comprehensive income		55,211	38,737
Measured at fair value through profit or loss		10,267	17,694
Deferred tax assets	44	2,313	2,234
Receivables	36	5,737	6,343
Cash and cash equivalents	38	7,788	17,055
Assets held for sale	39	580	1,147
Total assets		**343,340**	**328,554**

Equity and liabilities	**Note**	**31 December 2019**	**31 December 2018**
Equity			
Equity attributable to equity holders of the parent		16,169	14,925
Share capital	40.1	86	86
Other capital	40.3	13,036	12,566
Retained earnings		3,047	2,273
Retained losses		(248)	(940)
Net profit		3,295	3,213
Non-controlling interest		23,119	22,482
Total equity		**39,288**	**37,407**
Liabilities			
Technical provisions	41	47,329	45,839
Provisions for employee benefits	42	534	531
Other provisions	43	867	519
Deferred tax liability	44	734	486
Financial liabilities	45	246,490	236,316
Other liabilities	46	8,069	7,407
Liabilities related directly to assets classified as held for sale	39	29	49
Total liabilities		**304,052**	**291,147**
Total equity and liabilities		**343,340**	**328,554**

Warsaw, 11 March 2020

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated statement of changes in equity

Consolidated statement of changes in equity	**Note**	**Equity attributable to equity holders of the parent**										**Non-control-ling interest**	**Total equity**
			Other capital						**Retained earnings**				
		Share capital	Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	**Total**		
Note		40.1		40.3	40.3		40.3	40.3				2.3	
As at 1 January 2019		**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments measured at fair value through other comprehensive income		-	-	(1)	(8)	-	-	-	-	-	(9)	11	2
Valuation of debt instruments measured at fair value through other comprehensive income		-	-	-	338	-	-	-	-	-	338	55	393
Cash flow hedging		-	-	-	31	-	-	-	-	-	31	69	100
Foreign exchange translation differences		-	-	-	-	-	-	(5)	-	-	(5)	1	(4)
Actuarial gains and losses related to provisions for employee benefits		-	-	-	-	-	1	-	-	-	1	(2)	(1)
Reclassification of real property from property, plant and equipment to investment property		-	-	-	6	-	-	-	-	-	6	-	6
Total net other comprehensive income		**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**-**	**362**	**134**	**496**
Net profit (loss)		-	-	-	-	-	-	-	-	3,295	3,295	1,890	5,185
Total comprehensive income		**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**3,295**	**3,657**	**2,024**	**5,681**
Other changes, including:		**-**	**4**	**454**	**(8)**	**(342)**	**-**	**-**	**(2,521)**	**-**	**(2,413)**	**(1,387)**	**(3,800)**
Distribution of financial result	40.2.1.1	-	-	444	-	(340)	-	-	(2,522)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares		-	4	-	-	-	-	-	-	-	4	-	4
Transactions with holders of non-controlling interests		-	-	2	-	-	-	-	-	-	2	2	4
Sale of revalued real property and other		-	-	8	(8)	(2)	-	-	1	-	(1)	(4)	(5)
As at 31 December 2019		**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**(248)**	**3,295**	**16,169**	**23,119**	**39,288**

Warsaw, 11 March 2020

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity	Note	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
		Share capital	Other capital						Retained earnings		Total		
			Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit			
Note		40.1		40.3	40.3		40.3	40.3				2.3	
As at 1 January 2018		**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,596**	**-**	**14,599**	**22,961**	**37,560**
Effect of the application of IFRS 9 and other changes		-	-	-	7	-	-	-	(519)	-	(512)	(1,146)	(1,658)
As at 1 January 2018 after the change of accounting policies		**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,077**	**-**	**14,087**	**21,815**	**35,902**
Valuation of equity instruments measured at fair value through other comprehensive income		-	-	-	(255)	-	-	-	-	-	(255)	8	(247)
Valuation of debt instruments measured at fair value through other comprehensive income		-	-	-	9	-	-	-	-	-	9	6	15
Cash flow hedging		-	-	-	24	-	-	-	-	-	24	75	99
Foreign exchange translation differences		-	-	-	-	-	-	37	-	-	37	(1)	36
Actuarial gains and losses related to provisions for employee benefits		-	-	-	-	-	(4)	-	-	-	(4)	-	(4)
Reclassification of real property from property, plant and equipment to investment property		-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income		**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**-**	**(186)**	**88**	**(98)**
Net profit (loss)		-	-	-	-	-	-	-	-	3,213	3,213	2,155	5,368
Total comprehensive income		**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**3,213**	**3,027**	**2,243**	**5,270**
Other changes, including:		**-**	**(11)**	**836**	**(10)**	**13**	**-**	**-**	**(3,017)**	**-**	**(2,189)**	**(1,576)**	**(3,765)**
Distribution of financial result	40.2.1.1	-	-	848	-	14	-	-	(3,021)	-	(2,159)	(1,659)	(3,818)
Transactions on treasury shares		-	(11)	-	-	-	-	-	-	-	(11)	-	(11)
Transactions with holders of non-controlling interests		-	-	(19)	-	-	-	-	-	-	(19)	83	64
Sale of revalued real property and other		-	-	7	(10)	(1)	-	-	4	-	-	-	-
As at 31 December 2018		**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**(940)**	**3,213**	**14,925**	**22,482**	**37,407**

Warsaw, 11 March 2020

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 December 2019	1 January – 31 December 2018
Profit before tax		7,080	7,086
Adjustments		(6,032)	(6,683)
Movement in loan receivables from clients		(14,959)	(15,972)
Movement of liabilities under deposits		10,522	9,093
Movement in the valuation of assets measured at fair value		(837)	(770)
Interest income and expenses		(2,574)	(2,276)
Realized gains/losses from investing activities and impairment losses		1,823	1,664
Net foreign exchange differences		123	(184)
Movement in deferred acquisition expenses		(28)	(61)
Amortization of intangible assets and depreciation of property, plant and equipment		1,293	1,103
Movement in the reinsurers' share in technical provisions		(344)	(262)
Movement in technical provisions		1,490	1,281
Movement in receivables		(644)	(586)
Movement in liabilities		1,113	(871)
Cash flow on investment contracts		(13)	(21)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		158	(126)
Income tax paid		(2,084)	(1,898)
Other adjustments		(1,071)	3,203
Net cash flows from operating activities		**1,048**	**403**
Cash flow from investing activities			
Proceeds		759,573	909,865
– sale of investment property		619	22
– proceeds from investment property		305	300
– sale of intangible assets and property, plant and equipment		87	51
– sale of ownership interests and shares		3,061	3,590
– realization of debt securities		157,856	204,645
– closing of buy-sell-back transactions		281,450	460,379
– closing of term deposits with credit institutions		289,755	208,469
– realization of other investments		24,678	30,645
– interest received		1,673	1,655
– dividends received		55	66
– increase in cash due to purchase of entities and change in the scope of consolidation		-	4
– other investment proceeds		34	39

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 December 2019	1 January – 31 December 2018
Expenditures		(764,426)	(900,694)
– purchase of investment property		(198)	(106)
– expenditures for the maintenance of investment property		(139)	(105)
– purchase of intangible assets and property, plant and equipment		(903)	(824)
– purchase of ownership interests and shares		(2,633)	(3,378)
– purchase of ownership interests and shares in subsidiaries		(211)	(29)
– decrease in cash due to the sale of entities and change in the scope of consolidation		(32)	-
– purchase of debt securities		(165,545)	(192,342)
– opening of buy-sell-back transactions		(282,273)	(462,749)
– purchase of term deposits with credit institutions		(288,342)	(209,697)
– purchase of other investments		(24,129)	(31,436)
– other expenditures for investments		(21)	(28)
Net cash flows from investing activities		**(4,853)**	**9,171**
Cash flows from financing activities			
Proceeds		106,012	202,272
– proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)		-	13
– proceeds from loans and borrowings	38	4,300	4,284
– proceeds on the issue of own debt securities	38	8,820	6,396
– opening of repurchase transactions	38	92,892	191,579
Expenditures		(111,499)	(203,072)
– dividends paid to equity holders of the parent	40.2.1.1	(2,418)	(2,159)
– dividends to owners of non-controlling interests		(1,385)	(1,659)
– repayment of loans and borrowings	38	(3,415)	(3,373)
– redemption of own debt securities	38	(10,845)	(3,384)
– closing of repurchase transactions	38	(92,837)	(192,217)
– interest on loans and borrowings	38	(75)	(45)
– interest on outstanding debt securities	38	(227)	(235)
– expenditures on leases		(297)	-
Net cash flows from financing activities		**(5,487)**	**(800)**
Total net cash flows		**(9,292)**	**8,774**
Cash and cash equivalents at the beginning of the period		17,055	8,239
Change in cash due to foreign exchange differences		25	42
Cash and cash equivalents at the end of the period, including:	38	7,788	17,055
– restricted cash	38	89	25

Warsaw, 11 March 2020

The accompanying notes form an integral part of the consolidated financial statements.

Supplementary information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("consolidated financial statements" and "PZU Group", respectively) have been prepared in line with International Financial Reporting Standards as endorsed by the European Commission ("IFRS"), published and in force as at 31 December 2019.

Period covered by the statements

These consolidated financial statements cover the period of 12 months from 1 January to 31 December 2019.

Approval of the statements

These consolidated financial statements were signed and authorized for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "parent company") on 11 March 2020 and will be subject to approval by the shareholder meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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 Ukraine is the Ukrainian hryvnia, the euro is the functional currency of the companies domiciled in Lithuania, Latvia and Sweden and pound sterling – of the company domiciled in the United Kingdom.

Going concern assumption

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

Discontinued operations

Both in 2019 and 2018, the PZU Group companies did not discontinue any material type of activity.

Glossary

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

Company names

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

CDM – Centralny Dom Maklerski Pekao SA.

Elvita – Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.

FCM – FCM Zdrowie sp. z o.o. (formerly Falck Centra Medyczne sp. z o.o.)

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

PIM – Pekao Investment Management SA.

PZU, parent company, parent – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji SA.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

Tomma – Tomma Diagnostyka Obrazowa SA.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BFG – Bank Guarantee Fund

CGU – cash generating unit.

Forbearance – tools used to restructure debt, most frequently taking the form of arrangements provided to the debtor by the creditor.

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

IRRBB – Interest rate risk in banking book.

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

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

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code (consolidated text: Journal of Laws of 2019, Item 505).

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2019.

NBP – National Bank of Poland;

POCI – Purchased or originated credit-impaired financial assets.

Tax Group – Tax Group established by the power of the agreement signed on 20 September 2017 between 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje, PZU Zdrowie SA, Tulare Investments sp. z o.o., PZU CASH SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA (formerly Omicron SA), Omicron Bis SA. The Tax

Group was established for a period of 3 years – from 1 January 2018 to 31 December 2020. PZU is the parent company representing the Tax Group.

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

PLET – Polish Life Expectancy Tables published annually by the Central Statistical Office of Poland.

RBNP – Reported But Not Paid, or 1st provision – provision for losses reported but not handled and handled but not paid.

IASB – International Accounting Standards Board.

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

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

CJEU – Court of Justice of the European Union.

IIF – Insurance Indemnity Fund.

KNF Office – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity) (consolidated text: Journal of Laws of 2019, Item 381, as amended).

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

Supplementary Oversight Act – Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate (consolidated text: Journal of Laws of 2019, Item 2146, as amended).

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

2. Composition of PZU Group

2.1 PZU

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

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

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

(in millions of PLN)

2.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2019	31 December 2018	
Consolidated companies						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.03%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.03%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.03%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.03%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Management of pension funds.
16	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.03%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
17	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.03%	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% 1)	46.82% 1)	Transfer agent. http://www.pekao-fs.com.pl/pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2019	31 December 2018	
Consolidated companies – Pekao Group – continued						
19	Pekao Direct sp. z o. o. (formerly Centrum Bankowości Bezpośredniej sp. z o.o.)	Krakow	07.06.2017	20.02%	20.03%	Call-center services. http://www.cbb.pl/
20	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
21	FPB – Media sp. z o.o. in liquidation [3)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
22	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Business consulting
23	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.03%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
24	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.03%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
25	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
26	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
27	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
28	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
29	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
30	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a purchasing platform
31	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
32	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
33	Corsham sp. z o.o. [4)]	Warsaw	04.02.2019	31.93%	n/a	Business consulting
34	RBL_VC sp. z o.o. [5)]	Warsaw	07.11.2019	31.93%	n/a	Venture capital fund management activities
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
36	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
37	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o. [6)]	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/

(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
				31 December 2019	31 December 2018	
Consolidated companies – PZU Zdrowie Group – continued						
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. http://www.elvita.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
43	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. http://www.cmlukasza.pl/
44	Alergo-Med Tarnów sp. z o.o. 7)	Tarnów	31.01.2019	100.00%	n/a	Medical services. http://alergomed.tarnow.pl/
45	FCM Zdrowie sp. z o.o. (formerly Falck Centra Medyczne sp. z o.o.) 7)	Warsaw	03.06.2019	100.00%	n/a	Medical services. https://fcmzdrowie.pl/
46	Starówka sp. z o.o. 7)	Warsaw	03.06.2019	100.00%	n/a	Medical services. https://www.starowkanzoz.pl/
47	Tomma Diagnostyka Obrazowa SA 7)	Poznań	09.12.2019	100.00%	n/a	Medical services. https://tomma.com.pl/
48	Asklepios Diagnostyka sp. z o.o. 7)	Poznań	09.12.2019	100.00%	n/a	Medical services.
49	Bonus-Diagnosta sp. z o.o. 7)	Poznań	09.12.2019	100.00%	n/a	Medical services.
Consolidated companies – other companies						
50	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
51	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
52	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
53	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
54	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
55	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
56	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
57	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/

(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
				31 December 2019	31 December 2018	
Consolidated companies – other companies – continued						
58	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
59	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
60	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
61	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
62	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
63	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
64	PZU CASH SA (formerly Battersby Investments SA)	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation.
65	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
66	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
67	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
68	Aquaform Badprodukte GmbH in Liquidation [8)]	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
69	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
70	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
71	Morehome.pl sp. z o.o. in liquidation [9)]	Krakow	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
72	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
73	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości [10)]	Warsaw	01.07.2008	n/a	n/a	as above
75	PZU FIZ Sektora Nieruchomości 2 [10)]	Warsaw	21.11.2011	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2019	31 December 2018	
Consolidated companies – mutual funds – continued						
76	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
77	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
78	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
79	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
80	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
81	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
82	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
83	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
84	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
85	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
86	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
87	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
88	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2019	31 December 2018	
Associates						
89	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
90	CPF Management [11)]	Tortola, British Virgin Islands	07.06.2017	8.01%	8.01%	Consulting and business activity – no business conducted.
91	PayPo sp. z o.o. [12)]	Warsaw	15.11.2018	6.39%	6.39%	Financial services. https://paypo.pl/
92	Sigma BIS SA [13)]	Warsaw	03.10.2019	34.00%	100.00%	Advertising activity.

[1)] As of 4 June 2018 PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.

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

[3)] As of 11 April 2019 it operates under the name of FPB – Media sp. z o.o. in bankruptcy.

[4)] Additional information is presented in item 2.3.1.2.

[5)] On 23 October 2019, the founding deed of the company was signed and on 7 November 2019 it was registered in KRS. The share capital is divided into 100 shares with the total nominal value of PLN 50,000. The sole shareholder is Alior Bank.

[6)] On 2 January 2020, the company was merged with Centrum Medyczne Medica sp. z o.o. The transaction will not affect the PZU Group's consolidated financial statements.

[7)] Additional information is presented in item 2.3.1.

[8)] On 15 January 2019, the company's liquidation process was opened.

[9)] On 15 January 2020, the company was removed from the commercial register, KRS.

[10)] As at 31 December 2019, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles whose number in the respective funds was: 18 and 18 (as at 31 December 2018: 18 and 18, respectively).

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

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

[13)] Additional information is presented in item 2.3.4.

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

The detailed accounting policy pertaining to settlement of acquisition transactions are presented in section 5.6.

The purchase of entities providing medical services (in 2019 those were: Tomma, Asklepios Diagnostyka sp. z o.o., Bonus-Diagnosta sp. z o.o., FCM, Starówka sp. z o.o., Alergo – Med Tarnów sp. z o.o.) is aimed at supplementing specialist medical services offered by the PZU Group under health insurance and other health products. Development of the medical products and enlargement of the own medical center network providing highest level of services is one of the core elements of the PZU Group strategy. Provision of some of the services in own centers will increase the PZU Group's competitiveness in this market and allow it to provide an integrated patient service model. The goodwill recognized in the consolidated financial statements is the effect of the planned increase of the scale of this business and the volume of services generated by health insurance and other health products, combined with improvement of the profitability of these services thanks to retaining some of the margin in the PZU Group and incessant search for synergies between own medical entities.

2.3.1. Acquisitions of companies

2.3.1.1. Medical companies

Tomma

On 29 October 2019, PZU Zdrowie signed with THC SICAV-RAIF SA a preliminary agreement and on 9 December 2019 the final agreement on the purchase of 150,000 shares in Tomma, representing 100% of the company's share capital and carrying the right to 100% votes at its shareholder meeting. At the same time, PZU Zdrowie, and thus also PZU, became an indirect owner of the following subsidiaries of Tomma: Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o., in which Tomma holds a 100% stake and 100% of votes at the shareholder meeting.

Since the date of obtaining control, i.e. 9 December 2019, all the companies have been consolidated.

FCM

On 13 March 2019 PZU Zdrowie SA entered into a preliminary agreement and on 3 June 2019 a final agreement with Falck Danmark A/S to acquire 403,551 shares in FCM, which constituted 100% of the share capital and offering 100% of votes at the shareholder meeting, with par value of PLN 50 each. At the same time, PZU Zdrowie SA, and thereby also PZU, became the indirect owner of Starówka sp. z o.o. in which FCM has a 100% equity stake.

Since the date of obtaining control, i.e. 3 June 2019, both companies have been consolidated.

Alergo-Med Tarnów sp. z o.o.

On 31 January 2019, PZU Zdrowie acquired 1,432 shares in Alergo – Med Tarnów sp. z o.o. representing 100% of the share capital and 100% of the votes at the shareholder meeting with a par value of PLN 500 each.

Since the date of obtaining control, i.e. 31 January 2019, Alergo – Med sp. z o.o. has been consolidated.

2.3.1.2. Other acquisitions

Corsham sp. z o.o.

On 4 February 2019 Alior Bank acquired 100 shares in Corsham sp. z o.o. representing 100% of the share capital and 100% of votes at the shareholder meeting with a par value of PLN 50 each.

Since the date of obtaining control, i.e. 4 February 2019, Corsham sp. z o.o. has been consolidated.

2.3.1.3. Settlement of the acquisition

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

- FCM and Starówka sp. z o.o. – as at 31 May 2019;
- Tomma, Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o. – as at 30 November 2019.

It was decided that no material differences existed between accounting data on the dates for which the accounting data were prepared and the dates of obtaining control, which is respectively between 31 May and 3 June 2019 (for FCM and Starówka sp. z o.o.) and between 30 November and 9 December 2019 (for Tomma, Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o.).

The consolidated financial statements contain the final fair value of the acquired assets and assumed liabilities of FCM and Starówka sp. z o.o. In the process of calculating goodwill:

- intangible assets not previously recognized in the financial statements of FCM and Starówka sp. z o.o. were recognized;
- fair value measurement of assets and liabilities presented in the financial statements of FCM and Starówka sp. z o.o. was performed;
- no contingent liabilities requiring recognition were identified;
- no potential indemnification assets requiring recognition were identified.

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

By the date of signing the consolidated financial statements the purchase price allocation process of Tomma, Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o. has 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 of the consolidated financial statements.

The final purchase price for Tomma shares will be adjusted, in accordance with the terms of the agreement, based on the final settlement of the transaction approved by both parties.

At the end of the purchase price allocation process, IFRS 3 requires one year from the transaction date.

(in millions of PLN)

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

Value of acquired net assets	Alergo-Med Tarnów sp. z o.o. Final settlement	FCM and Starówka sp. z o.o. Final settlement	Tomma, Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o. Preliminary settlement
Assets	**1**	**46**	**90**
Intangible assets	-	15	-
Property, plant and equipment	-	17	73
Receivables	1	7	12
Other assets	-	7	5
Liabilities	**-**	**(18)**	**(87)**
Financial liabilities	-	(10)	(76)
Other liabilities	-	(8)	(11)
Value of acquired net assets	**1**	**28**	**3**

Calculated goodwill	Alergo-Med Tarnów sp. z o.o. Final settlement	FCM and Starówka sp. z o.o. Final settlement	Tomma, Asklepios Diagnostyka sp. z o.o. and Bonus-Diagnosta sp. z o.o. Preliminary settlement
Consideration transferred	4	66	147
Net value of identifiable assets	(1)	(28)	(3)
Goodwill	**3**	**38**	**144**

Goodwill will not reduce taxable income.

Financial data of acquired entities

The following table presents the financial data of entities acquired in 2019 and included in the consolidated profit and loss account. The data have been prepared in accordance with IFRS and cover the period in which these companies were under the PZU Group's control.

Consolidated profit and loss account	
Other operating income	50
Interest expenses	(1)
Other operating expenses	(52)
Operating profit	**(3)**
Profit before tax	**(3)**
Income tax	-
Net profit, including:	**(3)**
– profit attributable to the equity holders of the Parent Company	(3)
– profit (loss) attributed to holders of non-controlling interest	-

(in millions of PLN)

Consolidated profit and loss account taking into account acquired entities

The table below presents the profit and loss account of the PZU Group, taking into account the financial data of acquired subsidiaries calculated as if the beginning of the year was the acquisition date for all the combinations effected during the year.

Consolidated profit and loss account	1 January – 31 December 2019
Gross written premiums	24,191
Reinsurers' share in gross written premium	(1,012)
Net written premiums	**23,179**
Movement in net provision for unearned premiums	(89)
Net earned premiums	**23,090**
Revenue from commissions and fees	4,139
Net investment income	12,391
Net result on realization of financial instruments and investments	278
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,166)
Net movement in fair value of assets and liabilities measured at fair value	837
Other operating income	1,591
Claims, benefits and movement in technical provisions	(16,085)
Reinsurers' share in claims, benefits and movement in technical provisions	390
Net insurance claims and benefits paid	**(15,695)**
Fee and commission expenses	(860)
Interest expenses	(2,133)
Acquisition expenses	(3,363)
Administrative expenses	(6,606)
Other operating expenses	(4,416)
Operating profit	**7,087**
Share of the net financial results of entities measured by the equity method	(4)
Profit before tax	**7,083**
Income tax	(1,895)
Net profit, including:	**5,188**
– profit attributable to the equity holders of the Parent Company	3,298
– profit (loss) attributed to holders of non-controlling interest	1,890

2.3.1.4. Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno

On 31 January 2019, the KNF decided that Alior Bank would take over Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno (SKOK Jaworzno). In line with KNF's decision, starting on 1 February 2019, Alior Bank assumed management over the assets of SKOK Jaworzno, which was acquired by Alior Bank as of 1 April 2019.

The acquisition of SKOK Jaworzno was accounted for using IFRS 3. The process was carried out with the assumption that the Bank Guarantee Fund would provide aid to Alior Bank pursuant to Article 264 of the Bank Guarantee Fund Act and it would not require payment by Alior Bank. The aid from BFG involved provision of a subsidy and extension of a guarantee to cover losses resulting from the risk associated with the SKOK Jaworzno's property rights being acquired. The BFG subsidy was granted to cover the difference between the value of the acquired property rights and the liabilities arising from guaranteed funds of SKOK's depositors. On 22 November 2019 Alior Bank received a subsidy in the amount of PLN 110 million.

Settlement of the acquisition

Pursuant to the provisions of IFRS 3, the PZU Group recognized the acquired assets and liabilities at fair value.

(in millions of PLN)

The fair value of the SKOK Jaworzno's loan portfolio was calculated for loans with no recognized impairment (performing portfolio). For these loans, the calculation was based on contractual cash flows adjusted for credit risk and prepayments. The fair value of the SKOK's performing loan portfolio was determined by using a discounted cash flow model by using the observed market values of interest rates adjusted for liquidity margins and cost of capital, broken down into homogeneous sub-portfolios. The fair value of the non-performing loan portfolio was assumed to be equal to the carrying amount due to the expected insignificant recovery levels.

The fair value of client and bank deposits and other financial liabilities maturing within 1 year is more or less equal to their carrying amount. When calculating the fair value of financial liabilities with residual maturity above 1 year, the present value of expected payments is calculated based on the current interest rate curves. No difference was observed between this measurement and the carrying amount, as a result of which the fair value was not adjusted.

Also, deferred tax assets of PLN 20 million were recognized in connection with the acquired assets and liabilities accepted as a result of the merger.

Final settlement of the acquisition	Carrying amount	Adjustment to fair value	Fair value
Assets	**208**	**26**	**234**
Property, plant and equipment	7	-	7
Loan receivables from clients	137	6	143
Receivables	40	-	40
Cash and cash equivalents	21	-	21
Other assets	3	20	23
Liabilities	**336**	**-**	**336**
Other provisions	13	-	13
Financial liabilities	320	-	320
Other liabilities	3	-	3
Fair value of acquired net assets	**(128)**	**26**	**(102)**
Subsidy from the Bank Guarantee Fund			110
Gain from a bargain purchase			**8**

Gain from a bargain purchase is recognized in other operating income.

2.3.2. Changes to consolidation of mutual funds

On account of losing control, the following mutual funds are no longer subject to consolidation: PZU Akcji Spółek Dywidendowych sub-fund, PZU FIZ Akcji Focus, PZU FIZ Forte since 31 March 2019 and PZU Dłużny Aktywny sub-fund since 1 June 2019.

On 27 September 2019, the liquidation process of PZU FIO Innowacyjnych Technologii and on 31 October 2019 of PZU FIZ Surowcowy was completed.

Since 28 October 2019, the newly-established investment funds controlled by the PZU Group were consolidated: inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących, inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek, inPZU Akcje CEE plus.

2.3.3. Liquidations and transactions under joint control

During 2019, the following companies were deleted from the register of commercial undertakings of the National Court Register:

- Syta Development sp. z o.o. in liquidation – 11 June 2019 (control over the company was exercised by a liquidator independent of the PZU Group and for this reason the company was not consolidated);
- Ardea Alba SA in liquidation – 14 May 2019;
- Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation – 17 July 2019;
- CDM – 30 August 2019. This is the result of the split of CDM pursuant to Article 529 §1(1) of the Commercial Company Code, namely by:
  - transfer to Pekao of certain property (assets and liabilities) as well as rights and obligations in the form of an organized part of CDM's enterprise related to the provision of brokerage services, and
  - transfer to Centrum Bankowości Bezpośredniej sp. z o.o of certain property (assets and liabilities) as well as rights and obligations in the form of an organized part of CDM's enterprise related to the provision of call center services;

  In compliance with Article 530 § 1 of the Commercial Company Code, CDM was dissolved without the conduct of a liquidation procedure. On the date of deletion from the National Court Register and in compliance with Article 531 § 1 of the Commercial Company Code, the split of CDM became legally effective.
- Revimed sp. z o.o. – merged with PZU Zdrowie SA on 31 October 2019;
- Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o. – merged with PZU Zdrowie SA on 29 November 2019;
- Specjalistyczny Zakład Opieki Zdrowotnej Multimed sp. z o.o. – merged with Elvita on 16 December 2019.

The deletion of the companies from the register did not affect the consolidated financial statements.

2.3.4. Other transactions

On 3 October 2019 PZU sold 6,600 shares in Sigma BIS SA representing 66% of the company's share capital and carrying the right to 66% of votes at its shareholder meeting. As a result, on 3 October 2019 Sigma BIS SA became an associate. The transaction did not have any significant effect on the PZU Group's consolidated financial statements.

In connection with an increase of the share capital of EMC Instytut Medyczny SA entered in the KRS on 23 December 2019, the share of the PZU Group in the share capital and votes at the shareholder meeting fell to 16.95% and 15.88%, respectively. Accordingly, as of 23 December 2019, the company is no longer an associated company. Because of the recognized impairment losses, there was no difference between the valuation by the equity method and fair value. As a result, the loss of significant influence had no effect on the consolidated profit and loss account.

2.4 Non-controlling interest

2.4.1. Accounting policy

Non-controlling interests constitute that part of capital in a subsidiary that is not directly or indirectly attributable to the parent company. As at the date of obtaining control, non-controlling interests are measured at the at the non-controlling interest's proportionate share in the fair value of the subsidiary's identifiable net assets. As at the subsequent balance sheet dates, the value of non-controlling interests is updated by the value of comprehensive income attributable to non-controlling interests.

(in millions of PLN)

2.4.2. Quantitative data

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

Name of the entity	31 December 2019	31 December 2018
Pekao [1]	79.98%	79.97%
Alior Bank [2]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%

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

Carrying amount of non-controlling interests	31 December 2019	31 December 2018
Pekao Group	18,683	18,251
Alior Bank Group	4,430	4,225
Other	6	6
Total	**23,119**	**22,482**

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

Assets	Pekao Group		Alior Bank Group	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Goodwill	692	692	-	-
Intangible assets	1,683	1,777	644	658
Other assets	45	45	35	35
Property, plant and equipment	2,112	1,682	764	461
Investment property	-	13	-	-
Loan receivables from clients	139,464	128,242	55,368	53,811
Financial derivatives	2,457	1,765	508	579
Entities measured by the equity method	-	-	10	4
Investment financial assets	48,338	40,356	15,996	13,636
Measured at amortized cost	15,743	12,262	5,387	6,307
Measured at fair value through other comprehensive income	31,167	27,266	10,438	7,280
Measured at fair value through profit or loss	1,428	828	171	49
Deferred tax assets	1,087	1,112	1,178	1,076
Receivables	1,956	2,235	667	815
Cash and cash equivalents	5,463	13,219	1,319	2,069
Assets held for sale	16	4	-	-
Total assets	**203,313**	**191,142**	**76,489**	**73,144**

(in millions of PLN)

Equity and liabilities	**Pekao Group**		**Alior Bank Group**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Equity				
Equity attributable to equity holders of the parent	23,360	22,824	6,508	6,207
Share capital	262	262	1,306	1,306
Other capital	20,510	20,721	5,637	5,609
Retained earnings	2,588	1,841	(435)	(708)
Non-controlling interest	12	11	-	-
Total equity	**23,372**	**22,835**	**6,508**	**6,207**
Liabilities				
Provisions for employee benefits	401	407	29	32
Other provisions	414	297	349	119
Deferred tax liability	30	33	1	-
Financial liabilities	175,713	164,636	68,433	65,373
Other liabilities	3,383	2,934	1,169	1,413
Total liabilities	**179,941**	**168,307**	**69,981**	**66,937**
Total equity and liabilities	**203,313**	**191,142**	**76,489**	**73,144**

Consolidated profit and loss account for the period from 1 January to 31 December 2019	**PZU Group**	**Elimination of data from Pekao**	**Elimination of data from Alior Bank**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	24,191	-	-	25	24,216
Reinsurers' share in gross written premium	(1,012)	-	-	-	(1,012)
Net written premiums	**23,179**	**-**	**-**	**25**	**23,204**
Movement in net provision for unearned premiums	(89)	-	-	(12)	(101)
Net earned premiums	**23,090**	**-**	**-**	**13**	**23,103**
Revenue from commissions and fees	4,139	(2,857)	(1,151)	107	238
Net investment income	12,391	(6,901)	(3,907)	27	1,610
Net result on realization of financial instruments and investments	278	(154)	(78)	-	46
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,166)	691	1,475	-	-
Net movement in fair value of assets and liabilities measured at fair value	837	(127)	(219)	3	494
Other operating income	1,492	(372)	(295)	42	867
Claims, benefits and movement in technical provisions	(16,085)	-	-	-	(16,085)
Reinsurers' share in claims, benefits and movement in technical provisions	390	-	-	-	390
Net insurance claims and benefits paid	**(15,695)**	**-**	**-**	**-**	**(15,695)**
Fee and commission expenses	(860)	388	473	(3)	(2)
Interest expenses	(2,129)	1,215	789	(19)	(144)
Acquisition expenses	(3,363)	-	-	(60)	(3,423)
Administrative expenses	(6,606)	3,389	1,478	(34)	(1,773)
Other operating expenses	(4,324)	1,777	908	(76)	(1,715)
Operating profit (loss)	**7,084**	**(2,951)**	**(527)**	**-**	**3,606**
Share of the net financial results of entities measured by the equity method	(4)	-	(1)	-	(5)
Profit (loss) before tax	**7,080**	**(2,951)**	**(528)**	**-**	**3,601**
Income tax	(1,895)	825	249	-	(821)
Net profit (loss)	**5,185**	**(2,126)**	**(279)**	**-**	**2,780**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 2018 (restated)	**PZU Group**	**Elimination of data from Pekao**	**Elimination of data from Alior Bank**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	23,470	-	-	16	23,486
Reinsurers' share in gross written premium	(755)	-	-	-	(755)
Net written premiums	**22,715**	**-**	**-**	**16**	**22,731**
Movement in net provision for unearned premiums	(365)	-	-	(8)	(373)
Net earned premiums	**22,350**	**-**	**-**	**8**	**22,358**
Revenue from commissions and fees	4,109	(2,841)	(1,093)	58	233
Net investment income	10,944	(6,183)	(3,418)	23	1,366
Net result on realization of financial instruments and investments	(15)	(190)	(111)	-	(316)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,804)	525	1,152	-	(127)
Net movement in fair value of assets and liabilities measured at fair value	770	(5)	(608)	(5)	152
Other operating income	1,693	(443)	(458)	27	819
Claims, benefits and movement in technical provisions	(14,980)	-	-	-	(14,980)
Reinsurers' share in claims, benefits and movement in technical provisions	417	-	-	-	417
Net insurance claims and benefits paid	**(14,563)**	**-**	**-**	**-**	**(14,563)**
Fee and commission expenses	(754)	392	360	-	(2)
Interest expenses	(2,046)	1,117	776	(16)	(169)
Acquisition expenses	(3,130)	-	-	(49)	(3,179)
Administrative expenses	(6,609)	3,398	1,574	(27)	(1,664)
Other operating expenses	(3,858)	1,479	788	(19)	(1,610)
Operating profit (loss)	**7,087**	**(2,751)**	**(1,038)**	**-**	**3,298**
Share of the net financial results of entities measured by the equity method	(1)	-	-	-	(1)
Profit (loss) before tax	**7,086**	**(2,751)**	**(1,038)**	**-**	**3,297**
Income tax	(1,718)	694	286	-	(738)
Net profit (loss)	**5,368**	**(2,057)**	**(752)**	**-**	**2,559**

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 31 December 2019	**1 January – 31 December 2018**	**1 January – 31 December 2019**	**1 January – 31 December 2018**
Net profit	2,126	2,057	279	752
Other comprehensive income	146	88	22	27
Valuation of debt instruments measured at fair value through other comprehensive income	81	13	23	(7)
Valuation of equity instruments measured at fair value through other comprehensive income	(6)	10	(17)	-
Net cash flow hedges	73	65	15	34
Actuarial gains and losses related to employee provisions	(2)	-	1	-
Total net comprehensive income	**2,272**	**2,145**	**301**	**779**

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 December 2019	1 January – 31 December 2018	1 January – 31 December 2019	1 January – 31 December 2018
Net cash flows from operating activities	(1,388)	(4,233)	53	2,067
Net cash flows from investing activities	(7,506)	10,745	(335)	(949)
Net cash flows from financing activities	1,140	1,387	(475)	(413)
Total net cash flows	**(7,754)**	**7,899**	**(757)**	**705**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 31 December 2019	1 January – 31 December 2018	1 January – 31 December 2019	1 January – 31 December 2018
Date of ratifying the dividend	26 June 2019	21 June 2018	-	-
Record date	10 July 2019	6 July 2018	-	-
Dividend payment date	30 July 2019	20 July 2018	-	-
Dividend per share (PLN)	6.60	7.90	-	-
Dividend due to the PZU Group	347	415	-	-
Dividend due to non-controlling shareholders	1,385	1,659	-	-

3. Shareholder structure

PZU's shareholder structure, taking into consideration the shareholders with at least 5% of the votes at the PZU shareholder meeting is as follows:

As at 31 December 2019

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting [1)]	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300	34.1875%
2	Other shareholders	568,305,700	65.8125%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 22/2019 on the list of shareholders holding at least 5% of the number of votes at the PZU Extraordinary Shareholder Meeting that took place on 6 September 2019.

As at 31 December 2018

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting [1)]	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300	34.1875%
2	Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny	43,825,000	5.0751%
3	Other shareholders	524,480,700	60.7374%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 21/2018 on the list of shareholders holding at least 5% of the number of votes at the PZU Ordinary Shareholder Meeting that took place on 28 June 2018.

Information on the number of shares taken into account in the calculation of earnings per share is presented in section 25.

Transactions pertaining to significant stakes in PZU

On 24 July 2019, PZU received a notification pertaining to movement in the equity stake held in PZU by Nationale Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny. The notification specified that as a result of the sale of shares in PZU, as settled on 18 July 2019, Nationale Nederlanden Otwarty Fundusz Emerytalny decreased its equity stake held in PZU from 43,995,060 shares to 41,985,060 shares, that is below 5% of PZU's share capital. Accordingly, the funds Nationale Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA reduced their equity stake held in PZU from 44,010,060 shares, which represented 5.10% of PZU's share capital and carried the right to 44,010,060 votes at the Shareholder Meeting, to 42,000,060 shares, representing 4.86% of PZU's share capital and carrying the right to 42,000,060 votes at the Shareholder Meeting.

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

4.1 Composition of the parent company's Management Board

From 1 January 2019, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Roger Hodgkiss – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

On 27 March 2019 the PZU Supervisory Board adopted a resolution to appoint Paweł Surówka to the PZU Management Board for the new term of office and entrusted him with discharging the function of CEO of PZU.

The appointment of Paweł Surówka was for the joint term of office commencing as of the date on which the PZU Supervisory Board resolution on his appointment was adopted and will span three full financial years from 2020-2022.

On 28 March 2019, the PZU Supervisory Board adopted resolutions to appoint the following persons to the PZU Management Board for its new term of office:

- Tomasz Kulik, entrusting him with discharging the function of PZU Management Board Member,
- Maciej Rapkiewicz, entrusting him with discharging the function of PZU Management Board Member,
- Małgorzata Sadurska, entrusting her with discharging the function of PZU Management Board Member,
- Marcin Eckert, entrusting him with discharging the function of PZU Management Board Member,
- Adam Brzozowski, entrusting him with discharging the function of PZU Management Board Member,
- Elżbieta Häuser-Schöneich, entrusting her with discharging the function of PZU Management Board Member.

In the case of Adam Brzozowski and Elżbieta Häuser-Schöneich, they were appointed as of 25 May 2019 for a joint term of office commencing at the time of appointing the CEO of PZU and spanning the three full financial years from 2020 to 2022.

The other persons were appointed on 28 March 2019 for a joint term of office commencing at the time of appointing the CEO of PZU and spanning the three full financial years from 2020 to 2022.

Roger Hodgkiss served in the capacity of PZU Management Board Member until the date of PZU's Ordinary Shareholder Meeting under the principle of discharging his mandate according to Article 369 § 4 of the Commercial Company Code.

On 23 October 2019, the PZU Supervisory Board adopted a resolution to appoint Aleksandra Agatowska to the PZU Management Board and entrust her with discharging the function of a PZU SA Management Board Member starting 24 October 2019 for a joint term of office encompassing three full financial years 2020-2022.

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

As at the date of signing the consolidated financial statements, the PZU Management Board consisted of the following persons:

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

4.2 Composition of the parent company's Supervisory Board

From 1 January 2019, the PZU Supervisory Board consisted of the following persons:

- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

On 24 May 2019, the Ordinary Shareholder Meeting of PZU set the number of PZU Supervisory Board members at 11 and appointed the following to the PZU Supervisory Board of the new term of office: Maciej Łopiński, Robert Jastrzębski, Alojzy Nowak, Marcin Chludziński, Agata Górnicka, Robert Śnitko, Elżbieta Mączyńska-Ziemacka, Tomasz Kuczura, Krzysztof Opolski, Maciej Zaborowski. This appointment was for the joint term of office that encompasses three consecutive full financial years 2020-2022.

Moreover, on 24 May 2019, the Prime Minister, acting on behalf of the State Treasury of the Republic of Poland, pursuant to § 20 sec. 7 of the PZU's Articles of Association, appointed Mr. Paweł Górecki to be a PZU SA Supervisory Board Member.

