Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim consolidated financial statements for the 9 months ended 30 September 2020

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(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	**m PLN 1 January – 30 September 2020**	**m PLN 1 January – 30 September 2019**	**m EUR 1 January – 30 September 2020**	**m EUR 1 January – 30 September 2019**
Gross written premium	17,291	17,501	3,893	4,062
Net earned premium	17,317	17,227	3,898	3,998
Revenue from commissions and fees	3,037	3,051	684	708
Net investment result	6,272	8,368	1,412	1,942
Net insurance claims and benefits paid	(11,352)	(11,920)	(2,556)	(2,767)
Profit before tax	2,676	5,056	602	1,173
Profit attributable to equity holders of the Parent Company	1,191	2,360	268	548
Profit attributable to holders of non-controlling interests	367	1,324	83	307
Basic and diluted weighted average number of common shares	863,326,940	863,280,102	863,326,940	863,280,102
Basic and diluted earnings per common share (in PLN/EUR)	1.38	2.73	0.31	0.63

Data from the consolidated statement of financial position	**m PLN 30 September 2020**	**m PLN 31 December 2019**	**m EUR 30 September 2020**	**m EUR 31 December 2019**
Assets	373,481	343,385	82,504	80,635
Share capital	86	86	19	20
Equity attributable to equity holders of the parent	17,889	16,169	3,952	3,797
Non-controlling interest	24,270	23,119	5,361	5,429
Total equity	42,159	39,288	9,313	9,226
Basic and diluted number of common shares	863,332,743	863,323,224	863,332,743	863,323,224
Book value per common share (in PLN/EUR)	20.72	18.73	4.58	4.40

Data from the consolidated cash flow statement	**m PLN 1 January – 30 September 2020**	**m PLN 1 January – 30 September 2019**	**m EUR 1 January – 30 September 2020**	**m EUR 1 January – 30 September 2019**
Net cash flows from operating activities	28,821	(1,051)	6,488	(244)
Net cash flows from investing activities	(26,126)	(357)	(5,881)	(83)
Net cash flows from financing activities	(1,847)	(6,947)	(416)	(1,612)
Total net cash flows	848	(8,355)	191	(1,939)

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	**m PLN 30 September 2020**	**m PLN 31 December 2019**	**m EUR 30 September 2020**	**m EUR 31 December 2019**
Assets	43,234	41,596	9,551	9,768
Share capital	86	86	19	20
Total equity	16,809	14,957	3,713	3,512
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	19.47	17.32	4.30	4.07

(in millions of PLN)

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 30 September 2020	m PLN 1 January – 30 September 2019	m EUR 1 January – 30 September 2020	m EUR 1 January – 30 September 2019
Gross written premium	9,013	9,396	2,029	2,181
Technical result of non-life insurance	1,044	978	235	227
Net investment result [1)]	948	2,153	213	500
Net result	1,430	2,459	322	571
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	1.66	2.85	0.37	0.66

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

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

Data from the balance sheet	m PLN 30 September 2020	m PLN 31 December 2019	m EUR 30 September 2020	m EUR 31 December 2019
Assets	29,365	28,068	6,487	6,591
Total equity	4,425	4,524	978	1,062

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 30 September 2020	m PLN 1 January – 30 September 2019	m EUR 1 January – 30 September 2020	m EUR 1 January – 30 September 2019
Gross written premium	6,519	6,351	1,468	1,474
Technical life insurance result	1,519	1,334	342	310
Net investment result	756	1,004	170	233
Net profit	1,185	1,022	267	237

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2020 was PLN 1,558 million and was 57.7% lower than the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 1,191 million, compared to PLN 2,360 million in 2019 (down 49.5%).

The net result declined 18.8% compared to last year, net of non-recurring events.[1]

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2020 was 9.3%, down 11.5 percentage points from the corresponding period of the previous year.

The following factors also affected the PZU Group's activity in the 9 months ended 30 September 2020, as compared to the corresponding period of the previous year:

- the decline of gross written premium, especially on motor insurance in both non-life insurance segments as a result of the protracted COVID-19 pandemic. This effect was partially offset by the rising level of premium in the unit-linked products offered in collaboration with banks and the development of the portfolio of group health products;

[1]Non-recurring events included the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million (after adjustment for the impact exerted by deferred tax and minority shareholdings the impact exerted on the net result attributable to the parent company's shareholders was PLN 42 million) and the conversion effect of changing long-term contracts into annual renewable contracts in type P group insurance.

- higher profitability in group and individually continued insurance as the outcome of the falling loss ratio of certain risks in the group protection portfolio and the smaller increase in provisions for continued insurance with operating expenses remaining at a balanced level;
- higher profitability of the mass insurance segment driven by the lower loss ratio in motor insurance, which was partially offset by the deterioration of profitability in agricultural insurance, and higher allocated investment income (depreciation of the Polish zloty);
- lower operating result in the corporate client segment as the outcome of an increase in the loss ratio on the general TPL insurance and financial insurance portfolio coupled with the concurrent dip in sales, chiefly of motor insurance;
- operating result on individual insurance at a level comparable to that attained in the corresponding period of 2019 with a growing insurance (chiefly bancassurance) portfolio;
- lower result on listed equities, in particular due to the deteriorated market conditions on the capital market caused by the COVID-19 pandemic;
- poorer performance of the banking business, including the one-off effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million and the higher costs of risk stemming from the establishment of additional loan provisions due to the COVID-19 pandemic.

(in millions of PLN)

Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated) 2)	1 January – 30 September 2019 (restated) 2)
Gross written premium	9.1	5,600	17,291	5,662	17,501
Reinsurers' share in gross written premium		(73)	(347)	(99)	(338)
Net written premiums		**5,527**	**16,944**	**5,563**	**17,163**
Movement in net provision for unearned premiums		338	373	330	64
Net earned premium		**5,865**	**17,317**	**5,893**	**17,227**
Revenue from commissions and fees	9.2	1,054	3,037	1,058	3,051
Interest income calculated using the effective interest rate	9.3	2,341	8,011	3,040	9,009
Other net investment income	9.4	194	380	325	590
Result on derecognition of financial instruments and investments	9.5	212	27	104	211
Movement in allowances for expected credit losses and impairment losses on financial instruments	9.6	(532)	(2,607)	(502)	(1,577)
Net movement in fair value of assets and liabilities measured at fair value	9.7	(92)	461	(212)	135
Other operating income	9.8	351	1,020	309	884
Claims, benefits and movement in technical provisions		(4,162)	(11,770)	(4,095)	(12,219)
Reinsurers' share in claims, benefits and movement in technical provisions		101	418	104	299
Net insurance claims and benefits paid	**9.9**	**(4,061)**	**(11,352)**	**(3,991)**	**(11,920)**
Fee and commission expenses	9.10	(275)	(753)	(229)	(620)
Interest expenses	9.11	(197)	(1,003)	(541)	(1,606)
Acquisition expenses	9.12	(819)	(2,466)	(864)	(2,480)
Administrative expenses	9.12	(1,595)	(4,930)	(1,624)	(4,900)
Other operating expenses	9.13	(824)	(4,464) 1)	(811)	(2,946)
Operating profit		**1,622**	**2,678**	**1,955**	**5,058**
Share of the net financial results of entities measured by the equity method		(1)	(2)	1	(2)
Profit before tax		**1,621**	**2,676**	**1,956**	**5,056**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated) [2)]	1 January – 30 September 2019 (restated) [2)]
Income tax	9.14	(358)	(1,105)	(470)	(1,372)
Net profit on continuing operations		**1,263**	**1,571**	**1,486**	**3,684**
Loss on discontinued operations		(9)	(13)	-	-
Net profit, including:		**1,254**	**1,558**	**1,486**	**3,684**
- profit attributable to the equity holders of the Parent Company		890	1,191	879	2,360
- profit (loss) attributed to holders of non-controlling interest		364	367	607	1,324
Weighted average basic and diluted number of common shares	9.15	863,328,971	863,326,940	863,302,480	863,280,102
Basic and diluted profit (loss) per common share (in PLN)	9.15	1.03	1.38	1.02	2.73

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million) and intangible assets identified during the acquisition of Alior Bank (PLN 161 million). Additional information on this issue is presented in section 9.16.1.