From 24 May 2019 to the date of signing the consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

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

4.3 PZU Group Directors

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

From 1 January 2019, the following persons were PZU Group Directors:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Dorota Macieja;
- Roman Pałac.

On 30 April 2019, Tomasz Karusewicz was dismissed from serving in his capacity of a PZU Group Director. From 1 to 24 May 2019, Roger Hodgkiss served as a PZU Group Director at PZU Życie. As of 25 May 2019, Adam Brzozowski was appointed as a PZU Group Director at PZU Życie. Due to her appointment to the PZU Management Board, on 23 October 2019, Aleksandra Agatowska was dismissed from the position of PZU Group Director. As of 20 February 2020, Aleksandra Agatowska was reappointed to the position of a PZU Group Director. As at the date of signing the consolidated financial statements, the following persons were PZU Group Directors:

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

5. Key accounting policies, key estimates and judgments

The consolidated financial statements have been prepared using the following measurement principles:

- at fair value for derivatives, financial assets and liabilities held for trading, equity instruments, participation units and investment certificates of mutual funds, financial assets classified to a business model whose objective is achieved by obtaining contractual cash flows and from the sale of financial assets satisfying the SPPI test, other financial assets that do not satisfy the SPPI criterion;
- at amortized cost for financial assets classified to a business model whose objective is achieved by obtaining contractual cash flows and satisfying the SPPI test as well as other financial liabilities;
- at historical cost for non-financial assets and liabilities.

Preparation of the consolidated financial statements in accordance with IFRS requires that the PZU Management Board make professional judgment and estimates and assumptions, which impact the adopted accounting policies and the presented values of assets and liabilities, revenues and costs.

The estimates and the related assumptions are based on historical experience and other factors which are deemed reasonable in the given circumstances, and their results provide the basis for professional judgment regarding the carrying amount of the assets and liabilities which does not follow directly from other sources.

Making the judgments, estimates or assumptions the PZU Management Board may, in material issues, rely on the opinions of independent experts.

The actual value may differ from the estimate value. The judgments, estimates and related assumptions are subject to ongoing verification. Their changes are recognized in the manner described in section 5.1.

(in millions of PLN)

The key accounting policies and estimates and assessments used in preparation of the consolidated financial statements are described below and in individual notes, according to the table below.

Profit and loss account item	Note number	Statement of financial position item	Note number
Gross written premiums	10	Goodwill	26
Revenue from commissions and fees	11	Intangible assets	27
Net investment income	12	Deferred acquisition expenses	29
Net result on realization of financial instruments and investments	13	Property, plant and equipment	30
Movement in allowances for expected credit losses and impairment losses on financial instruments	37	Investment property	31
Claims, benefits and movement in technical provisions	17	Entities measured by the equity method	32
Interest expenses	19	Loan receivables from clients	33
Acquisition expenses	20	Financial derivatives	34
Administrative expenses	21	Investment financial assets	35
Income tax	24	Cash	38
		Assets held for sale	39
		Equity attributable to equity holders of the parent	40
		Non-controlling interest	2.4
		Technical provisions	41
		Provisions for employee benefits	42
		Other provisions	43
		Deferred tax	44
		Financial liabilities	45

5.1 Changes in accounting policies and estimates, errors from previous years

The accounting policies are changed only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the PZU Group's financial position, financial performance or cash flows.

Changes in accounting policies associated with the initial application of an IFRS are accounted for in accordance with the specific transitional provisions contained in that IFRS. If a change in accounting policies is made in connection with initial application of IFRS which do not contain specific transitional provisions pertaining to such a change or the change is made voluntarily, the entity introduces such a change retrospectively. Retrospective introduction of a change in accounting policies is made through a correction in the statement of financial position of the opening balance of each equity item to which the change pertains for the earliest presented period and disclosure of other comparative data for each period, as if the changed accounting policies have been always applied.

The financial statements items determined on the basis of estimates are subject to verification, if the circumstances constituting the basis for the estimates change or as a result of obtaining new information or gathering more experience.

The effects of a change of an estimate value are prospective, which means that the values pertaining to the transactions, other events and conditions are adjusted as of the moment when the change was made (the change influences only the current statement of comprehensive income, or the results of the given period or future periods).

An assumption is made that errors are corrected already in the period in which they were made (not detected), hence material errors from previous periods are corrected retrospectively, and the difference is charged to equity.

(in millions of PLN)

5.2 Amendments to the applied IFRS

5.2.1. Standards, interpretations and amended standards effective from 1 January 2019

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

Standard/interpretation	Approving regulation	Comments
IFRS 16 – Leases	1986/2017	The effect of the application of IFRS 16 is described in section 5.2.2.
Amendment to IFRS 9 – prepayments with negative compensation	498/2018	Certain options, which force a lender to accept reduced compensation for granting financing (in the case of negative compensation) failed to pass the SPPI test; accordingly any instruments containing such options could not be classified as measured at amortized cost or at fair value through other comprehensive income. According to the amendment, the positive or negative sign of the prepayment amount will not be important; this means that, depending on the interest rate in effect when the agreement is terminated, payment can be made to a party resulting in prepayment. This compensation must be calculated in the same manner for both a penalty for prepayment and also for a gain earned on prepayment. The change did not affect the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	1595/2018	The interpretation is applied when there is uncertainty to the determination of taxable profit, tax losses, taxable income, outstanding tax losses, unused tax credits and tax rates under IAS 12. This interpretation was applied in the PZU Group. Additional information on this matter is presented in section 24.2.
Amendment to IAS 28 – Long-term interests in associates and joint ventures	237/2019	According to the amended IAS 28, long-term interests in associates and joint ventures for which the company does not apply the equity method, the applicable standard is IFRS 9, also with regard to impairment. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IAS 19 Employee Benefits	402/2019	The amendment contains clarifications for the guidelines in case of a plan amendment, curtailment or settlement during the reporting period. The amendments require entities, after such an event, to use updated actuarial assumptions to calculate current service cost and net interest for the remaining part of the reporting period. The amendments also clarify how requirements concerning the plan's amendment, curtailment or settlement affect asset threshold requirements. The IASB has decided that the scope of these amendments does not cover the settlement of "significant market fluctuation" (in euro). The amendments apply to plan amendments, curtailments or settlements that will take place on or after 1 January 2019, with the possibility of earlier application. The change did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Approving regulation	Comments
Annual improvements to IFRS 2015-2017	412/2019	The amendments pertain to: 1st IFRS 3 – the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2nd IFRS 11 – the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3rd IAS 12 – the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4th IAS 23 – the amendments clarify that if specific loans remain outstanding but the asset is ready for use or sale, the loans are treated as general purpose loans for calculation of the capitalization rate on total loans. The amendments did not affect the PZU Group's consolidated financial statements.

5.2.2. IFRS 16 – Leases

IFRS 16 has replaced IAS 17 *Leases* and any interpretations related to this standard and has introduced a full model of identification and settlement of leases in the lessors' and lessees' financial statements. The most important change pertains to lessees, for which the new standard eliminates the distinction between financial leases and operating leases.

Introduction of a new standard for contracts previously classified as operating leases in the statement of financial position has resulted in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of remitting lease payments).

Recognition of leases on the lessor's side has in most cases remained unchanged due to the maintenance of the breakdown between operating leases and financial leases.

Applying IFRS 16 the PZU Group made the following assumptions and adopted the following practical approaches permitted by the standard:

- As at 1 January 2019 a simplified approach has been applied in accordance with section C5(b) of IFRS 16. Comparative data were not transformed, and the total effect of the first application of IFRS 16 was recognized as an adjustment to the opening balance of retained earnings on the first application date.
- In the case of leases previously classified as operating leases in accordance with IAS 17 lease assets and liabilities were measured at present value of the remaining lease payments, discounted by the lessee's marginal interest rate.
- A single discount rate was used for the portfolio of lease contracts with features that are generally similar.
- A practical solution concerning short-term leases was applied for operating leases whose lease term ends within 12 months of the day of first application of IFRS 16.
- If a contract contained a lease extension or termination option then knowledge obtained after the fact was used in order to determine the term of the lease.

In the consolidated profit and loss account for 2019, fees related to lease and rental were replaced by the amortization of the right to use the leased object and by interest expenses on lease liabilities.

The principles of recognizing right-of-use assets and lease liabilities under IFRS 16 are presented in section 47.

(in millions of PLN)

Effect of the application of the new standard

Items of the statement of financial position	31 December 2018 (under IAS 17)	Recognition of lease contracts	1 January 2019 (under IFRS 16)
Property, plant and equipment	3,184	1,250	4,434
Investment property	1,697	51	1,748
Financial liabilities	236,316	1,301	237,617

Marginal interest rates applied to the measurement of lease liabilities as at 1 January 2019, by contract currency	
PLN	1.60% – 10.00%
EUR	0.10% – 3.20%
USD	3.31% – 4.11%
GBP	1.41% – 2.78%
UAH	19.70%

Reconciliation of operating lease liabilities recognized in accordance with IAS 17 to liabilities recognized in accordance with IFRS 16	
Value of operating lease liabilities (IAS17) as at 31 December 2018	1,180
Discount effects	(91)
Value of finance lease liabilities (IAS17) as at 31 December 2018	10
Recognition of new liabilities in accordance with IFRS 16	366
Short-term contracts	(29)
VAT	(125)
Lease liabilities (IFRS 16) as at 1 January 2019	**1,311**

(in millions of PLN)

5.2.3. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendments to the framework	1 January 2020	2019/2075	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Additionally, they contain explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements. The amendments will not have a significant influence on the PZU Group's consolidated financial statements.
Amendments to IAS 1 and IAS 8 – definition of materiality	1 January 2020	2019/2104	According to the new definition, information is material if one may justifiably expect that if it is overlooked, distorted or concealed this may affect the decisions made by the main users of financial statements on the basis of these financial statements. The change will not affect to a material extent the PZU Group's consolidated financial statements.
Amendments to IFRS 9 and IFRS 7 – reform of the interest rate benchmarks	1 January 2020	2020/34	This amendment requires the preparation of qualitative and quantitative disclosures to enable users of financial statements to understand how the entity's hedging relationships are affected by uncertainty arising from the benchmark interest rate reform. The amendments introduce temporary exceptions from applying specific hedge accounting requirements in such a way that the reform of interest rate benchmarks does not result in the termination of hedge relations. The key exceptions apply to the requirements that the cash flows are "highly probable", risk components, prospective assessments, retrospective effectiveness assessments and reclassification of the cash flow hedge provision. The PZU Group is currently analyzing the impact of the amendment on its consolidated financial statements.

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
IFRS 17 – Insurance contracts	18 May 2017	1 January 2022	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts – whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows – expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account; • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions. IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or, if possible, by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group works, among others, on: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • work related to the selection of a system to support the reporting process in accordance with the requirements of IFRS 17.

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to IFRS 3 – Business combinations	22 October 2018	1 January 2020	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments will not affect the PZU Group's consolidated financial statements.
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2022	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

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

5.3 Explanation of differences between the 2018 annual consolidated financial statements and these consolidated financial statements

Margin on foreign exchange transactions

To reflect better the economic nature of revenue generated on the margin on foreign exchange transactions, it has been moved from "Net investment income" to "Revenue from commissions and fees".

The table presents the impact of the change on the individual items of the consolidated financial statements.

Consolidated profit and loss account	1 January – 31 December 2018 *(historical)*	Change	1 January – 31 December 2018 *(restated)*
Revenue from commissions and fees	3,374	735	4,109
Net investment income	11,679	(735)	10,944
Net profit	**5,368**	**-**	**5,368**

5.4 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2019 include financial data of the parent company and all its subsidiaries after elimination of intra-group transactions.

A subsidiary is an entity that is controlled by another entity. That means that the latter simultaneously has: power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

Consolidation involves the combination of similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent company and its subsidiaries and then elimination of the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Also, assets and liabilities, revenue, costs and cash flows relating to intra-group transactions between PZU Group entities are eliminated in full.

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

Subsidiaries are consolidated from the date of obtaining control until the date cessation of control.

The rules applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies are presented in section 5.5.

5.4.1. Judgments in exercising control

In order to determine whether PZU Group has rights that are sufficient to give it power, that is practical ability to direct the relevant activities unilaterally, the PZU Group analyzes among others:

- how many votes it holds at the shareholder meeting and whether it holds more votes than other investors (including potential voting rights and rights resulting from other contractual arrangements);
- how many entities would have to act together in order to outvote the PZU Group;
- distribution of votes at previous shareholder meetings;
- if the key personnel of the entity or members of the investee's governing body are related parties of the PZU Group;
- capacity to appoint members of management and supervisory bodies of the entity;
- commitments, if any, to ensure that an investee continues to operate as designed;

(in millions of PLN)

- capacity to obligate the entity to perform or prevent it from performing significant transactions;
- other prerequisites.

The analysis of prerequisites for exercising control over Pekao and Alior Bank as at 31 December 2019 is presented in the table below.

Criterion	Pekao	Alior Bank
Share in votes at the shareholder meeting	20.02%	31.93%
Other shareholders	No shareholder holds a stake exceeding 5% and two largest ones hold in aggregate a 9.51% stake. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.	Only two shareholders hold stakes between 5% and 8%. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.
Shareholder agreements	On 23 January 2017, PZU and PFR (holding 12.8% of Pekao's share capital) signed a Shareholder Agreement to build Pekao's long-term value, implement a policy aimed at ensuring Pekao's development, financial stability and effective and prudent management. It defines the rules of cooperation between PZU and PFR, in particular pertaining to joint exercise of voting rights from the shares held and the implementation of a common long-term policy for Pekao's business. The Shareholder Agreement provides for the possibility of having real influence on Pekao's operating policies. The Management Board of PZU does not have any information about any agreements that may have been concluded between Pekao's other shareholders.	The Management Board of PZU does not have any information about any agreements that may have been concluded between Alior Bank's other shareholders.
Potential voting rights	No potential voting rights have been identified.	No potential voting rights have been identified.
Capacity to adopt resolutions in line with PZU's intentions	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.
PZU representatives in governing bodies	Supervisory Board members include persons that earlier fulfilled or are fulfilling key management functions at PZU.	The key management personnel and the Supervisory Board members include persons that earlier fulfilled or are fulfilling key management functions at PZU.
Investor commitments and exposure to variability of returns	In connection with bancassurance, assurbanking activities, joint initiatives in the cost areas, including IT and real property, between PZU and Pekao, PZU has access to financial results, activities and operations that are not available to other shareholders of Pekao.	The PZU Group has undertaken investor commitments towards Alior Bank and conducts operations together with Alior Bank. This which means that it has greater exposure to the variability of Alior Bank's financial results than it is implied by the stake it holds in Alior Bank's equity.

In the light of the above prerequisites, it has been determined that the PZU Group exercises control both over Pekao (since 7 June 2017) and over Alior Bank (since 18 December 2015) and over their subsidiaries and therefore they were consolidated.

5.4.2. Rules of consolidation of mutual funds

The PZU Group has assumed that it exercises control over a mutual fund if the following conditions are jointly met:

- PZU Group companies jointly have the capacity to exercise their authority over the fund to influence the value of the return on investment, with the prerequisites for this capacity being, among others, control exercised over the mutual fund company and a significant share in the total number of votes at the meeting of investors or board of investors;
- the total exposure of PZU Group companies to variable returns from their involvement in a mutual fund is significant, which means that the total share of PZU Group companies in the fund's net assets equals or exceeds 20% (whereas the fund's assets that are net assets of unit-linked contracts are not used to determine this total share). If the involvement is less than 20% of the fund's net assets then the exposure to fluctuations in the fund's financial results, considered together with decision-making powers, imply that such a fund is not controlled by the Group.

(in millions of PLN)

PZU Group accepts that a fund will remain consolidated (or unconsolidated, as the case may be) for a period of two quarters following a quarter that closed for the first time with a decline (or increase, as the case may be) of the share in the fund's net assets below 20% (or above 20%, as the case may be) if this decline (or increase, as the case may be) resulted from deposits (or withdrawals, as the case may be) made by participants from outside the PZU Group.

The mutual funds controlled by the PZU Group are consolidated. Their assets are presented in their full amount in the statement of financial position as financial assets by type and classified to the relevant portfolios, while the liability related to the fund's net assets owned by third-party investors is recognized in "Financial liabilities". If control over a mutual fund is lost then its consolidation ceases and the fund's assets and liabilities, as well as liabilities to its participants, if any, are excluded from the consolidated statement of financial position. Instead, the participation units or the investment certificates corresponding to the fair value of shares held by PZU Group companies in the fund's net assets are presented.

5.5 Measurement of transactions and balances denominated in foreign currencies and FX rates used

Transactions carried out in a currency other than Polish zloty are recognized at the exchange rate set by the National Bank of Poland (NBP) for the transaction date. At the end of the reporting period, cash items denominated in foreign currencies are translated using the average NBP exchange rate in effect on that date. Non-cash items measured at fair value and denominated in foreign currencies are measured using the average NBP exchange rate in effect on the date on which the fair value is determined. Gains and losses on currency translation are recognized directly in the profit and loss account.

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, other comprehensive income and cash flows – 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.

Translation differences are recognized under "Foreign exchange translation differences" in equity.

The following FX rates have been used for these consolidated financial statements:

FX rates used for translation of financial data of foreign subordinated entities	1 January – 31 December 2019	1 January – 31 December 2018	31 December 2019	31 December 2018
Euro	4.3018	4.2669	4.2585	4.3000
British pound	4.9106	4.8142	4.9971	4.7895
Ukrainian hryvnia	0.1502	0.1330	0.1602	0.1357

5.6 Purchase method

Acquisitions of subsidiaries by the PZU Group are recognized by the purchase method of accounting.

For each acquisition transaction, the acquirer is identified and the acquisition date is determined, which is the date on which the acquirer obtains control over the acquiree. As of the acquisition date, the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

As at the date of acquisition, the identifiable assets acquired and the liabilities assumed are measured at fair value.

For each acquisition, any non-controlling interest in the acquiree are measured at the non-controlling interest's proportionate share in the fair value of the acquiree's identifiable net assets.

The fair value measurement of assets and liabilities is associated with significant uncertainty regarding estimates, as it requires the Management Board of PZU to develop professional judgments and make use of complex and subjective assumptions. Relatively small changes in key assumptions may have a significant impact on the results of the measurement. Key assumptions include, among others: discount rates, credit risk costs, prepayment rates for performing portfolios and the timing and amount of expected cash flows for non-performing portfolios.

Determination of goodwill or a gain from a bargain purchase

Goodwill is measured and recognized as at the date of obtaining control as the surplus of:

- the consideration transferred measured at fair value as at the date of obtaining control;
- the amount of any non-controlling interest in the acquiree measured as described above;
- fair value of the PZU Group's equity interest in the acquiree held before obtaining control over the acquiree;

over the obtaining control date net amount of the fair value of the identifiable assets acquired and the liabilities assumed.

If the net fair values of identifiable assets acquired and the liabilities assumed exceeds the fair value of payment received, increased by the value of all non-controlling interests in the acquiree and the fair value of the interest in the acquiree's equity and held before obtaining control, the gain from a bargain purchase is recognized in the consolidated profit and loss account. Before a gain from a bargain purchase is recognized, a reassessment is made whether all of the assets acquired and all of the liabilities assumed have been correctly identified and all additional assets or liabilities have been are recognized.

In the period of maximum 1 year from taking the control, PZU Group may retrospectively adjust the provisional fair values of assets and liabilities recognized as at the date of obtaining control to reflect new information obtained about facts and circumstances that existed as of the date of obtaining control and, if known, would have affected the measurement of these assets and liabilities. Such adjustments are charged directly to the recognized goodwill or gain from a bargain purchase.

Intangible assets

Intangible assets acquired in business combination transactions are recognized at fair value as at the date of obtaining control. The fair value of an intangible asset reflects expectations as to the probability that the entity achieves economic benefits from the asset in the future. The fair value of intangible assets is determined as follows:

- trademark – using the relief-from-royalty method, based on potential savings on the license fees that the company is not required to pay as the owner of the trademark (i.e. present value of future potential license fees). The market level of license fees is determined by analyzing license fee rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are determined as the product of the assumed license fee rate and the amount of the estimated sales revenues. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. Then the calculated net cash flows are increased by the potential tax relief arising from the tax amortization benefit (TAB) of the trademark. Finally, the calculated cash flows are discounted using the discount rate reflecting, among others, risk typical for a given trademark;
- relations with brokers and relations with clients – using the multiperiod excess earnings method (MEEM), based on the present value of future profits generated by each relation. Fair value is then determined based on discounted future cash flows resulting from the excess income generated by a company in possession of the relevant intangible asset over revenues generated by a company without such an asset. The relations are identified and subsequently their life expectancy is determined (by applying the applicable attrition ratio using the Weibull curve) and revenues and costs associated with each relation are projected. The identified and calculated CAC (contributory asset charge), including maintenance of capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. If there are any tax structures in place that allow an average market participant to amortize a relation then its measurement should include TAB;
- IT systems – the gross value of purchased systems was assumed to be equal to the financial expenditure made to purchase them. For systems developed internally, their gross value is established at the amount of capitalized expenditures made to develop them. The amounts calculated using this method are then adjusted by the remaining operational life of the system, which is calculated as a percentage of the period of the system's useful life. The fair value of systems under development is adjusted to the amount of expenditures made on the functionalities for which the development work has not been completed or which have not been tested and thus are not ready for production acceptance;
- relations with customers holding savings and checking accounts (CDI, core deposit intangible) – as the present value of the difference between the cost of the CDI and the alternative borrowing costs (including interest and administrative expenses) that the bank would have to incur if it had no core deposit. The value of CDI is measured using the favorable source of funds

method derived from the expense and income methods. In this method, the account retention ratio is projected (using the Weibull curve), the average initial balance and the number of accounts to be included in the measurement are estimated and the net balance of deposits is calculated (adjusted by the retention ratio and the unstable part of the deposit base). Then the cost of acquired deposits is calculated as loan loss reserve requirements, interest and administration expenses less net commission income from the accounts. Next, interest rate benchmarks are used to estimate the alternative borrowing cost. In the next step, the difference between the alternative borrowing costs and the cost of acquired deposits is calculated, which is discounted using the required rate of return. The measurement of CDI does not include any tax amortization benefit (TAB).

The discount rate used for the measurement of intangible assets reflects the time value of money and risks related to expected future cash flows. It is calculated on the basis of the expected return from the best investment alternative to the investment being measured. This rate sets the lowest return from the measured asset that is required by an investor in such a manner that the rate of return achieved by the investor is at least equal to the best available investment alternative. The return on the alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the date of obtaining control in accordance with the Capital Asset Pricing Model (CAPM): CE = RF + ERP x β + SP + SR, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks associated with the business, SP – small cap premium, SR – specific risk premiums.

Loans and advances to customers

The measurement of the loan portfolio to fair value was performed using the income method involving the discounting of future cash flows arising from the loan portfolio component being measured. For performing loans, fair value was estimated as the present value of cash flows defined as the sum of the contractual installments of principal and interest (in accordance with the contractual margin rates and outstanding principal), adjusted by prepayments where relevant. The following is used to discount cash flows:

- interest rate determined based on money market instruments and derivative transactions (standard curve) taking into account the term structure and currency of the loan
- credit spread (credit spread curve) taking into account the term structure, broken down into the credit risk level of the client or the transaction;
- liquidity margin (liquidity curve) taking into account the term structure and currency of the loan;
- market margin, taking into account the cost of capital and profit margin, broken down into client segment, type and currency of the product.

For measurement purposes, the loan portfolio has been divided by currencies, product groups, risk level and client segments.

The standard curve was calculated on the basis of quotations for deposits for nodes up to 1 year and IRS transactions for nodes above 1 year.

The credit spread curve was calculated on the basis of estimated cumulative probability of default curves and expected average recovery rates for a given product group and client segment.

The liquidity curve for PLN was determined as the higher of zero or the difference between the PLN:BOND curve (zero-coupon curve based on Treasury bond prices) and the PLN:Std curve. For other currencies, the liquidity curve was increased by the cost of a swap converting PLN into the currency in question (calculated from FX Swap and Cross Currency Basis Swap quotations). When the cost was negative, the value of zero was assumed.

Market margin was calibrated for loans granted in the period of 3 months preceding the date of obtaining control, so that the fair value is equal to the gross carrying amount. If the market margin became negative following the calibration, it was assumed to be zero. For foreign currency mortgage loans, the margin was determined as the margin for PLN mortgage loans plus the difference in the average margin between mortgage loans granted in foreign currencies and the average margin of PLN mortgage loans.

For short-term working capital loans, the net carrying amount was taken as fair value.

Analyses have shown that the fair value of impaired loans did not differ materially from their carrying amount.

Property, plant and equipment

Property is measured using the income method, while other tangible assets – using market or replacement method.

5.7 Classification of insurance contracts in accordance with IFRS 4

The PZU Group Companies conducting insurance activity apply the guidelines set forth in IFRS 4 concerning the classification of their products as insurance contracts subject to IFRS 4 or as investment contracts. A contract meets the definition of an insurance contract only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction) and thus if a contract transfers considerable insurance risk.

The assessment whether a contract transfers considerable insurance risk requires analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. Such an assessment includes an element of subjective judgment, which has significant influence on the accounting policies applied. According to the assumptions made by the PZU Group, we are dealing with significant insurance risk when the occurrence of an insured event results in disbursement of a benefit that is at least 10% higher than the benefit that would be paid had the event not occurred. Based on this criterion, concluded contracts are recognized either according to IFRS 4 or according to IAS 9.

5.7.1. Classification of non-life insurance contracts

Analysis has shown that all non-life insurance contracts transfer significant insurance risk and accordingly they are governed by the requirements of IFRS 4.

Additionally, insurance contract accounting is still applied to financial guarantees that meet the definition of a financial instrument.

5.7.2. Classification of life insurance contracts

Analysis has shown that PZU Group’s offer contains products that do not transfer significant insurance risk (including certain products with guaranteed rate of return and some unit-linked products) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified in the consolidated financial statements as investment contracts measured in accordance with IFRS 9 at amortized cost or fair value (depending on the structure of each product).

Investment contracts include, among others: Pewny Zysk individual life and endowment insurance (recognized at amortized cost), unit-linked PZU IKZE insurance and Program Inwestycyjny Prestige [Prestige Investment Program] (recognized at fair value).

Both insurance contracts and investment contracts may include discretionary participation features (DPF). They entitle the insured to receive an additional benefit or a bonus in addition to the guaranteed claim. Such a benefit is constitutes a significant portion of the total contractual claim; its amount or term are contractual and they depend on the insurer’s discretion, whereas their occurrence depends on:

- history of the specified set or type of contracts;
- whether or not profit is realized on specified assets;
- whether the insurer, a fund or another entity related to the agreement makes profit or incurs loss.

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 4.

Additionally, no life insurance contracts have been identified which would provide for a simultaneous transfer of insurance risk and financial risk and require unbundling of insurance and investment components. In the case of contracts where unbundling of embedded options is permitted but not required under IFRS 4 (such as the right to surrender a contract, convert it into a funded contract, guaranteed annuity for a pre-defined premium, indexation of the sum insured and premiums), the investment component is not unbundled.

6. Segment reporting

6.1 Reportable segments

6.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.

Segment	Accounting standards	Segment description	Aggregation criteria
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

6.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

6.2 Inter-segment settlements

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

6.3 Segment's measure of profit

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

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

- in the case of banking activity and foreign insurance activity – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax.

6.4 Accounting policies applied according to PAS

6.4.1. PZU

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

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

6.4.2. PZU Życie

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

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

The fundamental difference between PAS and IFRS in respect of accounting for insurance contracts and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance agreements. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 on the classification of products as insurance contracts (subject to IFRS 4) or investment contracts (measured according to IAS 9). In the case of the latter the written premium is not recognized. The classification of those contracts is described in section 5.7.

6.5 Simplifications in the segmental note

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

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

(in millions of PLN)

6.6 Quantitative data

Corporate insurance (non-life insurance)	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	3,264	3,059
Gross written premium – cross-segment	52	38
Gross written premiums	**3,316**	**3,097**
Movement in provision for unearned premiums and gross provision for unexpired risks	(283)	(322)
Gross earned premium	**3,033**	**2,775**
Reinsurers' share in gross written premium	(786)	(582)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	229	133
Net earned premiums	**2,476**	**2,326**
Investment income, including:	100	113
external operations	100	113
intersegment operations	–	–
Other net technical income	32	50
Income	**2,608**	**2,489**
Net insurance claims and benefits	(1,610)	(1,591)
Movement in other net technical provisions	7	2
Acquisition expenses	(519)	(477)
Administrative expenses	(131)	(131)
Reinsurance commissions and profit participation	43	39
Other	(71)	(63)
Insurance result	**327**	**268**

Mass insurance (non-life insurance)	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	10,332	10,325
Gross written premium – cross-segment	71	76
Gross written premiums	**10,403**	**10,401**
Movement in provision for unearned premiums and gross provision for unexpired risks	(21)	(106)
Gross earned premium	**10,382**	**10,295**
Reinsurers' share in gross written premium	(149)	(113)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	28	(14)
Net earned premiums	**10,261**	**10,168**
Investment income, including:	481	526
external operations	481	526
intersegment operations	–	–
Other net technical income	126	114
Income	**10,868**	**10,808**
Net insurance claims and benefits	(6,410)	(6,171)
Movement in other net technical provisions	(1)	(44)
Acquisition expenses	(1,986)	(1,890)
Administrative expenses	(651)	(594)
Reinsurance commissions and profit participation	3	(6)
Other	(374)	(378)
Insurance result	**1,449**	**1,725**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	6,966	6,891
Gross written premium – cross-segment	–	–
Gross written premiums	**6,966**	**6,891**
Movement in the provision for unearned premiums	–	–
Gross earned premium	**6,966**	**6,891**
Reinsurers' share in gross written premium	(1)	(1)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	–	–
Net earned premiums	**6,965**	**6,890**
Investment income, including:	668	581
external operations	668	581
intersegment operations	–	–
Other net technical income	3	2
Income	**7,636**	**7,473**
Net insurance claims and benefits and movement in other net technical provisions	(5,057)	(4,931)
Acquisition expenses	(388)	(349)
Administrative expenses	(640)	(604)
Other	(54)	(46)
Insurance result	**1,497**	**1,543**

Individual insurance (life insurance)	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	1,581	1,346
Gross written premium – cross-segment	–	–
Gross written premiums	**1,581**	**1,346**
Movement in the provision for unearned premiums	(2)	(2)
Gross earned premium	**1,579**	**1,344**
Reinsurers' share in gross written premium	–	–
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	–	–
Net earned premiums	**1,579**	**1,344**
Investment income, including:	548	59
external operations	548	59
intersegment operations	–	–
Other net technical income	1	–
Income	**2,128**	**1,403**
Net insurance claims and benefits and movement in other net technical provisions	(1,640)	(976)
Acquisition expenses	(139)	(126)
Administrative expenses	(72)	(69)
Other	(6)	(5)
Insurance result	**271**	**227**

(in millions of PLN)

Investments	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018 (restated)
Investment income, including:	397	(328)
– external operations	333	(390)
– intersegment operations	64	62
Operating result	**397**	**(328)**

Banking activity	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018 (restated)
Revenue from commissions and fees	4,008	3,868
– external operations	3,901	3,810
– intersegment operations	107	58
Investment income	9,014	8,861
– external operations	9,014	8,861
– intersegment operations	–	–
Income	**13,022**	**12,729**
Fee and commission expenses	(862)	(753)
Interest expenses	(2,013)	(1,904)
Administrative expenses	(4,850)	(4,989)
Other	(1,799)	(1,047)
Operating result	**3,498**	**4,036**

Pension insurance	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Investment income, including:	6	5
external operations	6	5
intersegment operations	–	–
Other income	142	149
Income	**148**	**154**
Administrative expenses	(43)	(40)
Other	(4)	(7)
Operating result	**101**	**107**

(in millions of PLN)

Insurance – Baltic States	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	1,713	1,592
Gross written premium – cross-segment	–	–
Gross written premiums	**1,713**	**1,592**
Movement in provision for unearned premiums and gross provision for unexpired risks	(54)	(62)
Gross earned premium	**1,659**	**1,530**
Reinsurers' share in gross written premium	(57)	(48)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	(2)
Net earned premiums	**1,600**	**1,480**
Investment income, including:	38	2
external operations	38	2
intersegment operations	–	–
Income	**1,638**	**1,482**
Net insurance claims and benefits paid	(989)	(905)
Acquisition expenses	(335)	(317)
Administrative expenses	(133)	(125)
Other	4	3
Insurance result	**185**	**138**

Insurance – Ukraine	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium – external	335	257
Gross written premium – cross-segment	–	–
Gross written premiums	**335**	**257**
Movement in provision for unearned premiums and gross provision for unexpired risks	(8)	(12)
Gross earned premium	**327**	**245**
Reinsurers' share in gross written premium	(106)	(96)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(4)	3
Net earned premiums	**217**	**152**
Investment income, including:	33	19
external operations	33	19
intersegment operations	–	–
Income	**250**	**171**
Net insurance claims and benefits paid	(81)	(59)
Acquisition expenses	(118)	(82)
Administrative expenses	(31)	(25)
Other	19	18
Insurance result	**39**	**23**

(in millions of PLN)

Investment contracts	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Gross written premium	35	40
Movement in the provision for unearned premiums	–	–
Gross earned premium	**35**	**40**
Reinsurers' share in gross written premium	–	–
Reinsurer's share in the movement in the provision for unearned premiums	–	–
Net earned premiums	**35**	**40**
Investment income, including:	16	(14)
external operations	16	(14)
intersegment operations	–	–
Other income	–	–
Income	**51**	**26**
Net insurance claims and benefits and movement in other net technical provisions	(42)	(15)
Acquisition expenses	–	(1)
Administrative expenses	(4)	(5)
Other	–	(2)
Operating result	**5**	**3**

Other segments	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Investment income, including:	6	6
– external operations	6	6
– intersegment operations	–	–
Other income	1,086	1,004
Income	**1,092**	**1,010**
Expenses	(1,149)	(1,081)
Other	22	33
Operating result	**(35)**	**(38)**

(in millions of PLN)

Reconciliations 1 January 2019 – 31 December 2019	Net earned premiums	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	2,476	100	(1,610)	(519)	(131)	327
Mass insurance	10,261	481	(6,410)	(1,986)	(651)	1,449
Group and individually continued insurance	6,965	668	(5,057)	(388)	(640)	1,497
Individual insurance	1,579	548	(1,640)	(139)	(72)	271
Investments	–	397	–	–	–	397
Banking activity	–	9,014	–	–	(4,850)	3,498
Pension insurance	–	6	–	(5)	(43)	101
Insurance – Baltic States	1,600	38	(989)	(335)	(133)	185
Insurance – Ukraine	217	33	(81)	(118)	(31)	39
Investment contracts	35	16	(42)	–	(4)	5
Other segments	–	6	–	–	–	(35)
Total segments	**23,133**	**11,307**	**(15,829)**	**(3,490)**	**(6,555)**	**7,734**
Presentation of investment contracts	(35)	(7)	42	–	–	–
Estimated salvage and subrogation	–	–	(4)	–	–	(4)
Valuation of equity instruments	–	(14)	–	–	–	(14)
Measurement of properties	–	(4)	–	–	(2)	(9)
Elimination of the equalization provision and prevention fund	–	–	–	–	–	(12)
Allowances to the Company Social Benefit Fund and actuarial costs	–	–	–	–	(12)	(12)
Consolidation adjustments	(8)	58	96	127	(37)	(599) [1)]
Consolidated data	**23,090**	**11,340** [2)]	**(15,695)**	**(3,363)**	**(6,606)**	**7,084**

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

[2)] The sum of the following line items in the consolidated profit and loss account: "Net investment income", "Net result on realization of financial instruments and investments", "Movement in allowances for expected credit losses and impairment losses on financial instruments" and "Net movement in fair value of assets and liabilities measured at fair value".

(in millions of PLN)

Reconciliations 1 January 2018 – 31 December 2018 (restated)	Net earned premiums	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	2,326	113	(1,591)	(477)	(131)	268
Mass insurance	10,168	526	(6,171)	(1,890)	(594)	1,725
Group and individually continued insurance	6,890	581	(4,931)	(349)	(604)	1,543
Individual insurance	1,344	59	(976)	(126)	(69)	227
Investments	–	(328)	–	–	–	(328)
Banking activity	–	8,861	–	–	(4,989)	4,036
Pension insurance	–	5	–	(6)	(40)	107
Insurance – Baltic States	1,480	2	(905)	(317)	(125)	138
Insurance – Ukraine	152	19	(59)	(82)	(25)	23
Investment contracts	40	(14)	(15)	(1)	(5)	3
Other segments	–	6	–	–	–	(38)
Total segments	**22,400**	**9,830**	**(14,648)**	**(3,248)**	**(6,582)**	**7,704**
Presentation of investment contracts	(40)	20	15	–	–	–
Estimated salvage and subrogation	–	–	(5)	–	–	(5)
Valuation of equity instruments	–	55	–	–	–	55
Measurement of properties	–	(27)	–	–	(5)	(45)
Elimination of the equalization provision and prevention fund	–	–	–	–	–	24
Allowances to the Company Social Benefit Fund and actuarial costs	–	–	–	–	(5)	(5)
Consolidation adjustments	(10)	17	75	118	(17)	(641) [1]
Consolidated data	**22,350**	**9,895** [2]	**(14,563)**	**(3,130)**	**(6,609)**	**7,087**

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

[2] The sum of the following line items in the consolidated profit and loss account: “Net investment income”, “Net result on realization 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 2019	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	22,143	1,713	335	–	24,191
Gross written premium – cross-segment	93	–	–	(93)	–
Revenue from commissions and fees	4,138	1	–	–	4,139
Investment income [1]	11,269	38	33	–	11,340
Non-current assets, other than financial assets [2]	7,069	247	6	–	7,322
Deferred tax assets	2,310	–	3	–	2,313
Assets	341,327	2,877	596	(1,460)	343,340

[1] The sum of the following line items in the consolidated profit and loss account: “Net investment income”, “Net result on realization 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”.

[2] applies to intangible assets and property, plant and equipment

(in millions of PLN)

Geographic breakdown 2018	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	21,621	1,592	257	–	23,470
Gross written premium – cross-segment	94	–	–	(94)	–
Revenue from commissions and fees	4,109	–	–	–	4,109
Investment income [1]	9,874	2	19	–	9,895
Non-current assets, other than financial assets [2]	6,122	238	4	–	6,364
Deferred tax assets	2,231	–	3	–	2,234
Assets	326,874	2,704	409	(1,433)	328,554

[1] The sum of the following line items in the consolidated profit and loss account: "Net investment income", "Net result on realization 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".

[2] applies to intangible assets and property, plant and equipment

6.7 Information on key customers

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

7. Risk management

7.1 Introduction

Risk management in the PZU Group aims to build value for all stakeholders by actively and deliberately managing the quantum of risk accepted. The essence of the process also involves preventing the acceptance of risk at a level that could pose a threat to the financial stability of the PZU Group, which is also a financial conglomerate.

Risk management in the PZU Group is based on risk analysis in all processes and units. Risk management is an integral part of the management system.

The main elements of PZU Group's risk management have been implemented to ensure sectoral consistency and the execution of the strategic plans of individual companies as well as the business objectives of the entire PZU Group. They include the following:

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and control, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the entities and dedicated committees play a crucial role.

Entities from the financial sector are additionally obligated to apply the appropriate standards for a given sector. The adopted internal regulations specify among others:

- processes, methods and procedures facilitating risk measurement and management;
- split of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

The risk management system in the PZU Group is based on the following:

- a split of duties and tasks performed in the risk management process by statutory bodies, committees and individual organizational units and cells;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions.

PZU exercises supervision over the PZU Group's risk management system on the basis of mutual cooperation agreements entered into with Group entities. PZU manages the PZU Group risk from an aggregated perspective and on the basis of the information provided thereunder. The agreements entered into and the scope of information to be provided take into consideration the specific legal nature of each entity, including limitations arising from banking secrecy rules.

Additionally, the PZU Group has in place processes to ensure the effectiveness of risk management at the PZU Group level. The risk management rules applicable to the subsidiaries include a recommendation issued by PZU regarding the organization of the risk management system in those entities (both insurance and banking sector subsidiaries). Additionally, guidelines regulating the various risk management processes in the PZU Group entities are also issued from time to time.

The management boards of PZU Group entities are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in the various financial sector unites is exercised by the supervisory boards to which PZU appoints its representatives.

7.2 Split of duties and tasks

The consistent split of duties and tasks in the PZU Group and in individual subsidiaries of the PZU Group's financial sector is based on four decision-making levels.

The first three are:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in each company's Articles of Association and the Supervisory Board bylaws;
- The Management Board, which organizes the risk management system and ensures that it is operational, by adopting strategies and policies, setting the level of risk appetite, defining the risk profile and tolerance levels for individual categories of risk;
- committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt the procedures and methodologies for mitigating individual risks and accept individual risk limits.

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:

- the first line of defense – entails ongoing risk management at the entities' business unit and organizational unit level and decision-making as part of the risk management process, also within the framework of the prevailing limits;
- the second line of defense includes risk management by specialized cells responsible for risk identification, measurement, monitoring and reporting and controlling the limits;
- the third line of defense includes the internal audit division that conducts independent audits of individual components of the risk management system as well as of control activities embedded in the Group's operations.

In the risk management process in banks (Pekao and Alior Bank), an active role is played by Management Board, Supervisory Boards and special committees dealing with credit, financial and operating risk as well as asset and liability management.

Supervisory Boards oversee the risk management process and set out a relevant strategy each year. Management Boards are responsible, among others, for accepting policies and guidelines related to risk management and for setting detailed limits to mitigate bank risk and provide adequate control mechanisms.

Special committees exercise ongoing control over the bank's risk management, which includes decisions about the accepted level of credit risk for single transactions, recommendations of portfolio limits for credit risk to the Management Board, supervision of liquidity risk level, market risk limits and the allowed level of operational risk. In addition, they monitor the risk appetite and capital adequacy levels.

7.3 Risk appetite, risk profile and risk tolerance

A process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in the PZU Group insurance entities. The Management Board of each entity determines the risk appetite, risk profile and risk tolerance reflecting its financial plans, business strategy and the objectives of the entire PZU Group.

Risk appetite is defined as the level of risk that a company is prepared to accept in pursuit of its business objectives. The measure of risk appetite is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year. The risk appetite level is defined as the minimum capital requirements coverage ratio. Risk appetite defines the maximum level of permissible risk while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

The risk profile involves quantitative limits which offer a more precise definition of the risk appetite.

Tolerance limits are additional limits for individual risk types to limit potential risk exposure.

This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents acceptance of risk levels that could jeopardize the financial stability of individual companies and the entire PZU Group. The Management Board is responsible for setting the appropriate level of risk in each entity, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk. All actions are coordinated at the PZU Group level.

Risk appetite is determined at least once a year in the PZU Group's banking sector entities. This process is carried out based on the applicable regulatory requirements (including those arising from remedial plans) and best practices. This process is tailored to both banks to reflect their business strategy and capital structure. Risk appetite in banking sector entities is a topic for consultation with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee with a view to ensuring consistency between the activities carried out by the banks and the strategic plans and business objectives of the entire PZU Group as a whole while maintaining an acceptable level of risk at the Group level. The agreed upon level of risk appetite is also approved by the Supervisory Boards of the banking entities.

7.4 Risk identification, measurement, assessment, monitoring and reporting methods

Identification, measurement and assessment, monitoring and control, and undertaken management activities ensure ongoing adequacy and effectiveness of the risk management system. In the PZU Group, the risk management process consists of the following stages:

- risk identification commences with a proposal to start developing an insurance product, buying a financial instrument, modifying an operating process, and also whenever some other event occurs that may potentially lead to the emergence of risk. The identification process continues until the expiration of liabilities, receivables or activities associated with the risk. Risk identification involves identification of actual and potential sources of risk, which are later analyzed in terms of significance;
- risk measurement and assessment are conducted depending on the nature of the individual risk type and its significance level. Risk measurement is carried out by specialized units. Risk units in each entity are responsible for the development of tools and the measurement of risk in terms of risk appetite, risk profile and risk tolerance;
- risk monitoring and control consists in the ongoing analysis of deviations from benchmarks (limits, threshold values, plans, figures from prior periods, recommendations and guidelines);
- reporting allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions include, among others, risk avoidance, risk transfer, risk mitigation, determination of risk appetite, acceptance of risk level, as well as the use of supporting tools, such as limits, reinsurance programs or underwriting policy reviews.

Two levels are distinguished in the risk management process:

- the PZU Group level, ensuring that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk involved. The PZU Group provides support for the implementation of a risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and monitors their ongoing application. While carrying out their tasks in the risk management system, authorized PZU Group personnel cooperates with the Management Boards of subsidiaries and the management of such areas as finance, risk, actuary, reinsurance, investments and compliance on the basis of appropriate cooperation agreements;
- the entity level, ensuring that the PZU Group entity attains its business objectives in a safe manner appropriate to the scale of the risk involved. Monitored at this level are the limits and risk categories specific to the company and, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance area) and the security management system.

7.5 Risk profile

The main types of risk to which the PZU Group is exposed includes credit risk (in particular risk related to bank credit portfolio), actuarial risk, market risk (in particular interest rate risk, foreign exchange risk, and risk related to financial instruments and commodities), concentration risk, operational risk, compliance risk and models risk.

When managing each type of risk, the PZU Group identifies, measures and monitors risk concentration; for the banking sector, these processes occur on the entity level, according to requirements in the sector. To meet the regulatory obligations imposed on groups identified as financial conglomerates, the PZU Group undertook numerous initiatives in 2019 to implement a model to manage risk concentration in keeping with the requirements of the Supplementary Oversight Act. The work will be continued in 2020.

7.5.1. Credit risk and concentration risk

Credit risk is the risk of a loss or adverse change in the financial situation resulting from fluctuations in the trustworthiness and creditworthiness of issuers of securities, counterparties and all debtors, materializing through a counterparty's default on a liability or an increase in credit spread. This definition also includes credit risk in financial insurance.

Credit risk in the PZU Group includes:

- credit risk in banking activity, credit risk resulting from activity in the banking sector, associated mainly with the possibility that a debtor or borrower defaults on their obligations;
- credit risk in financial insurance, credit risk resulting from activity in the financial insurance sector, related mainly to the possibility that a PZU Group customer defaults on its obligations to a third party, or a debtor/borrower defaults on its obligations to a PZU Group customer; this threat may result from failure to complete an undertaking or adverse influence of the business environment;
- *credit spread* risk, the possibility of incurring a loss due to a change in the value of assets, liabilities and financial instruments resulting from a change in the level of credit spreads as compared to the term structure of interest rates of debt securities issued by the State Treasury or fluctuations of their volatility;
- counterparty default risk, the possibility of incurring a loss as a result of unexpected default of counterparties and debtors or deterioration of their credit rating.

Concentration risk, a risk stemming from the failure to diversify an asset portfolio or from large exposure to the risk of default by a single issuer of securities or a group of related issuers.

Exposure to credit risk in the PZU Group arises directly from banking, investment activities, activity in the financial insurance and guarantee segment, reinsurance agreements, and *bancassurance* operations. The PZU Group distinguishes the following kinds of credit risk exposure:

- risk of a customer defaulting against the PZU Group under contracted credits or loans (in banking activity);
- the risk of bankruptcy of the issuer of financial instruments invested in or traded by the PZU Group, such as corporate bonds;
- counterparty default risk, for example in reinsurance or OTC derivative instruments and *bancassurance* activities.
- the risk of PZU Group customer defaulting against a third party, for example in insurance of cash receivables, insurance guarantees.

7.5.1.1. Concentration risk arising out of lending activity

This section presents information related to lending activity of PZU Group's banks.

To prevent adverse events that could result from excessive concentration, both Pekao and Alior Bank mitigate the concentration risk by setting limits and applying concentration standards arising from both external and internal regulations. They include the following:

- rules for identifying areas where concentration risk arises in credit activity;
- taking concentration into account when estimating internal capital;
- the process of setting and updating limit levels;
- the process of managing limits and defining actions taken if the permitted limit level is exceeded;
- concentration risk monitoring process, including reporting;
- oversight over the concentration risk management process.

In the process of setting and updating concentration limits, the following information is taken into account:

- information on the level of credit risk of limited portfolio segments and their impact on realization of assumptions related to risk appetite in terms of credit portfolio quality and capital position;
- sensitivity of limited portfolio segments to changes in the macroeconomic environment, assessed in regular stress tests;
- reliable economic and market information concerning each exposure concentration area, especially macroeconomic and industry ratios, information on economic trends, including the projections of interest rate levels, exchange rates, political risk analysis, ratings of governments and financial institutions;
- reliable information about the economic situation of companies, industries, branches, economic sectors, general economic information including news on the economic and political situation of countries, as well as other information needed to evaluate concentration risk;
- interactions between different kinds of risk, i.e. credit, market, liquidity and operational risk.

Risk analysis is performed using both an individual and a portfolio approach. Measures are undertaken to:

- minimize credit risk for an individual loan with the assumed level of return;
- reduce overall credit risk arising from a specific credit portfolio.

In order to minimize the risk level of a single exposure, the following is assessed every time when a loan or other credit product is granted:

- reliability and creditworthiness, including detailed analysis of the source of exposure repayment;
- collaterals, including review of their formal, legal and economic status, having regard to the *loan to value* (LTV) adequacy ratio.

In order to enhance control over the risk of individual exposures, customers are monitored regularly and appropriate measures are taken if increased risk factors are identified.

In order to minimize credit risk arising from a particular portfolio:

- concentration limits are set and tracked;
- early warning signs are monitored;
- the credit portfolio is monitored regularly, with particular supervision of material credit risk parameters;

- regular stress tests are carried out.

7.5.1.2. Credit risk in banking activity

Risk assessment in credit process

the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The internal rating process in both banks constitutes a significant part of assessing credit risk of both the client and the transaction. It is an important step in the credit decision-making process for new loans and for changes of lending terms, and in monitoring loan portfolio quality. Each bank has developed its own models used in the client creditworthiness assessment process, which must be completed before a credit decision is made. The models are based on external information and on internal data. Credit products are granted in the banks in accordance with the operating procedures, whose purpose is to set out the proper steps that must be taken in the credit process, identify the units responsible for those activities and the tools to be applied.

Credit decisions are made in accordance with the existing credit decision system (with decision-making powers at specific levels matching the risk level of a particular client and transaction).

In order to conduct regular assessment of accepted credit risk and to mitigate potential losses on credit exposures, the client's standing is monitored during the lending period by identifying early warning signals and by conducting regular individual reviews of credit exposures.

To minimize credit risk, security interests are established in line with the level of exposure to credit risk, considering recovery rate from a specific type of collateral. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

Collateral is taken to secure repayment of the loan amount with due interest and costs if the borrower fails to settle its due debt within the dates stipulated in a loan agreement and restructuring activities are not successful. Accepted forms of collateral include: guarantees, sureties, account freezes, registered pledges, transfers of title, assignments of receivables, assignment of credit insurance, promissory notes, mortgages, powers of attorney to bank accounts and security deposits (as special forms of collateral). The assets constituting collateral are reviewed in the credit process in terms of their legal capacity to establish effective security interest and also the recoverable amount in a possible enforcement procedure.

Scoring and credit rating

The rating scale differs by bank, client segment and transaction type. The following tables present the quality of credit portfolios for exposures covered by internal rating models. Because of the different rating models employed by Pekao and Alior Bank, the data are presented for each of the banks separately.

Permanent protection of credit portfolio quality is provided by continuous monitoring of timely service of loans and regular reviews of the financial and economic standing of clients and the value of accepted collateral. This process is applied to all credit exposures of individual and business clients.

(in millions of PLN)

Pekao

Individual client portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2019	31 December 2018
Mortgage-backed residential loans	**58,791**	**53,967**
Class 1 (0.00% <= PD < 0.06%)	10,719	10,447
Class 2 (0.06% <= PD < 0.19%)	5,428	5,308
Class 3 (0.19% <= PD < 0.35%)	27,294	24,380
Class 4 (0.35% <= PD < 0.73%)	12,002	10,309
Class 5 (0.73% <= PD < 3.50%)	1,931	2,233
Class 6 (3.50% <= PD < 14.00%)	694	621
Class 7 (14.00% <= PD < 100.00%)	723	669
Cash (consumer) loans	**11,928**	**11,174**
Class 1 (0.00% <= PD < 0.09%)	876	798
Class 2 (0.09% <= PD < 0.18%)	1,736	1,643
Class 3 (0.18% <= PD < 0.39%)	2,958	2,740
Class 4 (0.39% <= PD < 0.90%)	2,772	2,567
Class 5 (0.90% <= PD < 2.60%)	1,874	1,802
Class 6 (2.60% <= PD < 9.00%)	956	1,001
Class 7 (9.00% <= PD < 30.00%)	466	399
Class 8 (30.00% <= PD < 100.00%)	290	224
Renewable limits	**241**	**275**
Class 1 (0.00% <= PD < 0.02%)	7	8
Class 2 (0.02% <= PD < 0.11%)	50	55
Class 3 (0.11% <= PD < 0.35%)	76	78
Class 4 (0.35% <= PD < 0.89%)	50	61
Class 5 (0.89% <= PD < 2.00%)	29	36
Class 6 (2.00% <= PD < 4.80%)	19	24
Class 7 (4.80% <= PD < 100.00%)	10	13
Total individual client segment	**70,960**	**65,416**

Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2019	31 December 2018
Corporate clients	**25,581**	**23,336**
Class 1 (0.00% <= PD < 0.14%) (2018: 0.00% <= PD < 0.15%)	276	511
Class 2 (0.14% <= PD < 0.25%) (2018: 0.15% <= PD < 0.27%)	1,889	2,001
Class 3 (0.25% <= PD < 0.42%) (2018: 0.27% <= PD < 0.45%)	4,132	3,708
Class 4 (0.42% <= PD < 0.77%) (2018: 0.45% <= PD < 0.75%)	6,275	5,070
Class 5 (0.77% <= PD < 1.42%) (2018: 0.75% <= PD < 1.27%)	5,094	4,443
Class 6 (1.42% <= PD < 2.85%) (2018: 1.27% <= PD < 2.25%)	3,732	3,953
Class 7 (2.85% <= PD < 6.00%) (2018: 2.25% <= PD < 4.00%)	786	1,512
Class 8 (6.00% <= PD < 12.00%) (2018: 4.00% <= PD < 8.50%)	3,026	1,922
Class 9 (12.00% <= PD < 100.00%) (2018: 8.50% <= PD < 100.00%)	371	216

(in millions of PLN)

Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2019	31 December 2018
Small and medium-sized enterprises (SMEs)	**3,396**	**4,230**
Class 1 (0.00% <= PD < 0.06%)	20	19
Class 2 (0.06% <= PD < 0.14%)	227	291
Class 3 (0.14% <= PD < 0.35%)	826	913
Class 4 (0.35% <= PD < 0.88%)	897	1,083
Class 5 (0.88% <= PD < 2.10%)	684	874
Class 6 (2.10% <= PD < 4.00%)	298	429
Class 7 (4.00% <= PD < 7.00%)	147	256
Class 8 (7.00% <= PD < 12.00%)	114	168
Class 9 (12.00% <= PD < 22.00%)	113	92
Class 10 (22.00% <= PD < 100.00%)	70	105
Total corporate segment	**28,977**	**27,566**

Local government units (unimpaired) covered by the rating model – gross carrying amount	31 December 2019	31 December 2018
Class 1 (0.00% <= PD < 0.04%)	19	1
Class 2 (0.04% <= PD < 0.06%)	242	345
Class 3 (0.06% <= PD < 0.13%)	137	337
Class 4 (0.13% <= PD < 0.27%)	514	348
Class 5 (0.27% <= PD < 0.50%)	327	637
Class 6 (0.50% <= PD < 0.80%)	572	686
Class 7 (0.80% <= PD < 1.60%)	102	33
Class 8 (1.60% <= PD < 100.00%)	6	18
Total local government units	**1,919**	**2,405**

Portfolio of specialized lending exposures within the meaning of CRR Regulation – unimpaired – by supervisory classes – gross carrying amount	31 December 2019	31 December 2018
High	655	1,405
Good	4,174	3,876
Satisfactory	907	797
Poor	55	14
Total	**5,791**	**6,092**

Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	31 December 2019	31 December 2018
Class 1	6	7
Class 2	27	29
Class 3	340	374
Class 4	396	335
Class 5	21	16
Total	**790**	**761**

(in millions of PLN)

Pekao's portfolio	31 December 2019			31 December 2018		
	Gross carrying amount	Write-off	Net carrying amount	Gross carrying amount	Write-off	Net carrying amount
Exposures without recognized impairment	138,960	(1,956)	137,004	127,375	(2,194)	125,181
Portfolio covered by the rating model for the individual client segment	70,960	(1,357)	69,603	65,416	(1,429)	63,987
Mortgage loans	58,791	(1,029)	57,762	53,967	(1,168)	52,799
Cash (consumer) loans	11,928	(317)	11,611	11,174	(248)	10,926
Renewable limits	241	(11)	230	275	(13)	262
Portfolio covered by the rating model for the corporate segment	28,977	(303)	28,674	27,566	(362)	27,204
Corporate clients	25,581	(241)	25,340	23,336	(268)	23,068
Small and medium-sized enterprises (SMEs)	3,396	(62)	3,334	4,230	(94)	4,136
Portfolio covered by the rating model for the local government unit segment	1,919	16	1,935	2,405	12	2,417
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	790	(3)	787	761	(2)	759
Specialized lending exposures	5,791	(73)	5,718	6,092	(99)	5,993
Exposures not covered by the rating model	30,523	(236)	30,287	25,135	(314)	24,821
Exposures with recognized impairment	8,180	(5,454)	2,726	7,836	(5,197)	2,639
Total receivables from clients on account of impaired loans [1)]	**147,140**	**(7,410)**	**139,730**	**135,211**	**(7,391)**	**127,820**

[1)] Loan receivables from clients are measured at amortized cost or at fair value through other comprehensive income

Alior Bank

	31 December 2019	31 December 2018
Retail segment	**28,834**	**26,115**
PD < 0.18%	7,672	4,375
0.18% <= PD < 0.28%	2,411	2,672
0.28% <= PD < 0.44%	2,315	2,687
0.44% <= PD < 0.85%	2,773	2,643
0.85% <= PD < 1.33%	3,221	2,872
1.33% <= PD < 2.06%	3,320	3,106
2.06% <= PD < 3.94%	4,524	4,560
3.94% <= PD < 9.10%	1,431	1,737
PD => 9.1%	994	1,094
No scoring	173	369
Business segment	**18,840**	**19,462**
PD < 0.28%	1	20
0.28% <= PD < 0.44%	64	91
0.44% <= PD < 0.85%	546	1,035
0.85% <= PD < 1.33%	1,094	1,495
1.33% <= PD < 2.06%	4,576	3,479
2.06% <= PD < 3.94%	6,455	5,727
3.94% <= PD < 9.1%	3,550	4,267
PD => 9.1%	2,479	2,719
Unrated	75	629
Total non past due receivables, without impairment	**47,674**	**45,577**
Non past due receivables, with impairment	**1,346**	**853**
Retail segment	58	42
Business segment	1,288	811
Total non past due receivables from clients	**49,020**	**46,430**

(in millions of PLN)

7.5.1.3. Application of forbearance

Forbearance is used if a threat arises that a client may default on the terms of a contract because of the financial difficulties, including problems with the service of debt. In such a situation, the terms and conditions of the agreement can be modified to ensure that the borrower is capable of servicing debt. Changes in terms and conditions of contracts may include: reduction of interest rates, principal installment amounts, accrued interest, rescheduling of principal or interest payments.

Accounting policies for the assessment and determination of impairment losses for forborne exposures are broadly in line with the principles for determining impairment losses under IFRS 9.

The PZU Group identifies a significant increase in the credit risk of assets for which forbearance modifications have been applied for the purpose of assessing impairment in accordance with IFRS 9.

Loan receivables from clients	31 December 2019						31 December 2018					
	Basket 1	Basket 2	Basket 3 Individual analysis	Basket 3 Group analysis	POCI	Total	Basket 1	Basket 2	Basket 3 Individual analysis	Basket 3 Group analysis	POCI	Total
Measured at amortized cost												
Gross forborne exposures	396	796	1,352	701	2,232	5,477	554	340	1,073	399	2,558	4,924
Impairment loss	(24)	(101)	(415)	(267)	(1,456)	(2,263)	(31)	(5)	(288)	(122)	(1,645)	(2,091)
Net forborne exposures	372	695	937	434	776	3,214	523	336	785	277	913	2,834
Measured at fair value through profit or loss	1	-	-	-	-	1	-	-	-	-	2	2
Total	**373**	**695**	**937**	**434**	**776**	**3,215**	**523**	**336**	**785**	**277**	**915**	**2,836**

Movement in net carrying amount of forborne exposures	1 January – 31 December 2019	1 January – 31 December 2018
Opening balance	2,836	2,860
Effect of implementing IFRS 9	-	(43)
Adjusted value of the opening balance	2,836	2,817
Value of exposures recognized in the period	1,282	1,105
Value of exposures excluded in the period	(456)	(334)
Movements in impairment losses	(136)	(434)
Other changes	(311)	(318)
Total net receivables	**3,215**	**2,836**

7.5.1.4. Credit risk arising out of investing activity

The management principles for credit risk arising from investing activity in the PZU Group are governed by a number of documents approved by supervisory boards, management boards and dedicated committees.

Credit risk exposures to respective counterparties and issuers are subject to restrictions based on exposure limits. The limits are established by dedicated committees, based on the analyses of risks associated with a given exposure and taking into account the financial standing of entities or groups of related entities and the impact of such exposures on the occurrence of concentration risk. Qualitative restrictions on exposures established by individual committees in accordance with their powers form an additional factor mitigating the credit risk and concentration risk identified in investment activities.

The limits refer to exposure limits to a single entity or a group of affiliated entities (this applies to both credit limits and concentration limits). The use of credit risk and concentration risk limits is subject to monitoring and reporting. If the limit is exceeded, appropriate actions, as defined in internal regulations, are taken.

(in millions of PLN)

Credit risk assessment of an entity is based on internal credit ratings (the approach to rating differs by type of entity). Ratings are based on quantitative and qualitative analyses and form one of the key elements of the process of setting exposure limits. The credit quality of counterparties and issuers is regularly monitored. One of the basic elements of monitoring is a regular update of internal ratings.

Risk units identify, measure and monitor exposure to credit risk and concentration risk related to investment activity, in particular they give opinions on requests to set exposure limits referred to individual committees.

Information on the credit quality of assets related to investing activity is presented in section 37.

Exposure to credit risk

The following tables present the credit risk exposure of individual credit risk assets in respective Fitch rating categories (if a Fitch rating was not available, it was substituted by a Standard&Poor's rating). Credit risk exposures arising from conditional transactions are presented as an exposure to the issuer of the underlying securities.

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

Credit risk assets as at 31 December 2019	AAA	AA	A	BBB	BB	B	Unrated	Assets at the client's risk	Total
Debt securities measured at amortized cost – carrying amount	-	-	29,396	990	37	-	5,507	-	35,930
– gross carrying amount	-	-	29,402	991	39	-	5,584	-	36,016
– allowance for expected credit losses	-	-	(6)	(1)	(2)	-	(77)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	3,632	59	40,046	4,132	447	-	6,377	-	54,693
– allowance for expected credit losses [1)]	(13)	-	(9)	(5)	(2)	-	(14)	-	(43)
Debt securities measured at fair value through profit or loss – carrying amount	2	16	3,191	169	39	26	43	1,116	4,602
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	-	1,482	323	128	-	3,536	49	5,518
– gross carrying amount	-	-	1,482	323	128	-	3,538	49	5,520
– allowance for expected credit losses	-	-	-	-	-	-	(2)	-	(2)
Loans – carrying amount	-	-	-	-	698	-	3,792	-	4,490
– gross carrying amount	-	-	-	-	699	-	3,818	-	4,517
– allowance for expected credit losses	-	-	-	-	(1)	-	(26)	-	(27)
Derivatives	1,393	39	587	372	2	-	671	43	3,107
Reinsurers' share in claims provisions	-	135	657	1	-	-	207	-	1,000
Reinsurance receivables	-	10	29	-	-	-	19	-	58
Total	**5,027**	**259**	**75,388**	**5,987**	**1,351**	**26**	**20,152**	**1,208**	**109,398**

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

(in millions of PLN)

Credit risk assets at 31 December 2018	AAA	AA	A	BBB	BB	B	Unrated	Assets at the client's risk	Total
Debt securities measured at amortized cost – carrying amount	-	83	27,529	1,652	-	-	5,388	-	34,652
– gross carrying amount	-	83	27,537	1,653	-	-	5,455	-	34,728
– allowance for expected credit losses	-	-	(8)	(1)	-	-	(67)	-	(76)
Debt securities measured at fair value through other comprehensive income – carrying amount	970	671	23,563	1,304	362	-	11,345	-	38,215
– allowance for expected credit losses [1]	-	-	(7)	(3)	(1)	-	(29)	-	(40)
Debt securities measured at fair value through profit or loss – carrying amount	49	7	10,080	463	188	-	178	1,211	12,176
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	-	951	4,151	62	-	793	90	6,047
– gross carrying amount	-	-	951	4,151	62	-	804	90	6,058
– allowance for expected credit losses	-	-	-	-	-	-	(11)	-	(11)
Loans – carrying amount	-	-	-	-	612	-	3,923	-	4,535
– gross carrying amount	-	-	-	-	613	-	3,982	-	4,595
– allowance for expected credit losses	-	-	-	-	(1)	-	(59)	-	(60)
Derivatives	821	405	222	295	-	2	714	28	2,487
Reinsurers' share in claims provisions	-	149	634	-	-	-	135	-	918
Reinsurance receivables	-	21	55	-	-	-	39	-	115
Total	**1,840**	**1,336**	**63,034**	**7,865**	**1,224**	**2**	**22,515**	**1,329**	**99,145**

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

The table below presents credit risk coefficients used by the PZU Group to measure credit risk:

Standard&Poor's ratings	AAA	AA	A	BBB	BB	B	Unrated
2019 coefficient	0.70%	0.73%	1.28%	3.44%	12.22%	24.21%	20.62%
2018 coefficient	0.71%	0.76%	1.34%	3.58%	12.77%	24.95%	24.95%

The credit risk level attributable to the assets where the risk is carried by the PZU Group as at 31 December 2019 was PLN 5,535 million (as at 31 December 2018 it was PLN 6,924 million; if the coefficients of 31 December 2019 were used, the value would be PLN 5,893 million).

7.5.1.5. Reinsurer's credit risk in insurance activity

PZU Group enters into proportional and non-proportional reinsurance contracts aiming to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk associated with the risk that a reinsurer default on its obligations.

Assessment of reinsurers' creditworthiness is conducted based on market data, information obtained from external sources, such as Standard&Poor's and also based on an internal model. The model divides reinsurers into several classes, depending on the estimated risk level. A reinsurer will not be accepted if its risk is higher than a pre-defined cut-off point. The acceptance is not automatic and the analysis is supplemented by assessments by reinsurance brokers. In the credit risk monitoring process, this assessment is updated on a quarterly basis.

(in millions of PLN)

The following tables present the credit risk of the reinsurers that cooperated with PZU Group companies.

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2019	Standard&Poor's rating as at 31 December 2019 [2]
Reinsurer 1	213	A+
Reinsurer 2	189	unrated
Reinsurer 3	93	AA-
Reinsurer 4	88	AA-
Reinsurer 5	59	AA+
Reinsurer 6	50	A+
Reinsurer 7	49	AA-
Reinsurer 8	47	A
Reinsurer 9	43	AA-
Reinsurer 10	42	AA-
Others, including: [1]	983	
With investment-grade rating	834	BBB– or better
With sub-investment grade rating or unrated	149	BB+ or worse or unrated
Total	**1,856**	

[1] "Others" includes reinsurers' shares in technical provisions if their carrying amounts are lower than those presented above.
[2] A.M. Best ratings were used if Standard&Poor's rating was not available.

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2018	Standard&Poor's rating as at 31 December 2018 [2]
Reinsurer 1	145	A+
Reinsurer 2	127	unrated
Reinsurer 3	108	AA-
Reinsurer 4	70	AA-
Reinsurer 5	66	AA-
Reinsurer 6	49	AA+
Reinsurer 7	47	A+
Reinsurer 8	41	A+
Reinsurer 9	40	AA-
Reinsurer 10	38	AA-
Others, including: [1]	781	
With investment-grade rating	669	BBB– or better
With sub-investment grade rating or unrated	112	BB+ or worse or unrated
Total	**1,512**	

[1] "Others" includes reinsurers' shares in technical provisions if their carrying amounts are lower than those presented above.
[2] A.M. Best ratings were used if Standard&Poor's rating was not available.

Counterparty risk related to reinsurance is mitigated by the fact that the PZU Group cooperates with numerous reinsurers with reliable credit ratings.

7.5.1.6. Risk concentration in credit risk

The following table presents the concentration of PZU Group's balance-sheet and off-balance-sheet exposures using the sections of the Polish Classification of Business Activity (PKD):

- exposure to financial investments such as equity instruments, debt securities, loans granted buy-sell-back transactions, bank accounts and term deposits;
- amounts of extended insurance guarantees;
- value of loans (balance-sheet and off-balance-sheet exposure without interest, collected fees and impairment losses) less security deposits paid in cash;

(in millions of PLN)

- unauthorized overdrafts in current accounts;
- treasury limits less security deposits paid in cash, including debt securities issued by an entity from each section.

Industry segment	31 December 2019	31 December 2018
Public administration and defense	30.54%	27.92%
Financial and insurance activities	9.81%	15.83%
Manufacturing	13.20%	12.34%
Wholesale and retail trade; repair of motor vehicles	11.29%	9.88%
Real estate activities	8.07%	8.06%
Construction	4.79%	5.47%
Transportation and storage	4.62%	3.93%
Production and supply of electricity, gas, steam, hot water	4.50%	3.46%
Information and communication	2.33%	2.88%
Professional, scientific and technical activity	2.56%	2.29%
Mining and quarrying	1.01%	1.24%
Other sectors	7.28%	6.70%
Total	**100.00%**	**100.00%**

7.5.2. Actuarial risk (non-life and life insurance)

Actuarial risk is the possibility of loss or of adverse change in the value of liabilities under the executed insurance agreements and insurance guarantee agreements, due to inadequate premium pricing and technical provisioning assumptions. Actuarial risk includes:

	Non-life insurance	Life insurance
Longevity risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.	X	X
Expense risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.	X	X
Lapse risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.	X	X
Catastrophe risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and technical provisioning assumptions related to extreme or irregular events.	X	X
Premium risk – risk of inadequate estimation of tariff rates and possible deviations of written premiums from the expected level, resulting from fluctuations in the timing, frequency and severity of insured events.	X	n/a
Provisioning risk – risk of inadequate estimation of technical provisioning levels and the possibility of fluctuations of actual losses around their statistical average because of the stochastic nature of future claims payments.	X	n/a
Revision risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or health of the person insured.	X	n/a
Mortality risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.	n/a	X
Morbidity (disability) risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.	n/a	X

PZU Group manages its actuarial risk among others through:

- calculation and monitoring of adequacy of technical provisions;
- tariff strategy, monitoring of the current estimates and evaluation of premium adequacy;
- *underwriting;*
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU Group manages its technical provisioning adequacy risk by using appropriate calculation methodology and by controlling provision calculation processes. The provisioning policy is based on:

- prudent approach to the calculation of technical provisions;
- continuity principle, which entails making no changes in the technical provisioning methodology if no significant circumstances occur to justify such changes.

For non-life insurance, the level of technical provisions is evaluated once a month and in specific circumstances (when a payment is made or new information obtained from adjusters or lawyers) their amount is updated. The historical developments and payments of technical provisions over the years are used in the current analyses of technical provisions. This analysis provides an assessment of precision of the current actuarial methods.

For life insurance products, the main sources of data used to estimate the expected frequency of claims include public statistical data (life expectancy tables) published by specialized statistical institutions and analysis of historical insurance portfolio data. Periodic statistical analysis of claim incidence are made at the level of product groups, individual insurance portfolios and properly defined homogeneous risk groups. These analyses form the basis for measuring relative incidence of events compared to publicly available statistical data. The use of appropriate statistical methodologies allows the Group to determine the significance of the statistics and where required – define and apply appropriate safety margins in the determination of technical provisions and risk measurement.

Estimation of technical provisions in the PZU Group is supervised by chief actuaries.

Tariff strategy, monitoring of current estimates and evaluation of premium adequacy

The objective of the tariff policy is to guarantee adequate level of premium (sufficient to cover current and future liabilities under in-force policies and expenditures). Along with developing a premium tariff, simulations are conducted with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio profitability studies are carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given financial year. The frequency of analyses is adjusted to the materiality of the product and possible fluctuations of its result. If the insurance history is unfavorable then measures are taken to restore the specified profitability level, which involves adjustments to premium tariffs or to the insured risk profile, through amendments to general terms of insurance.

Underwriting

For corporate and SME customers, the underwriting process is separate from the sales function. The insurance sales process to corporate customers is preceded by analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process consists of a risk acceptance system based on the assigned decision-making powers and limits.

Reinsurance

The purpose of the PZU Group's reinsurance program in non-life insurance is to secure its core business by mitigating the risk of catastrophic events that may adversely affect the its financial position. This task is performed through obligatory reinsurance contracts supplemented by facultative reinsurance.

PZU Group limits its risk among others by way of:

- non-proportional excess of loss treaties, which protect the portfolios against catastrophic losses (e.g. flood, cyclone);
- non-proportional excess of loss treaties, which protect property, technical, marine, aviation, TPL (including motor TPL) portfolios against the effects of large single losses;
- a proportional treaty, which protects the financial insurance portfolio.

(in millions of PLN)

Optimization of the reinsurance program in terms of protection against catastrophic claims is based on the results of internal analyses and uses third-party models.

7.5.2.1. Exposure to actuarial risk – non-life and life insurance

Key cost ratios in non-life insurance	1 January – 31 December 2019	1 January – 31 December 2018
Expense ratio	25.80%	24.89%
Net loss ratio	62.10%	61.61%
Reinsurer's retention ratio	6.53%	4.98%
Combined ratio	87.90%	86.50%

The expense ratio is the ratio of total acquisition expenses, administrative expenses, reinsurance commissions and profit participation, to the net earned premiums.

The net loss ratio is the ratio of claims and the net movement in technical provisions, to the net earned premiums.

The reinsurer's retention ratio is the ratio of the reinsurer's share in gross written premiums, to the gross written premiums.

The combined ratio is the ratio of the sum of acquisition expenses, administrative expenses, reinsurance commissions and profit participation, claims and net movement in technical provisions to the net earned premiums.

(in millions of PLN)

The following tables present the development of technical provisions and payments in successive reporting years.

Claims development in direct non-life insurance, gross (by reporting year)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Provision at the end of the reporting period	9,381	9,870	10,989	11,783	13,312	13,163	13,181	13,990	14,975	15,627
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
– calculated 1 year later	9,681	10,298	11,286	12,241	13,032	12,908	13,353	14,251	14,929	
– calculated 2 years later	10,192	10,753	11,958	12,180	12,719	12,922	13,500	14,281		
– calculated 3 years later	10,719	11,590	11,973	12,080	12,822	13,135	13,518			
– calculated 4 years later	11,574	11,738	11,910	12,172	13,089	13,183				
– calculated 5 years later	11,735	11,702	12,067	12,439	13,172					
– calculated 6 years later	11,795	11,871	12,340	12,536						
– calculated 7 years later	12,017	12,184	12,421							
– calculated 8 years later	12,309	12,282								
– calculated 9 years later	12,415									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	12,415	12,282	12,421	12,536	13,172	13,183	13,518	14,281	14,929	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	7,701	7,214	7,018	6,681	6,601	5,924	5,258	4,461	3,111	
Provision recognized in the statement of financial position	4,714	5,068	5,403	5,855	6,571	7,259	8,260	9,820	11,818	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(3,034)	(2,412)	(1,432)	(753)	140	(20)	(337)	(291)	46	
The above difference as % of provision at the end of the first year	-32%	-24%	-13%	-6%	1%	0%	-3%	-2%	0%	

(in millions of PLN)

Claims development in direct non-life insurance, net of reinsurance (by reporting year)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Provision at the end of the reporting period	8,639	9,305	10,413	11,453	12,814	12,653	12,559	12,880	13,484	13,933
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
– calculated 1 year later	8,838	9,731	10,722	11,787	12,525	12,355	12,576	13,066	13,362	
– calculated 2 years later	9,345	10,185	11,282	11,704	12,201	12,278	12,664	13,005		
– calculated 3 years later	9,873	10,947	11,278	11,599	12,224	12,473	12,615			
– calculated 4 years later	10,672	11,071	11,215	11,642	12,481	12,463				
– calculated 5 years later	10,818	11,047	11,326	11,891	12,515					
– calculated 6 years later	10,884	11,167	11,581	11,938						
– calculated 7 years later	11,032	11,449	11,624							
– calculated 8 years later	11,321	11,512								
– calculated 9 years later	11,392									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	11,392	11,512	11,624	11,938	12,515	12,463	12,615	13,005	13,362	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	6,884	6,678	6,505	6,421	6,344	5,657	4,907	4,031	2,557	
Provision recognized in the statement of financial position	4,508	4,834	5,119	5,517	6,171	6,806	7,708	8,974	10,805	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(2,753)	(2,207)	(1,211)	(485)	299	190	(56)	(125)	122	
The above difference as % of provision at the end of the first year	-32%	-24%	-12%	-4%	2%	2%	0%	-1%	1%	

(in millions of PLN)

Motor insurance – motor own damage (autocasco) and motor TPL – is the core component of the PZU Group's portfolio. Both types of insurance are generally concluded for one year, in which the loss must occur for the claim to be paid out. In the case of motor own damage, the time for reporting a loss is short and it is not the source of uncertainty. Motor TPL is a whole different situation – the period for reporting losses may be up to 30 years. The level of property losses is sensitive especially to the number of litigation claims reported and court rulings awarded in respective cases. In the case of TPL insurance contracts, new types of long-tail losses arise, which makes the process of estimating technical provisions much more complicated.

Risk concentration in non-life insurance

Within actuarial risk, the PZU Group identifies concentration risk with regard to possible losses caused by natural disasters, such as, in particular, floods and cyclones. The table below presents sums insured in the specified ranges, broken down by voivodeships (for operations conducted in Poland) and countries (for foreign operations). With regard to the exposure to the risk of floods and cyclones, the risk management system in the PZU Group allows to monitor it regularly and the reinsurance program in place reduces significantly the potential net catastrophic loss levels.

Exposure to catastrophic losses in property insurance	Sum insured (PLN million) 31 December 2019							Sum insured (PLN million) 31 December 2018						
	0 - 0.2	0.2 - 0.5	0.5 - 2	2 - 10	10 - 50	over 50	Sum	0 - 0.2	0.2 - 0.5	0.5 - 2	2 - 10	10 - 50	over 50	Sum
Dolnośląskie	1.1%	1.5%	1.2%	0.6%	0.4%	2.1%	**6.9%**	1.1%	1.5%	1.3%	0.6%	0.4%	2.3%	**7.2%**
Kujawsko-Pomorskie	0.6%	0.7%	0.5%	0.4%	0.3%	1.4%	**3.9%**	0.6%	0.7%	0.5%	0.3%	0.3%	2.1%	**4.5%**
Lubelskie	0.6%	0.6%	0.3%	0.2%	0.1%	1.8%	**3.6%**	0.6%	0.6%	0.3%	0.2%	0.2%	1.5%	**3.4%**
Lubuskie	0.3%	0.3%	0.2%	0.2%	0.1%	0.4%	**1.5%**	0.3%	0.3%	0.2%	0.2%	0.1%	0.3%	**1.4%**
Łódzkie	0.7%	1.0%	0.7%	0.3%	0.3%	4.9%	**7.9%**	0.7%	1.1%	0.7%	0.3%	0.3%	4.6%	**7.7%**
Małopolskie	0.8%	1.6%	0.9%	0.5%	0.4%	1.7%	**5.9%**	0.8%	1.6%	0.8%	0.5%	0.4%	1.5%	**5.6%**
Mazowieckie	1.7%	2.5%	2.1%	0.9%	1.0%	9.6%	**17.8%**	1.7%	2.7%	2.1%	0.9%	0.9%	12.2%	**20.5%**
Opolskie	0.3%	0.4%	0.3%	0.1%	0.1%	1.2%	**2.4%**	0.3%	0.4%	0.3%	0.1%	0.1%	1.0%	**2.2%**
Podkarpackie	0.6%	0.8%	0.3%	0.2%	0.2%	0.8%	**2.9%**	0.6%	0.8%	0.3%	0.2%	0.2%	0.7%	**2.8%**
Podlaskie	0.3%	0.4%	0.3%	0.2%	0.1%	0.3%	**1.6%**	0.3%	0.4%	0.3%	0.2%	0.1%	0.1%	**1.4%**
Pomorskie	0.6%	0.9%	0.8%	0.5%	0.5%	3.8%	**7.1%**	0.6%	1.0%	0.8%	0.5%	0.5%	3.7%	**7.1%**
Śląskie	1.2%	1.5%	0.9%	0.5%	0.3%	3.3%	**7.7%**	1.2%	1.4%	0.9%	0.5%	0.3%	2.6%	**6.9%**
Świętokrzyskie	0.4%	0.5%	0.2%	0.1%	0.1%	0.8%	**2.1%**	0.4%	0.5%	0.2%	0.1%	0.1%	0.6%	**1.9%**
Warmińsko-Mazurskie	0.4%	0.4%	0.3%	0.2%	0.1%	0.6%	**2.0%**	0.4%	0.4%	0.3%	0.2%	0.2%	0.5%	**2.0%**
Wielkopolskie	1.1%	1.6%	1.3%	0.7%	0.6%	3.0%	**8.3%**	1.2%	1.7%	1.3%	0.7%	0.5%	2.2%	**7.6%**
Zachodniopomorskie	0.3%	0.4%	0.4%	0.4%	0.4%	2.8%	**4.7%**	0.3%	0.4%	0.4%	0.4%	0.4%	2.4%	**4.3%**
Lithuania and Estonia	0.8%	1.8%	2.5%	0.9%	1.2%	2.2%	**9.4%**	0.7%	1.7%	2.5%	0.9%	1.2%	2.3%	**9.3%**
Latvia	0.1%	0.6%	0.8%	0.4%	0.4%	0.8%	**3.1%**	0.2%	0.6%	0.7%	0.4%	0.5%	1.0%	**3.4%**
Ukraine	0.1%	0.0%	0.1%	0.1%	0.1%	0.6%	**1.0%**	0.1%	0.0%	0.0%	0.1%	0.1%	0.5%	**0.8%**
Norway	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**0.2%**	-	-	-	-	-	-	**-**
Total	**12.0%**	**17.5%**	**14.1%**	**7.4%**	**6.7%**	**42.3%**	**100.0%**	**12.1%**	**17.8%**	**13.9%**	**7.3%**	**6.8%**	**42.1%**	**100.0%**

(in millions of PLN)

Capitalized annuities

The following results do not take into account the impact of changes in valuation of investments included in provision calculations.