[2)] Information on restatement of data for the period from 1 July to 30 September 2019 and 1 January to 30 September 2019 is presented in section 5.3.

(in millions of PLN)

Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated) [1]	1 January – 30 September 2019 (restated) [1]
Net profit		1,254	1,558	1,486	3,684
Other comprehensive income	9.14	112	1,314	234	700
Subject to subsequent transfer to profit or loss		189	1,327	292	668
Valuation of debt instruments		184	629	191	460
Measurement of loan receivables from clients		4	6	7	24
Foreign exchange translation differences		14	73	44	32
Cash flow hedging		(13)	619	50	152
Not to be transferred to profit or loss in the future		(77)	(13)	(58)	32
Valuation of equity instruments		(77)	(13)	(58)	30
Reclassification of real property from property, plant and equipment to investment property		-	-	-	2
Total net comprehensive income		**1,366**	**2,872**	**1,720**	**4,384**
- comprehensive income attributable to equity holders of the Parent Company		914	1,721	1,040	2,839
- comprehensive income attributable to holders of non-controlling interest		452	1,151	680	1,545

[1] Information on restatement of data for the period from 1 July to 30 September 2019 and 1 January to 30 September 2019 is presented in section 5.3.

(in millions of PLN)

Interim consolidated statement of financial position

Assets	Note	30 September 2020	31 December 2019 (restated) [1]
Goodwill	9.16	2,765	4,034
Intangible assets	9.17	3,059	3,157
Other assets	9.18	508	734
Deferred acquisition costs		1,509	1,574
Reinsurers' share in technical provisions	9.30	1,608	1,856
Property, plant and equipment	9.19	4,136	4,229
Investment property		2,313	1,981
Entities measured by the equity method		6	11
Loan receivables from clients	9.20	195,231	194,868
Financial derivatives	9.21	7,153	3,107
Investment financial assets	9.22	137,418	111,416
Measured at amortized cost		60,957	45,938
Measured at fair value through other comprehensive income		66,305	55,211
Measured at fair value through profit or loss		10,156	10,267
Deferred tax assets		2,510	2,313
Receivables	9.23	5,835	5,737
Cash and cash equivalents		8,737	7,788
Assets held for sale	9.27	693	580
Total assets		**373,481**	**343,385**

Equity and liabilities	Note	30 September 2020	31 December 2019 (restated) [1]
Equity			
Equity attributable to equity holders of the parent		17,889	16,169
Share capital	9.28	86	86
Other capital		16,926	13,036
Retained earnings		877	3,047
Retained profit or loss		(314)	(248)
Net profit		1,191	3,295
Non-controlling interest		24,270	23,119
Total equity		**42,159**	**39,288**
Liabilities			
Technical provisions	9.30	47,402	47,329
Subordinated liabilities	9.31	6,690	6,700
Liabilities on the issue of own debt securities	9.32	6,503	9,273
Liabilities to banks	9.33	7,628	6,604
Liabilities to clients under deposits	9.34	242,536	218,588
Financial derivatives	9.21	6,699	3,018
Other liabilities	9.35	11,159	10,409
Provisions for employee benefits		541	534
Other provisions	9.36	1,073	867
Deferred tax liability		888	746
Liabilities related directly to assets classified as held for sale	9.27	203	29
Total liabilities		**331,322**	**304,097**
Total equity and liabilities		**373,481**	**343,385**

[1] Information on restatement of data as at 31 December 2019 is presented in section 5.3.

(in millions of PLN)

Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	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	9.28										2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	(28)	-	-	-	-	-	(32)	19	(13)
Valuation of debt instruments	-	-	-	309	-	-	-	-	-	309	320	629
Measurement of loan receivables from clients	-	-	-	2	-	-	-	-	-	2	4	6
Cash flow hedging	-	-	-	177	-	-	-	-	-	177	442	619
Foreign exchange translation differences	-	-	-	-	-	-	74	-	-	74	(1)	73
Total net other comprehensive income	**-**	**-**	**(4)**	**460**	**-**	**-**	**74**	**-**	**-**	**530**	**784**	**1,314**
Net profit (loss)	-	-	-	-	-	-	-	-	1,191	1,191	367	1,558
Total comprehensive income	**-**	**-**	**(4)**	**460**	**-**	**-**	**74**	**-**	**1,191**	**1,721**	**1,151**	**2,872**
Other changes, including:	**-**	**(1)**	**2,747**	**(6)**	**620**	**-**	**-**	**(3,361)**	**-**	**(1)**	**-**	**(1)**
Distribution of financial result	-	-	2,741	-	620	-	-	(3,361)	-	-	-	-
Transactions on treasury shares	-	(1)	1	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued properties and other	-	-	6	(6)	-	-	-	-	-	-	-	-
As at 30 September 2020	**86**	**(8)**	**15,856**	**748**	**296**	**1**	**33**	**(314)**	**1,191**	**17,889**	**24,270**	**42,159**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	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	9.28										2.4	
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	(1)	(8)	-	-	-	-	-	(9)	11	2
Valuation of debt instruments	-	-	-	334	-	-	-	-	-	334	41	375
Measurement of loan receivables from clients		-	-	4	-	-	-	-	-	4	14	18
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	-	-	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 properties 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**

(in millions of PLN)

Interim consolidated statement of changes in equity (continuation)

Consolidated statement of changes in equity (restated)	Equity attributable to equity holders of the parent										**Non-controlling interest**	**Total equity**
		Other capital						Retained earnings				
	Share capital	Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit	**Total**		
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	-	21	-	-	-	-	-	21	9	30
Valuation of debt instruments	-	-	-	391	-	-	-	-	-	391	69	460
Measurement of loan receivables from clients	-	-	-	5	-	-	-	-	-	5	19	24
Cash flow hedging	-	-	-	28	-	-	-	-	-	28	124	152
Foreign exchange translation differences	-	-	-	-	-	-	32	-	-	32	-	32
Reclassification of real property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**447**	**-**	**-**	**32**	**-**	**-**	**479**	**221**	**700**
Net profit (loss)	-	-	-	-	-	-	-	-	2,360	2,360	1,324	3,684
Total comprehensive income	**-**	**-**	**-**	**447**	**-**	**-**	**32**	**-**	**2,360**	**2,839**	**1,545**	**4,384**
Other changes, including:	**-**	**2**	**447**	**(5)**	**(340)**	**-**	**-**	**(2,518)**	**-**	**(2,414)**	**(1,385)**	**(3,799)**
Distribution of financial result	-	-	440	-	(340)	-	-	(2,518)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	2	1	-	-	-	-	-	-	3	-	3
Transactions with holders of non-controlling interests	-	-	1	-	-	-	-	-	-	1	-	1
Other	-	-	5	(5)	-	-	-	-	-	-	-	-
As at 30 September 2019	**86**	**(9)**	**13,107**	**377**	**(322)**	**-**	**(4)**	**(245)**	**2,360**	**15,350**	**22,642**	**37,992**

(in millions of PLN)

Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 30 September 2020	1 January – 30 September 2019
Profit before tax		2,676	5,056
Adjustments		26,145	(6,107)
Movement in loan receivables from clients		(2,708)	(13,149)
Movement in liabilities under deposits		23,677	6,952
Movement in the valuation of assets measured at fair value		(461)	(135)
Interest income and expenses		(1,972)	(1,918)
Realized gains/losses from investing activities and impairment losses		2,307	1,287
Net foreign exchange differences		23	(209)
Movement in deferred acquisition expenses		65	8
Amortization of intangible assets and depreciation of property, plant and equipment		997	955
Movement in the reinsurers' share in technical provisions		248	151
Movement in technical provisions		73	694
Movement in receivables		672	(5)
Movement in liabilities		662	843
Cash flow on investment contracts		1	(14)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		120	189
Income tax paid		(1,396)	(1,569)
Other adjustments		3,837	(187)
Net cash flows from operating activities		**28,821**	**(1,051)**
Cash flow from investing activities			
Proceeds		620,767	626,979
- sale of investment property		12	66
- proceeds from investment property		187	236
- sale of intangible assets and property, plant and equipment		19	75
- sale of ownership interests and shares		546	2,317
- realization of debt securities		255,858	140,507
- closing of buy-sell-back transactions		200,851	220,114
- closing of term deposits with credit institutions		142,291	242,180
- realization of other investments		19,606	20,118
- interest received		1,228	1,290
- dividends received		139	49
- other investment proceeds		30	27

(in millions of PLN)

Interim consolidated cash flow statement (continuation)

Consolidated cash flow statement	Note	1 January – 30 September 2020	1 January – 30 September 2019
Expenditures		(646,893)	(627,336)
- purchase of investment properties		(89)	(136)
- expenditures for the maintenance of investment property		(108)	(102)
- purchase of intangible assets and property, plant and equipment		(912)	(585)
- purchase of ownership interests and shares		(474)	(1,997)
- purchase of ownership interests and shares in subsidiaries		-	(63)
- decrease in cash due to the sale of entities and change in the scope of consolidation		-	(32)
- purchase of debt securities		(281,877)	(142,716)
- opening of buy-sell-back transactions		(201,064)	(221,260)
- purchase of term deposits with credit institutions		(142,944)	(240,682)
- purchase of other investments		(19,400)	(19,749)
- other expenditures for investments		(25)	(14)
Net cash flows from investing activities		**(26,126)**	**(357)**
Cash flows from financing activities			
Proceeds		63,232	83,971
- proceeds from loans and borrowings	9.37	1,218	2,624
- proceeds on the issue of own debt securities	9.37	5,922	5,717
- opening of repurchase transactions	9.37	56,092	75,630
Expenditures		(65,079)	(90,918)
- dividends paid to equity holders of the parent		-	(2,418)
- dividends to owners of non-controlling interests		-	(1,385)
- repayment of loans and borrowings	9.37	(530)	(3,562)
- redemption of own debt securities	9.37	(8,736)	(8,179)
- closing of repurchase transactions	9.37	(55,431)	(74,910)
- interest on loans and borrowings	9.37	(105)	(53)
- interest on outstanding debt securities	9.37	(61)	(204)
- expenditures on leases	9.37	(216)	(207)
Net cash flows from financing activities		**(1,847)**	**(6,947)**
Total net cash flows		**848**	**(8,355)**
Cash and cash equivalents at the beginning of the period		7,788	17,055
Movement in cash due to foreign exchange differences		101	97
Cash and cash equivalents at the end of the period, including:		8,737	8,797
- restricted cash		29	43

Supplementary notes to the condensed interim consolidated financial statements

1. Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2019.

Parent company's quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 9 months from 1 January to 30 September 2020.

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

Functional and presentation currency

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

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

FX rates

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

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

Currency	1 January – 30 September 2020	1 January – 30 September 2019	30 September 2020	31 December 2019
Euro	4.4420	4.3086	4.5268	4.2585
British pound	5.0055	4.8805	4.9560	4.9971
Ukrainian hryvnia	0.1471	0.1472	0.1365	0.1602

Going concern assumption

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

Discontinued operations

In the 9-month period ended 30 September 2020, the PZU Group companies did not discontinue any significant type of activity.

Due to the scheduled changes in RUCH's shareholder structure which will result in the loss of the company's status of a subsidiary, the financial result generated by RUCH from the date of obtaining control over the company to the balance sheet date is presented as the result on discontinued operations, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". More information on this matter is presented in section 2.3.1.1.

Seasonal or cyclical business

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

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

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

Harberton – Harberton sp. z o.o.

LD – Lietuvos Draudimas AB

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PIM – Pekao Investment Management SA.

PKN Orlen – Polski Koncern Naftowy Orlen Spółka Akcyjna.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU LT GD – UAB PZU Lietuva Gyvybes Draudimas.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

RUCH – RUCH Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna.

Tomma – Tomma Diagnostyka Obrazowa Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

BGK – Bank Gospodarstwa Krajowego.

CGU – cash generating unit.

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

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

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

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.

Operating margin in life insurance – profitability of life insurance segments calculated as the ratio of the result on operating activity to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 September 2020.

NBP – National Bank of Poland;

OFE PZU – Otwarty Fundusz Emerytalny PZU "Złota Jesień".

POCI – Purchased or originated credit-impaired financial assets.

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

ROE attributable to the parent company – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity, minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency.

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

IASB – International Accounting Standards Board.

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.

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 2020, item 895).

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

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

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

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

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

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

2. Information on PZU and the PZU Group

2.1 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
				30 September 2020	31 December 2019	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance.https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	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%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Management of pension funds.
16	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
17	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.82% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
19	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
20	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.02%	Development activity.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2020	31 December 2019	
Consolidated companies – Pekao Group – continued						
21	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
22	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting
23	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
24	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.02%	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.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting
34	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
35	Harberton sp. z o.o. [3)]	Warsaw	19.02.2020	31.93%	n/a	Business consulting
36	RBL_VC sp. z o.o. ASI SKA [4)]	Warsaw	17.04.2020	31.93%	n/a	Activity of trusts, funds and similar financial institutions.
37	RUCH SA [5)]	Warsaw	03.06.2020	31.93%	n/a	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
38	Fincores Business Solutions sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Accounting, bookkeeping and auditing activities; tax consultancy. https://ruch.com.pl/o-nas/fincores-business-solutions/
39	RUCH Detal SA	Warsaw	03.06.2020	31.93%	n/a	Retail sale of newspapers and stationery in specialized stores.
40	RUCH Marketing sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Public relations and communication activities.
41	RUCH Nieruchomości V sp. z o.o.	Warsaw	03.06.2020	31.93%	n/a	Renting and operating of own or leased real estate.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2020	31 December 2019	
Consolidated companies – PZU Zdrowie Group						
42	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
43	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
44	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/
45	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
46	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
47	Centrum Medyczne Gamma sp. z o.o [6)]	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
48	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. https://www.radom.pzuzdrowie.pl/
49	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
50	FCM Zdrowie sp. z o.o. [7)]	Warsaw	03.06.2019	100.00%	100.00%	Medical services.
51	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
52	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
53	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
54	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
55	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
56	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
57	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
58	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
59	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
60	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