Impact of the change in assumptions regarding the provision for the capitalized value of annuities in non-life insurance on the net financial result and equity	31 December 2019		31 December 2018	
	gross	net	gross	net
Technical rate – increase by 0.5 p.p.	441	416	445	426
Technical rate – decrease by 1.0 p.p.	(1,141)	(1,080)	(1,155)	(1,105)
Mortality at 110% of the assumed rate	134	128	132	127
Mortality at 90% of the assumed rate	(149)	(143)	(148)	(142)

7.5.2.2. Exposure to insurance risk – life insurance

The PZU Group has not disclosed information on the development of claims in life insurance, since uncertainty about the amount and timing of claims payments is typically resolved within one year.

Risk concentration is associated with the concentration of insurance contracts or sums insured. For traditional individual insurance products, where concentration risk is related to the possibility that an insurable event occurs or is related to the potential level of payouts arising from a single event, the risk is assessed on a case-by-case basis. The assessment includes medical risk and – in justified cases – also financial risk. Consequently, risk selection occurs (a person concluding an insurance agreement is evaluated) and the maximum acceptable risk level is defined.

In group insurance, concentration risk is mitigated by the sheer size of the contract portfolio. This significantly reduces the level of disturbances caused by the random nature of insurance history. Additionally, the collective form of a contract, under which all the persons insured have the same sum insured and coverage is an important risk-mitigating factor. Therefore, some risks within the contract portfolio are not concentrated.

In the case of group insurance contracts in which insurance cover may be adjusted at the level of individual group contracts, a simplified underwriting process is used. It is based on information about the industry in which the work establishment operates, assuming appropriate ratios of the insureds to employees in the work establishment. The insurance premiums used in such cases and appropriate mark-ups result from statistical analyses conducted by PZU Life on incidence of claims at the level of defined homogeneous risk groups, including relative frequency of events compared to public statistical data.

It should be noted that for most contracts, the claim amount is strictly defined in the insurance contract. Therefore, compared to typical non-life insurance contract, concentration risk is reduced, since single events with high claims payments are relatively rare.

Annuity products in life insurance

Impact of the change in assumptions in annuity life insurance on the net financial result and equity	31 December 2019	31 December 2018
Technical rate – decrease by 1.0 p.p.	(22)	(25)
Mortality at 90% of the assumed rate	(10)	(11)

(in millions of PLN)

Life insurance products excluding annuity products

Impact of the change in assumptions in life insurance, excluding provisions in annuity products, on the net financial result and equity	31 December 2019	31 December 2018
Technical rate – decrease by 1.0 p.p.	(1,976)	(2,062)
Mortality at 110% of the assumed rate	(850)	(869)
Morbidity and accident rate – 110% of the assumed rate	(138)	(143)

Effects of lapses in life insurance

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

Item in financial statements	31 December 2019	31 December 2018
Movement in technical provisions	2,186	2,142
Claims and benefits paid	(835)	(803)
Movement in deferred acquisition expenses	(12)	(8)
Profit/loss before tax	1,339	1,331
Net financial result and equity	1,085	1,078

7.5.3. Market risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, value of liabilities and financial instruments.

Market risk types in the PZU Group include:

- equity risk – the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of equities;
- unquoted equity risk – the possibility of incurring loss as a result of changes in the valuation of unquoted shares;
- property risk – the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of real estate;
- commodity price risk – the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of commodities;
- inflation risk – the possibility of incurring loss associated with the level of information, especially inflation of prices of goods and services as well as expectations as to the future inflation level, which affect the valuation of assets and liabilities;
- liquidity risk – the risk of being unable to realize investments and other assets without affecting their market prices in order to settle financial liabilities when they fall due;
- interest rate risk – the possibility of incurring a loss as a result of changes in the value of financial instruments or other assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of market rates or in the volatility of risk-free market interest rates;
- basis risk – the possibility of incurring a loss as a result of changes in the value of financial instruments or assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of spreads between market interest rates and risk-free rates or in the volatility of such spreads, excluding credit spreads;
- foreign exchange risk – the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of currency exchange rates;
- credit spread risk – the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of credit spreads over the term structure of the interest rates on debt securities issued by the State Treasury;

- concentration risk – the possibility of incurring loss stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Concentration risk and credit spread risk are regarded as an integral part of market risk when measuring risk for the purposes of risk profile, risk tolerance, and market risk ratio reporting. The risk management process has, however, a different set of traits from the process of managing the other sub-categories of market risk and has been described in section 7.5.1.1 along with the process for managing counterparty insolvency risk.

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with active allocation, i.e. designating the optimum medium-term asset structure (AA portfolios);
- banking operations in Pekao Alior Bank – generating material exposure to interest rate risk.

A number of documents approved by supervisory boards, management boards and dedicated committees govern investment activity in the PZU Group's companies.

Risk units take part in the risk identification process, measure, monitor and report on the risks. Market risk is measured using the model of calculating economic capital of market risk based on the value at risk method (VaR) or the standard formula in accordance with the principles defined by the Solvency II Directive. In order to effectively manage market risk, risk limits are adopted in a form of a capital amount allocated to each market risk and limits for individual market risk factors.

In Pekao, the market risk management system forms the structural, organizational and methodological framework, which aims to maintain the balance sheet and off-balance sheet structure in line with the accepted strategic objectives. The market risk management process and the governing procedures include the separation into the banking and trading books.

In managing its trading book's market risk, Pekao strives to optimize the financial performance and ensure the highest possible quality of service of the bank's clients in respect to market-making, while remaining within the limits approved by the management board and the supervisory board.

When managing interest rate risk in its banking book, Pekao endeavors to secure the economic value of equity and to achieve its intended net interest income target within the accepted limits.

In Alior Bank, the exposure to market and liquidity risk is restricted by the system of periodically updated limits introduced by the resolution of the supervisory board or the management board that include all risk measures. In Alior Bank, there are three types of limits that differ in respect to their functioning – basic, supplementary and stress-test limits. Market risk management focuses on limiting potential adverse changes in economic value of equity and optimizing the financial result.

(in millions of PLN)

Exposure to market risk

Carrying amount	Note	31 December 2019				31 December 2018			
		Assets at Group's risk	including banks' assets	Assets at the client's risk	Total	Assets at Group's risk	including banks' assets	Assets at the client's risk	Total
Financial assets and cash exposed to interest rate risk		**309,124**	**267,846**	**1,167**	**310,291**	**295,402**	**252,859**	**1,303**	**296,705**
Fixed-income debt securities	35	62,965	32,858	1,101	64,066	52,534	24,169	1,134	53,668
Variable-income debt securities	35	31,144	29,494	15	31,159	31,298	28,333	77	31,375
Loan receivables from clients	33	194,868	194,868	-	194,868	182,054	182,054	-	182,054
Term deposits with credit institutions	35	1,405	599	49	1,454	2,679	976	90	2,769
Loans	35	4,490	-	-	4,490	4,535	-	-	4,535
Cash	38	7,786	6,759	2	7,788	17,053	15,288	2	17,055
Buy-sell-back transactions	35	4,064	897	-	4,064	3,278	158	-	3,278
Derivatives	34	2,402	2,371	-	2,402	1,971	1,881	-	1,971
Financial assets exposed to other price risk		**2,163**	**1,079**	**4725**	**6,888**	**2,347**	**816**	**4,209**	**6,556**
Equity instruments	35	1,501	486	4682	6,183	1,859	356	4,181	6,040
Derivatives	34	662	593	43	705	488	460	28	516
Total		**311,287**	**268,925**	**5,892**	**317,179**	**297,749**	**253,675**	**5,512**	**303,261**

The following table presents financial assets of banks and at client's risk, by the item in which they are classified in the consolidated financial statements:

Financial assets of banks and financial assets at client's risk	Note	31 December 2019		31 December 2018	
		Pekao and Alior Bank	Financial assets at client's risk	Pekao and Alior Bank	Financial assets at client's risk
Loan receivables from clients	**33**	**194,868**	**-**	**182,054**	**-**
Financial derivatives		**2,964**	**43**	**2,341**	**28**
Investment financial assets		**64,334**	**5,847**	**53,992**	**5,482**
Measured at amortized cost		21,130	49	18,569	90
Debt securities		19,634	-	17,435	-
Government securities		13,944	-	11,395	-
Domestic		13,944	-	11,395	-
Fixed rate		11,094	-	8,491	-
Floating rate		2,850	-	2,904	-
Other		5,690	-	6,040	-
Fixed rate		797	-	1,231	-
Floating rate		4,893	-	4,809	-
Buy-sell-back transactions		897	-	158	-
Term deposits with credit institutions		599	49	976	90

(in millions of PLN)

Financial assets of banks and financial assets at client's risk	Note	31 December 2019		31 December 2018	
		Pekao and Alior Bank	Financial assets at client's risk	Pekao and Alior Bank	Financial assets at client's risk
Measured at fair value through other comprehensive income		41,605	-	34,546	-
Equity instruments		276	-	256	-
Quoted on a regulated market		30	-	44	-
Not quoted on a regulated market		246	-	212	-
Debt securities		41,329	-	34,290	-
Government securities		26,960	-	22,509	-
Domestic		26,960	-	21,556	-
Fixed rate		14,525	-	8,955	-
Floating rate		12,435	-	12,601	-
Foreign		-	-	953	-
Fixed rate		-	-	953	-
Other		14,369	-	11,781	-
Fixed rate		6,186	-	4,233	-
Floating rate		8,183	-	7,548	-
Measured at fair value through profit or loss		1,599	5,798	877	5,392
Equity instruments		181	378	95	358
Quoted on a regulated market		128	378	68	358
Not quoted on a regulated market		53	-	27	-
Participation units and investment certificates		29	4,304	5	3,823
Quoted on a regulated market		23	81	5	61
Not quoted on a regulated market		6	4,223	-	3,762
Debt securities		1,389	1,116	777	1,211
Government securities		1,226	1,101	643	1,211
Domestic		1,226	1,096	643	1,207
Fixed rate		247	1,096	299	1,130
Floating rate		979	-	344	77
Foreign		-	5	-	4
Fixed rate		-	5	-	4
Other		163	15	134	-
Fixed rate		9	-	7	-
Floating rate		154	15	127	-
Cash		**6,759**	**2**	**15,288**	**2**
Total financial assets of banks and financial assets at client's risk		**268,925**	**5,892**	**253,675**	**5,512**

In its investing activities, the PZU Group uses derivatives as a tool to mitigate risk (with or without hedge accounting) and to facilitate efficient management of the investment portfolio.

The PZU Group's exposure to derivatives is presented in section 34.

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	31 December 2019	31 December 2018
Lithuania	756	638
Latvia	149	90
Romania	134	157
Croatia	132	152
Ukraine	130	90
Indonesia	86	71
Columbia	83	42
Brazil	80	57
Bulgaria	74	75
Panama	74	36
Russia	70	69
Philippines	59	42
Hungary	57	117
Dominican Republic	56	42
Oman	54	41
South Africa	52	35
Uruguay	50	42
Other	347 [1)]	2,297 [2)]
Total	**2,443**	**4,093**

[1)] The Other line item states the countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million: Australia, Azerbaijan, Bahrain, Belarus, Belgium, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, France, Germany, Ghana, Guatemala, Holland, Honduras, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Mexico, Mongolia, Morocco, Namibia, Nigeria, Paraguay, Peru, Qatar, Saudi Arabia, Senegal, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, Uzbekistan, United Kingdom, United States, Vietnam.

[2)] The Other line item states Albania, Argentina, Armenia, Australia, Azerbaijan, Belarus, Belgium, Bolivia, Cameroon, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, Ethiopia, France, Germany, Ghana, Greece, Guatemala, Holland, Honduras, India, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Morocco, Mexico, Mongolia, Namibia, Nigeria, Paraguay, Peru, Portugal, Senegal, Serbia, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, United Kingdom, United States, Vietnam.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations and local government units	31 December 2019	31 December 2018
Domestic local governments	6,199	5,710
National Bank of Poland	4,815	2,999
Foreign banks	4,717	3,495
Companies from the WIG-Energy Index	2,375	1,183
Manufacturing	1,163	978
Financial and insurance services	761	725
Energy and fuel sector companies (including: WIG-Fuels index companies)	651	1,173
Transportation and storage	615	1,232
Companies from the WIG-Banks Index	558	452
Construction and real estate market service	479	158
Public utility services	410	759
Professional, scientific and technical activity	410	136
Mining and quarrying (including companies included in the WIG-Mining index)	353	130
Arts, entertainment and recreation activity (including WIG – hotels and restaurants index companies)	315	188
Information and communication (including: WIG – Telecommunications index companies)	201	4
Other	147	67
Total	**24,169**	**19,389**

(in millions of PLN)

7.5.3.1. Interest rate risk

The following table presents the sensitivity test of the portfolio of financial instruments for which the PZU Group bears the risk (except for loan receivables from clients and deposit liabilities).

Change in portfolio value caused by a +/-100 bp shift in the yield curve, by currency of the instrument	31 December 2019		31 December 2018	
	decrease	increase	decrease	increase
Polish zloty	2,090	(1,982)	1,237	(1,174)
Euro	16	(16)	42	(40)
US dollar	127	(111)	169	(153)
other	(9)	8	2	(2)
Total	**2,224**	**(2,101)**	**1,450**	**(1,369)**

The above sensitivity tests do not include the effects of changes in interest rates for technical provisions and liabilities under investment contracts. An analysis of effect of a change in technical rate on measurement of insurance contracts is presented in sections 7.5.2.1 and 7.5.2.2.

The table below presents the contractual level of sensitivity of net interest income (NII) to a 100 bp change in interest rates and sensitivity of the economic value of equity (EVE) of PZU Group's banks to a 200 bps change in interest rates. The measure (NII) is used for managing interest rate risk in order to reduce variations in net interest income. EVE is defined as the present value of future cash flows that will be generated by the entity's assets, less the present value of the future cash flows necessary to pay the entity's liabilities. Both analyses assume an immediate change in market rates. The interest rate on bank products changes according to the contractual provisions, whereas in the case of contractual NII sensitivity, for deposits from retail customers, the declines in interest rates are limited to the zero interest rate level, but not down to negative figures, while for EVE sensitivity the zero-based limitation of interest rate decreases applies to all liabilities. Also, in the case of EVE sensitivity for PLN-denominated current deposits, a model that ensures realistic revaluation is used.

Entity	Measure	31 December 2019		31 December 2018 [1)]	
		decrease	increase	decrease	increase
Pekao Group	NII	-6.98%	4.08%	-8.64%	6.22%
	EVE	1.61%	-3.04%	-0.95%	0.87%
Alior Bank Group	NII	-6.86%	3.14%	-5.97%	2.45%
	EVE	-1.70%	1.35%	-2.36%	3.31%

[1)] December 2018 data based on the methodology in effect before the EBA IRRBB requirements were implemented in June 2019

(in millions of PLN)

7.5.3.2. Currency

Exposure to FX risk

Assets by currency	31 December 2019					31 December 2018				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Loan receivables from clients	163,827	25,914	1,423	3,704 [1)]	194,868	153,035	23,458	1,903	3,658 [2)]	182,054
Financial derivatives	2,626	368	110	3	3,107	1,818	417	198	54	2,487
Investment financial assets	97,050	7,427	5,748	1,191	111,416	88,455	7,796	5,174	240	101,665
Measured at amortized cost	43,587	1,643	278	430	45,938	42,162	2,580	333	159	45,234
Debt securities	34,837	969	1	123	35,930	33,592	983	1	76	34,652
Government securities	28,975	88	1	123	29,187	27,338	86	1	76	27,501
Other	5,862	881	-	-	6,743	6,254	897	-	-	7,151
Buy-sell-back transactions	4,064	-	-	-	4,064	3,278	-	-	-	3,278
Term deposits with credit institutions	885	175	87	307	1,454	1,286	1,250	150	83	2,769
Loans	3,801	499	190	-	4,490	4,006	347	182	-	4,535
Measured at fair value through other comprehensive income	44,523	5,006	4,965	717	55,211	30,788	3,674	4,272	3	38,737
Equity instruments	504	14	-	-	518	509	13	-	-	522
Debt securities	44,019	4,992	4,965	717	54,693	30,279	3,661	4,272	3	38,215
Government securities	30,774	3,600	3,099	3	37,476	19,424	3,597	3,143	3	26,167
Other	13,245	1,392	1,866	714	17,217	10,855	64	1,129	-	12,048
Measured at fair value through profit or loss	8,940	778	505	44	10,267	15,505	1,542	569	78	17,694
Equity instruments	567	140	114	24	845	1,057	35	113	15	1,220
Participation units and investment certificates	3,954	604	243	19	4,820	3,556	550	178	14	4,298
Debt securities	4,419	34	148	1	4,602	10,892	957	278	49	12,176
Government securities	4,250	19	123	1	4,393	10,763	918	256	49	11,986
Other	169	15	25	-	209	129	39	22	-	190
Receivables	4,125	1,404	110	98	5,737	4,537	1,611	124	71	6,343
Cash and cash equivalents	4,973	1,542	482	791 [3)]	7,788	11,741	3,815	778	721 [4)]	17,055
Total assets	**272,601**	**36,655**	**7,873**	**5,787**	**322,916**	**259,586**	**37,097**	**8,177**	**4,744**	**309,604**

[1)] of which PLN 2,695 million in Swiss francs and PLN 533 million in British pounds.

[2)] of which PLN 2,999 million in Swiss francs and PLN 409 million in British pounds.

[3)] of which PLN 310 million in British pounds, PLN 144 million in Swiss francs, PLN 70 million in Norwegian kroner, PLN 56 million in Swedish kronor and PLN 39 million in Danish kroner.

[4)] of which PLN 261 million in British pounds, PLN 157 million in Swiss francs, PLN 69 million in Swedish kronor, PLN 67 million in Norwegian kroner and PLN 52 million in Danish kroner.

(in millions of PLN)

Liabilities by currency	31 December 2019					31 December 2018				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Financial liabilities measured at fair value	3,170	379	106	5	3,660	3,445	374	157	41	4,017
Financial derivatives	2,529	378	106	5	3,018	2,793	374	157	41	3,365
Liabilities on borrowed securities (short sale)	293	-	-	-	293	120	-	-	-	120
Investment contracts for the client's account and risk (unit-linked)	258	1	-	-	259	266	-	-	-	266
Liabilities to members of consolidated mutual funds	90	-	-	-	90	266	-	-	-	266
Financial liabilities measured at amortized cost	202,387	25,994	11,196	3,253	242,830	188,918	28,534	11,528	3,319	232,299
Liabilities to banks	3,120	3,242	19	223 [1]	6,604	2,234	3,474	60	276 [2]	6,044
Liabilities to clients under deposits	182,288	22,150	11,123	3,027 [3]	218,588	172,162	20,962	11,468	3,043 [4]	207,635
Liabilities on the issue of own debt securities	9,006	229	38	-	9,273	7,998	4,011	-	-	12,009
Subordinated liabilities	6,656	44	-	-	6,700	5,974	87	-	-	6,061
Liabilities on account of repurchase transactions	503	96	-	-	599	540	-	-	-	540
Investment contracts with guaranteed and fixed terms and conditions	-	-	-	-	-	-	-	-	-	-
Finance lease liabilities	814	233	16	3	1,066	10	-	-	-	10
Other liabilities	6,733	911	331	94	8,069	6,654	511	107	135	7,407
Total liabilities by currency	**212,290**	**27,284**	**11,633**	**3,352**	**254,559**	**199,017**	**29,419**	**11,792**	**3,495**	**243,723**

[1] of which PLN 187 million in Swiss francs.
[2] of which PLN 226 million in Swiss francs.
[3] of which PLN 1,532 million in British pounds, PLN 648 million in Swiss francs, PLN 234 million in Norwegian kroner, PLN 147 million in Swedish kronor, PLN 86 million in Canadian dollars, PLN 48 million in Czech korunas and PLN 121 million in Japanese yen.
[4] of which PLN 1,627 million in British pounds, PLN 584 million in Swiss francs, PLN 174 million in Norwegian kroner, PLN 112 million in Swedish kronor, PLN 89 million in Canadian dollars, PLN 81 million in Czech korunas and PLN 30 million in Japanese yen.

To manage its FX risk, the PZU Group uses also derivatives which allows it to take a selected market exposure in a more efficient manner than by using cash instruments.

The following table presents the sensitivity test of the portfolio of PZU Group's financial instruments (except for loan receivables from clients and deposit liabilities) in respect to financial instruments for which the PZU Group bears the risk.

Financial assets exposed to exchange risk include investment (deposit) financial assets of the PZU Group and derivative financial assets denominated in foreign currencies.

Change in portfolio value caused by a +/-20% change of the exchange rate	31 December 2019		31 December 2018	
	Decrease	increase	decrease	increase
EUR	(113)	158	189	(171)
USD	(12)	20	(27)	48
GBP	2	(2)	(4)	4
Other	(19)	19	(9)	9
Total	**(142)**	**195**	**149**	**(110)**

7.5.3.3. Equity

Level of risk exposure

The value of the portfolio of equity financial instruments is presented in item 35.2.

(in millions of PLN)

Sensitivity analysis

The table below presents the sensitivity test of PZU Group's portfolio of quoted equity instruments for which the PZU Group bears the risk.

Impact of a change in the measurement of quoted equity instruments on equity	31 December 2019	31 December 2018
increase in measurement of quoted equity instruments by 20%	112	190
decrease in measurement of quoted equity instruments by 20%	(112)	(190)

7.5.3.4. Liquidity risk

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the PZU Group's liabilities to its clients or business partners. The aim of the liquidity risk management system is to maintain the capacity of fulfilling the entity's liabilities on an ongoing basis. Liquidity risk is managed separately for the insurance part and the bancassurance part.

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:

- shortage of liquid cash to satisfy current needs;
- lack of liquidity of financial instruments held;
- the structural mismatch between the maturity of assets and liabilities.

Risk assessment and measurement are carried out by estimating the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:

- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;
- potential shortage of financial funds (medium-term financial liquidity risk) – through analysis of historical and expected cash flows from the operating activity;
- stress tests (medium-term financial liquidity risk) – by estimating the possibility of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;
- current statements of estimates (short-term financial liquidity risk) – by monitoring demand for cash reported by business units of a given insurance undertaking in the PZU Group by the date defined in regulations which are in force in that entity.

The banks in the PZU Group employ the liquidity risk management metrics stemming from sector regulations, including Recommendation P issued by the KNF.

To manage the liquidity of the banks in the PZU Group, liquidity ratios are used for different periods ranging from 7 days, to a month, to 12 months and to above 12 months.

Within management of liquidity risk, banks in the PZU Group also perform analyses of the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:

- stability of equity and liabilities with indefinite maturities (e.g. current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g. mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

Monitoring and controlling financial liquidity risk involves analyzing the utilization of the defined limits.

Reporting involves communicating the level of financial liquidity to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

The following measures aim to reduce financial liquidity risk:

- maintaining cash in a separate liquidity portfolio at a level consistent with the limits for the portfolio value;
- maintaining sufficient cash in a foreign currency in portfolios of investments earmarked for satisfying insurance liabilities denominated in the given foreign currency;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU to at most 3 days after a request for cash is filed;
- keeping open credit facilities in banks and/or the possibility of performing sell-buy-back transactions on treasury securities, including those held until maturity;
- centralization of management of portfolios/funds by TFI PZU;
- limits of liquidity ratios in the banks belonging to the PZU Group.

(in millions of PLN)

Risk exposure

Carrying amount of debt instruments, by maturity	31 December 2019							31 December 2018						
	up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total	up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total
Loan receivables from clients	53,167	19,432	18,451	14,267	14,130	75,421	194,868	53,823	18,022	13,302	14,537	12,512	69,858	182,054
Investment (deposit) debt instruments	16,298	15,935	13,048	9,315	15,156	35,481	105,233	16,429	8,028	11,300	15,091	9,231	35,546	95,625
Measured at amortized cost	7,884	3,526	4,908	5,170	6,675	17,775	45,938	9,485	2,497	2,717	5,005	5,540	19,990	45,234
Debt securities	2,347	3,470	3,950	4,259	4,510	17,394	35,930	3,629	2,253	2,663	3,803	4,411	17,893	34,652
Government securities	1,581	2,770	3,377	3,296	3,815	14,348	29,187	2,032	1,765	2,218	3,245	3,429	14,812	27,501
Other	766	700	573	963	695	3,046	6,743	1,597	488	445	558	982	3,081	7,151
Buy-sell-back transactions	4,064	-	-	-	-	-	4,064	3,278	-	-	-	-	-	3,278
Term deposits with credit institutions	1,398	56	-	-	-	-	1,454	2,532	170	54	-	-	13	2,769
Loans	75	-	958	911	2,165	381	4,490	46	74	-	1,202	1,129	2,084	4,535
Measured at fair value through other comprehensive income	8,221	10,847	7,504	3,568	7,851	16,702	54,693	5,923	4,600	5,952	7,791	2,471	11,478	38,215
Government securities	2,590	6,742	6,958	2,735	6,281	12,170	37,476	1,413	4,002	2,581	7,006	1,666	9,499	26,167
Other	5,631	4,105	546	833	1,570	4,532	17,217	4,510	598	3,371	785	805	1,979	12,048
Measured at fair value through profit or loss	193	1,562	636	577	630	1,004	4,602	1,021	931	2,631	2,295	1,220	4,078	12,176
Government securities	73	1,549	629	573	607	962	4,393	944	887	2,619	2,275	1,215	4,046	11,986
Other	120	13	7	4	23	42	209	77	44	12	20	5	32	190
Total	**69,465**	**35,367**	**31,499**	**23,582**	**29,286**	**110,902**	**300,101**	**70,252**	**26,050**	**24,602**	**29,628**	**21,743**	**105,404**	**277,679**

(in millions of PLN)

The following table presents future undiscounted cash flow from assets and liabilities.

Liquidity risk	31 December 2019								31 December 2018							
	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 10 years	Over 10 years	Total	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 10 years	Over 10 years	Total
Assets	**101,092**	**34,483**	**34,809**	**25,583**	**28,717**	**64,451**	**54,939**	**344,074**	**103,494**	**31,994**	**27,926**	**28,309**	**22,599**	**58,494**	**59,863**	**332,679**
Cash and cash equivalents	3,410	151	109	90	78	290	3,694	7,822	13,195	142	103	85	74	274	3,258	17,131
Receivables	3,725	1,188	352	8	145	321	-	5,739	4,955	1,192	26	7	29	1	180	6,390
Loan receivables from clients	49,666	25,154	23,366	16,679	16,973	39,462	42,200	213,500	47,576	23,979	19,287	16,650	13,761	36,998	42,209	200,460
Debt securities	38,328	7,483	9,936	7,628	9,180	23,974	9,045	105,574	31,560	6,184	8,115	9,997	7,069	19,079	14,056	96,060
Loans	444	366	986	1,074	2,223	382	-	5,475	298	331	254	1,510	1,562	2,093	160	6,208
Buy-sell-back transactions	4,064	-	-	-	-	-	-	4,064	3,278	-	-	-	-	-	-	3,278
Term deposits with credit institutions	1,455	141	60	104	118	22	-	1,900	2,632	166	141	60	104	49	-	3,152
Liabilities	**(119,954)**	**(14,179)**	**(6,524)**	**(4,813)**	**(4,317)**	**(17,388)**	**(128,819)**	**(295,994)**	**(106,726)**	**(13,218)**	**(7,707)**	**(4,824)**	**(3,664)**	**(17,013)**	**(117,603)**	**(270,755)**
Technical provisions	(13,107)	(2,002)	(1,373)	(1,103)	(903)	(3,405)	(20,965)	(42,858)	(7,122)	(1,806)	(1,316)	(1,081)	(905)	(2,501)	(21,225)	(35,956)
Lease liabilities	(234)	(221)	(147)	(146)	(65)	(119)	(376)	(1,308)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other financial liabilities	(102,215)	(11,572)	(4,994)	(3,555)	(3,319)	(13,816)	(106,516)	(245,987)	(95,013)	(11,138)	(6,378)	(3,732)	(2,740)	(14,476)	(95,724)	(229,201)
Other liabilities	(4,398)	(384)	(10)	(9)	(30)	(48)	(962)	(5,841)	(4,591)	(274)	(13)	(11)	(19)	(36)	(654)	(5,598)
Gap	**(18,862)**	**20,304**	**28,285**	**20,770**	**24,400**	**47,063**	**(73,880)**	**48,080**	**(3,232)**	**18,776**	**20,219**	**23,485**	**18,935**	**41,481**	**(57,740)**	**61,924**

The following table presents future undiscounted cash flows from banks' off-balance sheet liabilities (by contractual terms)

Off-balance sheet liabilities granted	31 December 2019						31 December 2018					
	up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	over 5 years	Total	up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	over 5 years	Total
Financing	44,499	-	-	-	-	44,499	48,769	-	-	-	-	48,769
Guarantees	13,481	-	-	-	-	13,481	7,702	-	-	-	-	7,702
Total	**57,980**	**-**	**-**	**-**	**-**	**57,980**	**56,471**	**-**	**-**	**-**	**-**	**56,471**

7.5.4. Operational risk

Operational risk is the possibility of suffering loss resulting from improper or erroneous internal processes, human activities, system failures or external events.

Operational risk management has the purpose of optimizing the level of operational risk and operating efficiency in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective control mechanisms. Information on operational risk levels is regularly reported to relevant internal authorities.

Operational risk is identified in particular by:

- accumulation and analysis of information on operational risk incidents and the reasons for their occurrence;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:

- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of possible occurrence of operational risk incidents.

Monitoring and control of operational risk is performed mainly through an established system of operational risk indicators and limits enabling assessment of changes in the level of operational risk over time and assessment of factors that affect the level of this risk in the business.

Reporting involves communicating the level of operational risk, the effects of monitoring and control to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions involving reactions to any identified and assessed operational risks involve, in particular:

- taking actions aimed at minimizing risks, for instance by strengthening the internal control system;
- risk transfer – in particular, by entering into insurance agreements;
- risk avoidance by refraining from undertaking or withdrawing from a particular type of business in cases where too high a level of operational risk is ascertained and where the costs involved in risk mitigation are unreasonable;
- risk acceptance – approval of consequences of a possible realization of operational risk unless they threaten to exceed the operational risk tolerance level.

7.5.5. Compliance risk

Compliance risk is the risk of legal sanctions, financial losses or loss of reputation or credibility arising from a failure of PZU Group companies, their employees or entities acting on their behalf to comply with the law, internal regulations or standards of conduct, including ethical standards.

The demarcation of responsibilities with respect to systemic and ongoing compliance risk management is based on internal regulations.

Systemic management entails in particular: developing solutions for implementing compliance risk management principles, monitoring the compliance risk management process and promoting and monitoring compliance with internal regulations and standards of conduct in respect to compliance.

Ongoing compliance risk management entails: identifying, assessing and measuring and adaptation to regulatory requirements.

7.5.6. Model risk

Model risk is the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models. Taking into account the growing importance of the scope of use of models and the fact that model risk was classified as material risk for the PZU Group; the formal process of identifying and evaluating this risk was continued in 2019. The process aims to ensure high quality of risk management practices applied to this risk and is currently being developed by PZU and PZU Życie. Within the framework of this process, the models were monitored and independently validated in 2019.

Model risk is very important for banking sector entities and therefore management of this risk has already been implemented in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operation and have ensured appropriate corporate governance solutions.

8. Equity management

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

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

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

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

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below:

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

External capital requirements

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

Pursuant to art. 412 section 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 2018 report published on 27 May 2019 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. For the 2019 report, the publication deadline is no later than 20 weeks after the year end, i.e. in practice until 19 May 2020. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2018 published in the PZU Group's 2018 solvency and financial condition report was 222%. In 2019, the solvency ratio (both standalone and consolidated) reported to the KNF and not subject to verification by an audit firm as at the end of each quarter remained over the level of 200% (as at the end of Q3, the ratio for the PZU Group was 220.38%). As at the date of signing the consolidated financial statements, the calculation of the solvency ratio as at 31 December 2019 has not yet been available.

Estimated data as at 31 December 2019, available as at the date of consolidated financial statements being signed and not verified by an audit firm, show that the PZU Group fulfills the capital requirements imposed on it and holds a considerable surplus of own funds over the capital requirement.

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

9. Fair value

9.1 Description of valuation techniques

9.1.1. Debt securities and loans

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

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

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

9.1.2. 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.

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 companies. Such valuation reflects the PZU Group's share in net assets of these funds.

9.1.3. 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 (IRS) is measured using the discounted future cash flow method. The rates from OIS curves (overnight indexed swaps), taking into account the currency of the security deposit provided for the instrument, are used to discount cash flows.

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

9.1.4. Loan receivables from clients

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

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

9.1.5. Property 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.

Property measured at fair value is valuated 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.

9.1.6. Financial liabilities

9.1.6.1. Liabilities under deposits

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

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

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

9.1.6.3. 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.

9.1.6.4. 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).

9.1.6.5. Liabilities on borrowed securities

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

9.2 Fair value hierarchy

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

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives listed on stock exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale).
- Level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:

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

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

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

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

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

(in millions of PLN)

9.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 December 2019				31 December 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	32,595	15,555	7,061	55,211	22,200	9,329	7,208	38,737
Equity instruments	271	1	246	518	309	1	212	522
Debt securities	32,324	15,554	6,815	54,693	21,891	9,328	6,996	38,215
Investment financial assets measured at fair value through profit or loss	4,985	4,996	286	10,267	12,758	4,684	252	17,694
Equity instruments	613	6	226	845	1,105	-	115	1,220
Participation units and investment certificates	111	4,690	19	4,820	102	4,182	14	4,298
Debt securities	4,261	300	41	4,602	11,551	502	123	12,176
Loan receivables from clients	-	-	1,624	1,624	-	-	1,814	1,814
Measured at fair value through other comprehensive income	-	-	1,381	1,381	-	-	1,511	1,511
Measured at fair value through profit or loss	-	-	243	243	-	-	303	303
Financial derivatives	4	2,985	118	3,107	35	2,384	68	2,487
Investment property	-	153	1,828	1,981	-	141	1,556	1,697
Liabilities								
Derivatives	3	2,947	68	3,018	34	3,295	36	3,365
Liabilities to members of consolidated mutual funds	-	90	-	90	-	266	-	266
Investment contracts for the client's account and risk *(unit-linked)*	-	259	-	259	-	266	-	266
Liabilities on borrowed securities (short sale)	293	-	-	293	120	-	-	120

(in millions of PLN)

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

[1)] Information on the restatements is presented in item 9.3.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 2018	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Opening balance	**221**	**4,855**	**95**	**-**	**163**	**100**	**52**	**1,556**	**365**	**2,204**
Purchase/opening of the position/granting	-	3,034	-	14	727	16	10	409	3	139
Reclassification from Level I	-	-	2	-	-	-	-	-	-	-
Reclassification from Level II [1)]	-	190	-	-	-	-	-	-	-	3
Reclassification from own properties	-	-	-	-	-	-	-	-	-	4
Profit or loss recognized in the profit and loss account as:	-	49	14	-	3	(30)	(9)	29	3	48
– net investment income	-	49	-	-	-	-	-	29	-	-
– net result on realization	-	-	(2)	-	-	(3)	-	-	-	-
– net movement in fair value of assets and liabilities measured at fair value	-	-	16	-	3	(27)	(9)	-	3	48
Profits or losses recognized in other comprehensive income	(9)	(12)	-	-	-	-	-	31	-	-
Sales/settlements/repayments	-	(1,056)	-	-	(756)	(18)	(17)	(514)	(68)	(11)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(831)
Reclassification to Level II	-	(64)	-	-	(14)	-	-	-	-	-
Foreign exchange differences	-	-	4	-	-	-	-	-	-	-
Balance at the end of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**

[1)] Information on the restatements is presented in item 9.3.

(in millions of PLN)

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

Both in 2019 and in 2018, no changes were made in the fair value measurement method for financial instruments measured at fair value that would be of material significance for the consolidated financial statements.

9.2.1.2. Investment property classified as Level III fair value

Investment property classified as Level III	Type of space	31 December 2019			31 December 2018		
		Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement	Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement
Office properties	Office Parking lot	663	12.00 – 14.50 EUR 40.00 – 70.00 EUR	6.00% – 7.50%	651	EUR 12.00 – 14.25 EUR 40.00 – 73.00	5.95% – 7.75%
Warehousing properties	Office Warehouse	1,119	9.00 EUR 3.20 – 3.50 EUR	5.90% – 6.45%	889	EUR 6.48 – 9.15 EUR 3.00 – 4.04	6.00% – 6.90%
Other		46			16		
Total		**1,828**			**1,556**		

9.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 December 2019				31 December 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured by the equity method	-	-	-	-	-	-	14	14
Loan receivables from clients measured at amortized cost	-	-	193,964	193,964	-	-	180,507	180,507
Investment financial assets measured at amortized cost	26,032	2,149	21,742	49,923	24,251	2,301	21,541	48,093
Debt securities	26,032	1,123	12,674	39,829	24,251	1,239	11,900	37,390
Buy-sell-back transactions	-	738	3,326	4,064	-	126	3,153	3,279
Term deposits with credit institutions	-	288	1,168	1,456	-	936	1,830	2,766
Loans	-	-	4,574	4,574	-	-	4,658	4,658
Liabilities								
Liabilities to banks	-	897	5,728	6,625	-	781	5,280	6,061
Liabilities to clients under deposits	-	-	219,233	219,233	-	-	207,668	207,668
Liabilities on the issue of own debt securities [1])	-	6,700	2,667	9,367	-	5,295	6,800	12,095
Subordinated liabilities [1])	-	2,766	4,014	6,780	-	2,013	4,043	6,056
Liabilities on account of repurchase transactions	-	599	-	599	-	540	-	540

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

9.3 Reclassification between fair value hierarchy levels

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

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

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

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

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

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

In 2018, the following transfers of assets between fair value levels were made:

- treasury bonds for which active market quotations were available were reclassified from Level II to Level I;
- reclassification from level III to level II was applied to municipal and corporate bonds measured using market information about prices of comparable financial instruments, corporate bonds for which the estimated credit parameters had no significant impact on their measurement, treasury bonds denominated in Polish zloty for which the estimated spread to benchmark bond had no significant impact on their measurement and a derivative equity market transaction because the unobservable factor (correlation) had no significant impact on their measurement;
- corporate and municipal bonds for which the impact of the estimated parameter (correlation) exerted a significant impact on their measurement were reclassified from Level II to Level III.