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2020	31 December 2019	
Consolidated companies – other companies – continued						
61	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/
62	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
63	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
64	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
65	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
66	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
67	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
68	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
69	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
70	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	n/a	No business conducted.
Consolidated companies – Armatura Group						
71	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
72	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
73	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
74	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
75	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2020	31 December 2019	
Consolidated companies – mutual funds						
76	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
77	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
78	PZU FIZ Sektora Nieruchomości [8)]	Warsaw	01.07.2008	n/a	n/a	as above
79	PZU FIZ Sektora Nieruchomości 2 [8)]	Warsaw	21.11.2011	n/a	n/a	as above
80	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
81	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
82	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
83	PZU FIZ Akcji Combo in liquidation	Warsaw	09.03.2017	n/a	n/a	as above
84	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
85	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
86	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
87	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
88	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
89	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
90	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
91	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
92	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2020	31 December 2019	
Associates						
93	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
94	CPF Management [9)]	Tortola, British Virgin Islands	07.06.2017	8.01%	8.01%	Consulting and business activity – no business conducted.
95	PayPo sp. z o.o. [10)]	Warsaw	15.11.2018	6.39%	6.39%	Financial services. https://paypo.pl/
96	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.

[1)] 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)] Additional information is presented in section 2.3.1.2.

[4)] On 17 April 2020, a new company was entered in the National Court Register, the founders of which are Alior Bank and RBL_VC sp. z o.o. The company's share capital is PLN 50 thousand and is divided into 50,000 registered shares with a par value of PLN 1 each.

[5)] Additional information is presented in section 2.3.1.1.

[6)] On 30 October 2020 PZU Zdrowie SA acquired the remaining shares in Centrum Medyczne Gamma sp. z o.o. and as of that date the PZU Group's equity stake and share of votes at the shareholder meeting is 100%.

[7)] On 30 October 2020 the business combination with PZU Zdrowie SA took place.

[8)] The funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conduct their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles the number of which as at 30 September 2020 was 18 and 14, respectively (as at 31 December 2019: 18 for each fund).

[9)] 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.

[10)] 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.

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

The detailed accounting policy pertaining to settlement of acquisition transactions is presented in the consolidated financial statements for 2019.

The changes in the extent of consolidation and in the PZU Group's structure that occurred in the 9-month period ended 30 September 2020 are presented in the following sections.

2.3.1. Acquisitions of companies

2.3.1.1. Ruch SA

On 3 June 2020, Harberton, a wholly-owned subsidiary of Alior Bank and Lurena Investments B.V. with its registered office in the Netherlands, entered into a share purchase agreement under which Harberton acquired 108,824,007 shares in RUCH, representing a 100% stake in the company's share capital, for the price of PLN 1.00. The RUCH shares were acquired within the framework of the company's restructuring process. The restructuring process in RUCH was kicked off with the opening of Accelerated Arrangement Proceedings 1 and 2 (on 7 September 2018 and 7 February 2019, respectively), the assumption of which was to restructure a portion of RUCH's liabilities.

The PZU Group's strategic objective is to smoothly introduce a strategic investor (PKN Orlen) to RUCH to enable the company's continued development and the successful completion of the restructuring processes.

The pursuit of the strategic objective was reflected in the following documents signed on 1 June 2020:

- Shareholder Agreement on RUCH – entered into by and between PKN Orlen, PZU, PZU Życie and Alior Bank. In accordance with this document, PKN Orlen will be the majority shareholder exercising sole control over RUCH. Ultimately, the PZU Group will be a minority shareholder that will not exercise joint control over RUCH;
- Investment Agreement – on the principles of execution of the PZU Group's investment in RUCH shares. Alior Bank, through Harberton, undertook to redeem the existing shares in RUCH SA and to increase the company's share capital.

Under the Investment Agreement, contributions to new shares in RUCH and the holding of shares and voting rights at the Shareholder Meeting of RUCH following the share capital increases will be as follows:

- PKN Orlen – 65%;
- PZU – 14.5%;
- PZU Życie – 14.5%;
- Alior Bank – 6%.

Ultimately, the PZU Group's stake in RUCH's share capital and the percentage of voting rights at the company's Shareholder Meeting will be 35%.

Since the date of obtaining control, i.e. 3 June 2020, RUCH has been included in the PZU Group's consolidation using the full method. At the same time, pursuant to the provisions of items 7-9 of IFRS 5 and the provisions of the Shareholder Agreement and the Investment Agreement, as at 30 September 2020, the assets and liabilities of RUCH in these condensed interim consolidated financial statements have been classified by the PZU Group as held for sale, while the result for the period from obtaining control over the company to the balance sheet date has been classified as the result on discontinued operations. Information on assets and liabilities held for sale is presented in section 9.27.

2.3.1.2. Harberton sp. z o.o.

On 19 February 2020, Alior Bank acquired 100 shares with a par value of PLN 50 each, representing a 100% stake in Harberton sp. z o.o. from Blackstone sp. z o.o. Holdings sp.k.

(in millions of PLN)

2.3.1.3. Final settlement of the acquisition of Tomma

The final settlement for the acquisition of the stake in Tomma on the date of obtaining control was made on the basis of the data prepared as at 30 November 2019. No material differences in accounting data transpired between 30 November and 9 December 2019 (date of acquisition). During the goodwill calculation:

- fair value measurement of assets and liabilities presented in the financial statements of the acquired entities was performed;
- intangible assets not carried thus far in the acquired entities' financial statements were recognized;
- no contingent liabilities or 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.

Value of acquired net assets	Carrying amount	Adjustment to fair value	Fair value
Assets	**90**	**64**	**154**
Intangible assets	-	61	61
Property, plant and equipment	73	3	76
Receivables	12	-	12
Other assets	5	-	5
Liabilities	**(87)**	**(12)**	**(99)**
Value of acquired net assets	**3**	**52**	**55**

Calculated goodwill	Preliminary settlement	Adjustment	Final settlement
Consideration transferred	147	33	180
Net value of identifiable assets	(3)	(52)	(55)
Goodwill	**144**	**(19)**	**125**

Historical data as at 31 December 2019 have been appropriately restated, as presented in section 5.3.6.

2.3.2. Transactions under joint control

In the 9-month period ended 30 September 2020, the following business combinations were registered in the PZU Group:

- On January 2, 2020, Centrum Medyczne Medica sp. z o.o. (acquiring company) merged with Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o. (target company).
- On 30 June 2020, PZU Zdrowie SA (acquiring company) merged with Alergo-Med Sp. z o.o. (target company).
- On 30 June 2020, Bonus-Diagnosta sp. z o.o. (acquiring company) merged with Asklepios Diagnostyka sp. z o.o. (target company).

On 29 May 2020, Pekao acquired an organized part of the enterprise of Pekao Investment Banking SA involved in the provision of brokerage services.

The transactions did not affect the consolidated financial statements.

(in millions of PLN)

2.4 Non-controlling interest

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

Name of the entity	30 September 2020	31 December 2019
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Centrum Medyczne Gamma sp. z o.o. [3)]	39.54%	39.54%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	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.
[3)] As of 30 October 2020 the PZU Group's equity stake and share of votes at the shareholder meeting is 100%, and consequently, there are no more non-controlling interests.

Carrying amount of non-controlling interests	30 September 2020	31 December 2019
Pekao Group	20,067	18,683
Alior Bank Group	4,198	4,430
Other	5	6
Total	**24,270**	**23,119**

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

Assets	Pekao Group		Alior Bank Group	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
Goodwill	692	692	-	-
Intangible assets	1,819	1,683	420	644
Other assets	69	45	47	35
Property, plant and equipment	2,078	2,112	700	764
Entities measured by the equity method	-	-	5	10
Loan receivables from clients	139,557	139,464	55,492	55,368
Financial derivatives	6,295	2,457	813	508
Investment financial assets	72,059	48,338	16,075	15,996
Measured at amortized cost	25,327	15,743	9,044	5,387
Measured at fair value through other comprehensive income	45,770	31,167	6,747	10,438
Measured at fair value through profit or loss	962	1,428	284	171
Deferred tax assets	1,229	1,087	1,236	1,178
Receivables	2,158	1,956	856	667
Cash and cash equivalents	6,102	5,463	1,636	1,319
Assets held for sale	16	16	140	-
Total assets	**232,074**	**203,313**	**77,420**	**76,489**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2020	31 December 2019	30 September 2020	31 December 2019
Equity				
Equity attributable to equity holders of the parent	25,090	23,360	6,167	6,508
Share capital	262	262	1,306	1,306
Other capital	21,935	20,510	5,803	5,637
Retained earnings	2,893	2,588	(942)	(435)
Non-controlling interest	11	12	-	-
Total equity	**25,101**	**23,372**	**6,167**	**6,508**
Liabilities				
Subordinated liabilities	2,775	2,764	1,799	1,794
Liabilities on the issue of own debt securities	4,499	6,322	2,004	2,951
Liabilities to banks	6,864	6,097	695	437
Liabilities to clients under deposits	180,580	156,688	63,298	62,433
Derivatives	6,149	2,649	453	369
Other liabilities	5,091	4,576	2,444	1,618
Provisions for employee benefits	388	401	37	29
Other provisions	599	414	350	349
Deferred tax liability	28	30	1	1
Liabilities related directly to assets classified as held for sale	-	-	172	-
Total liabilities	**206,973**	**179,941**	**71,253**	**69,981**
Total equity and liabilities	**232,074**	**203,313**	**77,420**	**76,489**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2020	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premium	17,291	-	-	15	17,306
Reinsurers' share in gross written premium	(347)	-	-	-	(347)
Net written premiums	**16,944**	**-**	**-**	**15**	**16,959**
Movement in net provision for unearned premiums	373	-	-	3	376
Net earned premium	**17,317**	**-**	**-**	**18**	**17,335**
Revenue from commissions and fees	3,037	(2,091)	(844)	72	174
Interest income calculated using the effective interest rate	8,011	(4,507)	(2,514)	54	1,044
Other net investment income	380	(178)	(22)	4	184
Result on derecognition of financial instruments and investments	27	(98)	(37)	-	(108)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,607)	1,108	1,502	(1)	2
Net movement in fair value of assets and liabilities measured at fair value	461	(63)	(91)	-	307
Other operating income	1,020	(131)	(131)	42	800
Claims, benefits and movement in technical provisions	(11,770)	-	-	(8)	(11,778)
Reinsurers' share in claims, benefits and movement in technical provisions	418	-	-	-	418
Net insurance claims and benefits paid	**(11,352)**	**-**	**-**	**(8)**	**(11,360)**
Fee and commission expenses	(753)	341	415	(4)	(1)
Interest expenses	(1,003)	568	378	(13)	(70)
Acquisition expenses	(2,466)	-	-	(91)	(2,557)
Administrative expenses	(4,930)	2,464	1,150	(26)	(1,342)
Other operating expenses	(4,464)	1,256	676 [1)]	1,254 [2)]	(1,278)
Operating profit (loss)	**2,678**	**(1,331)**	**482**	**1,301**	**3,130**
Share of the net financial results of entities measured by the equity method	(2)	-	-	-	(2)
Profit (loss) before tax	**2,676**	**(1,331)**	**482**	**1,301**	**3,128**
Income tax	(1,105)	444	6	-	(655)
Net profit on continuing operations	**1,571**	**(887)**	**488**	**1,301**	**2,473**
Loss on discontinued operations	(13)	-	13	-	-
Net profit (loss)	**1,558**	**(887)**	**501**	**1,301**	**2,473**

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

[2)] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million). Additional information is presented in section 9.16.1.

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2019 (restated)	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premium	17,501	-	-	7	17,508
Reinsurers' share in gross written premium	(338)	-	-	-	(338)
Net written premiums	**17,163**	**-**	**-**	**7**	**17,170**
Movement in net provision for unearned premiums	64	-	-	5	69
Net earned premium	**17,227**	**-**	**-**	**12**	**17,239**
Revenue from commissions and fees	3,051	(2,101)	(847)	70	173
Interest income calculated using the effective interest rate	9,009	(4,946)	(3,021)	24	1,066
Other net investment income	590	(173)	(238)	2	181
Result on derecognition of financial instruments and investments	211	(103)	(54)	-	54
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,577)	496	1,126	-	45
Net movement in fair value of assets and liabilities measured at fair value	135	(61)	149	3	226
Other operating income	884	(130)	(117)	30	667
Claims, benefits and movement in technical provisions	(12,219)	-	-	-	(12,219)
Reinsurers' share in claims, benefits and movement in technical provisions	299	-	-	-	299
Net insurance claims and benefits paid	**(11,920)**	**-**	**-**	**-**	**(11,920)**
Fee and commission expenses	(620)	282	338	-	-
Interest expenses	(1,606)	913	588	(14)	(119)
Acquisition expenses	(2,480)	-	-	(45)	(2,525)
Administrative expenses	(4,900)	2,532	1,130	(26)	(1,264)
Other operating expenses	(2,946)	1,276	483	(56)	(1,243)
Operating profit (loss)	**5,058**	**(2,015)**	**(463)**	**-**	**2,580**
Share of the net financial results of entities measured by the equity method	(2)	-	(1)	-	(3)
Profit (loss) before tax	**5,056**	**(2,015)**	**(464)**	**-**	**2,577**
Income tax	(1,372)	578	205	-	(589)
Net profit (loss)	**3,684**	**(1,437)**	**(259)**	**-**	**1,988**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 September 2020	1 January – 30 September 2019 (restated)	1 January – 30 September 2020	1 January – 30 September 2019
Net profit	887	1,437	(501)	259
Other comprehensive income	844	257	160	23
Subject to subsequent transfer to profit or loss	841	139	136	20
Valuation of debt instruments	403	(16)	(5)	(10)
Measurement of loan receivables from clients	6	24	-	-
Cash flow hedging	432	131	142	30
Foreign exchange translation differences	-	-	(1)	-
Not to be transferred to profit or loss in the future	3	118	24	3
Valuation of equity instruments	3	118	24	3
Total net comprehensive income	**1,731**	**1,694**	**(341)**	**282**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 September 2020	1 January – 30 September 2019	1 January – 30 September 2020	1 January – 30 September 2019
Net cash flows from operating activities	26,726	(3,396)	471	1,370
Net cash flows from investing activities	(24,629)	(2,110)	13	(1,188)
Net cash flows from financing activities	(1,517)	(1,191)	(186)	24
Total net cash flows	**580**	**(6,697)**	**298**	**206**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2020	1 January – 30 September 2019	1 January – 30 September 2020	1 January – 30 September 2019
Date of ratifying the dividend	-	26 June 2019	-	-
Record date	-	10 July 2019	-	-
Dividend payment date	-	30 July 2019	-	-
Dividend per share (PLN)	-	6.60	-	-
Dividend due to the PZU Group	-	347	-	-
Dividend due to non-controlling shareholders	-	1,385	-	-

3. Shareholder structure

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

No.	Shareholder’s name	Number of shares and votes at the Shareholder Meeting [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 Current Report no. 18/2020 on the list of shareholders holding at least 5% of the number of votes at the PZU Extraordinary Shareholder Meeting that took place on 26 May 2020.