10. Gross written premiums

10.1 Accounting policy

Premium written under insurance contracts and inward reinsurance contracts is recognized on the date of concluding an insurance contract.

10.1.1. Non-life insurance

Gross written premiums include amounts, regardless of whether these amounts have been paid.

- due for the entire liability period, regardless of its length, on account of the insurance contracts concluded in the reporting period – if the duration of the liability period is specified;
- due in the reporting period – if the duration of the liability period is not specified.

These premiums are adjusted by the change in the provision for unearned premiums in the reporting period and reduced by premiums due to reinsurers.

10.1.2. Life insurance

Gross written premiums include the amounts due during the reporting period for the concluded insurance contracts, regardless of whether these amounts have been paid and whether they relate to the whole or part of the reporting period. These premiums are adjusted by the change in the provision for unearned premiums in the reporting period and reduced by premiums due to reinsurers.

(in millions of PLN)

10.2 Quantitative data

Gross written premiums	1 January – 31 December 2019	1 January – 31 December 2018
Gross written premiums in non-life insurance	15,494	15,113
In direct insurance	15,278	15,071
In indirect insurance	216	42
Gross written premiums in life insurance	8,697	8,357
Individual insurance premiums	1,730	1,464
Individually continued insurance premiums	2,026	2,004
Group insurance premiums	4,941	4,889
Total gross written premiums	**24,191**	**23,470**

In 2019 and in 2018, PZU Group companies did not conclude inward reinsurance contracts in life insurance.

Gross written premium in non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 December 2019	1 January – 31 December 2018
Accident and sickness insurance (group 1 and 2)	750	644
Motor third party liability insurance (group 10)	5,765	5,989
Other motor insurance (group 3)	3,920	3,901
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	116	100
Insurance against fire and other property damage (groups 8 and 9)	3,193	2,969
TPL insurance (groups 11, 12, 13)	868	817
Credit and suretyship (groups 14, 15)	86	94
Assistance (group 18)	536	468
Legal protection (group 17)	11	10
Other (group 16)	249	121
Total	**15,494**	**15,113**

11. Revenue from commissions and fees

11.1 Accounting policy

Fees and commissions directly related to the origination of financial assets or liabilities (both income and costs) that are not an integral part of the effective interest rate are accounted for using the straight-line method. Other fees and commissions related to financial services (e.g. cash management services, brokerage services, investment advisory services, financial planning, investment banking services and asset management services) and margins earned on FX transactions with clients are recognized in the profit and loss account when the service is provided.

Revenue from management of open-end pension funds and revenue and fees received from funds and mutual fund companies are recognized at the time of the performance.

(in millions of PLN)

11.2 Quantitative data

Revenue from commissions and fees	1 January – 31 December 2019	1 January – 31 December 2018 (restated)
Banking activity	3,463	3,413
Margin on foreign exchange transactions with clients	788	735
Brokerage fees	92	160
Fiduciary activity	59	69
Payment card and credit card services	930	851
Fees on account of insurance intermediacy activities	75	90
Credits and loans	418	444
Bank account-related services	412	430
Transfers	316	309
Cash operations	98	103
Receivables purchased	49	42
Guarantees, letters of credit, collections, promises	77	79
Commissions on leasing activity	57	10
Other commission	92	91
Revenue and payments received from funds and mutual fund companies	528	562
Pension insurance	143	129
Other	5	5
Total revenue from commissions and fees	**4,139**	**4,109**

12. Net investment income

12.1 Accounting policy

Dividends are recognized as income when the right to dividend is acquired.

Interest income is recognized on an accrual basis based on the effective interest rate.

Interest income comprises interest on financial instruments measured at amortized cost, at fair value through other comprehensive income and hedging derivatives.

The effective interest rate is the rate that discounts estimated future cash flows to the gross carrying amount of the financial asset.

Interest income is calculated on the gross carrying amount, except for credit-impaired assets and purchased or originated credit-impaired (POCI) financial assets. For such assets, interest income is calculated on the gross carrying amount less allowances for expected credit losses.

(in millions of PLN)

12.2 Quantitative data

Net investment income	1 January – 31 December 2019	1 January – 31 December 2018 (restated)
Interest income calculated using the effective interest rate, including:	12,311	11,265
Loan receivables from clients	9,119 [1)]	8,442
Debt securities measured at fair value through other comprehensive income	1,017	824
Debt securities measured at amortized cost	1,268	1,216
Buy-sell-back transactions	73	76
Term deposits with credit institutions	99	133
Loans	254	231
Receivables purchased	136	107
Hedge derivatives	296	190
Receivables	2	3
Cash and cash equivalents	47	43
Dividend income, including:	57	68
Investment financial assets measured at fair value through profit or loss	35	38
Investment financial assets measured at fair value through other comprehensive income	22	30
Foreign exchange differences	(123)	(551)
Income on investment property	255	256
Investment property maintenance expenses	(108)	(104)
Investment activity expenses	(26)	(23)
Other	25	33
Net investment income, total	**12,391**	**10,944**

[1)] including 159 million in reduced income from reimbursement of loan costs due to the CJEU judgment Additional information on this issue is presented in section 43.3.

13. Net result on realization of financial instruments and investments

13.1 Accounting policy

Net result on realization contains gains and losses arising from the sale of financial instruments.

13.2 Quantitative data

Net result on realization of financial instruments and investments	1 January – 31 December 2019	1 January – 31 December 2018
Investment financial assets	352	134
Debt instruments measured at fair value through other comprehensive income	150	232
Financial instruments measured at fair value through profit or loss	174	(77)
Equity instruments	(18)	(106)
Participation units and investment certificates	118	(42)
Debt instruments	74	71
Instruments measured at amortized cost	28	(21)
Loan receivables from clients measured at amortized cost	33	33
Derivatives	(1)	(119)
Short sale	4	-
Receivables	(112)	(63)
Investment property	2	(1)
Other	-	1
Net result on realization of financial instruments and investments, total	**278**	**(15)**

(in millions of PLN)

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

14.1 Accounting policy

Impairment losses contain the balance of impairment losses recognized and reversed in accordance with the rules described in section 37.1.

14.2 Quantitative data

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 December 2019	1 January – 31 December 2018
Investment financial assets	21	(9)
Debt instruments measured at fair value through other comprehensive income	(3)	(3)
Instruments measured at amortized cost	24	(6)
– debt instruments	(8)	9
– term deposits with credit institutions	(1)	(1)
– loans	33	(14)
Loan receivables from clients	(2,148)	(1,673)
Measured at amortized cost	(2,142)	(1,677)
Measured at fair value through other comprehensive income	(6)	4
Receivables	(36)	(116)
Associate – EMC Instytut Medyczny SA	(3)	(6)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(2,166)**	**(1,804)**

15. Net movement in fair value of assets and liabilities measured at fair value

15.1 Accounting policy

Information on the method used to determine fair value of assets and liabilities is presented in section 9.

15.2 Quantitative data

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 December 2019	1 January – 31 December 2018
Investment financial instruments measured at fair value through profit or loss	522	165
Equity instruments	122	(162)
Debt securities	139	495
Participation units and investment certificates	261	(168)
Derivatives	325	537
Measurement of liabilities to members of consolidated mutual funds	(5)	15
Investment contracts for the client's account and risk (unit-linked)	(10)	20
Investment property	2	30
Loan receivables from clients	3	3
Total net movement in fair value of assets and liabilities measured at fair value	**837**	**770**

(in millions of PLN)

16. Other operating income

Other operating income	1 January – 31 December 2019	1 January – 31 December 2018
Revenues on the sales of products, merchandise and services by non-insurance companies	568	589
Revenues from direct claims handling on behalf of other insurance companies	217	199
Reversal of provisions [1)]	306	540
Reimbursement of the costs of pursuit of claims	46	41
Reinsurance commissions and profit participation	66	44
Reversal of impairment losses for non-financial assets	-	24
Indemnity received	23	15
Interest for late payment of amounts due under direct insurance and outward reinsurance	34	27
Gain from sale of property, plant and equipment	11	51
Other	221	163
Other operating income, total	**1,492**	**1,693**

[1)] including a reversal of PLN 289 million by the banks of a provision for guarantees and sureties given (in 2018: PLN 477 million).

17. Claims, benefits and movement in technical provisions

17.1 Accounting policy

The expenses of the reporting period include all the costs of claims and benefits paid under the concluded insurance contracts with direct and indirect claims handling expenses and movement in provision for outstanding claims and benefits.

17.1.1. Non-life insurance

In non-life insurance costs of claims and benefits are reduced by all the salvage and subrogation received and by the movement in estimated salvage and subrogation.

17.1.2. Life insurance

Benefits paid include all payments and deductions made during the reporting period for benefits incurred during the reporting period and previous periods (including annuities and surrenders) and all direct and indirect, external and internal claim handling expenses. Claims handling expenses also include expenses related to disputes.

The value of benefits is recognized at the amount actually paid out, after deducting returns and refunds (except for outward reinsurance refunds), plus the movement in the provision for unpaid claims, less the reinsurers’ share in claims paid and in provisions.

(in millions of PLN)

17.2 Quantitative data

Claims, benefits and movement in technical provisions	1 January – 31 December 2019	1 January – 31 December 2018
Claims, benefits and movement in technical provisions	**16,085**	**14,980**
In non-life insurance	9,328	9,042
– claims and benefits	7,925	7,263
– movement in technical provisions	584	992
– claims handling expenses	819	787
In life insurance	6,757	5,938
– claims and benefits	6,102	6,049
– movement in technical provisions	520	(242)
– claims handling expenses	135	131
Reinsurers' share in claims, benefits and movement in technical provisions	**(390)**	**(417)**
In non-life insurance	(390)	(417)
Total net insurance claims and benefits	**15,695**	**14,563**

Claims and benefits handling expenses by type	1 January – 31 December 2019	1 January – 31 December 2018
Consumption of materials and energy	15	15
Third party services	260	259
Taxes and charges	32	31
Employee expenses	431	400
Depreciation of property, plant and equipment	15	15
Amortization of intangible assets	23	22
Other, including:	178	176
– awarded costs, interest and fines in indemnity cases	167	165
– other	11	11
Total claims and benefits handling expenses	**954**	**918**

18. Fee and commission expenses

Fee and commission expenses	1 January – 31 December 2019	1 January – 31 December 2018
Costs of card and ATM transactions, including card issue costs	530	440
Commissions on acquisition of banking clients	97	87
Fees for the provision of ATMs	44	46
Costs of awards to banking clients	16	16
Costs of bank transfers and remittances	41	36
Additional services attached to banking products	23	27
Brokerage fees	15	16
Costs of administration of bank accounts	5	5
Costs of banknote operations	17	14
Fiduciary activity expenses	18	19
Other commission	54	48
Total fee and commission expenses	**860**	**754**

(in millions of PLN)

19. Interest expenses

19.1 Accounting policy

Interest expenses are recognized in the profit and loss account using the effective interest rate.

19.2 Quantitative data

Interest expenses	1 January – 31 December 2019	1 January – 31 December 2018
Term deposits	969	1,054
Current deposits	542	445
Outstanding own debt securities	428	396
Hedge derivatives	16	29
Loans	23	21
Repurchase transactions	57	59
Bank loans contracted by PZU Group companies	33	12
Leases	29	-
Other	32	30
Total interest expense	**2,129**	**2,046**

20. Acquisition expenses

20.1 Accounting policy

Acquisition expenses include expenses related to the conclusion and extension of insurance agreements. Direct acquisition expenses include, among others, cost of commission for insurance intermediaries, employee remuneration costs associated with the conclusion of insurance agreements, cost of attestations, expert opinions and studies related to the accepted risk. Indirect acquisition expenses include costs of advertising and promoting insurance products and costs associated with the examination of applications and issuing policies.

According to the accrual accounting principle, some of the acquisition expenses are amortized over time, in accordance with the principles described in sections 29.1.1 and 29.1.2.

20.2 Quantitative data

Acquisition expenses by type	1 January – 31 December 2019	1 January – 31 December 2018
Consumption of materials and energy	29	28
Third party services	87	91
Taxes and charges	5	6
Employee expenses	631	573
Depreciation of property, plant and equipment	27	25
Amortization of intangible assets	36	39
Other, including:	2,581	2,425
– commissions in insurance activities	2,508	2,345
– advertising	66	74
– other	7	6
Movement in deferred acquisition expenses	(33)	(57)
Total acquisition expenses	**3,363**	**3,130**

(in millions of PLN)

21. Administrative expenses

21.1 Accounting policy

Administrative expenses include, among others:

- In insurance activity – insurance activity expenses not classified as acquisition expenses, related to premium collection, expenses related to management of the insurance contracts portfolio, reinsurance contracts portfolio and to overall management of PZU Group's insurance companies;
- In banking activity – bank's operating expenses, including employee, material costs, depreciation, taxes and charges.

21.2 Quantitative data

Administrative expenses by type	1 January – 31 December 2019	1 January – 31 December 2018
Consumption of materials and energy	129	121
Third party services	1,273	1,504
Taxes and charges	81	82
Employee expenses	3,673	3,742
Depreciation of property, plant and equipment [1)]	578	348
Amortization of intangible assets	326	293
Compensation of group insurance administrators in work establishments	206	205
Other, including:	340	314
– advertising	244	230
– other	96	84
Total administrative expenses	**6,606**	**6,609**

[1)] the increase in the cost of depreciation of property, plant and equipment results from the application of IFRS 16 and depreciation of right-to-use assets.

22. Employee expenses

Employee expenses	1 January – 31 December 2019	1 January – 31 December 2018
Payroll	4,264	4,127
Defined contribution plans, including:	758	743
– charges on salary	679	673
– 3rd pillar pension insurance, including costs of Employee Pension Plan contributions incurred in the period	79	70
Other	230	239
Total employee expenses	**5,252**	**5,109**

In 2018-2019, PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, which were defined contribution plans. The employer additionally paid 7% of the gross salary amount as a contribution to these plans.

Employee expenses are recognized under "Claims and movement in technical provisions", "Acquisition expenses", "Administrative expenses" and "Other operating expenses" in the consolidated profit and loss account.

(in millions of PLN)

23. Other operating expenses

Other operating expenses	1 January – 31 December 2019	1 January – 31 December 2018
Levy on financial institutions	1,134	1,092
Expenses of the core business of non-insurance and non-banking companies	713	692
Direct claims handling expenses on behalf of other insurance undertakings	226	207
Compulsory payments to insurance market institutions and banking market institutions	129	111
Bank Guarantee Fund	611	372
Insurance Indemnity Fund	67	70
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	27	29
Expenditures for prevention activity	48	72
Establishment of provisions [1)]	774	503
Amortization of intangible assets purchased in company acquisition transactions	233	331
Recognition of impairment losses for non-financial assets	19	41
Donations	25	25
Late interest, penalties, indemnities	22	67
Costs of pursuit of claims	92	73
Other	204	173
Other operating expenses, total	**4,324**	**3,858**

[1)] including the establishment of a provision of PLN 331 million by the banks for guarantees and sureties given (in 2018: PLN 441 million).

24. Income tax

24.1 Accounting policy

Income tax shown in the profit and loss account includes the current and deferred parts.

The deferred part is the difference between the balance of deferred tax liabilities and assets at the end and at the beginning of the reporting period, except that changes in deferred tax liabilities and assets related to operations charged to equity are also charged to equity.

(in millions of PLN)

24.2 Quantitative data

Income tax	1 January – 31 December 2019	1 January – 31 December 2018
Profit before tax (consolidated)	7,080	7,086
CIT rate (or range of CIT rates) for the country of the parent company's seat (%)	19%	19%
Income tax which would be calculated as the product of gross accounting profit of the entities and the CIT rate in the country of the parent company's seat	1,345	1,346
Differences between the income tax calculated above and the income tax shown in the profit and loss account:	550	372
– levy on financial institutions	215	207
– provisions for credit receivables in the part not covered by deferred tax	70	19
– measurement of financial assets	(3)	6
– recognition/reversal of impairment losses for receivables, not classified as tax-deductible expenses	65	56
– recognition/reversal of other provisions and impairment losses for assets, not classified as tax-deductible expenses	44	(21)
– fee payable to BFG	116	71
– differences due to different tax rates	(16)	(4)
– taxation of insurance activities in Ukraine	7	5
– tax losses	26	12
– other tax increases, waivers, exemptions, deductions and reductions	26	21
Income tax shown in the profit and loss account	**1,895**	**1,718**

Total amount of current and deferred tax	1 January – 31 December 2019	1 January – 31 December 2018
1. Recognized in the profit and loss account, including:	**1,895**	**1,718**
– current tax	1,844	2,098
– deferred tax	51	(380)
2. Recognized in other comprehensive income, including:	**117**	**(31)**
– deferred tax	117	(31)

Income tax on other comprehensive income items	1 January – 31 December 2019	1 January – 31 December 2018
Gross other comprehensive income	613	(129)
Income tax	(117)	31
Valuation of equity instruments measured at fair value through other comprehensive income	(1)	58
Valuation of debt instruments	(104)	(28)
Valuation of debt instruments reclassified to profit or loss	12	24
Transactions to hedge cash flows	(24)	(23)
Net other comprehensive income	**496**	**(98)**

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

(in millions of PLN)

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

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB (publ.) applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019, PZU Finance AB (publ.) received a ruling under which the FX differences arising on repayment of the loan should be subject to taxation, while the FX differences arising on repayment of the bonds are not subject to taxation. On 3 April 2019, PZU Finance AB (publ.) appealed to the Supreme Court of Administration (Högsta förvaltningsdomstolen). The Board's interpretation, if it is upheld by the Swedish Supreme Court of Administration (Högsta förvaltningsdomstolen) would mean that a different approach is applied in Sweden to companies reporting in the Euro than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of the Act. The PZU Group believes that such an approach would stand in contradiction with Article 63 of the Treaty on the Functioning of the European Union (TFEU) concerning the necessity to ensure unrestricted movement of capital in the EU, or Articles 49 and 54 of TFEU concerning the freedom of business activity.

In connection with the uncertainty regarding the outcome of the appeal proceedings, as at 31 December 2019, the PZU Group posted a liability of PLN 79 million.

25. Earnings per share

25.1 Accounting policy

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of PZU by the weighted average number of common shares outstanding during the period.

The weighted average number of common shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period, weighted by the ratio reflecting the period (in days) to the total number of shares in the period.

25.2 Quantitative data

Earnings per share	**1 January – 31 December 2019**	**1 January – 31 December 2018**
Net profit attributable to the equity holders of the parent company	3,295	3,213
Weighted average basic and diluted number of common shares	863,285,340	863,347,220
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	237,660	175,780
Basic and diluted earnings (losses) per common share (in PLN)	3.82	3.72

In 2019 and 2018, there were no transactions or events resulting in the dilution of earnings per share.

26. Goodwill

26.1 Accounting policy

Goodwill, whose initial value has been determined in a manner described in section 5.6 is not amortized, but at the end of each financial year and any time there are any indications of impairment, it is tested for impairment. The goodwill impairment test involves assessing the recoverable amount of the individual cash-generating units to which goodwill has been allocated and comparing it with their carrying amount (including the allocated goodwill). If the recoverable amount is lower than the impairment loss applies first to the goodwill allocated to the cash-generating unit. The cash-generating unit, for which the test is performed may not be larger than an operating segment.

(in millions of PLN)

26.2 Quantitative data

Goodwill	31 December 2019	31 December 2018
Pekao [1)]	2,269	2,269
Alior Bank	746	746
Lietuvos Draudimas AB [2)]	471	476
Medical companies	303	115
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	38	39
Other	5	5
Total goodwill	**4,053**	**3,871**

[1)] Includes goodwill on acquisition of PIM.
[2)] Includes goodwill on acquisition of the Lietuvos Draudimas branch in Estonia.

Movement in goodwill	1 January – 31 December 2019	1 January – 31 December 2018
Gross goodwill at the beginning of the period	3,885	3,844
Changes in the period:	183	41
– acquisition of medical companies	188	25
– foreign exchange differences	(5)	16
Gross goodwill at the end of the period	4,068	3,885
Impairment losses at the beginning of the period	(14)	(14)
Changes in the period (foreign exchange differences)	(1)	-
Impairment losses – at the end of the period	(15)	(14)
Net goodwill at the end of the period	**4,053**	**3,871**

26.3 Testing for impairment

Impairment tests for goodwill were performed as at 31 December 2019 for all the CGUs, to which goodwill was allocated. As a result of the tests, no need has been found to recognize impairment losses.

The goodwill impairment test involves a comparison of carrying amounts (including the allocated goodwill) and recoverable amounts of the CGUs to which goodwill has been allocated. An impairment loss for a CGU should be recognized in the profit and loss account if CGU's recoverable amount is less than its carrying amount.

Cash-generating units (CGUs)

Goodwill is allocated to the individual companies (constituting CGUs for the purposes of the impairment test) and is monitored at this level. During the final purchase price allocation, the goodwill arising from the acquisition of Link4 was fully allocated to the mass insurance segment in non-life insurance, which – due to the scale of integration of Link4's business with PZU under the 'two brands' strategy that assumed synergies resulting from the management of the mass client portfolio and sale of additional insurance products – is the smallest CGU to which goodwill can be allocated. Goodwill on the acquisition of PIM was fully allocated to Pekao, since that was the lowest level at which goodwill is monitored at the Group level.

(in millions of PLN)

Carrying amount

For the purposes of the test, the net carrying amount of the mass insurance segment was determined on the basis of allocation of the PZU Group's net assets. The assets were allocated in the proportion corresponding to the ratio of the hypothetical solvency capital requirement, which may be allocated to the mass insurance segment, to the total solvency capital requirement. The Euler method was used to allocate the solvency capital requirement. This method allocates to a segment the risk measures, which are based on Solvency II regulations and take into account diversification effects.

The carrying amount of the remaining entities includes CGU's net assets and goodwill. For the entities, in which non-controlling interests exist, the carrying amount for the purposes of the test is increased by the portion of goodwill allocated to non-controlling interests (it is not presented in the consolidated statement of financial position).

Recoverable amount

The recoverable amount of individual CGUs was determined based on value in use of the entities, using the discounted cash flow method based on the most current financial projections, for a period not exceeding 5 years, which are presented in the table below. The discount rates used for testing of the insurance companies were set at the cost of equity level. In the case of medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was set in accordance with the CAPM model. Also, size premiums were applied in justified cases. Risk-free rates were determined based on the average yield of 10-year government bonds offered by the country where the CGU is domiciled and the betas were based on measures of similar listed entities. Market premiums were 5.5% (5.5% in 2018). For regulated entities (banks and insurance companies, financial institutions), the projected cash flows incorporate the requirement to maintain an adequate level of own funds (economic capital). Cash flows of the mass insurance segment were calculated based on the amount of hypothetical dividends that the segment could have paid if it had operated as a separate insurance company. The amount of dividends depends on the projected technical results of that segment, net of income tax and levy on financial institutions and capital surpluses allocated to that segment as at the balance sheet date and in subsequent periods. The growth ratios after the projection period were determined while taking into account the long term growth prospects for the market on which the entity conducts its business. Growth rates do not exceed the long-term GDP growth forecasts of the country in nominal terms.

Cash generating unit	31 December 2019			31 December 2018		
	Discount rate	Growth rate after the projection period	Timeframe of financial projections	Discount rate	Growth rate after the projection period	Timeframe of financial projections
Pekao	8.7%	3.5%	3 years	9.4%	3.5%	2 years
Alior Bank	8.8%	3.5%	5 years	9.4%	3.5%	2 years
Lietuvos Draudimas AB	5.7%	3.0%	3 years	6.0%	3.7%	4 years
Mass insurance segment	7.4%	2.5%	3 years	8.3%	2.5%	2 years
AAS Balta	6.1%	3.0%	3 years	6.5%	3.8%	4 years
Medical companies	5.8%-6,4%	2.0%-3,0%	3 years	6.7-7.6%	2.0-3.0%	2-5 years

Sensitivity analysis

Estimation of the recoverable amount is a complex process that requires the parent company's Management Board to make professional judgments and apply complicated and subjective assumptions. Relatively small changes in key assumptions may have a significant impact on the results of the recoverable amount measurement. The key assumptions in the process of estimation of the recoverable amount are: growth rates during the residual period, discount rates, expected profitability level, future capital requirements and minimum level of solvency as a condition for the disbursement of dividends by regulated entities.

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

(in millions of PLN)

Cash generating unit	31 December 2019			31 December 2018		
	Surplus (in PLN m)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (in PLN m)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Pekao	1,084	9.6%	2.5%	1,502	10.9%	1.5%
Alior Bank	136	9.0%	2.4%	1,615	12.3%	(0.1%)
Lietuvos Draudimas AB	333	6.5%	0.4%	660	7.2%	0.1%
AAS Balta	502	11.2%	(3.2%)	585	12.0%	(3.3%)
Mass insurance segment	10,103	34.9%	n/a [1)]	8,004	36.2%	n/a [1)]
Medical companies	442	7.2-16.0%	(10.5)-1.4%	102	8.1-32.9%	(6.3%)-3.0%

[1)] The amount of discounted cash flows in the projection period is higher than the carrying amount attributed to the mass insurance segment and therefore no marginal growth rate was presented after the projection period.

The decrease in Alior Bank's surplus is due to the recognition of cash flows from dividends in periods later than expected as at 31 December 2018. The deferral of dividends was caused by a decrease in current and forecasted financial results, which were adjusted due to, without limitation, the CJEU judgment of 11 September 2019, as referred to in section 43.3, as well as credit losses incurred in 2019 in the agribusiness sector. As a result of the losses incurred and in light of the capital needs associated with the development of Alior Bank, the disbursement of the forecasted dividends was deferred, which resulted in a decrease in the current value of cash flows generated by the Alior Bank CGU.

The key assumption made in the context of Alior Bank's goodwill recoverability test is the achievement of objectives set forth in its strategy for 2020-2022. The bank strives to maintain its position as a technology leader on the market. Better fulfillment of client needs, deepened client relations and client satisfaction will translate into growth of business and a higher profitability of the bank.

The strategy calls for reconstruction of the bank's business model:

- the growth strategy will be based on a selection of industries and clients. In order to mitigate the high risk profile, particular emphasis will be put on the growth of products characterized by a good profitability-to-risk ratio, such as leases, mortgage loans and factoring, in the segment of small and medium-sized enterprises and active retail clients. It is assumed that involvement in large exposures and investment projects will be reduced.
- In connection with the CJEU judgment of 11 September 2019, the revenue profile will change. A lower rate of growth of cash loans is assumed. The key assumption remains the maintenance of the existing interest margin and a significant increase in the share of non-interest income that does not tie up capital, such as bancassurance and assurbanking initiatives conducted within the framework of strategic cooperation with PZU.
- The bank will increase the efficiency of its sales processes through digitization and robotization using the best IT practices available on the market. Automation will have a key impact on changes in the integrated risk management process. The purpose of these activities is to use the available capital in the best possible manner and reduce credit risk while maintaining the efficiency of the process. In order to maintain profitability, the optimization will include reconstruction of the branch network and reduction in the number of traditional outlets. In their place, the bank will provide online services.

The extent of intended changes puts the projections on an heightened level of uncertainty. This is why adjustments have been made to the estimates, lowering the rate of revenue growth in periods beyond the term of the strategy and, in respect of bancassurance and assurbanking initiatives, the risk premium was increased.

The progress of work on these plans will be monitored in the coming periods. Unfavorable deviations from the plans may constitute, in the future, grounds for impairment of goodwill.

27. Intangible assets

27.1 Accounting policy

Intangible assets are recognized if they are identifiable, controlled and it is likely that future economic benefits will be achieved, which can be ascribed to a specific assets and the purchase price or production cost of the asset can be measured reliably.

Intangible assets are measured at purchase prices or production costs less amortization charges and impairment losses.

The method used to measure the fair value of an intangible asset acquired in a business combination is presented in section 5.6.

Intangible assets include in particular: computer software, economic copyrights, licenses and concessions, as well as assets acquired in business combinations: trademarks, customer relations (including core deposit intangibles), relations with brokers, future profit from the purchased portfolio of insurance contracts, etc.

Intangible assets are amortized over their estimated economic life:

- assets other than intangible assets acquired in a business combination – using a straight-line method for the period of two to five years. In justified cases, after a case-by-case analysis, a different amortization rate may be used corresponding to the expected useful life of the intangible asset. Since a decision was made that the planned useful life of the Platforma Everest product system in PZU would be 10 years, the annual amortization rate of 10% was adopted for the system.
- intangible assets acquired in a business combination (except for the acquired trademarks) – for the period of one to fifteen years, based on the value of profits generated in the respective years;
- trademarks acquired in a business combination, as intangible assets with a useful period determined as indefinite are not amortized, but at the end of each financial year and any time there are any indications of impairment, they are tested for impairment.

Impairment

At the end of the reporting period, assets are reviewed to determine whether there are any indications of impairment.

Impairment loss on an intangible asset is deemed to have occurred if the expected economic benefits associated with an intangible asset or a property, plant and equipment item decrease as a result of technological changes, decommissioning, withdrawal from use or occurrence of other indications that the usefulness of the asset is reduced.

If such indications are identified, the asset is tested for impairment in order to determine its recoverable amount. The impairment test for future profit from the purchased portfolio of insurance contracts is performed in conjunction with the provision adequacy test, as described in section 41.1.1. Where necessary, an impairment loss is recognized reducing the portfolio value to the recoverable amount. In the situation when an asset does not generate cash flows that would be largely independent from cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of assets generating independent cash flows, to which the asset belongs. The possible impairment losses are recognized as cost in the consolidated profit and loss account under “Other operating expenses”.

If there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased then the recoverable amount of such an asset is estimated. The impairment loss recognized in previous periods is reversed to the recoverable amount that does not exceed its carrying amount that would have been determined (net of amortization) had the impairment loss not previously been recognized. Reversal of an impairment loss is recognized as revenue in the in the consolidated profit and loss account under “Other operating income”.

(in millions of PLN)

27.2 Quantitative data

Movement in intangible assets (by type groups) in the year ended 31 December 2019	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	2,563	611	1,900	365	80	5,519
Changes:	392	-	15	98	5	510
– purchases and in-house production	43	-	-	486	5	534
– change in composition of the Group	-	2	18	1	1	22
– transfers	370	-	-	(377)	(1)	(8)
– sale and liquidation	(22)	-	-	(3)	-	(25)
– foreign exchange differences and other	1	(2)	(3)	(9)	-	(13)
Gross value at the end of the period	**2,955**	**611**	**1,915**	**463**	**85**	**6,029**
Accumulated amortization at the beginning of the period	(1,299)	-	(947)	-	(64)	(2,310)
Changes:	(363)	-	(230)	-	(4)	(597)
– amortization for the period	(383)	-	(233)	-	(8)	(624)
– sale and liquidation	22	-	-	-	-	22
– transfers	-	-	-	-	4	4
– foreign exchange differences and other	(2)	-	3	-	-	1
Accumulated amortization at the end of the period	**(1,662)**	**-**	**(1,177)**	**-**	**(68)**	**(2,907)**
Impairment losses at the beginning of the period	(14)	-	-	(11)	(4)	(29)
Changes charged to other operating expenses	(1)	-	-	(2)	-	(3)
Other changes	-	-	-	2	4	6
Impairment losses – at the end of the period	**(15)**	**-**	**-**	**(11)**	**-**	**(26)**
Net value of intangible assets at the end of the period	**1,278**	**611**	**738**	**452**	**17**	**3,096**

(in millions of PLN)

Movement in intangibles (by type groups) in the year ended 31 December 2018	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	2,312	607	1,891	259	75	5,144
Changes:	251	4	9	106	5	375
– purchases and in-house production	90	-	-	341	2	433
– transfers	201	-	-	(203)	2	-
– sale and liquidation	(69)	-	-	-	(2)	(71)
– foreign exchange differences and other	29	4	9	(32)	3	13
Gross value at the end of the period	**2,563**	**611**	**1,900**	**365**	**80**	**5,519**
Accumulated amortization at the beginning of the period	(1,017)	-	(609)	-	(53)	(1,679)
Changes:	(282)	-	(338)	-	(11)	(631)
– amortization for the period	(348)	-	(331)	-	(9)	(688)
– sale and liquidation	66	-	-	-	1	67
– foreign exchange differences and other	-	-	(7)	-	(3)	(10)
Accumulated amortization at the end of the period	**(1,299)**	**-**	**(947)**	**-**	**(64)**	**(2,310)**
Impairment losses at the beginning of the period	(13)	-	-	(8)	(1)	(22)
Changes charged to other operating expenses	(1)	-	-	(3)	-	(4)
Other changes	-	-	-	-	(3)	(3)
Impairment losses – at the end of the period	**(14)**	**-**	**-**	**(11)**	**(4)**	**(29)**
Net value of intangible assets at the end of the period	**1,250**	**611**	**953**	**354**	**12**	**3,180**

Trademarks, which are intangible assets with an indefinite period of useful life, were subject to an impairment test together with the CGUs to which they belong. The tests have shown no need to recognize impairment losses. Additional information about the tests is presented in section 26.3.

Amortization of intangible assets, by their presentation in consolidated profit and loss account	1 January – 31 December 2019	1 January – 31 December 2018
Claims, benefits and movement in technical provisions	23	22
Acquisition expenses	36	39
Administrative expenses	326	293
Other operating expenses [1)]	239	334
Total amortization	**624**	**688**

[1)] Including the amortization of intangible assets purchased in company acquisition transactions in the amount of PLN 233 million (PLN 331 million in 2018).

(in millions of PLN)

28. Other assets

Other assets	31 December 2019	31 December 2018
Reinsurance settlements	279	105
Estimated salvage and subrogation	182	183
Deferred IT expenses	79	72
Accrued direct claims handling receivables	58	56
Costs settled over time	75	80
Inventories	36	51
Accrued commissions	14	6
Other assets	11	9
Total other assets	**734**	**562**

Other assets	31 December 2019	31 December 2018
Short-term	615	447
Non-current	119	115
Total other assets	**734**	**562**

29. Deferred acquisition expenses

29.1 Accounting policy

Deferred acquisition expenses are tested for impairment since that they are included in the calculation of adequacy of technical provisions.

29.1.1. Non-life insurance

Acquisition expenses in non-life insurance are deferred in line with the principles applicable to the determination of the provision for unearned premiums by amortizing them through the profit and loss account during the indemnity period (recognized under “Acquisition expenses”).

Deferrals apply to acquisition commissions and a portion of indirect acquisition expenses related to the signing and renewals of insurance policies, in particular costs related directly to sales processes, which cannot be classified as direct acquisition expenses, in particular costs of activities related to: agreement origination processes and underwriting processes in sales units (separated by using working time questionnaires), automatic and manual entry of policies into production systems (registration of sales) and contact center operations related to the sales of policies.

29.1.2. Life insurance

In life insurance, for traditional profit-sharing products (life and endowment insurance or birth assurance), acquisition expenses are amortized over time using the Zillmer method.

(in millions of PLN)

29.2 Quantitative data

Deferred acquisition expenses	31 December 2019	31 December 2018
Short-term	1,450	1,440
Non-current	124	106
Total deferred acquisition expenses	**1,574**	**1,546**

Movement in deferred acquisition expenses	1 January – 31 December 2019	1 January – 31 December 2018
Net value at the beginning of the period	1,546	1,485
Non-life insurance	1,445	1,394
Life insurance	101	91
Acquisition expenses pertaining to future periods	1,775	1,690
Amortization for the period recognized in financial result	(1,747)	(1,633)
Foreign exchange differences	-	4
Net value at the end of the period	**1,574**	**1,546**
Non-life insurance	1,459	1,445
Life insurance	115	101

30. Property, plant and equipment

30.1 Accounting policy

Property, plant and equipment components are measured at purchase price or production cost less accumulated depreciation and impairment losses.

All property, plant and equipment components and their important components are depreciated, with the exception of land and property, plant and equipment in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the intended manner.

Annual depreciation rates for material assets are presented below:

Asset category	Rate
Cooperative ownership rights to apartments, cooperative rights to commercial premises	2.5%
Buildings and structures	1.5% – 10%
Machinery and technical equipment	10% – 40%
Means of transport	14% – 33%
IT hardware	14.3% – 40%
Other non-current assets	7% – 20%

Assets held under a finance lease contract are depreciated over their useful life, provided that there is rational certainty that they would be purchased or ownership transferred. Otherwise, they are depreciated for a period no longer than the term of the lease.

The principles for recognizing impairment losses are the same as those applicable to intangible assets that are described in section 27.1.

(in millions of PLN)

30.2 Quantitative data

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2019	Plant and machinery	Means of transport	Property, plant and equipment under constru-ction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	1,109	226	198	2,780	485	4,798
Posting of right-of-use assets as at the time of application of IFRS 16	76	3	-	1,168	3	1,250
Changes:	42	38	59	34	108	281
– purchases and in-house production	107	37	295	21	18	478
– increase in right-of-use assets	-	40	-	168	-	208
– change in composition of the group	4	1	1	33	60	99
– sale and liquidation	(84)	(55)	-	(55)	(18)	(212)
– decrease in right-of-use assets (termination of agreements, sales)	(57)	-	-	(78)	-	(135)
– transfers to categories held for sale under IFRS 5	(25)	(1)	-	(82)	(4)	(112)
– transfers to/from investment property	-	-	-	(3)	-	(3)
– transfers	102	44	(231)	43	42	-
– foreign exchange differences and other	(5)	(28)	(6)	(13)	10	(42)
Gross value at the end of the period	**1,227**	**267**	**257**	**3,982**	**596**	**6,329**
Accumulated amortization at the beginning of the period	(576)	(88)	-	(617)	(233)	(1,514)
Changes:	(101)	-	-	(351)	(27)	(479)
– amortization for the period	(172)	(23)	-	(139)	(45)	(379)
– amortization of right-of-use assets	(19)	(13)	-	(264)	(1)	(297)
– sale and liquidation	66	36	-	21	16	139
– transfers to categories held for sale under IFRS 5	24	1	-	30	3	58
– foreign exchange differences and other	-	(1)	-	1	-	-
Accumulated amortization at the end of the period	**(677)**	**(88)**	**-**	**(968)**	**(260)**	**(1,993)**
Impairment losses at the beginning of the period	(4)	-	-	(85)	(11)	(100)
Changes charged to other operating expenses	(5)	-	-	(5)	(1)	(11)
Other changes	-	-	-	(3)	4	1
Impairment losses – at the end of the period	**(9)**	**-**	**-**	**(93)**	**(8)**	**(110)**
Net value of property, plant and equipment – at the end of the period	**541**	**179**	**257**	**2,921**	**328**	**4,226**
– including net value of right-of-use assets	-	30	-	994	2	1,026

The value of right-of-use assets is presented in section 47.

(in millions of PLN)

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2018	Plant and machinery	Means of transport	Property, plant and equipment under constru-ction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	1,014	204	181	2,766	443	4,608
Changes:	95	22	17	14	42	190
– purchases and in-house production	64	26	237	51	30	408
– change in composition of the group	-	-	-	-	2	2
– sale and liquidation	(64)	(37)	(6)	(79)	(42)	(228)
– transfers from held for sale categories under IFRS 5	-	-	-	31	-	31
– transfers to/from investment property	-	-	-	(24)	-	(24)
– transfers	78	27	(167)	30	32	-
– foreign exchange differences and other	17	6	(47)	5	20	1
Gross value at the end of the period	**1,109**	**226**	**198**	**2,780**	**485**	**4,798**
Accumulated amortization at the beginning of the period	(449)	(77)	-	(471)	(217)	(1,214)
Changes:	(127)	(11)	-	(146)	(16)	(300)
– amortization for the period	(179)	(33)	-	(157)	(46)	(415)
– sale and liquidation	52	22	-	8	30	112
– foreign exchange differences and other	-	-	-	3	-	3
Accumulated amortization at the end of the period	**(576)**	**(88)**	**-**	**(617)**	**(233)**	**(1,514)**
Impairment losses at the beginning of the period	(10)	-	(5)	(80)	(12)	(107)
Movements recognized in:	(1)	-	-	(20)	-	(21)
– other operating expenses	(1)	-	-	(36)	-	(37)
– other operating income	-	-	-	16	-	16
Other changes	7	-	5	15	1	28
Impairment losses – at the end of the period	**(4)**	**-**	**-**	**(85)**	**(11)**	**(100)**
Net value of property, plant and equipment – at the end of the period	**529**	**138**	**198**	**2,078**	**241**	**3,184**

“Transfers to and from investment property” items include amounts corresponding to those explained in section 31.

31. Investment property

31.1 Accounting policy

Investment property is held to earn rental income or obtain benefits from increases in value, or both. Investment property is not used in operating activities.

Investment property is initially recognized at purchase price or production cost, plus transaction costs. After initial recognition it is measured at fair value, in accordance with the rules described in section 9.1.5. Gains and losses resulting from the change of fair value of investment property are recognized in the consolidated profit and loss account under “Net movement in fair value of assets and liabilities measured at fair value” item in the period in which they occurred.

If owner-occupied property becomes investment property, depreciation is charged up to the date of reclassification and impairment losses, if any, are recognized and then:

- if the carrying amount determined as at that date is higher than the fair value, the difference is recognized in the consolidated profit and loss account under “Other operating expenses”.
- if the existing carrying amount is lower than the fair value then the difference is first recognized in the consolidated profit and loss account under “Other operating income” as a reversal of the impairment loss (up to the amount of the impairment loss previously recognized, whereby the amount recognized in the consolidated profit and loss account may

(in millions of PLN)

not exceed the amount of the impairment loss that would have been determined after deducting the accumulated depreciation had no impairment loss been recognized), and the remaining part of the difference – in other comprehensive income under "Reclassification of real property from property, plant and equipment to investment property".

On subsequent disposal of the investment property, revaluation reserve may be transferred to supplementary capital.

31.2 Quantitative data

Movement in investment property	1 January – 31 December 2019	1 January – 31 December 2018
Net carrying amount at the beginning of the period	1,697	2,355
Posting of right-of-use assets as at the time of application of IFRS 16	45	-
Additions	215	154
– purchase	195	139
– transfers from owner-occupied property	3	15
– transfers from held for sale categories under IFRS 5	17	-
Reductions	(30)	(842)
– sale and liquidation	(14)	(2)
– transfers to held for sale categories under IFRS 5	(16)	(831)
– other	-	(9)
Gain (loss) on remeasurement to fair value	54	30
– through profit or loss	46	26
– through other comprehensive income	8	4
Net carrying amount at the end of the period, including	**1,981**	**1,697**
– buildings and structures	1,798	1,571
– own land	135	122
– perpetual usufruct right to land and cooperative ownership right to premises	48	4

The item "Perpetual usufruct of land" contains the right to use land for up to 99 years. This right may be traded.

The item "transfers from owner-occupied property" contains the value of properties at their carrying amounts (historical cost less accumulated depreciation and impairment losses) as at the date of transfer, which is the date of the change of use.

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2019.

32. Entities measured by the equity method

32.1 Accounting policy

Associates are entities on which significant influence is exerted, or the power to participate in the financial and operating policy decisions of the investee but is not control or joint control.

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Associates and joint ventures are measured by the equity method, in which on initial recognition the investment is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associate or joint venture. The share of the PZU Group in the financial result of the associates and joint ventures is recognized in the consolidated profit and loss account under "Share of the net profit of entities measured by the equity method", while share in movement in other comprehensive income under other comprehensive income.

(in millions of PLN)

32.2 Quantitative data

Associates	31 December 2019	31 December 2018
PayPo sp. z o.o.	9	4
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	1	-
EMC Instytut Medyczny SA [1)]	n/a	12
Associates, total	**11**	**17**

[1)] Information on the loss of associate status by EMC Instytut Medyczny SA is presented in section 2.3.4.

Information on interests held in the capital and votes of the respective associates is presented in section 2.2. There are no restrictions (e.g. resulting from any findings regarding borrowings, regulatory requirements or agreements) as to the ability of transferring funds by the associates in the form of cash dividends.

33. Loan receivables from clients

33.1 Accounting policy

Loan receivables from clients are measured at the end of the reporting period as follows:

- at fair value through other comprehensive income – assets that satisfy the SPPI test and classified in a business model whose objective is achieved by both collecting contractual cash flows and selling the asset,
- at fair value through profit or loss – assets that do not pass the SPPI test because of the contractual financial leverage element that increases volatility of cash flows (this applies among others to student loans, loans with subsidies from the Agency for Restructuring and Modernization of Agriculture and some corporate exposures);
- at amortized cost – for other assets that satisfy the SPPI test and are held to obtain contractual cash flows.

Information on the SPPI test is presented in section 35.1.1.

Interest on loan receivables from clients measured at amortized cost or at fair value through other comprehensive income, accrued using the effective interest rate, are recognized in the profit and loss account, in the “Net investment income” item.

The change in the fair value of loan receivables from clients is recognized:

- for those measured at fair value through other comprehensive income – in revaluation reserve;
- for those measured at fair value through profit or loss – in the profit and loss account in the “Net movement in fair value of assets and liabilities measured at fair value” item.

Modification of financial assets

If terms and conditions of a financial asset agreement change, the modified and original cash flows are compared. If the identified difference is material then the original financial asset is removed from the balance sheet, while the modified financial asset is recognized in the ledgers at fair value.

Otherwise, the modification does not result in removing the financial asset from the balance sheet; just the new gross carrying amount is calculated and the result from the modification is recognized in the consolidated profit and loss account.

The assessment whether the modification of financial assets is material or immaterial is conditional upon satisfaction of certain qualitative and quantitative criteria.

The following criteria are used to assess the materiality of modifications:

- qualitative – change of currency (unless it results from existing contractual provisions or requirements of the applicable legal regulations), change (replacement) of debtor (except for addition/resignation of a joint debtor or inheritance of a loan), consolidation of several exposures into a single one under an annex or an arrangement/ restructuring agreement, change of terms of contract causing a change in the outcome of the SPPI test;

(in millions of PLN)

- quantitative – among others % thresholds of margin change, increase of the financing amount and changes in the residual financing period.

Occurrence of at least one of these criteria results in a material modification.

33.2 Quantitative data

Loan receivables from clients	31 December 2019	31 December 2018
Measured at amortized cost	193,244	180,240
Measured at fair value through other comprehensive income	1,381	1,511
Measured at fair value through profit or loss	243	303
Total loan receivables from clients	**194,868**	**182,054**

Loan receivables from clients	31 December 2019	31 December 2018
Retail segment	**105,912**	**97,567**
Operating loans	234	251
Consumer finance	29,416	27,380
Consumer finance loans	2,778	2,563
Loan to purchase securities	65	69
Overdrafts in credit card accounts	1,087	1,124
Loans for residential real estate	71,301	65,092
Other mortgage loans	807	830
Other receivables	224	258
Business segment	**88,956**	**84,487**
Operating loans	32,760	34,371
Car financing loans	11	35
Investment loans	26,820	26,166
Receivables purchased (factoring)	6,524	5,262
Overdrafts in credit card accounts	71	131
Loans for residential real estate	190	128
Other mortgage loans	9,278	8,560
Finance leases	10,985	8,642
Other receivables	2,317	1,192
Total loan receivables from clients	**194,868**	**182,054**

34. Financial derivatives

34.1 Accounting policy

Derivatives include financial instruments held for trading as well as financial instruments constituting a hedge of fair value or cash flows.

Derivative financial instruments held for trading are recognized at fair value on the transaction date and subsequently measured at fair value in accordance with the rules described in section 9.1.3.

Derivatives are recognized as financial assets if their fair value is positive or as financial liabilities if it is negative.

Changes of fair value of derivatives that are not hedges are recognized under “Net movement in fair value of assets and liabilities measured at fair value”.

As at 31 December 2019, PZU Group companies were not parties to agreements including embedded derivatives whose character and related risks were not closely linked to the base agreement.

The PZU Group took advantage of the option available in IFRS 9 and continues to apply hedge accounting in accordance with IAS 39.

Hedge accounting recognizes is used to recognize the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. Hedge accounting is applied if the following conditions are fulfilled:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows, consistently with the originally documented risk management strategy for that particular hedging relationship;
- in the case of cash flows it is highly probable that a hedged transaction occurs that is exposed to changes in cash flows affecting the profit and loss account;
- the effectiveness of the hedge can be reliably measured, i.e. the cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

34.2 Types of hedging strategies

34.2.1. Fair value hedges

Changes in the fair value measurement of financial instruments designated as hedged items are recognized, in the part related to the hedged risk, in the profit and loss account. The remaining part of changes in the carrying amount are recognized in accordance with the general rules applicable to a given class of financial instruments.

Changes in the fair value measurement of derivatives designated as hedges in hedge accounting are recognized in full in profit or loss, in the same line item where the effect of changes in the measurement of the hedged item are recognized.

The PZU Group ceases to apply hedge accounting if the hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the hedging strategy), if the hedge no longer meets the hedge accounting criteria or the hedging designation is revoked.

Adjustment for hedged risk on the hedged interest item is amortized to profit and loss no later than at the moment when hedge accounting is discontinued.

The main identified potential sources of inefficiencies in fair value hedges include:

- impact of counterparty credit risk and own credit risk on the fair value of hedging transactions which is not reflected in the fair value of the hedged item,
- differences between the maturities of IRS transactions and the maturities of debt securities,
- differences in the level of interest coupons generated by the hedged item and hedging instruments.

Fair value hedge of fixed-coupon debt securities denominated in PLN, EUR and USD

Pekao hedges some of its interest rate risk associated with a change in the fair value of the hedged item caused by volatility of market interest rates through IRS transactions. This is the way to hedge the interest rate risk component arising from changes in the fair value of the hedged item caused only by volatility of market interest rates (WIBOR, EURIBOR, LIBOR USD). The hedged risk component was responsible in the past for a significant part of the changes in the fair value of the hedged item.

(in millions of PLN)

The table presents nominal values and interest rate of hedging instruments

	Currency	31 December 2019 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	31 December 2018 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	280	200	480	-	-	280	200	480
Average interest rate of the fixed-rate part	PLN	-	-	1.8	1.8	1.8	-	-	1.8	1.8	1.8
Par value	EUR	-	471	605	628	1,704	262	-	884	836	1,982
Average interest rate of the fixed-rate part	EUR	-	1.2	0.4	(0.1)	0.4	0.2	-	0.9	0.1	0.5
Par value	USD	-	-	637	114	751	-	128	244	499	871
Average interest rate of the fixed-rate part	USD	-	-	3.7	2.0	3.5	-	6.9	4.9	3.7	4.5
Total		**-**	**471**	**1,522**	**942**	**2,935**	**262**	**128**	**1,408**	**1,535**	**3,333**

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019 Hedges of securities measured at amortized cost	31 December 2019 Hedges of securities measured at fair value	31 December 2019 Total	31 December 2018 Hedges of securities measured at amortized cost	31 December 2018 Hedges of securities measured at fair value	31 December 2018 Total
Hedging instruments						
Par value	200	2,735	2,935	200	3,133	3,333
Carrying amount – assets	-	1	1	-	21	21
Carrying amount – liabilities	15	146	161	10	134	144
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(6)	(37)	(43)	(8)	49	41
Hedge inefficiency amount recognized in the profit and loss account	-	(1)	(1)	-	3	3
Hedged items						
Carrying amount – assets	214	2,973	3,187	208	3,336	3,544
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet – assets	14	175	189	9	125	134
Change in value of the hedged item used as the basis for estimating hedge inefficiency	5	36	41	8	(46)	(38)
Accumulated adjustment to fair value of a hedged item remaining in the balance sheet, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-	-	-	-	-

Fair value hedge of fixed-coupon debt securities

Alior Bank hedges the risk of changes in the fair value through other comprehensive income of purchased fixed-rate debt securities measured at fair value through other comprehensive income on account of changes in the interest rate swap curve. As part of this strategy Alior Bank establishes hedging relationships in which the fixed-coupon debt securities denominated in the given currency are the hedged instrument and interest rate swaps (IRS) in the same currency are the hedging instrument. Under this strategy Alior Bank hedges the risk following from changes in the interest rate swap curve (risk of volatility of market swap interest rates) excluding other effects changing the valuation (including asset swap spread).

(in millions of PLN)

The table presents nominal values and interest rate of hedging instruments

	Curr-ency	31 December 2019 Maturity					31 December 2018 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR	-	-	-	13	13	-	-	-	-	-
Average interest rate of the fixed-rate part		-	-	-	0.7	0.7	-	-	-	-	-
Total		**-**	**-**	**-**	**13**	**13**	**-**	**-**	**-**	**-**	**-**

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	13	-
Carrying amount – assets	-	-
Carrying amount – liabilities	-	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Hedged items		
Carrying amount – assets	14	-
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet – assets	-	-
Change in value of the hedged item used as the basis for estimating hedge inefficiency	-	-
Accumulated adjustment to fair value of a hedged item remaining in the balance sheet, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-

34.2.2. Cash flow hedges

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction and could affect profit or loss.

The result of measurement of the effective part of cash flow hedges is recognized in other comprehensive income. The ineffective part of the hedge is recognized in profit or loss.

Where the interest rate risk and currency risk are hedged in’s credit and deposit portfolios, the approach to managing these portfolios allows new transactions to be added to the hedge relationship or transactions to be removed following repayment or transfer to non-performing items. As a result, the exposure of these portfolios to interest rate risk and currency risk changes constantly. Since the age structure of the portfolios changes frequently, the hedged items are designated dynamically and the hedging items are allowed to adjust to these changes.

In cash flow hedge relationships, the main identified potential sources of inefficiencies include:

- the impact of counterparty credit risk and own credit risk on the fair value of hedging instruments, i.e. interest rate swaps (IRSs), basis swaps and FX swaps, which is not reflected in the fair value of the hedged item,
- differences between the frequencies of restatement of hedging instruments and hedged loans and deposits.

(in millions of PLN)

34.2.2.1. Hedging of the portfolio of loan receivables from clients and variable-interest securities denominated in PLN

Pekao hedges its interest rate risks associated with the volatility of market reference rates (WIBOR) generated by the portfolio of loan receivables from clients and variable-interest securities denominated in PLN, by using interest rate swaps (IRS).

31 December 2018	Curr-ency	31 December 2019 Maturity					31 December 2018 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	600	1,400	7,000	3,200	12,200	1,400	200	2,800	4,200	8,600
Average interest rate of the fixed-rate part		3.9	3.6	2.3	2.0	2.4	3.7	3.5	3.4	2.6	3.0

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	12,200	8,600
Carrying amount – assets	290	262
Carrying amount – liabilities	8	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	50	(102)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	(1)	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(50)	102
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	201	150
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

34.2.2.2. Hedging of the deposit portfolio in the Polish zloty and in the Euro

Pekao hedges its interest rate risk associated with the volatility of market reference rates (WIBOR, EURIBOR) generated by the portfolios of deposits denominated in the Polish zloty and the Euro, which are economically equivalent to a long-term liability with variable interest rate, by using interest rate swaps (IRS).

	Curr-ency	31 December 2019 Maturity					31 December 2018 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	47	215	289	551	-	-	242	207	449
Average interest rate of the fixed-rate part		-	1.8	1.8	1.9	1.9	-	-	1.8	1.8	1.8
Par value	EUR	-	29	624	-	653	-	-	659	-	659
Average interest rate of the fixed-rate part		-	(0.4)	(0.4)	-	(0.4)	-	-	(0.3)	-	(0.3)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	1,204	1,108
Carrying amount – assets	3	-
Carrying amount – liabilities	29	16
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(11)	(11)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	11	11
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(22)	(12)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

34.2.2.3. Hedging for a variable interest rate loan portfolio in Swiss francs and a deposit portfolio in Polish zloty

Pekao hedges its exposure to interest rate risk associated with the volatility of market reference rates (WIBOR, LIBOR CHF) and its exposure to currency risk generated by portfolios of variable interest rate loans denominated in Swiss francs and deposits in Polish zloty, which are economically equivalent to long-term variable interest rate liabilities, by using cross currency basis swaps. CIRS transactions are decomposed into a component hedging the asset portfolio and a component hedging the liability portfolio.

(in millions of PLN)

	Currency	31 December 2019 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	31 December 2018 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	CHF/ PLN	-	274	863	1,541	2,678	-	3,759	916	1,691	6,366

Impact of the hedge relationship on the statement of financial position and the financial result	**31 December 2019**	**31 December 2018**
Hedging instruments		
Par value	2,678	6,366
Carrying amount – assets	-	-
Carrying amount – liabilities	391	745
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	32	9
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(49)	(13)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(54)	(86)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

34.2.2.4. Hedging of a portfolio of variable interest rate loans in EUR and term and negotiated deposits in USD

Pekao hedges its exposure to interest rate risk associated with the volatility of market reference rates (EURIBOR, LIBO USD) and its exposure to currency risk generated by portfolios of variable interest rate loans denominated in the Euro and term and negotiated deposits in the American dollar, which are economically equivalent to long-term variable interest rate liabilities, by using FX swaps.

As of 1 January 2019, the PZU Group established a new relationships, analogous to the existing one, which hedges only the foreign exchange risk. The new relationship covers all FX Swap transactions designated for hedge accounting after 31 March 2019. The existing relationship should expire by February 2020. The new relationship differs from the existing one in terms of its assessment of the inefficiencies due to a different structure of the hypothetical derivative. Due to the similarity of the hedged items and type of the hedging transactions and insignificance of the differences in the inefficiency amounts, the two relationships were presented jointly.

(in millions of PLN)

	Currency	31 December 2019 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	31 December 2018 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/PLN	1,996	1,300	-	-	3,296	1,634	688	-	-	2,322
Average rate		4.4	4.4	-	-	4.4	4.3	4.4	-	-	4.4
Par value	EUR/USD	1,022	681	-	-	1,703	804	-	-	-	804
Average rate		1.1	1.2	-	-	1.1	1.2	-	-	-	1.2
Par value	USD/PLN	95	569	-	-	664	-	-	-	-	-
Average rate		3.9	3.9	-	-	3.9	-	-	-	-	-

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	5,663	3,126
Carrying amount – assets	83	31
Carrying amount – liabilities	25	1
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	2	-
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(2)	-
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	2	-
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

34.2.2.5. Hedging of a portfolio of variable interest rate loans and subordinated bonds

Alior Bank hedges its interest rate risk associated with the volatility of market reference rates (WIBOR) generated by the portfolio of loans and subordinated bonds denominated in the Polish zloty, by using interest rate swaps (IRS).

		31 December 2019 Maturity					31 December 2018 Maturity				
	Curr-ency	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	168	2,244	7,272	222	9,906	1,750	275	5,719	225	7,969
Average interest rate of the fixed-rate part	PLN	1.8	2.0	2.0	1.8	2.0	1.80	2.74	2.13	2.84	2.10
Par value	EUR	-	-	43	-	43	-	-	-	-	-
Average interest rate of the fixed-rate part	EUR	-	-	(0.1)	-	(0.1)	-	-	-	-	-

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	9,949	7,969
Carrying amount – assets	135	112
Carrying amount – liabilities	41	9
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	61	28
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	40	27
Hedge inefficiency amount recognized in the profit and loss account	1	1
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	(25)	15
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(57)	(50)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	15	31
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

34.2.2.6. Hedging of a portfolio of fixed-rate bonds denominated in EUR, USD or GBP

PZU hedges foreign currency cash flows generated by the portfolios of fixed-rate bonds denominated in EUR, USD or GBP using cross-currency interest rate swaps (CIRS). This way it hedges the foreign exchange risk component associated with the volatility of exchange rates.

	Curr-ency	31 December 2019 Maturity					31 December 2018 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/ PLN	-	-	288	966	1,254	-	-	-	-	-
Average rate		-	-	1.3	2.1	1.9	-	-	-	-	-
Par value	USD / PLN	-	-	65	380	445	-	-	-	-	-
Average rate		-	-	4.8	4.7	4.7	-	-	-	-	-
Par value	GBP / PLN	-	-	15	594	609	-	-	-	-	-
Average rate		-	-	3.1	4.4	4.4	-	-	-	-	-

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2019	31 December 2018
Hedging instruments		
Par value	2,308	-
Carrying amount – assets	31	-
Carrying amount – liabilities	10	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	21	-
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	13	-
Hedge inefficiency amount recognized in the profit and loss account	(10)	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	18	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(31)	-
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	13	-
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

34.3 Quantitative data

Derivatives as at 31 December 2019	Base amount by maturities: Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Assets	Liabilities
Related to interest rates	**27,485**	**76,367**	**125,874**	**40,309**	**270,035**	**2,402**	**2,483**
Fair value hedging instruments – SWAP transactions	-	471	1,522	955	2,948	1	161
Cash flow hedging instruments – SWAP transactions	768	3,994	16,385	7,192	28,339	459	479
Instruments carried as held for trading, including:	26,717	71,902	107,967	32,162	238,748	1,942	1,843
– FRA transactions	628	-	-	-	628	-	-
– SWAP transactions	25,610	68,418	105,006	31,868	230,902	1,933	1,841
– call options (purchase)	252	241	2,406	267	3,166	2	1
– put options (sale)	-	1,976	189	27	2,192	7	1
– cap floor options	227	1,267	366	-	1,860	-	-
Related to exchange rates	**40,008**	**21,368**	**9,341**	**42**	**70,759**	**540**	**420**
Cash flow hedging instruments – SWAP transactions	3,113	2,550	-	-	5,663	83	25
Instruments carried as held for trading, including:	36,895	18,818	9,341	42	65,096	457	395
– forward contracts	8,631	7,243	4,570	-	20,444	170	169
– SWAP transactions	23,067	4,445	1,393	42	28,947	192	133
– call options (purchase)	2,568	3,565	1,683	-	7,816	49	19
– put options (sale)	2,629	3,565	1,695	-	7,889	46	74
Related to prices of securities	**439**	**2,859**	**2,376**	**-**	**5,674**	**119**	**72**
– forward contracts	26	-	1	-	27	-	-
– call options (purchase)	227	1,469	1,383	-	3,079	118	4
– put options (sale)	186	1,390	992	-	2,568	1	68
Related to commodity prices	**1,064**	**1,408**	**693**	**-**	**3,165**	**46**	**43**
– forward contracts	151	73	-	-	224	7	5
– SWAP transactions	377	864	440	-	1,681	14	14
– call options (purchase)	324	471	253	-	1,048	21	4
– put options (sale)	212	-	-	-	212	4	20
Total	**68,996**	**102,002**	**138,284**	**40,351**	**349,633**	**3,107**	**3,018**

(in millions of PLN)

Derivatives as at 31 December 2018	Base amount by maturities: Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Assets	Liabilities
Related to interest rates	**21,889**	**70,485**	**111,548**	**32,426**	**236,348**	**1,971**	**2,933**
Fair value hedging instruments – SWAP transactions	262	128	1,408	1,535	3,333	21	144
Cash flow hedging instruments – SWAP transactions	3,150	4,234	10,336	6,323	24,043	374	770
Instruments carried as held for trading, including:	18,477	66,123	99,804	24,568	208,972	1,576	2,019
– FRA transactions	7,609	7,100	300	-	15,009	2	2
– SWAP transactions	10,208	56,405	94,891	24,486	185,990	1,564	2,012
– call options (purchase)	330	1,719	2,883	54	4,986	6	2
– put options (sale)	330	899	1,730	28	2,987	4	3
Related to exchange rates	**40,041**	**17,290**	**4,803**	**43**	**62,177**	**302**	**250**
Fair value hedging instruments – SWAP transactions	2,438	688	-	-	3,126	31	1
Instruments carried as held for trading, including:	37,603	16,602	4,803	43	59,051	271	249
– forward contracts	10,259	9,537	1,661	-	21,457	92	131
– SWAP transactions	24,792	2,351	952	43	28,138	115	54
– call options (purchase)	1,201	2,230	1,107	-	4,538	46	22
– put options (sale)	1,351	2,484	1,083	-	4,918	18	42
Related to prices of securities	**2,108**	**1,186**	**2,149**	**-**	**5,443**	**78**	**49**
– forward contracts	326	211	243	-	780	10	13
– call options (purchase)	353	590	1,906	-	2,849	66	2
– put options (sale)	1,429	385	-	-	1,814	2	34
Related to commodity prices	**1,752**	**2,295**	**620**	**-**	**4,667**	**136**	**133**
– forward contracts	895	18	-	-	913	35	34
– SWAP transactions	529	372	72	-	973	46	45
– call options (purchase)	205	1,084	324	-	1,613	21	5
– put options (sale)	123	821	224	-	1,168	34	49
Total	**65,790**	**91,256**	**119,120**	**32,469**	**308,635**	**2,487**	**3,365**

35. Investment financial assets

35.1 Accounting policy

35.1.1. Recognition and classification

Financial assets are recognized in the statement of financial position at the moment when a PZU Group company becomes a party to a binding contract, under which it assumes risk and becomes a beneficiary of the benefits associated with the financial instrument. In the case of transactions concluded on an organized market, the purchase or sale of financial assets are recognized in the books on the date of the transaction.

The instrument is classified at the time of recognition of the instrument for the first time. The classification may only be changed in rare cases when the business model changes. The classification of financial assets depends on:

- the entity's business model for managing financial assets and
- the contractual cash flow characteristics of the financial asset.

According to IFRS 9 financial assets are classified for valuation at:

- amortized cost;

- fair value through profit or loss;
- fair value through other comprehensive income.

Business models

Financial assets are managed in accordance with business models applied to enable the provision of information for management purposes. When analyzing business models, the PZU Group takes the following into account:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

Description of business models	Assets held in order to collect contractual cash flows	Assets held in order to collect contractual cash flows and cash flows from selling assets	Other financial assets
Risks under management	Long-term interest rate risk, credit risk	Long-term interest rate risk, credit risk, long-term liquidity	Short-term interest rate risk, currency risk, risk of changing prices of equities, indices, commodities and short-term liquidity management.
Terms and conditions of the sale of assets in the model	• transactions are rare • the value of assets sold compared to the total value of assets in the model is insignificant • the maturity of assets sold is close, while revenues are approximating the values of contractual cash flows remaining to be received if the assets was kept in the portfolio till initial maturity • deterioration of credit quality	The permitted level of sales is higher than in the model of assets held to collect contractual cash flows, but much lower than for assets held for trading.	No restrictions on sales

Financial assets held for trading and those that are held in a model managed at fair value have been classified as measured at fair value through profit or loss.

SPPI test

A special test is performed to evaluate whether contractual cash flows consist of *solely payments of principal and interest* (so called the SPPI test). The principal amount is defined as the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The SPPI test examines whether a financial asset contains contractual terms that could change the timing or amounts of contractual cash flows so that the condition of obtaining solely payments of principal and interest would not be met. In making its evaluation, the PZU Group takes the following into account:

- conditional events that could change the amounts and timing of cash flows;
- factors modifying the interest rate;
- terms of prepayment and extension;
- terms limiting the right to obtain cash flows;
- factors that modify the time value of money, including periodic resets of the interest rate.

The SPPI test is carried out for financial assets classified into a business model whose objective is achieved by collecting contractual cash flows or a business model whose objective is achieved by both collecting contractual cash flows and selling.

The SPPI test is carried out:

- collectively – for homogeneous groups of standard products;
- on the single contract level – for non-standard products;
- on the ISIN code level – for debt securities.

If a financial asset contains terms causing modification of the value of money over time, the so-called verification benchmark test is carried out to determine the difference between undiscounted cash flows following from the contract and the undiscounted cash flows which would occur if the value of money over time was not modified (cash flow benchmark level). If the difference is material then the instrument does not pass the SPPI test and is measured at fair value through profit or loss.

35.1.2. Measurement principles

Financial assets measured at amortized cost

A financial asset is classified as financial asset measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows,
- it passes the SPPI test – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost include, among others:

- payment made for debt securities purchased under a contract which shows that the seller has retained substantially all risks and benefits associated with such securities (buy-sell-back and reverse repo transactions);
- debt securities;
- term deposits with credit institutions;
- loans granted.

Upon first recognition, financial assets measured at amortized cost are recognized at fair value plus transaction costs which can be allocated directly to the purchase of issue of such assets.

The results of the measurement at amortized cost are recognized in the profit and loss account in the “Net investment income” item.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- it passes the SPPI test – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest on debt instruments accrued using the effective interest rate are recognized in the profit and loss account in the “Net investment income” item.

Fair value measurement principles are described in section 9.1. The effects of changes in the fair value are recognized in other comprehensive income until exclusion of the asset from the statement of financial position, when the cumulative effects of the measurement are moved to the profit and loss account, to the “Net result on realization of financial instruments and investments” item.

The allowances for expected credit losses is recognized in other comprehensive income and on the other side in the profit and loss account in the “Movement in allowances for expected credit losses and impairment losses on financial instruments” item. The value of the recognized allowance does not reduce the carrying amount of the asset.

This category of financial assets also includes equity instruments, for which an irrevocable designation has been made to be measured at fair value, with subsequent changes in fair value recognized in other comprehensive income. The decision on such classification is made individually for each instrument. If such assets are sold, the result on sales is transferred to supplementary capital.

Financial assets at fair value through profit or loss

This category includes other financial instruments that do not meet the conditions for being classified as financial assets measured at amortized cost or fair value through other comprehensive income. This pertains in particular to:

- financial assets designated for measurement at fair value through profit or loss;
- participation units that are not equity instruments and to which the SPPI condition does not apply, which solely payment of principal and interest;
- financial assets that have not passed the SPPI test – for which contractual terms result in cash flows not being solely payments of principal and interest;
- financial assets held within a business model other than the one whose objective is to hold financial assets in order to collect contractual cash flows or both to collect contractual cash flows and to sell financial assets;
- equity instruments that were not irrevocably designated as at fair value through other comprehensive income;

Fair value measurement principles are described in section 9.1. The effects of change of the measurement of financial instruments carried at fair value, including the interest income related to them and changes in the value of liabilities on account of investment contracts for the client's account and risk are recognized in the "Net movement in fair value of assets and liabilities measured at fair value" item in the period to which they pertain.

35.1.3. Exclusion from the statement of financial position

Financial assets are excluded from the consolidated statement of financial position when the contractual rights to the cash flows from the asset expire or are transferred to another entity. The transfer also takes place when the contractual rights to the cash flows from the asset are retained but the contractual obligation to transfer such cash flow to an entity outside the PZU Group is assumed.

When transferring financial assets, the entity assesses to that extent the risk and benefits associated with the holding of the asset is retained:

- if substantially all the risks and rewards incidental to ownership of the asset are transferred, the financial asset is excluded from the consolidated statement of financial position;
- if substantially all the risks and rewards incidental to ownership of the financial asset are retained, the financial asset continues to be recognized in the consolidated statement of financial position;
- if substantially all the risks and rewards incidental to ownership of the financial asset are not transferred and not retained, it is determined whether control over the financial asset is retained.

If control is retained the financial asset is recognized in the consolidated statement of financial position up to the value following from the permanent exposure and if there is no control the asset is excluded from the consolidated statement of financial position.

(in millions of PLN)

35.2 Quantitative data

Investment financial assets	31 December 2019				31 December 2018			
	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	518	845	1,363	n/a	522	1,220	1,742
Participation units and investment certificates	n/a	n/a	4,820	4,820	n/a	n/a	4,298	4,298
Debt securities	35,930	54,693	4,602	95,225	34,652	38,215	12,176	85,043
Government securities	29,187	37,476	4,393	71,056	27,501	26,167	11,986	65,654
Domestic	28,985	35,373	4,255	68,613	27,349	23,419	10,793	61,561
Fixed rate	25,785	22,820	3,054	51,659	24,074	10,745	8,893	43,712
Floating rate	3,200	12,553	1,201	16,954	3,275	12,674	1,900	17,849
Foreign	202	2,103	138	2,443	152	2,748	1,193	4,093
Fixed rate	202	2,103	138	2,443	152	2,748	1,193	4,093
Other	6,743	17,217	209	24,169	7,151	12,048	190	19,389
Fixed rate	892	9,032	40	9,964	1,323	4,501	39	5,863
Floating rate	5,851	8,185	169	14,205	5,828	7,547	151	13,526
Other, including:	10,008	-	-	10,008	10,582	-	-	10,582
Buy-sell-back transactions	4,064	-	-	4,064	3,278	-	-	3,278
Term deposits with credit institutions	1,454	-	-	1,454	2,769	-	-	2,769
Loans	4,490	-	-	4,490	4,535	-	-	4,535
Investment financial assets, total	**45,938**	**55,211**	**10,267**	**111,416**	**45,234**	**38,737**	**17,694**	**101,665**

Equity instruments measured at fair value through other comprehensive income	31 December 2019		31 December 2018	
	Fair value	Dividends recognized in the period	Fair value	Dividends recognized in the period
Grupa Azoty SA	232	-	257	10
Biuro Informacji Kredytowej SA	177	20	173	19
PSP sp. z o.o.	50	-	22	-
Polimex-Mostostal SA	29	-	38	-
Krajowa Izba Rozliczeniowa SA	14	1	13	1
Other	16	1	19	-
Equity instruments measured at fair value through other comprehensive income, total	**518**	**22**	**522**	**30**

(in millions of PLN)

36. Receivables

Receivables – carrying amount	31 December 2019	31 December 2018
Receivables on direct insurance, including:	2,727	2,574
– receivables from policyholders	2,591	2,438
– receivables from insurance intermediaries	112	112
– other receivables	24	24
Reinsurance receivables	58	115
Other receivables	2,952	3,654
– receivables from disposal of securities and security deposits [1)]	1,065	1,632
– receivables on account of payment card settlements	937	992
– trade receivables	249	340
– receivables from the state budget, other than corporate income tax receivables	169	237
– receivables by virtue of commissions concerning off-balance sheet products	153	178
– prevention settlements	47	46
– receivables from direct claims handling on behalf of other insurance undertakings	26	27
– receivables for acting as an emergency adjuster	13	14
– receivables on account of Corporate Income Tax	28	6
– receivables from security and bid deposits	39	34
– interbank and interbranch receivables	35	7
– other	191	141
Total receivables	**5,737**	**6,343**

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

As at 31 December 2019 and 31 December 2018, 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.

Receivables – according to maturity stipulated in the terms and conditions of the agreement	31 December 2019	31 December 2018
Up to 1 year [1)]	5,531	6,163
1 to 5 years	205	162
Over 5 years	1	18
Receivables – according to maturity stipulated in the terms and conditions of the agreement, total	**5,737**	**6,343**

[1)] Including past due receivables.

37. Impairment of financial assets

37.1 Accounting policies and material estimates

The assessment of existence of objective evidence of impairment of a financial asset or group of financial assets is carried out at the end of each reporting period.

If there is objective evidence of impairment arising from events occurring after the initial recognition of financial assets and causing a decrease in expected future cash flows then appropriate impairment losses are recognized against costs of the current period.

Objective evidence of impairment includes information on:

- significant financial difficulties of the issuer or debtor;
- failure to comply with the terms of the contract, e.g. failure to repay or default in repayment of interest or principal;
- the lender granting the borrower forbearance (for economic or legal reasons, resulting from the borrower's financial difficulties) which the lender would otherwise not grant;
- high likelihood of liquidation, bankruptcy or other financial reorganization of the borrower;

- lack of an active market for a given financial asset caused by the issuer's financial difficulties;
- observed data pointing to a measurable decrease of estimated future cash flows associated with a group of financial assets from the time of their first recognition, although it is not yet possible to determine the decrease for a single asset from the group of financial assets, including:
  - negative changes pertaining to the status of the borrowers' payments in the group (e.g. increased number of delayed payments) or
  - adverse changes in the economic condition in a specific industry, region, etc. contributing to the deterioration of the debtors' capacity for repayment;
- adverse changes in the technology, market, economic, legal or other environment in which the issuer of an equity instrument operates indicating that costs of investment in that equity instrument may not be recovered.

In the case of assets which are not measured at fair value through profit or loss, the PZU Group recognizes the expected credit loss – ECL. This applies to:

- loan receivables from clients;
- loans;
- debt securities;
- buy-sell-back transactions;
- lease receivables;
- term deposits with credit institutions;
- lending commitments and issued financial guarantees.

For debt assets measured at amortized cost and at fair value through other comprehensive income, impairment is measured as:

- Lifetime ECL – the expected credit losses that result from all possible default events over the expected life of a financial instrument;
- 12-month ECL – the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The PZU Group measures allowances for expected credit losses at an amount equal to lifetime ECL, except for the following instruments, for which 12-month ECL is recognized instead:

- financial instruments for which credit risk has not increased significantly since initial recognition,
- debt securities featuring low credit risk at the reporting date. Low credit risk debt securities are those securities that have been assigned an external investment-grade rating and
- exposures to banks and the NBP.

The charge is calculated in three categories:

- basket 1 – portfolio with low credit risk – 12-month ECL is recognized;
- basket 2 – portfolio in which a significant increase of credit risk occurs – lifetime ECL is recognized;
- basket 3 – portfolio of impaired loans – lifetime ECL is recognized.

The method of calculation of the allowance for expected credit losses also impacts the method of recognizing interest income – for baskets 1 and 2 interest income is determined on the basis of gross exposures, and in basket 3 on the net exposure basis.

The PZU Group recognizes the cumulative changes in lifetime ECL since initial recognition as a loss allowance for ECL from purchased or originated credit-impaired financial assets (POCI).

Changes in the value of allowances for expected credit losses is recognized in the consolidated profit and loss account in the "Movement in allowances for expected credit losses and impairment losses on financial instruments" item.

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

In connection with the CJEU ruling of 3 October 2019, the PZU Group has identified legal risk pertaining to FX mortgage loans in Swiss francs.

For exposures outstanding as at 31 December 2019 the PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and the provision amount is an element of the credit loss, i.e. the difference between the expected cash flows from the given exposure and the contractual cash flows.

Consequently, the PZU Group recognizes the amount of the provision pertaining to credit exposures outstanding as at 31 December 2019 (comprising existing and possible future statements of claim) in the impairment losses for loan receivables from clients and, accordingly, in the “movement in allowances for expected credit losses and impairment losses”.

Additional information on estimation of the provisions associated with the legal risk pertaining to FX mortgage loans in Swill francs is presented in section 43.3.

37.1.1. Calculation of PD and LGD parameters

PZU Group uses the following parameters to estimate allowances for expected credit losses:

- Probability of Default (PD) – probability of default of a counterparty over a specified time horizon;
- Loss Given Default (LGD) – loss given default, expressed as a percentage of the total exposure in case of a counterparty insolvency.

For issuers and exposures that are externally rated, PDs is assigned on the basis of the average market default rate for the rating classes concerned. First, the internal rating of an entity/issue is determined in accordance with the internal rating methodology. The tables published by external rating agencies are used to estimate average PD.

The Moody’s RiskCalc model is used for issuers of corporate bonds and corporate loans, for which no external rating is available. The EDF parameter (expected default frequency) is used to estimate PD. When estimating lifetime PD for exposures with maturity above 5 years (in the RiskCalc model, the forward EDF curve refers to a 5-year period), it is assumed that in subsequent years PD is constant and corresponds to the value determined by the model for the 5th year.

For loan receivables from clients PD is estimated based on internal models depending on the segment group, individual credit quality of the customer, and the exposure lifecycle phase.

For issuers of corporate bonds and corporate loans, 12-month LGD is determined based on the Moody’s RiskCalc model (LGD module). When estimating lifetime LGD for exposures with a maturity above 5 years, it is assumed that in subsequent years LGD is constant and corresponds to the value determined by the module for the 5th year.

If a credit rating agency has allocated a separate recovery rate to the instrument concerned then this parameter is used. For a given RR (*recovery rate*) parameter, the formula: LGD = 1-RR is applied.

Where the RiskCalc model cannot be used to estimate LGD levels and where the instrument does not have an LGD awarded by an external rating agency, then the average RR should be used, based on market data (properly differentiating the corporate and sovereign debt classes) supplied by external rating agencies using the following formula: LGD = 1-RR. When lifetime LGD must be estimated, the value of this parameter is assumed to be constant. The degree of subordination of debt is taken into account when selecting data for LGD.

37.1.2. Change in credit risk since initial recognition

At each reporting date, the PZU Group shall assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the PZU Group should use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the PD for the financial instrument as at the reporting date with the PD as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort.

It is recognized that the credit risk on a financial instrument has not increased significantly at initial recognition and on the reporting date if the financial instrument features low credit risk (that is, it has an external investment-grade rating). This pertains in particular to treasury bonds:

The PZU Group assesses whether the credit risk of financial instruments has increased significantly by comparing the PD parameter for the rest of its lifetime on the reporting date with the PD parameter for the rest of its lifetime estimated at the time of initial recognition.

The PZU Group regularly monitors the effectiveness of the criteria used to identify a significant increase in credit risk, in order to confirm that:

- the criteria allow for identification of a significant increase in credit risk before the impairment of the exposure occurs;
- the average time between identifying a significant increase in credit risk and impairment is reasonable;
- exposures are in principle not transferred directly from basket 1 (12-month ECL) to basket 3 (impairment);
- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

In the case of loan receivables from clients, the identification of a significant credit risk growth is based on an analysis of qualitative (such as the occurrence of a 30-day past due period, customer's classification in the watch list, forbearance) and quantitative premises .