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

In the period from 1 January 2020 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

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

Both as at the date of conveying this periodic report and as at the date of conveying the report for the 6 months ended 30 June 2020 (i.e. 10 September 2020), PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. The other Management Board Members, Supervisory Board Members and Group Directors did not hold any PZU shares or rights to PZU shares as at the date of conveying this periodic report and as at the date of conveying the report for the 6 months ended 30 June 2020 (i.e. 10 September 2020).

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 2020, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Aleksandra Agatowska – Member 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.

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

On 12 March 2020, Paweł Surówka tendered his resignation in consultation with the Supervisory Board from serving in the capacity of President of the PZU SA Management Board as of the same date.

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Beata Kozłowska-Chyła to the PZU Management Board and entrust her with discharging the function of the President of the PZU Management Board (she served in the capacity of the acting President of the Management Board until the date of obtaining the Polish Financial Supervision Authority's consent, i.e. 2 October 2020 to the extent permissible by the pertinent regulations). The resolution came into force upon its adoption. This appointment took place on 12 March 2020 for a joint term of office spanning the three full financial years from 2020 to 2022.

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Małgorzata Kot to the PZU Management Board and entrust her with discharging the function of a PZU SA Management Board Member. The resolution came into force upon its adoption, and the appointment was to take place for a joint term of office spanning the three full financial years from 2020 to 2022, with effect from 1 June 2020. On 15 April 2020, the PZU Supervisory Board adopted a resolution repealing the resolution of 12 March 2020 to appoint Małgorzata Kot to the PZU Management Board.

On 15 April 2020, the PZU Supervisory Board adopted a resolution to appoint Ernest Bejda to the PZU Management Board and entrust him with discharging the function of a PZU Management Board Member. The resolution came into force upon its adoption. This appointment Took place with effect as of 4 May 2020 for a joint term of office spanning the three full financial years from 2020 to 2022.

On 9 September 2020 Elżbieta Häuser-Schöneich and Adam Brzozowski tendered their resignations from serving as PZU Management Board Members.

On 9 September 2020 the PZU Supervisory Board PZU adopted resolutions to appoint Małgorzata Kot and Krzysztof Szypuła to the PZU Management Board and entrusted them with serving as PZU Management Board Members. These resolutions took force on the date of their adoption. Their appointment is for a joint term of office spanning the three full financial years from 2020 to 2022 with effect as of 10 September 2020.

From 10 September 2020 to the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

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

4.2 Composition of the parent company's Supervisory Board

From 1 January 2020, 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.

On 21 April 2020, Mr. Alojzy Nowak tendered his resignation from serving in the capacity of PZU SA Supervisory Board Member as of 21 April 2020.

On 28 April 2020, Robert Śnitko was elected the Secretary of the PZU Supervisory Board.

On 26 May 2020, the PZU Shareholder Meeting appointed Józef Wierzbowski to the PZU Supervisory Board. The resolution came into force upon its adoption.

From 26 May 2020 to the date of conveying this periodic report, the PZU Supervisory Board consisted of the following persons:

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

4.3 PZU Group Directors

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

From 1 January 2020, the following persons were PZU Group Directors:

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

On 13 March 2020, Roman Pałac was dismissed from the position of PZU Group Director.

In 2020, appointed to the position of PZU Group Director were Aleksandra Agatowska (as of 20 February 2020), Małgorzata Kot (as of 16 April 2020) and Ernest Bejda (as of 4 May 2020).

On 9 September 2020, Małgorzata Kot and Adam Brzozowski were dismissed from the position of PZU Group Director.

As at the date of conveying this periodic report the following persons were PZU Group Directors:

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

5. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2019.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2019, except for the changes described in sections 5.1 and 5.2.

(in millions of PLN)

5.1 Amendments to the applied IFRS

5.1.1. Standards, interpretations and amended standards effective from 1 January 2020

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

Standard/interpretation	Approving regulation	Comments
Amendments to the framework	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 did not have a significant influence on the PZU Group's consolidated financial statements.
Amendments to IAS 1 and IAS 8 – definition of materiality	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 did not exert a significant influence on the PZU Group's consolidated financial statements.
Amendments to IFRS 9 and IFRS 7 – reform of the interest rate benchmarks	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 applied an exemption resulting from the amended standards and did not verify the effectiveness of the hedging relationships.
Amendment to IFRS 3 – Business combinations	2020/551	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments did not affect the PZU Group's consolidated financial statements.
Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic	2020/1434	This amendment permits a lessee to treat all changes in lease payments arising from facilities as if they did not constitute a modification of the lease, without making the judgments required by the standard. The payment modifications in question must be a direct consequence of the COVID-19 pandemic. The change did not affect the PZU Group's consolidated financial statements.

5.1.2. Standards, interpretations and amended standards not yet effective

- No standards or interpretations approved by the regulation of the European Commission
- 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 25 June 2020 (amendments to the standard)	1 January 2023	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account; • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or (if possible) by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. On 25 June 2020, the IASB published amendments to IFRS 17, the most important of which was to defer the implementation of the standard until 1 January 2023. In addition to the detailed clarifications on distinct types of insurance contracts, the amendment also introduced the possibility of modifying actuarial estimates related to the implementation of IFRS 17 in subsequent interim financial statements or in the annual report (requirement of consistent application at the reporting entity's level) and simplified the principles of presenting contracts in the statement of financial position, permitting the aggregation of assets or liabilities at the portfolio level rather than for separate contract groups. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group is working on the following, among other things: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • the selection of a system to support the reporting process in accordance with the requirements of IFRS 17. As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments will not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 3	14 May 2020	1 January 2022	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The amendment will not affect the PZU Group's consolidated financial statements.
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	14 May 2020	1 January 2022	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendment to IAS 37 – Onerous contracts – costs of fulfilment of contractual obligations	14 May 2020	1 January 2022	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor; and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendments to IFRS 2018-2020	14 May 2020	1 January 2022	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
Amendments to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9	25 June 2020	1 January 2021	The amendment has extended the temporary exemption from the application of IFRS 9 by two years (postponing the expiration date of the exemption from the annual periods beginning on 1 January 2021 to the annual periods beginning on or after 1 January 2023 – in compliance with the effective date of IFRS 17 'Insurance contracts'), while leaving the option of an earlier implementation. The amendment is a consequence of the amendments to IFRS 17 published on 25 June 2020. It will not apply to the PZU Group due to the implementation of IFRS 9 at the beginning of 2018.

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

5.2 Application of estimates and assumptions

The PZU Group assessed the adopted estimates and assumptions taking into account the impact of the COVID-19 pandemic on individual assets and liabilities. Due to the significant uncertainty regarding the future economic situation, these estimates are subject to change. The most significant impact on the PZU Group's economic standing is exerted by the assumptions applied to calculate expected credit losses and the recoverable amount of non-financial assets. These involve predominantly macroeconomic forecasts of such indicators as GDP, employment rate, interest rates, etc.

5.2.1. Impairment and expected credit losses

5.2.1.1. Loan receivables from clients

The COVID-19 pandemic, due to its adverse impact on the economy, may exacerbate the financial standing of some borrowers. The PZU Group is taking steps to reduce credit risk and support its clients. Such activities include intensified monitoring of the loan portfolio, with particular emphasis on high-risk industries, strengthening the legal collateral established on receivables, granting loans with BGK guarantees, postponing payments of principal and interest installments at the client's request, deferring the application of sanctions resulting from failure to fulfill the contractual clauses, etc.

The PZU Group has modified its approach to the calculation of expected credit losses by adopting solutions appropriate for the specific nature of each relevant entity. Due to the unprecedented nature of the current situation and the absence of similar experiences from the past, the calculation of expected credit losses is subject to additional uncertainty, and the adopted expert assumptions may be modified in subsequent periods.

The expected deterioration of the macroeconomic situation was reflected in a modification of the risk parameters (PD – probability of default and LGD – loss given default) applied in the calculation of expected credit losses based on an analysis of historical data, backed up with expert assessment (on account of the unique nature of the current situation).

The PZU Group did not change its approach to identifying significant deteriorations in credit risk, constituting the basis for classifying exposures into basket 2. However, these criteria are applied in a manner commensurate with the current situation, in accordance with the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis” (EBA/GL/2020/02) of 2 April 2020 (as amended). According to these guidelines, the granting of a loan moratorium period or other mitigation measures for the COVID-19 pandemic does not automatically reclassify exposures to basket 2. However, such reclassification may be triggered by an increase in credit risk arising from problems experienced by a specific debtor.

The cost of impairment losses on expected credit losses and impairment losses on loan receivables from clients in the period of the 9 months ended 30 September 2020 was PLN 2,351 million. According to the PZU Group's estimates, a portion of this amount is associated with the COVID -19 pandemic, and its causes include the deterioration of the PD and LGD parameters, an increase in impairment losses due to reclassification to basket 2 triggered by industry reviews and similar activities, and an increase in impairment losses due to a drop in potential future recoveries. It should be noted that some of the risks (including the reclassification of exposures due to industry reviews or the increase in impairment losses due to the smaller potential future recoveries) would have materialized irrespective of the COVID-19 pandemic.

Information on the movement in impairment losses is presented in section 9.24.

5.2.1.2. Investment financial assets and receivables

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

In addition, the Management Board has carried out an analysis of the impact of COVID-19 on the assumptions made for the calculation of impairment losses on insurance receivables (such as the age structure depending on the past due period, uncollectibility ratios). As a result of the analysis, it has been concluded that the COVID-19 pandemic did not have significant negative impact on these ratios and the impairment losses on insurance receivables remain adequate.

The value of impairment losses on investment financial assets and receivables stood at PLN 37 million in the period of 9 months ended 30 September 2020, compared to their decrease by PLN 42 million in the corresponding period of 2019.

Detailed information on the movement in impairment losses is presented in sections 9.6 and 9.24.

5.2.2. Goodwill

Detailed information on the uncertainty factors, analyses of the grounds for impairment and the conducted goodwill impairment tests is presented in section 9.16.1.

5.2.3. Technical provisions

The PZU Group has analyzed the risks resulting from the impact of the COVID-19 pandemic on the business of the PZU Group's insurance companies. These include, among others, policy lapses, lower insurance sales, companies' higher bankruptcy rate, risk of job loss and material changes in the loss ratios. As regards non-life insurance, these risks may pertain to the largest extent to commercial credit insurance, financial guarantees, job loss or loss of profit insurance, or motor insurance. As a result of the analysis, the PZU Group did not introduce any major changes to the applied approach or, as a consequence, to the level of technical provisions in non-life insurance.

In the area of life insurance, the PZU Group analyzes the reported claims on a monthly basis in order to identify any changes caused by the pandemic. As a result of such analyses, the PZU Group found the amount of provisions for outstanding claims and benefits (IBNR) as at 30 September 2020 to be adequate.

Changes in estimates and assumptions in 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. 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.

The assumptions used to calculate life insurance provisions are determined separately for each insurance product at the time the premium tariffs are adopted and sales of the product are launched (lock-in assumptions). Such assumptions are subject to natural uncertainty resulting from the long term of the projection. However, these assumptions are verified for adequacy every year. The data are subjected to an analysis in particular in terms of the behavior of the whole portfolio, as opposed to various distinct cases. If it is found that an assumption is inadequate, it is verified and adjusted, which leads directly to a change in the value of liabilities presented in the consolidated financial statements.

As at 30 June 2020, the PZU Group revised some of its assumptions applied for the calculation of provisions in life insurance.

The decline in bond yields caused by the interest rate cuts suppresses the projected rates of return on assets covering the provisions. Accordingly, a decision was made by the PZU Group to decrease the technical rate for the continued and group insurance portfolio to 1.5% (prior to the change it ranged from 1.5% to 3%, depending on the date of execution or modification of the policy).

In the calculation of its technical provisions, the PZU Group applies the Polish Life Expectancy Tables or other publicly available statistics, among other sources. For the group and continued insurance portfolio, the calculation of provisions also makes use of assumptions regarding the probability of the insured having co-insureds (spouse, parents and in-laws). These assumptions, due to their long-term nature, are subject to natural uncertainty as to the actual evolution of the portfolio. In recent years, the PZU Group has witnessed a growing mismatch in terms of these assumptions between the actually disbursed benefits and the benefits forecasted based on the adopted assumptions. This mismatch has been caused by a general decrease in mortality and an increase in life expectancy. For this reason, a decision was made to align the assumptions with the observed demographic situation.

For the mortality rate, the Polish Life Expectancy Tables from 2018 were used with additional mark-ups for the main insured (depending on the age of the insured). The probabilities of the insureds having co-insureds were also updated.

The PZU Group also modified its method of calculating provisions for the group insurance portfolio and applied an individual approach to them instead of the hypothetical portfolio structure used previously.

In the third quarter of 2020 the PZU Group applied assumptions incorporating the changes adopted as at 30 June 2020 and did not make any further modifications.

5.2.4. Provision for potential refunds of borrowing costs

In the period of 9 months ended on 30 September 2020 the PZU Group revalued its provision for potential refunds of borrowing costs. The revaluation was made on 30 June 2020 and was based on the most recent data on incoming complaints and refund amounts. Detailed information on this matter is presented in section 9.36.

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

As at 30 September 2020, the PZU Group assessed the probability of the impact of the legal risk related to CHF mortgage loans on its future expected cash flows from its loan exposures and on the probability of cash outflows.

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

More information on this matter is presented in section 9.36.

5.3 Explanation of differences between the 2019 annual consolidated financial statements and these consolidated financial statements

To reflect better the economic nature of the transactions, the presentation changes described in sections 5.3.1-5.3.3 and 5.3.5 were made. Due to the final settlement of the acquisition of Tomma shares, the comparative data were transformed, as described in section 5.3.4.

5.3.1. Change in the presentation of interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate, previously presented in “Net investment income” was spun off to a separate line item of the consolidated profit and loss account.

(in millions of PLN)

5.3.2. Change in the presentation of impairment losses for guarantees and sureties given

The establishments and derecognitions of the provision for guarantees and sureties given, presented previously in a split layout under other operating expenses and other operating income, respectively, are presented in the net amount under "Movement in allowances for expected credit losses and impairment losses on financial instruments".