37.1.3. Identified impaired financial assets (basket 3)

The PZU Group classifies financial assets to basket 3 when the premises for impairment losses, such as among others delay in payment of more than 90 days, are satisfied with simultaneous satisfaction of the unpaid amount materiality threshold, exposure being included in the restructuring process or occurrence of an individual premise of impairment losses.

37.1.4. Financial assets impaired due to credit risk (POCI)

Financial assets impaired due to credit risk (POCI) is assets with impairment losses determined at the time of the initial recognition. The POCI classification does not change over the life of the instrument until derecognition.

POCI assets arise from:

- acquisition of a contract satisfying the definition of POCI (e.g. on combination with another entity or purchase of a portfolio);
- conclusion of a POCI contract on the initial granting (e.g. granting of a loan to a client in a poor financial condition);
- modification of a contract (e.g. in the course of restructuring) resulting in excluding an asset from the balance sheet and recognizing a new asset satisfying the definition of POCI.

As at the initial recognition, POCI assets are recognized at the fair value, without recognizing allowances for expected credit losses.

37.1.5. Receivables from policyholders

A simplified model, in which an aggregate assessment of the impairment is carried out and the impairment losses are estimated at the expected credit loss amount over the entire lifetime, is applied for receivables from policyholders.

Receivables are grouped by similar credit risk characteristics. For receivables before maturity, the value of the receivable that is likely to become due is determined based on a historical analysis of the percentage of the ratio of receivables that are not paid before maturity. The amount of write-off for expected credit losses is determined on the basis of the uncollectibility ratio for matured receivables with the shortest past due period.

(in millions of PLN)

For matured receivables, an age structure is prepared, depending on the past due period. For this group, the value of the allowance for expected credit losses is calculated in separate ranges of past due periods, based on the uncollectibility ratios determined through historical analysis.

37.2 Quantitative data

Loan receivables from clients measured at amortized cost	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Balance at the beginning of the period	159,612	16,069	7,855	7,165	190,701	147,695	13,816	4,049	12,152	177,712
Recognition of instruments at the time of acquisition, creation, granting	58,360	-	-	5	58,365	47,886	-	-	2	47,888
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(39,687)	(1,855)	(511)	(1,116)	(43,169)	(30,666)	(282)	5,069	(5,031)	(30,910)
Change attributable to modification of cash flows concerning the given instrument	(2)	-	-	-	(2)	-	-	(1)	1	-
Assets written down from the balance sheet	-	(50)	(1,015)	-	(1,065)	-	-	(4,290)	(12)	(4,302)
Reclassification to basket 1	6,125	(6,064)	(61)	-	-	4,915	(4,851)	(64)	-	-
Reclassification to basket 2	(11,063)	11,380	(317)	-	-	(8,987)	9,399	(412)	-	-
Reclassification to basket 3	(2,789)	(1,997)	4,786	-	-	(1,740)	(1,809)	3,549	-	-
Other changes	(272)	126	243	-	97	509	(204)	(45)	53	313
Balance at the end of the period	**170,284**	**17,609**	**10,980**	**6,054**	**204,927**	**159,612**	**16,069**	**7,855**	**7,165**	**190,701**
Expected credit losses										
Balance at the beginning of the period	(870)	(1,189)	(3,601)	(4,801)	(10,461)	401	(1,821)	(2,498)	(8,097)	(12,015)
Establishment of allowances for newly acquired, created, granted instruments	(815)	-	-	(3)	(818)	(150)	(2)	-	-	(152)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	1,007	(501)	(2,186)	452	(1,228)	(982)	267	(5,405)	3,345	(2,775)
Assets written down from the balance sheet	-	50	1,015	-	1,065	-	-	4,290	12	4,302
Reclassification to basket 1	(371)	347	24	-	-	(309)	281	28	-	-
Reclassification to basket 2	134	(238)	104	-	-	90	(172)	82	-	-
Reclassification to basket 3	132	224	(356)	-	-	65	257	(322)	-	-
Other changes	(17)	(14)	(247)	37	(241)	15	1	224	(61)	179
Balance at the end of the period	**(800)**	**(1,321)**	**(5,247)**	**(4,315)**	**(11,683)**	**(870)**	**(1,189)**	**(3,601)**	**(4,801)**	**(10,461)**
Net carrying amount at the end of the period	**169,484**	**16,288**	**5,733**	**1,739**	**193,244**	**158,742**	**14,880**	**4,254**	**2,364**	**180,240**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Balance at the beginning of the period	1,511	-	-	-	1,511	1,556	-	-	-	1,556
Recognition of instruments at the time of acquisition, creation, granting	571	-	-	-	571	401	-	-	-	401
Change in measurement	-	(6)	-	-	(6)	49	-	-	-	49
Changes attributable to sale, exclusion or expiration of the instrument	(686)	(16)	-	-	(702)	(490)	-	-	-	(490)
Reclassification to basket 2	(624)	624	-	-	-	-	-	-	-	-
Other changes	-	7	-	-	7	(5)	-	-	-	(5)
Balance at the end of the period	**772**	**609**	**-**	**-**	**1,381**	**1,511**	**-**	**-**	**-**	**1,511**
Expected credit losses										
Balance at the beginning of the period	(14)	-	-	-	(14)	(18)	-	-	-	(18)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(1)	-	-	-	(1)
Changes attributable to valuation or credit risk level (excluding reclassification)	2	(9)	-	-	(7)	3	-	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	3	-	-	-	3	2	-	-	-	2
Reclassification to basket 2	8	(8)	-	-	-	-	-	-	-	-
Other changes	(1)	-	-	-	(1)	-	-	-	-	-
Balance at the end of the period	**(4)**	**(17)**	**-**	**-**	**(21)**	**(14)**	**-**	**-**	**-**	**(14)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Balance at the beginning of the period	34,657	35	33	2	34,727	32,450	186	31	16	32,683
Recognition of instruments at the time of acquisition, creation, granting	9,538	-	-	-	9,538	5,705	-	-	-	5,705
Change in measurement	683	-	-	-	683	757	2	1	(2)	758
Changes attributable to sale, exclusion or expiration of the instrument	(9,112)	-	-	(2)	(9,114)	(4,318)	(153)	-	(12)	(4,483)
Reclassification to basket 2	(332)	332	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	180	1	1	-	182	63	-	1	-	64
Balance at the end of the period	**35,614**	**368**	**34**	**-**	**36,016**	**34,657**	**35**	**33**	**2**	**34,727**
Expected credit losses										
Balance at the beginning of the period	(35)	(7)	(33)	-	(75)	(38)	(17)	(31)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(6)	-	-	-	(6)	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excluding reclassification)	(4)	(3)	-	-	(7)	(1)	1	(1)	-	(1)
Changes attributable to sale, exclusion or expiration of the instrument	5	-	-	-	5	5	9	-	-	14
Reclassification to basket 2	9	(9)	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	(2)	-	(1)	-	(3)	4	-	(1)	-	3
Balance at the end of the period	**(33)**	**(19)**	**(34)**	**-**	**(86)**	**(35)**	**(7)**	**(33)**	**-**	**(75)**
Net carrying amount at the end of the period	**35,581**	**349**	**-**	**-**	**35,930**	**34,622**	**28**	**-**	**2**	**34,652**

Value of allowances for expected credit losses concerning buy-sell-back transactions is zero.

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Balance at the beginning of the period	38,142	73	-	-	38,215	50,181	74	-	-	50,255
Recognition of instruments at the time of acquisition, creation, granting	203,057	-	-	-	203,057	136,513	-	-	-	136,513
Change in measurement	725	(5)	-	-	720	89	1	-	-	90
Change attributable to modification of cash flows concerning the given instrument	(8)	-	-	-	(8)	(1)	-	-	-	(1)
Changes attributable to sale, exclusion or expiration of the instrument	(187,893)	-	-	-	(187,893)	(149,227)	(2)	-	-	(149,229)
Reclassification to basket 2	(87)	87	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	601	1	-	-	602	587	-	-	-	587
Balance at the end of the period	**54,537**	**156**	**-**	**-**	**54,693**	**38,142**	**73**	**-**	**-**	**38,215**
Expected credit losses										
Balance at the beginning of the period	(37)	(3)	-	-	(40)	(31)	(6)	-	-	(37)
Establishment of allowances for newly acquired, created, granted instruments	(18)	-	-	-	(18)	(20)	-	-	-	(20)
Changes attributable to valuation or credit risk level (excluding reclassification)	(1)	2	-	-	1	4	1	-	-	5
Changes attributable to sale, exclusion or expiration of the instrument	14	-	-	-	14	10	2	-	-	12
Reclassification to basket 2	1	(1)	-	-	-	-	-	-	-	-
Balance at the end of the period	**(41)**	**(2)**	**-**	**-**	**(43)**	**(37)**	**(3)**	**-**	**-**	**(40)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Balance at the beginning of the period	2,770	1	9	-	2,780	1,841	1	21	-	1,863
Recognition of instruments at the time of acquisition, creation, granting	228,598	-	-	-	228,598	143,630	-	-	-	143,630
Change in measurement	4	-	-	-	4	9	-	-	-	9
Changes attributable to sale, exclusion or expiration of the instrument	(229,902)	-	-	-	(229,902)	(143,300)	-	-	-	(143,300)
Other changes	(15)	-	(9)		(24)	590	-	(12)	-	578
Balance at the end of the period	**1,455**	**1**	**-**	**-**	**1,456**	**2,770**	**1**	**9**	**-**	**2,780**
Expected credit losses										
Balance at the beginning of the period	(2)	-	(9)	-	(11)	(1)	-	(21)	-	(22)
Establishment of allowances for newly acquired, created, granted instruments	(6)	-	-	-	(6)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	2	-	-	-	2	1	-	-	-	1
Other changes	4	-	9	-	13	-	-	12	-	12
Balance at the end of the period	**(2)**	**-**	**-**	**-**	**(2)**	**(2)**	**-**	**(9)**	**-**	**(11)**
Net carrying amount at the end of the period	**1,453**	**1**	**-**	**-**	**1,454**	**2,768**	**1**	**-**	**-**	**2,769**

(in millions of PLN)

Loans	1 January – 31 December 2019					1 January – 31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Balance at the beginning of the period	4,595	-	-	-	4,595	3,699	-	-	-	3,699
Recognition of instruments at the time of acquisition, creation, granting	547	-	-	-	547	1,077	-	-	-	1,077
Change in measurement	14	-	-	-	14	83	-	-	-	83
Changes attributable to sale, exclusion or expiration of the instrument	(577)	(61)	-	-	(638)	(264)	-	-	-	(264)
Reclassification to basket 2	(61)	61	-	-	-					
Other changes	(1)	-	-	-	(1)					
Balance at the end of the period	**4,517**	**-**	**-**	**-**	**4,517**	**4,595**	**-**	**-**	**-**	**4,595**
Expected credit losses										
Balance at the beginning of the period	(60)	-	-	-	(60)	(46)	-	-	-	(46)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(16)	-	-	-	(16)
Changes attributable to valuation or credit risk level (excluding reclassification)	33	(2)	-	-	31	2	-	-	-	2
Changes attributable to sale, exclusion or expiration of the instrument	1	3	-	-	4					
Reclassification to basket 2	1	(1)	-	-	-					
Balance at the end of the period	(27)	-	-	-	**(27)**	**(60)**	**-**	**-**	**-**	**(60)**
Net carrying amount at the end of the period	**4,490**	**-**	**-**	**-**	**4,490**	**4,535**	**-**	**-**	**-**	**4,535**

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.

Receivables	1 January – 31 December 2019	1 January – 31 December 2018
Gross carrying amount		
Balance at the beginning of the period	7,282	9,950
Changes in the period	(457)	(2,668)
Balance at the end of the period	**6,825**	**7,282**
Expected credit losses		
Balance at the beginning of the period	(939)	(823)
Changes in the period	(149)	(116)
Balance at the end of the period	**(1,088)**	**(939)**
Net carrying amount at the end of the period	**5,737**	**6,343**

38. Cash and cash equivalents

38.1 Accounting policy

Cash and cash equivalents include, among other things, cash at hand and on current bank accounts, including the account kept with NBP.

Cash is recognized at its nominal value.

(in millions of PLN)

38.2 Restricted cash

The consolidated cash flow statement carries the cash of insurance companies' Preventive Funds and VAT split-payments as restricted cash. Pursuant to the Polish regulations and the internal regulations of the PZU Group companies that are based on them, this cash may be spent only for specific purposes as part of preventive activities or VAT split-payments.

38.3 Quantitative data

Cash and cash equivalents carried in the statement of financial position and in the cash flow statement	31 December 2019	31 December 2018
Cash in the central bank [1]	2,655	10,496
Cash at hand and on bank accounts	5,132	6,558
Other	1	1
Cash and cash equivalents carried in the statement of financial position and in the cash flow statement, total	**7,788**	**17,055**

[1] The amount pertains to the loan loss reserve maintained by Pekao and Alior Bank on the current account kept with NBP, whose amount is consistent with the decisions of the Monetary Policy Board.

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

(in millions of PLN)

Movement in liabilities attributable to financial activities in the period ended 31 December 2018	Balance at the beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Balance at the end of the period
Loans received	3,380	866	3	137	4,386
Liabilities on the issue of debt securities	9,610	2,228	(29)	200	12,009
Bonds	3,821	1,856	56	189	5,922
Certificates of deposit	4,541	65	(64)	-	4,542
Covered bonds	1,248	307	(21)	11	1,545
Subordinated liabilities	5,319	549	191	2	6,061
Liabilities on account of repurchase transactions	1,167	(638)	11	-	540
Finance lease liabilities	11	-	(1)	-	10
Total financial liabilities	**19,487**	**3,005**	**175**	**339**	**23,006**

39. Assets held for sale

39.1 Accounting policy

Assets and liabilities or groups held for sale are classified as held for sale if there is a sale plan for them and there is an active program of finding the buyer.

Assets and liabilities held for sale or groups held for sale are measured as one of the two values, whichever is lower: previous carrying amount or fair value minus the costs of effecting the sale.

39.2 Quantitative data

Assets held for sale by classification before transfer	31 December 2019	31 December 2018
Groups held for sale	**475**	**1,021**
Assets	504	1,070
Investment property	454	973
Receivables	9	12
Deferred tax assets	6	5
Cash and cash equivalents	34	76
Other assets	1	4
Liabilities related directly to assets classified as held for sale	29	49
Deferred tax liability	6	27
Other liabilities	11	22
Liabilities for borrowings	5	-
Other financial liabilities	6	-
Other provisions	1	-
Other assets held for sale	**76**	**77**
Property, plant and equipment	33	34
Investment property	43	43
Assets and groups of assets held for sale	**580**	**1,147**
Liabilities related directly to assets classified as held for sale	**29**	**49**

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

(in millions of PLN)

The table below contains the list of the largest real properties designated for sale along with important parameters which were taken into consideration in valuation.

All real properties classified as level III fair value were valuated by the income approach using the investment method and the straight capitalization technique. That valuation employed unobservable input data such as:

- capitalization rate – determined through analysis of rates of return obtained in transactions for similar real properties;
- monthly rental rate per 1 m² of relevant space or per parking space

Investment property classified as Level III	Type of space	31 December 2019 Carrying amount	31 December 2019 Rental fees included in the measurement	31 December 2019 Capitalization rates included in the measurement	31 December 2018 Carrying amount	31 December 2018 Rental fees included in the measurement	31 December 2018 Capitalization rates included in the measurement
Office properties	Office Parking lot	-	-	-	44	12.90 – 14.45 EUR 79.85 – 80.00 EUR	6.40%
Commercial properties	Commercial	153	depending on size of leased space	7.65% – 9.75%	179	depending on size of leased space	7.40% – 8.80%
Warehousing properties	Office Warehouse	296	9.00 EUR 3.40 – 3.50 EUR	6.50% – 6.95%	750	2.65 – 9.00 EUR 2.42 – 4.16 EUR	6.50% – 7.55%
Other		48			43		
Total		**497**			**1,016**		

40. Issued share capital and other capital attributable to equity holders of the parent

40.1 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 31 December 2019 and 31 December 2018

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

The structure of PZU's shareholders and information on transactions with material blocks of PZU shares are presented in section 3.

40.2 Distribution of the parent company's profit

As regards distribution of profit for 2019 and previous years, only the profit captured in the PZU standalone financial statements prepared in accordance with PAS is subject to distribution.

40.2.1.1. Distribution of the 2018 profit

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

On 24 May 2019, PZU’s Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2018 totaling PLN 2,712 million by earmarking:

- PLN 2,418 million as a dividend payout to shareholders, i.e. PLN 2.80 per share;
- PLN 287 million as supplementary capital;
- PLN 7 million to the Company Social Benefit Fund;

The record date was set at 14 August 2019 and the dividend payout date was set for 5 September 2019.

Moreover, the PZU Ordinary Shareholder Meeting made a decision on a transfer retained earnings to supplementary capital.

40.2.1.2. Distribution of the 2019 profit

As at the date of signing these consolidated financial statements, the PZU Management Board has not adopted a resolution in the matter of the proposed distribution of the 2019 profit.

40.3 Other capital

40.3.1. Accounting policy

Treasury shares purchased and retained by consolidated PZU Group companies are shown at purchase price.

The “Supplementary capital” item includes:

- the effect of distribution of profit, in accordance with the legal regulations in effect in the country of the company's domicile (in Poland under the Commercial Company Code) and the articles of association of PZU Group companies;
- the capital created upon the sale of investment property previously transferred from own property, according to the rules described in section 31;
- the difference between the change in value of non-controlling interest and fair value of payment in transactions with non-controlling interests.

Results of the following are posted in the “Revaluation reserve” item:

- revaluation of financial assets classified as assets measured at fair value through other comprehensive income;
- revaluation of property to its fair value on the date when it is classified from own property to investment property;
- measurement of hedging instruments, in respect to the part constituting effective cash flow hedge;

after taking into account the corresponding change in deferred tax assets or liabilities;

The item “Actuarial gains and losses related to provisions for employee benefits” includes amounts resulting from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments – demographic (e.g. mortality, employee turnover) and financial (e.g. discount rate or projected salary growth rate).

“Foreign exchange translation differences” include differences resulting from translation of financial data of foreign entities using exchange rates, in accordance with the rules described in section 5.5.

(in millions of PLN)

40.3.2. Quantitative data

Other capital	31 December 2019	31 December 2018
Treasury shares	(7)	(11)
Supplementary capital	13,113	12,660
Share premium account	538	538
Distribution of results of PZU Group companies	12,523	12,079
Other	52	43
Revaluation reserve	294	(65)
Valuation of debt instruments measured at fair value through other comprehensive income	432	94
Valuation of equity instruments measured at fair value through other comprehensive income	(263)	(255)
Reclassification of real property from property, plant and equipment to investment property	77	78
Entities measured by the equity method	-	1
Cash flow hedging	48	17
Other reserve capital	(324)	18
Actuarial gains and losses related to provisions for employee benefits	1	-
Foreign exchange translation differences	(41)	(36)
Lietuvos Draudimas AB	5	15
AAS Balta	4	7
PZU Ukraine	(40)	(49)
PZU Ukraine Life	(12)	(10)
Other	2	1
Total other capital	**13,036**	**12,566**

Change in the revaluation reserve resulting from measurement of debt instruments measured at fair value through other comprehensive income	1 January – 31 December 2019	1 January – 31 December 2018
Balance at the beginning of the period	94	78
Application of IFRS 9	-	7
Changes	338	9
– change in fair value	347	30
– sale	(9)	(21)
Balance at the end of the period	**432**	**94**

41. Technical provisions

41.1 Accounting policy

41.1.1. Non-life insurance

Provision for unearned premiums and provision for unexpired risk

Provision for unearned premiums is calculated at the end of each reporting period on a case-by-case basis, with the precision of one day.

Provision for unexpired risk is recognized as an addition to the provision for unearned premiums to cover future claims, benefits and expenses, including deferred acquisition expenses, in relation to insurance agreements that do not expire on the last day of the reporting period. The provision for unexpired risk is calculated for insurance groups at the end of each reporting period.

The total amount of the provision for unexpired risk is determined for those insurance groups where the current year loss ratio is greater than 100%, as a difference between the product of the provision for unearned premiums and the loss ratio of the current financial year and the provision for unearned premiums for the same insurance period.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits includes:

- provision for outstanding claims and benefits for losses and accidents incurred and reported (RBNP) by the end of the reporting period;
- provision for losses and accidents incurred but not reported (IBNR) by the end of the reporting period
- provision for claims handling expenses.

The RBNP provision is calculated on a case-by-case basis by claims handling units or, if available information is not sufficient to assess the provision amount, at the average claim amount determined using the actuarial method. The provision recognized takes into account the insured's deductible, the expected increase in prices of goods and repair services and may not be greater than the sum insured or indemnity. The provision is updated as soon as information influencing its amount is available, on a case-by-case assessment or estimation of losses and claims.

The IBNR provision is recognized for losses and claims that are not reported by the balance sheet date, as at which the provision is recognized. IBNR is calculated using the loss triangle analysis method: a generalized Chain Ladder method and for a small number or value of losses the Bornhuetter-Ferguson method, broken down by the years in which the losses occurred. The calculations are based on the annual triangles of claims paid and claims reported.

The provision for direct claims handling expenses for reported claims is calculated for each claim individually, and for claims incurred but not reported – using the generalized Chain Ladder method (based on the cost triangles analysis, broken down by the years in which the losses occurred).

The provision for indirect claims handling expenses is calculated using the actuarial method, as a product of the ratio of the percentage of indirect claims handling expenses in claims paid and direct claims handling expenses and the sum of provision for claims reported but not paid and the provision for losses and accidents incurred but not reported and the provision for direct claims handling expenses.

The 1st and the 2nd provisions and the provision for claims handling expenses are recognized at the nominal value, i.e. they are not discounted.

Provision for the capitalized value of annuities

Provision for the capitalized value of annuities is calculated on a case-by-case basis as the present value of an annuity (lifetime or temporary) paid in advance.

At the end of each reporting period, actuarial methods are used to recognize a provision for the capitalized value of annuities arising from losses incurred after 31 December 1990 and not recognized as annuities until the end of the reporting period (annuity IBNR). At the end of each reporting period, the amount of additional provision is also calculated to cover liabilities resulting from the increase of annuity benefits from the "legacy portfolio". The increases apply to those annuity beneficiaries, for whom a corresponding provision was calculated at the end of 1997 and the benefit at the end of the reporting period is lower than a certain percentage of the present value of average wages between 1960 and 1990.

On 28 September 2019, the Act of 19 July 2019 on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations for Damage Suffered before 1 January 2006 came into force. The Act defines the special rights granted to injured persons in the event of damage arising in the territory of the Republic of Poland in situations where the indemnity has been exhausted. The injured person will be entitled to a claim for the payment of an annuity from the IIF, limited to the indemnity amount set as at the date of submission of the claim in a situation where the insurance undertaking was not required to pay an annuity on the basis of a court ruling setting a different amount of indemnity than that specified in the insurance contract. The claim for the payment of an annuity will apply to periods following the date of the Act's entry into force.

After the establishment, between the insurance companies and the IIF, of the terms and conditions for the transfer of annuities covered by the Act to the IIF and the development of pertinent internal procedures for this process, it will be possible to determine what changes need to be made, if any, in the method of calculation of technical provisions.

Provision adequacy tests

Provision adequacy testing is not required in non-life insurance. However when consolidated financial statements are prepared, a procedure that is similar to the provision adequacy test in life insurance is conducted to verify whether claims provisions within individual products are sufficient. The test takes into account current trends in accident incidence, reporting rates and claim payments. If the estimates that consider current trends are higher than claims provisions then the provisions are increased up to the estimated amount. Otherwise, the provisions may be partially released.

The mechanism for recognizing the provision for unexpired risks in non-life insurance corresponds to the minimum requirements for the provisions adequacy test.

41.1.2. Life insurance

Provision for unearned premiums

Provision for unearned premiums is created as the portion of gross written premium that corresponds to future reporting periods, pro rata to the period for which the premium is written.

Life insurance provision

Life insurance provision is calculated using prospective actuarial methods, for each insurance contract individually, using the *net premium reserves* method; they are equal to the difference between:

- expected present value of guaranteed benefits that may arise out of the insurance cover provided;
- present value of premiums expected to be paid until the end of the term of these contracts.

In unit-linked insurance, a life insurance provision is created to cover current claims arising out of the insurance cover over and above the amount of the unit-linked fund; it corresponds to the part of the payments collected for the insurance cover that is attributable to future reporting periods.

The calculation of a life insurance provision also includes a mark-up on costs, while the provisions themselves are not reduced by the value of deferred acquisition expenses.

Unit-linked life insurance provision

Unit-linked life insurance provisions are recognized in the amount of the investment made under the terms of the contract.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits is created separately for:

- claims reported but not paid – using the individual method or, if the loss amount cannot be assessed (if the occurrence of losses is a mass phenomenon), using the average claim from the quarter immediately preceding the reporting quarter;
- claims incurred but not reported – using the flat-rate method, as a percentage of claims paid for the last twelve months.

The provision for outstanding claims and benefits also includes the provision for claims handling expenses.

Provisions for bonuses and discounts for insureds

The provision is recognized in an amount taking into account the expected amounts by which future claims will be increased or future premiums will be decreased, in accordance with the current bonuses and discounts granting method.

Other technical provisions

Other technical provisions in life insurance include:

- revaluation provision for claims under individual life insurance and annuities taken over from Państwowy Zakład Ubezpieczeń;
- provision for pending court proceedings and benefits arising out of court rulings (pursuant to Article 358 § 3 of the Civil Code Act of 23 April 1964 (consolidated text: Journal of Laws of 2019, item 1145 as amended) changing the amount or performance of a cash benefit;

  the amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements. The value of these benefits has been determined by extrapolating the historical trend of benefits estimated based on the number of completed court proceedings and settlements and the value of the awarded amounts;
- low interest rate provision – related to the expected decrease in return on assets covering life insurance provisions for traditional individual life insurance and provisioning of children and disability pensions. The amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements.
  - the amount of the mathematical provisions calculated by using appropriate mathematical formulas and by applying modified technical rates, considering their expected reduction in the future, and
  - the amount of the mathematical provisions calculated in line with the applicable provisioning regulations, at the original technical rate that was used to price the products.

Provision adequacy tests

At the end of each year, for each product in the life insurance portfolio, the amount of technical provisions recognized in the consolidated financial statements is compared with the present value of expected future cash flows, i.e. the economic value of liabilities. These cash flows projections include: premium income, expenditures on benefits, expenses, fees and commissions and are based on several assumptions regarding: mortality, loss ratio, lapse rates, servicing expenses, yields curves and other product-specific assumptions (e.g. indexation).

The assumptions used to project future cash flows, regarding expected future mortality, loss ratio, lapse rates and other product-specific assumptions, are reviewed and updated on an annual basis based on current experience and observed trends. Taken together with the assessment of their further development, they constitute the best estimate assumption for further developments in mortality, loss, lapses, etc.

Future indexations of sum insured and premium amounts resulting from the profit participating rights, defined as the excess of rates of return on investments over the technical rate, are based on a projection of future rates of return on the current portfolio of assets to cover provisions for these products, together with their expected future reinvestments at the present term structure of interest rates, i.e. in line with current market expectations.

Future costs are projected based on the expected number of contracts remaining in the portfolio in successive periods and the average unit service cost per contract. The assumptions for unit costs are adopted on the basis of expected future portfolio maintenance and servicing expenses, asset management and claims handling expenses. It is assumed that unit service costs will rise in successive years of the projection period by the cost increase ratio. The amount of future commissions is determined based on the agreed commission rates for individual contracts in their successive years.

The present value of future cash flows is calculated using the discount factors based on the unadjusted yield of Polish government bonds according to their current market quotations.

The test compares the present value of projected cash flows with the amount of provisions shown at the end of each year. If provisions are found to be insufficient in relation to the value of discounted cash flows, changes are introduced to the existing provisioning rules and consequently their value is adjusted.

The purpose of the provision adequacy test is to assess whether the technical provision amounts captured in the consolidated financial statements are sufficient, rather than to assess adequacy of the individual assumptions. Accordingly, the provision adequacy test does not directly identify the degree of adequacy or inadequacy of the individual assumptions adopted in technical provision estimation process.

41.1.3. Reinsurers' share

Reinsurers' share in the provision for unearned premiums, in the provision for unexpired risk and in the provision for outstanding claims and benefits is determined at the amount stated in the terms and conditions of the relevant reinsurance treaties.

Reinsurers' share in claims and benefits is determined for those insurance groups, for which there is reinsurance coverage, to the extent to which reinsurers participate in the claims and benefits according to the terms and conditions of the pertinent reinsurance treaties in effect in a given period.

41.2 Estimates and assumptions

41.2.1. Non-life insurance

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

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

Both as at 31 December 2019 and 31 December 2018, a technical rate of 3.6% was assumed for all annuities and an annuity growth rate of 3.9%, estimated on the basis of inflation and salary growth forecasts.

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

The estimated final value of claims and benefits paid in provision development triangles and the analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities are presented in section 7.5.2.1.

41.2.2. Life insurance

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

(in millions of PLN)

In the case of technical rates (discount rates) used to calculate present values of benefits and premiums, the assumptions are based on the expected rates of return on existing assets and their future reinvestments, taking into account the maximum technical rate limit for new contracts, announced annually by KNF.

The assumptions used to calculate life insurance provisions are made separately for each insurance product at the time the premium tariffs are adopted and product's sales are launched (" lock-in-assumptions"). Every year, the assumptions are verified for adequacy. If it is found that an assumption is inadequate, it is verified and adjusted, which leads directly to a change in the value of liabilities presented in the consolidated financial statements. The above assumptions are subject to natural uncertainty resulting from the long term of the projection.

Incidence of insured events

The following data are taken into account in the calculation of provisions: data on the level of guaranteed sums insured and benefits, data on the age and sex of respective insured persons and also, in the case of group employee insurance products in work establishments and employee and family individually continued insurance products, assumptions about the age structure of the co-insured persons (family members of the insured persons).

For insurance products with a profit participation feature, the life insurance provision also includes previously granted profit participation rights in the form of changes in sums insured and premiums and restatements of guaranteed benefits, including the revaluation of annuities performed by PZU Życie.

The analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate technical provisions in life insurance is presented in section 7.5.2.2.

41.3 Quantitative data

Technical provisions	31 December 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**24,457**	**(1,856)**	**22,601**	**23,508**	**(1,512)**	**21,996**
Provision for unearned premiums	8,765	(856)	7,909	8,416	(594)	7,822
Provision for unexpired risk	14	-	14	10	-	10
Provisions for outstanding claims and benefits	9,676	(785)	8,891	9,098	(724)	8,374
– for reported claims	3,414	(670)	2,744	3,280	(603)	2,677
– for claims not reported (IBNR)	4,210	(90)	4,120	3,939	(103)	3,836
– for claims handling expenses	2,052	(25)	2,027	1,879	(18)	1,861
Provision for the capitalized value of annuities	5,999	(215)	5,784	5,981	(194)	5,787
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Technical provisions in life insurance	**22,872**	**-**	**22,872**	**22,331**	**-**	**22,331**
Provision for unearned premiums	106	-	106	99	-	99
Life insurance provision	16,346	-	16,346	16,204	-	16,204
Provisions for outstanding claims and benefits	622	-	622	592	-	592
– for reported claims	167	-	167	152	-	152
– for claims not reported (IBNR)	449	-	449	434	-	434
– for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	6	-	6	4	-	4
Other technical provisions	214	-	214	256	-	256
Unit-linked life insurance provision	5,578	-	5,578	5,176	-	5,176
Total technical provisions	**47,329**	**(1,856)**	**45,473**	**45,839**	**(1,512)**	**44,327**

(in millions of PLN)

41.3.1. Technical provisions in non-life insurance

Provisions (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	31 December 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Accident and sickness insurance (group 1 and 2)	520	(28)	492	439	(10)	429
Motor third party liability insurance (group 10)	14,639	(416)	14,223	14,323	(380)	13,943
Other motor insurance (group 3)	3,058	(34)	3,024	2,968	(21)	2,947
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	137	(66)	71	110	(42)	68
Insurance against fire and other property damage (groups 8 and 9)	2,721	(798)	1,923	2,489	(706)	1,783
TPL insurance (groups 11, 12, 13)	2,374	(193)	2,181	2,336	(162)	2,174
Credit and suretyship (groups 14, 15)	244	(102)	142	233	(89)	144
Assistance (group 18)	357	(1)	356	302	(1)	301
Legal protection (group 17)	15	-	15	14	-	14
Other (group 16)	392	(218)	174	294	(101)	193
Total technical provisions	**24,457**	**(1,856)**	**22,601**	**23,508**	**(1,512)**	**21,996**

Technical provisions in non-life insurance	31 December 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Short-term	5,124	(501)	4,623	6,314	(374)	5,940
Non-current	19,333	(1,355)	17,978	17,194	(1,138)	16,056
Total technical provisions	**24,457**	**(1,856)**	**22,601**	**23,508**	**(1,512)**	**21,996**

Non-current provisions are provisions from which projected cash flows will occur after elapse of more than 12 months of the end of the reporting period, i.e. 31 December 2019.

Movement in provisions

Movement in provision for unearned premiums in non-life insurance	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	8,416	(594)	7,822	7,877	(466)	7,411
Increase (decrease) in provisions for policies concluded in the current year	6,991	(753)	6,238	7,759	(525)	7,234
Increase (decrease) in provisions for policies concluded in previous years	(6,649)	494	(6,155)	(7,246)	400	(6,846)
Foreign exchange differences in the period	7	(3)	4	26	(3)	23
Total technical provisions	**8,765**	**(856)**	**7,909**	**8,416**	**(594)**	**7,822**

Movement in provision for unexpired risk	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	10	-	10	37	(3)	34
Increase (decrease) in provisions for policies concluded in the current year	11	-	11	6	-	6
Increase (decrease) in provisions for policies concluded in previous years	(7)	-	(7)	(34)	3	(31)
Foreign exchange differences in the period	-	-	-	1	-	1
Balance at the end of the period	**14**	**-**	**14**	**10**	**-**	**10**

(in millions of PLN)

Movement in provisions for outstanding claims and benefits in non-life insurance	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	9,098	(724)	8,374	8,301	(585)	7,716
Claims paid for losses in previous years, including:	(3,170)	248	(2,922)	(3,126)	238	(2,888)
– claims paid	(2,745)	243	(2,502)	(2,703)	234	(2,469)
– claims handling expenses	(425)	5	(420)	(423)	4	(419)
Increase (decrease) in provisions, of which:	3,734	(302)	3,432	3,904	(371)	3,533
– for losses in current year	3,831	(264)	3,567	3,765	(489)	3,276
– for losses in previous years	(97)	(38)	(135)	139	118	257
Other changes	-	(1)	(1)	-	(3)	(3)
Foreign exchange differences in the period	14	(6)	8	19	(3)	16
Balance at the end of the period	**9,676**	**(785)**	**8,891**	**9,098**	**(724)**	**8,374**

Movement in provision for the capitalized value of annuities in non-life insurance	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	5,981	(194)	5,787	5,776	(190)	5,586
Claims paid for losses in previous years	(309)	8	(301)	(319)	7	(312)
Increase (decrease) in provisions for losses in previous years	66	(30)	36	250	(11)	239
Change in assumptions resulting from a change of technical rates	(16)	-	(16)	(16)	1	(15)
Increase in provisions for losses in current year	274	1	275	288	-	288
Other changes	3	-	3	2	(1)	1
Balance at the end of the period	**5,999**	**(215)**	**5,784**	**5,981**	**(194)**	**5,787**

41.3.2. Technical provisions in life insurance

Movement in life insurance provisions, provisions for bonuses and discounts and other technical provisions – insurance contracts	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	16,464	–	16,464	16,352	–	16,352
Increase (decrease) in provisions for policies concluded in current year	392	–	392	350	–	350
Increase (decrease) in provisions for policies concluded in previous years	(303)	–	(303)	(246)	–	(246)
Foreign exchange differences	13	–	13	8	–	8
Balance at the end of the period	**16,566**	**–**	**16,566**	**16,464**	**–**	**16,464**

Movement in unit-linked life insurance provision	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	5,176	–	5,176	5,515	–	5,515
Increases in the fund due to premiums	1,183	–	1,183	1,045	–	1,045
Fees charged	(102)	–	(102)	(104)	–	(104)
Fund's investment income	385	–	385	(182)	–	(182)
Decreases in the fund on account of benefits, surrenders, etc.	(1,024)	–	(1,024)	(1,054)	–	(1,054)
Other changes	(40)	-	(40)	(44)	-	(44)
Balance at the end of the period	**5,578**	**–**	**5,578**	**5,176**	**–**	**5,176**

(in millions of PLN)

Movement in provisions for outstanding claims and benefits	1 January – 31 December 2019			1 January – 31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	592	–	592	597	–	597
Utilization of claims provisions during the year	(592)	–	(592)	(598)	–	(598)
Establishment of claims provisions during the year	622	–	622	593	–	593
Balance at the end of the period	**622**	**–**	**622**	**592**	**–**	**592**

42. Provisions for employee benefits

42.1 Accounting principles

In connection with the adopted accounting policies and the fact that PZU Group companies have not singled out defined benefit plan assets, the carrying amount of defined benefit plan provisions equals to the present value of liabilities corresponding to them.

Defined contribution plans include the costs of contributions constituting statutory charges on employee salaries incurred by the employer. They include, among others, part of the contributions for retirement and disability pension insurance, Labor Fund, Guaranteed Employee Benefit Fund and the charge for the Company Social Benefit Fund. The costs of defined contribution plans are charged to the profit and loss account in the period to which they pertain.

Defined benefit plans include, among others, the costs of retirement severance pays and post-mortem benefits. The costs of defined benefit plans estimated using actuarial methods are recognized on an accrual basis by applying the forecast specific entitlements method.

Actuarial gains and losses are recognized in full in the period in which they occurred in the "Actuarial gains and losses related to provisions for employee benefits" item in other comprehensive income. More information is presented in section 40.3.1.

The cost of employee vacation time is recognized on an accrual basis, using the liability method. The liability on account of employee vacation time is determined based on the difference between the actual amount of vacation time used by employees and the amount that would have been used if the vacation time had been taken pro rata to the elapse of time in the period when the employees are entitled to their vacation time.

42.2 Estimates and assumptions

The provisions for retirement severance pays and post-mortem benefits are estimated with actuarial methods using appropriate actuarial techniques and assumptions – discount rates, consistent with the zero-coupon Treasury bond yield curve, mortality rate adopted at the level specified in the PLET, expected salary increase rate in individual PZU Group companies, employee turnover rate (diversified in terms of, among others, the employee's age, years in service and gender) and the disability rate (disability pensions) adopted as an appropriate percentage of the mortality rate.

42.3 Quantitative data

Provisions for employee benefits	31 December 2019	31 December 2018
Provisions for holidays	139	145
Defined benefit plans	344	335
– provisions for retirement severance pays	319	313
– provisions for post-mortem benefits	25	22
Other non-current employee benefits	51	51
Total provisions for employee benefits	**534**	**531**

(in millions of PLN)

43. Other provisions

43.1 Accounting principles

Provisions are liabilities the amount or payment date of which are uncertain. Provisions are established on the basis of a current obligation following from past events, whose fulfillment will cause an outflow of resources embodying economic benefits. The provision amount is calculated on the basis of a reliable estimate of such outflow as at the balance sheet date.

Provisions for granted guarantees and sureties are calculated as the difference between the expected value of the balance sheet exposure which will result from a granted off-balance sheet liability and the present value of expected future cash flows obtained from the balance sheet exposure resulting from the granted liability.

The provision for restructuring costs is recognized only if, in addition to the general criteria for recognizing provisions, also the specific criteria pertaining to provisions for restructuring costs are satisfied. These include, among others, holding a detailed, formal restructuring plan and evoking a justified expectation of the parties to which the plan pertains that restructuring actions will be taken (through commencement of implementation of the plan or announcement of its key elements).

43.2 Estimates and assumptions

Provisions for disputable cases are calculated using the individual method, taking into account the likelihood of occurrence of an outflow of resources embodying economic benefits to fulfill an existing obligation. An outflow of resources is deemed likely if it is more possible that the event will occur than that it will not occur, i.e. when the probability of occurrence of the event is higher than the probability that the event will not occur.

Detailed descriptions and provision amounts are presented in section 50.

43.3 Quantitative data

Other provisions	31 December 2019	31 December 2018
Short-term	506	256
Non-current	361	263
Total other provisions	**867**	**519**

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

(in millions of PLN)

Movement in other provisions in the year ended 31 December 2018	As at 31 December 2017	Application of IFRS 9	Balance at the beginning of the period	Increase	Utilization	Reversal	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	260	159	419	441	(25)	(477)	(42)	316
Provision for disputed claims and potential liabilities	82	-	82	52	(12)	(55)	-	67
Provision for penalties imposed by the Office of Competition and Consumer Protection	57	-	57	-	-	-	28	85
Provision for restructuring expenses	63	-	63	-	(36)	(7)	-	20
Other	35	-	35	10	(13)	(1)	-	31
Total other provisions	**497**	**159**	**656**	**503**	**(86)**	**(540)**	**(14)**	**519**

Provision of potential refunds of borrowing costs

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

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

The formula approved by the President of UOKiK and the Financial Ombudsman for the settlement of credit costs with borrowers is the so-called linear formula whereby a pro rata approach is adopted based on the period between the actual loan repayment date and the repayment date specified in the loan agreement and requires that any non-recurring cost be broken down on a pro rata basis across all payment periods. However, due to the absence of legal regulations in this respect, the practice in such situations may vary.

In connection with the CJEU judgment, the PZU Group has estimated the effects of the legal risk resulting from early repayment of consumer loans made before the date of the CJEU judgment and recognized a provision which was charged to other operating expenses in the amount of PLN 272 million.

As at 31 December 2019, the value of the provision was PLN 254 million. Its amount corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. The estimation of the provision has required adoption of a number of expert assumptions and entails a significant uncertainty following from, among others, the short observation period and the difficult to estimate volatility of the observed trends pertaining to the number and amounts of lodged complaints. For this reason the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

For early repayments made after the CJEU judgment, the borrowing costs are refunded on an ongoing basis and charged to the net interest income. For the period from the date of the judgment, i.e. 11 September, to 31 December 2019, this was PLN 99 million.

In addition, the PZU Group has estimated the difference between the interest income recognized until the balance sheet date using the effective interest rate method, and the income which should be recognized taking into account early repayments of consumer loans that may be made in the future and the resulting refunds according to a linear formula, which has reduced the net investment income by PLN 60 million.

(in millions of PLN)

The PZU Group conducted a sensitivity analysis of the impact of changes in significant parameters of the provision on its amount.

Parameter	Scenario	Impact on the amount of the provision
Change in the number of complaints	+1,000	2
	-1,000	(2)
Change in the average refund amount	+10%	25
	-10%	(25)

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

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

The CJEU ruling provides general guidance for Polish courts. The ultimate resolutions made by Polish courts will be based on EU regulations interpreted in accordance with the CJEU judgment, taking into consideration the national laws and analysis of the individual circumstances of each case. At the same time, one cannot talk about an established line of rulings in cases pertaining to Swiss franc mortgage loans, which is confirmed by frequently contradictory rulings of common courts and legal queries asked to CJEU and Supreme Court aimed at dispelling the courts' doubts.

Considering the increasing numbers of statements of claim pertaining to CHF mortgage loans observed in the banking sector and the lack of consistency in the line of rulings pertaining to such loans, the PZU Group has estimated a provision for the legal risk associated with CHF mortgage loan agreements in the total amount of PLN 59 million, which was charged to other operating expenses in the amount of PLN 22 million (for exposures repaid as at the balance sheet date) and movement in allowances for expected credit losses and impairment losses in financial instruments in the amount of PLN 37 million (for exposures not repaid as at the balance sheet date).

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

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

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

(in millions of PLN)

The PZU Group conducted a sensitivity analysis of the impact of changes in significant parameters of the provision on its amount.

Parameter	Scenario	Impact on the amount of the provision
Number of cases brought to court	+20%	8
	-20%	(8)
Time horizon	4 years	8
	2 years	(4)

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

Provisions for guarantees and sureties given

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

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

The amount of PLN 57 million pertains to the penalty imposed on PZU in the proceedings of the President of the Office of Competition and Consumer Protection. Additional information on this matter is presented in section 50.2.

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case the PZU Group has not recognized the revenue on account of the refunded resources but recognized a provision.

Provision for restructuring expenses

The Pekao Management Board reported that on 4 April 2019, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

In the period from 26 April 2019 to 31 October 2019, the Pekao Management Board intended to terminate employment contracts with a maximum of 900 employees and modify employment conditions to a maximum of 620 employees.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs has been estimated at PLN 85 million and the restructuring provision in this amount has been established for this purpose. As at 31 December 2019, the value of the provision was PLN 19 million and pertained to disbursements to be made in 2020.

The remaining balance is made up of:

- PLN 10 million – pertaining to the restructuring process conducted in PZU and PZU Życie (PLN 10 million as at 31 December 2018);
- PLN 5 million – pertaining to the restructuring processes in Alior Bank, including the provision recognized in 2019 in connection with the acquisition of SKOK Jaworzno (as at 31 December 2018: PLN 10 million).

(in millions of PLN)

44. Deferred tax

44.1 Accounting principles

The level of deferred tax liabilities and assets is determined using the balance sheet method using the corporate income tax rates which are expected to be in effect when the asset or liability is realized, in accordance with the provisions of tax law in the countries of registered offices of PZU Group companies, issued by the end of the reporting period.

In the case of all consolidated companies participating in the PGK Tax Group, the deferred tax assets and liabilities are set off based on the assumption that the Tax Group will be extended for the next periods, therefore for the needs of this set-off, the period in which the temporary differences are expected to be reversed is not analyzed.

44.2 Estimates and assumptions

PZU Group Companies have estimated the future taxable income for the possibility of realizing deductible temporary differences on account of tax losses incurred by these companies. As a result of these estimates, no deferred tax assets have been recognized pertaining to some of the tax losses.

44.3 Quantitative data

44.3.1. Deferred tax assets

Unrecognized deferred tax assets resulting from the tax loss according to legally permissible realization term	31 December 2019	31 December 2018
up to 1 year	1	4
1 to 5 years	14	9
over 5 years	3	6
term unlimited by law	2	2
Total	**20**	**21**

Movement in deferred tax assets in the year ended 31 December 2019	Balance at the beginning of the period	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Loan receivables from clients	1,158	(25)	(4)	14	1,143
Upfront bank commissions	580	36	-	4	620
Liabilities to clients under deposits	58	9	-	1	68
Intangible assets – trademarks and client relations	(291)	50	-	(5)	(246)
Financial instruments	237	(79)	(38)	1	121
Real property	(61)	12	-	(3)	(52)
Accrued reinsurance income and expenses	34	(16)	-	-	18
Provisions for employee benefits	72	(2)	-	-	70
Provisions for bonuses	74	(15)	-	4	63
Other provisions and liabilities	332	119	-	17	468
Tax losses carried forward	37	(1)	-	-	36
Provision for restructuring expenses	4	-	-	-	4
Total deferred tax assets	**2,234**	**88**	**(42)**	**33**	**2,313**

(in millions of PLN)

Movement in deferred tax assets in the year ended 31 December 2018	Balance at the beginning of the period	The effect of the application of IFRS 9	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Loan receivables from clients	809	308	48	(7)	-	1,158
Upfront bank commissions	478	45	57	-	-	580
Liabilities to clients under deposits	68	-	(10)	-	-	58
Intangible assets – trademarks and client relations	(340)	-	49	-	-	(291)
Financial instruments	248	-	11	(21)	(1)	237
Real property	(74)	-	13	-	-	(61)
Accrued reinsurance income and expenses	18	-	16	-	-	34
Provisions for employee benefits	85	-	(13)	-	-	72
Provisions for bonuses	67	-	7	-	-	74
Other provisions and liabilities	193	-	139	-	-	332
Tax losses carried forward	31	-	7	-	(1)	37
Provision for restructuring expenses	7	-	(3)	-	-	4
Total deferred tax assets	**1,590**	**353**	**321**	**(28)**	**(2)**	**2,234**

44.3.2. Deferred tax liability

Movement in deferred tax liabilities in the year ended 31 December 2019	Balance at the beginning of the period	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Financial instruments	122	153	74	1	350
Recourse receivables	9	(1)	-	-	8
Real property	57	(7)	1	24	75
Deferred acquisition expenses	277	5	-	-	282
Accrued reinsurance income and expenses	(6)	-	-	-	(6)
Intangible assets – trademarks and client relations	58	2	-	(1)	59
Provisions for employee benefits	(15)	(3)	-	-	(18)
Provision for bonuses	(53)	(4)	-	5	(52)
Liabilities unpaid to natural persons (under mandate contracts, agency contracts etc.)	(73)	(4)	-	-	(77)
Other provisions and liabilities	(105)	(3)	-	4	(104)
Prevention fund	14	(1)	-	-	13
Equalization provision	145	(1)	-	-	144
Tax losses carried forward	(17)	3	-	(3)	(17)
Other differences	73	-	-	4	77
Total movement in deferred tax liabilities	**486**	**139**	**75**	**34**	**734**

(in millions of PLN)

Movement in deferred tax liabilities in the year ended 31 December 2018	Balance at the beginning of the period	The effect of the application of IFRS 9	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Financial instruments	229	(3)	(45)	(60)	1	122
Recourse receivables	9	-	-	-	-	9
Real property	73	-	14	1	(31)	57
Deferred acquisition expenses	268	-	9	-	-	277
Accrued reinsurance income and expenses	14	-	(20)	-	-	(6)
Intangible assets – trademarks and client relations	61	-	(3)	-	-	58
Provisions for employee benefits	(12)	-	(3)	-	-	(15)
Provision for bonuses	(50)	-	(3)	-	-	(53)
Liabilities unpaid to natural persons (under mandate contracts, agency contracts etc.)	(65)	-	(8)	-	-	(73)
Other provisions and liabilities	(89)	(1)	(15)	-	-	(105)
Prevention fund	17	-	(3)	-	-	14
Equalization provision	137	-	8	-	-	145
Tax losses carried forward	(18)	-	(2)	-	3	(17)
Other differences	64	(3)	12	-	-	73
Total movement in deferred tax liabilities	**638**	**(7)**	**(59)**	**(59)**	**(27)**	**486**

45. Financial liabilities

45.1 Accounting policy

Financial liabilities are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument. In the case of transactions concluded on an organized market, the purchase or sale of financial liabilities are recognized in the books on the date of the transaction.

A financial liability (or part thereof) is excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

Financial liabilities measured at fair value through profit or loss included in particular:

- derivatives with a negative measurement;
- liabilities on borrowed securities (short sale);
- investment contracts for the client’s account and risk (unit-linked);
- liabilities to members of consolidated mutual funds.

Financial liabilities measured at amortized cost included in particular:

- deposits obtained by the PZU Group’s banks;
- securities issued by banks;
- loans received;
- liabilities on the issue of own debt securities;
- subordinated liabilities;
- liabilities under repurchase transactions.

Due to the short-term nature, trade liabilities are recognized at the amount of the required payment.

(in millions of PLN)

45.2 Quantitative data

Financial liabilities	31 December 2019	31 December 2018
Financial liabilities measured at fair value	**3,660**	**4,017**
Derivatives[1)]	3,018	3,365
Liabilities on borrowed securities (short sale)	293	120
Investment contracts for the client's account and risk (unit-linked)	259	266
Liabilities to members of consolidated mutual funds	90	266
Financial liabilities measured at amortized cost	**242,830**	**232,299**
Liabilities to banks	6,604	6,044
Current deposits	412	1,058
One-day deposits	419	207
Term deposits	41	7
Loans received	5,427	4,386
Other liabilities	305	386
Liabilities to clients under deposits	218,588	207,635
Current deposits	151,417	137,559
Term deposits	66,414	69,350
Other liabilities	757	726
Liabilities on the issue of own debt securities	9,273	12,009
Bonds	3,976	5,922
Certificates of deposit	3,940	4,542
Covered bonds	1,357	1,545
Subordinated liabilities	6,700	6,061
Liabilities on account of repurchase transactions	599	540
Lease liabilities	1,066	10
Total financial liabilities	**246,490**	**236,316**

[1)] More information on derivative instruments is presented in section 34.

Financial liabilities by maturity	31 December 2019	31 December 2018
Up to 1 year	227,041	218,952
1 to 5 years	10,579	10,332
Over 5 years	8,870	7,032
Total financial liabilities by maturity	**246,490**	**236,316**

Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 31 December 2019 (in PLN m)	Carrying amount 31 December 2018 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,279	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,257	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	554	548
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	201	196
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	351	-
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 4 June 2031	401	-
Liabilities classified as Alior Bank's own funds						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	-	43
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	225	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	196	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	148	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	605	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	68	68
Meritum Bank series C bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	-	81
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	44	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	151	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	70	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	150	150
Subordinated liabilities					**6,700**	**6,061**

on 21 October 2019 Alior Bank redeemed Meritum Bank series C bonds before maturity.

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

(in millions of PLN)

46. Other liabilities

Other liabilities	31 December 2019	31 December 2018
Accrued expenses	**1,979**	**1,578**
Accrued expenses of agency commissions	390	363
Accrued payroll expenses	217	192
Accrued reinsurance expenses	706	373
Accrued employee bonuses	367	345
Other	299	305
Deferred revenue	**322**	**282**
Other liabilities	**5,768**	**5,547**
Liabilities due under transactions on financial instruments	905	909
Liabilities to banks for payment documents cleared in interbank clearing systems	1,096	934
Liabilities on direct insurance	892	835
Liabilities on account of payment card settlements	408	419
Regulatory settlements	210	165
Liabilities for contributions to the Bank Guarantee Fund	356	182
Reinsurance liabilities	197	269
Estimated non-insurance liabilities	161	157
Liabilities to employees	47	141
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	69	98
Trade liabilities	337	367
Current income tax liabilities	352	570
Liabilities to the state budget other than for income tax	182	111
Liabilities on account of donations	23	25
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	12	20
Insurance Indemnity Fund	15	15
Liabilities for direct claims handling	29	30
Other	477	300
Other liabilities, total	**8,069**	**7,407**

As at 31 December 2019 and 31 December 2018, the fair value of other liabilities did not differ significantly from their carrying amount, primarily due to fact that over 96% of them are short-term liabilities.

Other liabilities by maturity	31 December 2019	31 December 2018
Up to 1 year	7,822	7,012
1 to 5 years	176	337
Over 5 years	71	58
Total other liabilities by maturity	**8,069**	**7,407**

47. Leases

47.1 Accounting policy

PZU Group companies are parties to lease agreements, both as lessors and as lessees.

47.1.1. Principles prevailing as of 1 January 2019

An agreement is a lease or comprises a lease if it transfers the right to control the use of an identified asset for a specific period in return for a fee.

47.1.1.1. PZU Group as the lessee

On the date when the leased asset is available for use, the PZU Group recognizes the right-of-use asset and the lease liability.

Pursuant to item 4 of IFRS 16, the PZU Group does not apply this standard to intangible assets.

The lease period is an irrevocable period of use of an asset, determined taking into consideration:

- the options of extending or shortening, if they are in principle certain;
- material investments in the leased item undertaken during the term of the agreement which are expected to bring significant economic benefits for the PZU Group company, on the basis of which decisions will be taken on extending or terminating the agreement;
- the costs associated with termination of the lease, such as costs of negotiation, costs of relocation, costs of search for different premises/property adequate to the company's business needs, termination penalty and costs associated with adaptation of the condition of the subject matter of the agreement being returned;
- the significance of the asset for the activity of the PZU Group company, considering the specialization of the asset, its location and availability of relevant alternative solutions;
- conditions associated with exercising the option (i.e. if the option can be exercised when one or more conditions have been satisfied) and the probability of fulfillment of such conditions.

Assessing the probability of exercise of the aforementioned options, the company takes into account all material facts and circumstances which constitute an economic incentive to exercise the option to extend the lease and or not to exercise the option to terminate the lease.

The PZU Group determines the lease period for agreements for an indefinite term taking into account the economic factors, the existing practice and the available information which may be helpful in determining the period of use of the asset. To determine the lease period, the PZU Group uses professional judgment. In particular, for the perpetual usufruct right to land, the lease period is determined as the time remaining from the date of implementation of IFRS 16 or from the date of purchase of the perpetual usufruct right to land (of acquired after 1 January 2019) until the date of expiry of such right.

On initial recognition:

- the lease liability is measured at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available;
- right-of-use assets are measured at cost, which includes the initial lease liability amount, any lease payments paid on or before the commencement date, less any lease incentives received, all initial costs incurred by the lessee, and an estimate of the costs to be incurred in disassembling and removing the asset, renovating the site where it was located, if the lease contract so requires.

The PZU Group recognizes assets and liabilities in respect of lease at a net amount. The VAT amount is recognized in expenses of the current period.

Lease payments are discounted using the interest rate implicit in the lease, if it can be easily determined, or the lessee's marginal interest rate.

The lessee's marginal rate is calculated as the sum of the risk-free rate and fixed risk spread. For all contracts ending on the same date and with a fixed amount of monthly payments (this group includes most lease contracts in the PZU Group) a fixed contract discount rate has been calculated.

In subsequent periods:

- the right-of-use asset is measured using the cost less depreciation and impairment model or at fair value (in the case of assets being investment properties);
- the liability is measured at amortized cost.

Right-of-use assets are depreciated using the straight-line method from the lease commencement date to the earlier of the end of the useful life or the end of the lease period.

Right-of-use assets are recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities as financial liabilities.

Changes in lease payments (resulting from, among others, changes in the index, rate, lease period) are taken into account, updating the valuation of lease liabilities and an appropriate adjustment of the right-of-use assets. The lease period is updated in the case of:

- occurrence of a significant event or significant change in the circumstances which the PZU Group controls and as a result of which it is possible to assume with sufficient certainty that the PZU Group will exercise an option which has not been previously taken into consideration in the determination regarding the lease period, or that it will not exercise an option which has been previously taken into consideration in such determinations;
- change of the irrevocable period of lease or new determination of the lease period in the case of amendment of the agreement, if such change has not been recognized as a separate lease.

Short-term lease and low-value asset lease

The PZU Group does not recognize right-of-use assets for short-term leases and for leases for which the underlying asset has a low value. Low-value assets were deemed to be assets with an original value of the underlying asset equal to or lower than PLN 20 thousand. In such a case the PZU Group recognizes lease payments as a cost in the consolidated profit and loss account during the lease period.

47.1.1.2. PZU Group as the lessor

On the date of commencement of the lease, the PZU Group classifies the given lease agreement as:

- finance lease – if substantially all of the risks and benefits following from the holding of the underlying asset are transferred or as
- operating lease – if the above conditions are not satisfied.

Classifying the given lease agreement, the PZU Group takes into account, among others, the fact whether the lease period constitutes a larger part of the economic useful life of the asset.

Finance lease

On the lease commencement date, the PZU Group recognizes the receivable in the amount of the net lease investment, i.e. the current value of minimum lease payments and unguaranteed residual value, if any, ascribed to the PZU Group. During the lease period the PZU Group recognizes interest income on the lease receivables.

Operating leases

Operating lease agreements pertain primarily to real property.

Lease payments under operating leases are recognized in the profit and loss account as income using the straight line method throughout the term of the lease.

47.1.2. Principles prevailing until 31 December 2018

The classification of leases was based on the extent to which the risks and rewards incidental to ownership of the leased item lie with the lessor or the lessee.

(in millions of PLN)

47.1.2.1. Finance leases

In the case of lease agreements under which substantially all risks and rewards incidental to ownership of a leased asset were transferred, it stopped being recognized in the lessor's balance sheet. Instead the lessor recognized a receivable in an amount equal to the present value of minimum lease payments, which were then divided between interest income and decrease in the balance of receivables.

47.1.2.2. Operating leases

Operating lease agreements concerned predominantly real properties.

Lease payments under operating leases were recognized in the profit and loss account as income using the straight line method throughout the term of the lease.

47.2 Quantitative data

47.2.1. PZU Group as the lessor

47.2.1.1. Finance leases

Leasing investments	31 December 2019
Undiscounted lease payments	10,688
Up to 1 year	4,156
From 1 year to 2 years	3,049
From 2 to 3 years	982
From 3 to 4 years	1,279
From 4 to 5 years	626
Over 5 years	596
Unrealized financial income	(903)
Discounted unguaranteed residual values	-
Net lease investments	**9,785**

Gross financial lease receivables	31 December 2018		
	Gross lease investment	Present value of minimum lease payments	Unrealized income
Up to 1 year	2,796	2,783	313
1 to 5 years	5,634	5,636	402
Over 5 years	541	521	29
Total	**8,971**	**8,940**	**744**

(in millions of PLN)

47.2.1.2. Operating leases

Operating lease transactions pertain principally to investment property lease agreements. The table below presents future minimum lease payments under operating lease (undiscounted amounts).

Future minimum receivables on lease payments	31 December 2019
Up to 1 year	164
From 1 year to 2 years	149
From 2 to 3 years	137
From 3 to 4 years	104
From 4 to 5 years	85
Over 5 years	168
Total future minimum receivables on lease payments	**807**

Future minimum receivables on lease payments	31 December 2018
Up to 1 year	224
1 to 5 years	561
Over 5 years	320
Total future minimum receivables on lease payments	**1,105**

47.2.2. PZU Group as the lessee

47.2.2.1. As of 1 January 2019 (in accordance with IFRS 16)

Right-of-use assets carried as property, plant and equipment	31 December 2019
Means of transport	30
Other property, plant and equipment	2
Real property	994
Total right-of-use assets	**1,026**

Movement in right-of-use assets used for own needs is presented together with the movement in property, plant and equipment in section 30.2.

Lease-related costs	31 December 2019
Depreciation of right-of-use assets	297
Plant and machinery	19
Means of transport	13
Other property, plant and equipment	1
Real property	264
Interest on lease liabilities	29
Short-term lease-related costs	114
Low-value asset lease-related costs	-
Costs of variable lease payments not carried in valuation of lease liabilities	-

(in millions of PLN)

47.2.2.2. Operating leases – until 31 December 2018 (in accordance with IAS 17)

Operating lease liabilities result primarily from the lease of commercial and office space. The PZU Group pursues a policy of concluding agreements for a definite term from 3 to 5 years with a renewal option. The table below presents future minimum lease payments under operating lease (undiscounted amounts).

Minimum operating lease payment liabilities	31 December 2018
Up to 1 year	291
1 to 5 years	740
Over 5 years	149
Total minimum operating lease payment liabilities	**1,180**

48. Assets securing receivables, liabilities and contingent liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 December 2019	31 December 2018
Carrying amount of financial assets pledged as collateral for liabilities	10,522	8,254
Repurchase transactions	598	543
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	938	1,043
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	122	95
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	302	133
Lombard and technical credit	5,758	3,700
Other loans	709	569
Issue of covered bonds	1,872	1,462
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	33	54
Derivative transactions	190	655
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**10,522**	**8,254**

49. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2019	31 December 2018
Contingent assets, including:	6	6
– guarantees and sureties received	6	6
Contingent liabilities	59,437	57,667
– for renewable limits in settlement accounts and credit cards	11,122	13,211
– for loans in tranches	29,867	28,523
– guarantees and sureties given	9,782	7,682
– disputed insurance claims	773	576
– other disputed claims	212	231
– other, including:	7,681	7,444
– guaranteeing securities issues	3,636	4,470
– factoring	2,839	1,275
– intra-day limit	339	755
– letters of credit and commitment letters	674	822
– other	193	122

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

In 2019 neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

50. Disputes

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

The majority of disputes involving the PZU Group companies concerned four companies: PZU, PZU Życie, Pekao and Alior Bank. Additionally, PZU and PZU Życie are parties to proceedings conducted before the President of the Office of Competition and Consumer Protection.

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

As at 31 December 2019, the total value of dispute in all 294,687 cases (as at 31 December 2018: 217,810 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,363 million (as at 31 December 2018: PLN 7,804 million). This amount included PLN 4,293 million (as at 31 December 2018: PLN 4,108 million) of liabilities and PLN 4,070 million (as at 31 December 2018: PLN 3,696 million) of receivables of PZU Group companies.

In 2019 and by the date of signing the consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 December 2019, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the 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 replied to the statement of claim, requesting to dismiss it in its entirety. PZU did not consent to mediation. In subsequent court sessions, evidentiary hearings have taken place.

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

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

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

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

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

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

PZU held a provision for this fine, which amounted to PLN 57 million as at 31 December 2019 and 31 December 2018.

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

On 1 June 2005, the President of the Office of Competition and Consumer Protection launched, at the request of several applicants, an anti-monopoly procedure in the matter of a suspicion of PZU Życie's abuse of its dominating position in the group employee insurance market, which could constitute a breach of Article 8 of the Competition and Consumer Protection Act and Article 82 of the Treaty establishing the European Community. As a result of the procedure, on 25 October 2007 the President of the Office of Competition and Consumer Protection imposed a fine on PZU Życie in the amount of PLN 50 million for hindering clients from taking advantage of the offers of the company's competitors.

The PZU Życie Management Board did not concur with the findings or with the legal arguments set out in the decision. It filed an appeal with the Regional Court in Warsaw, raising 38 formal and substantial objections against the decision made by the UOKiK President. The Management Board of PZU Życie is of the opinion that, in its decision, UOKiK failed to consider all the evidence, made an incorrect legal qualification, and, as a consequence, groundlessly assumed that PZU Życie has a dominating position on the market.

After many years of proceedings, on 30 September 2015, PZU Życie paid the imposed fine of PLN 50 million and the awarded costs of proceedings. On 18 March 2016, PZU Życie filed a cassation appeal with the Supreme Court. During the hearing held on 26 September 2017, the Supreme Court decided to refer the case for resolution to the Court of Justice of the European Union in Luxembourg, which through its judgment on 3 April 2019 ruled on this question. On 24 October 2019, the Supreme Court issued a judgment dismissing the cassation appeal filed by PZU Życie.

Since the fine has already been paid by PZU Życie in 2015, dismissal of the cassation appeal did not have impact on the consolidated financial statements.

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 December 2019 was PLN 0.3 million (PLN 2.2 million as at 31 December 2018). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 31 December 2019 and 31 December 2018.

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

50.5 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. The plaintiffs believe that Alior Bank failed to provide clients with information on the actual risk of investing in investment products, by which it exposed the clients to a loss resulting from the loss of value of investment certificates and loss of guaranteed profits. The PZU Group believes that the class action has no justified factual or legal grounds and therefore it should not be resolved favorably to the clients. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. On 12 November 2019 Alior Bank filed an appeal against this decision. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 31 December 2019, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

51. Related party transactions

51.1 Key management

The PZU Management Board Members and PZU Group Directors are assumed to be the key management of the PZU Group.

In 2019 and in 2018, the PZU Group companies did not grant any loans or similar benefits to members of their key management.

Compensation of the key management and members of the PZU SA Supervisory Board

Compensation of PZU's key management (Management Board members, senior managers and Supervisory Board members who discharged their functions for at least one day in 2019 or 2018). The figures are presented in thousands of PLN.

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2019 (PLN 000s)		1 January – 31 December 2018 (PLN 000s)	
		including part of variable compensation for 2017 and 2018		including bonuses and special awards:
Management Board, of which:	**10,664**	**4,412**	**3,857**	**-**
Paweł Surówka	1,799	915	793	-
Aleksandra Agatowska	611	423	n/a	n/a
Adam Brzozowski	532	-	n/a	n/a
Marcin Eckert	672	-	n/a	n/a
Elżbieta Häuser-Schöneich	532	-	n/a	n/a
Tomasz Kulik	1,482	627	766	-
Maciej Rapkiewicz	1,733	879	766	-
Małgorzata Sadurska	1,543	689	766	-
Roger Hodgkiss	1,760[1)]	879	766	-
High-level managers (PZU Group Directors), including:	**3,530**	**2,034**	**1,451**	**11**
Aleksandra Agatowska	239	-	203	-
Tomasz Karusewicz	793[2)]	565	307	-
Bartłomiej Litwińczuk	821	482	307	-
Dorota Macieja	754	415	317	11[3)]
Roman Pałac	923	572	317	-
Supervisory Board, of which:	**1,761**	**-**	**1,420**	**-**
Maciej Łopiński	184	-	169	-
Paweł Górecki	182	-	170	-
Alojzy Nowak	182	-	170	-
Marcin Chludziński	167	-	156	-
Agata Górnicka	167	-	156	-
Robert Jastrzębski	176	-	127	-
Tomasz Kuczur	101	-	n/a	n/a
Elżbieta Mączyńska-Ziemacka	101	-	n/a	n/a
Krzysztof Opolski	101	-	n/a	n/a
Robert Śnitko	167	-	156	-
Maciej Zaborowski	167	-	156	-
Katarzyna Lewandowska	66	-	157	-
Aneta Fałek	n/a	n/a	3	-

1) Including non-competition fee of PLN 383 thousand and severance pay of PLN 192 thousand.
2) Including non-competition fee of PLN 49 thousand and severance pay of PLN 77 thousand.
3) Bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017.

In 2019, PZU Management Board members were paid part of the benefits for 2017 under the variable compensation system. The payout of the remaining part of the bonus for 2017 and 2019 may be made in subsequent periods. A provision has been recognized for these benefits with the total amount of PLN 11,791 thousand as at 31 December 2019 (including the employer's burdens; PLN 9,054 thousand as at 31 December 2018).

Compensation and other short-term employee benefits paid by other PZU Group entities	1 January – 31 December 2019 (PLN 000s)		1 January – 31 December 2018 (PLN 000s)	
		including part of variable compensation for 2017 and 2018		including bonuses and special awards:
Management Board, of which:	**1,471**	**1,012**	**90**	**-**
Paweł Surówka	67	67	90[1]	-
Aleksandra Agatowska	788	377	n/a	n/a
Marcin Eckert	48	-	n/a	n/a
Tomasz Kulik	298	298	-	-
Maciej Rapkiewicz	135	135	-	-
Roger Hodgkiss	135	135		
High-level managers (PZU Group Directors), including:	**3,831**	**1,946**	**2,206**	**6**
Aleksandra Agatowska	n/a	n/a	344	-
Tomasz Karusewicz	857[2]	515	460	-
Bartłomiej Litwińczuk	979	471	460	-
Dorota Macieja	943	434	466	6[3]
Roman Pałac	1,052	526	476	-

[1] Remuneration for the function of Pekao Supervisory Board Member discharged from 1 January to 20 June 2018.
[2] Including non-competition fee of PLN 74 thousand and severance pay of PLN 115 thousand.
[3] Bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017.

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2019 (PLN 000s)	1 January – 31 December 2018 (PLN 000s)
Management Board, of which:	**2,242**	**515**
Paweł Surówka	331	149
Aleksandra Agatowska	207	n/a
Adam Brzozowski	148	n/a
Marcin Eckert	200	n/a
Elżbieta Häuser-Schöneich	119	n/a
Tomasz Kulik	649[1]	77
Maciej Rapkiewicz	227	64
Małgorzata Sadurska	259	110
Roger Hodgkiss	102	115
High-level managers (PZU Group Directors), including:	**768**	**525**
Aleksandra Agatowska	n/a	111
Tomasz Karusewicz	143	89
Bartłomiej Litwińczuk	200	118
Dorota Macieja	197	78
Roman Pałac	228	129

[1] Including PLN 473 thousand for the Advanced Management Program at Harvard Business School.

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

In 2019, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on non-arm's length conditions.

51.3 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 December 2019 and as at 31 December 2019		1 January – 31 December 2018 and as at 31 December 2018	
	Key management	Other related parties [1)]	Key management	Other related parties [1)]
Gross written premium				
in non-life insurance	-	4	-	4
in life insurance (including volumes in investment contracts)	-	-	-	-
Commission income	-	-	-	-
Expenses	-	-	-	-
Receivables		-		-
Liabilities	-	-	-	-
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1)] Unconsolidated companies in liquidation and associates measured by the equity method.

51.4 Transactions with State Treasury's related parties

Transactions with subsidiaries, joint ventures and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and investment contracts and banking services. Such transactions are concluded and settled on terms and conditions available to customers, who are not related parties. Receivables from and liabilities to parties related to the State Treasury under insurance contracts are usually short-term.

52. Headcount

The following table presents average headcount (in FTEs) in PZU Group companies.

Item	1 January – 31 December 2019	1 January – 31 December 2018
Management Boards (number of persons at the end of the reporting period)	151	133
Management	4,085	4,333
Other employees	37,159	37,006
Total	**41,395**	**41,472**

53. Other information

53.1 Audit fee payable to the audit firm auditing the financial statements

The table below presents the amounts due to the PZU Group's audit firm (KPMG Audyt sp. z ograniczoną odpowiedzialnością sp. k., "KPMG Audyt", and members of the KPMG network) for the audit of financial statements of the consolidated PZU Group companies performed by KPMG, paid or payable for the period, plus VAT, determined in accordance with the accrual principle.

Item	1 January – 31 December 2019 (PLN 000s)	1 January – 31 December 2018 (PLN 000s)
Audit of financial statements	8,371	7,813
Other assurance services	5,148	4,814
Total	**13,519**	**12,627**

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors in the list of audit firms under no. 3546 as an entity auditing

financial statements for the years 2014-2016, and on 27 April 2017, the PZU Supervisory Board exercised the option of extending this cooperation to include the years 2017-2018. On 23 May 2019, after KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt to audit PZU's standalone and consolidated financial statements, the PZU Supervisory Board made the decision to select KPMG Audyt again as the audit firm to audit the 2019-2020 financial statements.

53.2 KNF Office inspections in PZU and PZU Życie

In the period from 19 June 2018 to 17 August 2018, a KNF inspection was conducted in PZU pertaining to claims handling and entering into short-term insurance contracts. On 31 December 2018, the supervisory authority issued two key post-audit recommendations for the claims and benefits handling area and one recommendation regarding the execution of short-term insurance agreements with the deadline of 31 January 2019. The recommendations were fulfilled within the deadline. On 27 February 2019 KNF requested more explanations regarding the performance of the recommendations. On 21 March 2019 PZU forwarded additional evidence and a detailed set of explanations pertaining to the performance of the recommendations. Moreover, PZU undertook to convey to the regulatory authority the findings of the inspections planned in 2019 concerning claims handling and the execution of short-term contracts.

On 9 April 2019 the regulatory authority requested the provision of more evidence concerning the performance of the recommendations, inter alia, the findings of the inspections scheduled for Q1 2019. On 16 April, 12 July and 17 October 2019, PZU conveyed more evidence concerning the performance of the recommendations to the regulatory authority.

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

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

In the period from 1 October to 30 November 2019, KNF carried out an inspection of PZU Życie's asset standing in the context of the company's investment policy. On 31 December 2019, PZU Życie received an inspection report and on 14 January 2020 it submitted additional clarifications. On 29 January 2020, KNF presented its stance on PZU Życie's comments and reservations regarding the contents of the report. On 27 February 2020, PZU Życie received a recommendation to adjust its operations to the provisions of Article 267(1) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended, with the time limit for such adjustment set for 5 May 2020.

Also, by a letter of 28 December 2018, KNF provided a post-inspection protocol for the inspection carried out in PZU Życie in 2016 regarding the use of insurance agent services. On 19 January 2019, PZU Życie passed on its objections to the protocol, to which the KNF responded on 28 May 2019. On 12 June 2019, PZU Życie provided additional explanations to the regulatory authority.

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

53.3 Opening of a long-term bond issue program by Alior Bank

On 5 August 2019, the Supervisory Board of Alior Bank, in accordance with a motion submitted by Alior Bank's Management Board, gave its consent for the launch of Alior Bank's Long-Term Bond Issue Program and authorized the Management Board to repeatedly contract financial liabilities under this Program by issuing unsecured bonds. The total par value of the Program will not exceed PLN 5,000 million.

A bond offering program for issues of unsecured, unsubordinated or subordinated, bearer bonds for up to PLN 1,500 million was set up under this Long-term Program on the basis of Alior Bank's Management Board decision of 10 September 2019. The Offering Program will be covered by a basic prospectus prepared by Alior Bank according to 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.

Works on the preparation of the prospectus is currently underway.

53.4 Launch of Alior Bank's Second Program to Issue Banking Securities

On 30 August 2019, the Supervisory Board of Alior Bank, in accordance with a motion submitted by Alior Bank's Management Board, gave its consent for the launch of Alior Bank's Second Program to Issue Banking Securities and authorized the Management Board to repeatedly contract financial liabilities under this Program by issuing banking securities with a par value of at least PLN 100 or the equivalent of this amount in other currencies. The total par value of the Program will not exceed PLN 5,000 million.

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

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

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

Since the beginning of 2019, Alior Leasing sp. z o.o. has received several letters from dismissed members of the company's management board containing a proposal for Alior Leasing sp. z o.o. to reach an amicable settlement of the dispute over the reasons for an early termination of the management contracts and payment of a portion of the benefits under the management option plan. The management option plan covered the dismissed members of the management board of Alior Leasing sp. z o.o. and certain employees of the company. In the opinion of the PZU Group, the likelihood that the court awards the dismissed members of the management board of Alior Leasing sp. z o.o. the contested benefits under the management option plan is low. Accordingly, no relevant provision was recognized in the consolidated financial statements.

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

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

53.7 Execution of a memorandum of agreement pertaining to the terms and conditions for the transaction involving RUCH Spółka Akcyjna in restructuring

A memorandum of agreement was executed on 11 April 2019 by and between Alior Bank, Polski Koncern Naftowy Orlen SA ("PKN Orlen") and PZU concerning the terms and conditions for a transaction involving RUCH SA in restructuring ("Ruch"). In accordance with this memorandum of agreement Alior Bank intends to take over a 100% equity stake in Ruch (in the manner agreed by and between Alior Bank and PKN Orlen after the arrangement is approved with legally binding force under the accelerated arrangement proceedings) for the purpose of reselling it to PKN Orlen.

PKN Orlen's acquisition of the shares in Ruch will take place after the fulfillment of the conditions contemplated by the executed memorandum of agreement, i.e. among others:

- asserting with legally binding force the performance of the arrangements executed in the accelerated arrangement proceedings concerning Ruch;
- the parties to the memorandum of agreement obtain corporate consents and
- the UOKiK President or the European Commission give their consent for PKN Orlen to acquire shares in Ruch.

On 30 August 2019, Alior Bank obtained information about the approval by the Regional Court in Warsaw, Commercial Court, 23rd Commercial Appellate Division, of partial settlements providing for the forgiveness of:

- 85% of claims under the accelerated settlement proceedings of Ruch, involving publishers that are creditors of Ruch in respect of which Ruch's debt was at least PLN 1 million as at the date of opening the proceedings, and
- 50% of claims under the accelerated settlement proceedings of Ruch, involving publishers that are creditors of Ruch in respect of which Ruch's debt was greater than PLN 100 thousand as at the date of opening the proceedings.

The negotiations regarding the date of execution of the transaction and its detailed terms are currently under way. In PZU Group's opinion, the restructuring scenario is the most favorable, which was reflected in the development of the scenarios for the needs of calculation of the impairment loss for the receivables from RUCH.

53.8 Subsequent events

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

On 4 February 2020 the PZU Management Board adopted a resolution to select an offer in the proceeding to lease headquarters for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a company belonging to the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU head office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office. PZU and PZU Życie signed a letter of intent with the Lessor on 4 February 2020 to specify the preliminary terms and conditions of the agreement to lease office space, office and commercial space, storage space and parking spaces. The letter of intent contemplates that the future lease agreement will contain contractual penalties regarding the Lessor's liability for delays in handing over the leased facility, hindrances and impediments to usage of the leased area and violations of the non-compete clause and right of first refusal to purchase the Building. The letter of intent contains a declaration on how to proceed and sign the lease agreement by 29 May 2020 provided that the parties reach an agreement on all of the other terms and conditions of lease and agree upon the wording of the lease agreement.

The total estimated gross value of the prospective agreement to lease the Building over the 10 years of its duration is approximately PLN 805 million, while the gross incremental costs related to relocation are approximately PLN 86 million. These amounts may vary as a result of specific arrangements concerning the final arrangement, amount of space leased, the final scope of adaptation work, the commencement date of the lease agreement and the date of translating some of the costs and financial incentives between EUR and PLN.

The selection of this Building and the signing of the letter of intent do not imply that this transaction will be executed.

53.8.2. Group layoff program in Pekao

On 20 February 2020, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships, the Pekao Management Board adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

In the period from 12 March 2020 to 31 October 2020, Pekao intends to terminate employment contracts with a maximum of 1,200 employees and modify employment conditions to a maximum of 1,350 employees.

On 20 February 2020 Pekao notified the company's trade union organizations of the reasons for the planned group layoff and requested that the trade union organizations engage in consultation.

Moreover, Pekao notified the labor office of its intention to conduct group layoffs. After completing the consultations with trade union organizations required by the law, Pekao will provide information about the estimate value of the provision recognized in connection with the downsizing.

Signatures of the PZU Management Board Members:

Name	Position	
Paweł Surówka	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Adam Brzozowski	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Elżbieta Häuser-Schöneich	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 11 March 2020