5.3.3. Change in the presentation of the measurement of loan receivables from clients measured at fair value through other comprehensive income

The measurement of loans at fair value through other comprehensive income, presented in the consolidated financial statements for 2019 under "Valuation of debt instruments measured at fair value through other comprehensive income" has been spun off separated into a separate item of other comprehensive income.

5.3.4. Settlement of the Tomma acquisition

In connection with the final settlement of the acquisition of the shares in Tomma, a retroactive restatement of data as at 31 December 2019 has been performed. More information on this matter is presented in section 2.3.1.3.

5.3.5. Change in the presentation of financial liabilities

Subordinated liabilities, liabilities on the issue of own debt securities, liabilities towards banks, liabilities towards clients on account of deposits and negative measurement of derivative instruments in the consolidated financial statements for 2019 are presented under "Financial liabilities". In order to improve the usefulness of the financial statements, these liabilities are presented in the condensed interim consolidated financial statements under separate items of the statement of financial position.

5.3.6. Impact exerted by the differences on the consolidated financial statements

The following tables present the impact of the aforementioned changes on the individual items of the consolidated financial statements.

Consolidated profit and loss account	**1 July – 30 September 2019** (historical)	**5.3.1**	**5.3.2**	**1 July – 30 September 2019** (restated)
Interest income calculated using the effective interest rate	n/a	3,040	-	3,040
Other net investment income	n/a	325	-	325
Net investment income	3,365	(3,365)	-	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(501)	-	(1)	(502)
Other operating income	360	-	(51)	309
Other operating expenses	(863)	-	52	(811)
Net profit, including:	**1,486**	**-**	**-**	**1,486**
- profit attributable to the equity holders of the Parent Company	879	-	-	879
- profit (loss) attributed to holders of non-controlling interest	607	-	-	607

(in millions of PLN)

Consolidated profit and loss account	1 January – 30 September 2019 (historical)	5.3.1	5.3.2	1 January – 30 September 2019 (restated)
Interest income calculated using the effective interest rate	n/a	9,009	-	9,009
Other net investment income	n/a	590	-	590
Net investment income	9,599	(9,599)	-	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,544)	-	(33)	(1,577)
Other operating income	1,117	-	(233)	884
Other operating expenses	(3,212)	-	266	(2,946)
Net profit, including:	**3,684**	**-**	**-**	**3,684**
- profit attributable to the equity holders of the Parent Company	2,360	-	-	2,360
- profit (loss) attributed to holders of non-controlling interest	1,324	-	-	1,324

Consolidated statement of comprehensive income	1 July – 30 September 2019 (historical)	5.3.3	1 July – 30 September 2019 (restated)	1 January – 30 September 2019 (historical)	5.3.3	1 January – 30 September 2019 (restated)
Net profit	1,486	-	1,486	3,684	-	3,684
Other comprehensive income	234	-	234	700	-	700
Subject to subsequent transfer to profit or loss	292	-	292	668	-	668
Valuation of debt instruments	198	(7)	191	484	(24)	460
Measurement of loan receivables from clients	n/a	7	7	n/a	24	24
Total net comprehensive income	**1,720**	**-**	**1,720**	**4,384**	**-**	**4,384**

Assets	31 December 2019 (historical)	5.3.4	5.3.5	31 December 2019 (restated)
Goodwill	4,053	(19)	-	4,034
Intangible assets	3,096	61	-	3,157
Property, plant and equipment	4,226	3	-	4,229
Total assets	**343,340**	**45**	**-**	**343,385**

(in millions of PLN)

Equity and liabilities	31 December 2019 (historical)	5.3.4	5.3.5	31 December 2019 (restated)
Total equity	**39,288**	**-**	**-**	**39,288**
Liabilities				
Technical provisions	47,329	-	-	47,329
Subordinated liabilities	n/a	-	6,700	6,700
Liabilities on the issue of own debt securities	n/a	-	9,273	9,273
Liabilities to banks	n/a	-	6,604	6,604
Liabilities to clients under deposits	n/a	-	218,588	218,588
Financial derivatives	n/a	-	3,018	3,018
Other liabilities	8,069	33	2,307	10,409
Provisions for employee benefits	534	-	-	534
Other provisions	867	-	-	867
Deferred tax liability	734	12	-	746
Financial liabilities	246,490	-	(246,490)	n/a
Liabilities related directly to assets classified as held for sale	29	-	-	29
Total liabilities	**304,052**	**45**	**-**	**304,097**
Total equity and liabilities	**343,340**	**45**	**-**	**343,385**

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

In the third quarter of 2020 there were no major events that materially influence the structure of the line items in the financial statements.

In the period of 9 months ended on 30 September 2020, the following material events occurred that resulted in a significant change to the structure of the line items in the financial statements:

- as a result of the impairment tests carried out, the PZU Group made a decision to recognize impairment losses on: goodwill resulting from the acquisition of Alior Bank, goodwill resulting from the acquisition of Pekao and intangible assets identified as a result of the acquisition of Alior Bank (for additional information, see section 9.16.1);
- deteriorated situation on the financial market due to the COVID-19 pandemic causing an increase in allowances for expected credit losses on loan receivables from clients (for additional information, see section 15);
- changes in estimates and assumptions in life insurance – change in the technical rate, update of assumptions on mortality and probabilities of the insureds having co-insureds (spouse, parents or parents-in-law) – for additional information, see section 5.2.3.

7. Corrections of errors from previous years

During the 9-month period from 1 January to 30 September 2020, no corrections of errors from previous years were made.

8. Material events after the end of the reporting period

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

(in millions of PLN)

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premium

Gross written premium	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premiums in non-life insurance	3,338	10,677	3,458	11,065
In direct insurance	3,333	10,667	3,461	11,068
In indirect insurance	5	10	(3)	(3)
Gross written premiums in life insurance	2,262	6,614	2,204	6,436
Individual insurance premiums	516	1,354	462	1,222
Individually continued insurance premiums	510	1,534	506	1,517
Group insurance premiums	1,236	3,726	1,236	3,697
Total gross written premiums	**5,600**	**17,291**	**5,662**	**17,501**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Accident and sickness insurance (group 1 and 2)	220	672	207	564
Motor third party liability insurance (group 10)	1,311	4,010	1,394	4,297
Other motor insurance (group 3)	874	2,698	911	2,893
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	16	78	12	57
Insurance against fire and other property damage (groups 8 and 9)	558	2,036	572	2,083
TPL insurance (groups 11, 12, 13)	151	590	151	588
Credit and suretyship (groups 14, 15)	22	62	23	66
Assistance (group 18)	134	387	142	401
Legal protection (group 17)	3	9	2	8
Other (group 16)	44	125	47	111
Total	**3,333**	**10,667**	**3,461**	**11,068**

(in millions of PLN)

9.2 Revenue from commissions and fees

Revenue from commissions and fees	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Banking activity	903	2,570	889	2,553
Margin on foreign exchange transactions with clients	201	557	207	595
Brokerage fees	41	113	18	70
Fiduciary activity	17	47	15	45
Payment card and credit card services	257	703	249	688
Fees on account of insurance intermediacy activities	17	53	18	54
Credits and loans	101	290	105	295
Bank account-related services	101	316	102	306
Transfers	66	194	79	232
Cash operations	24	63	26	73
Receivables purchased	13	38	12	35
Guarantees, letters of credit, collections, promises	20	58	19	57
Commissions on leasing activity	15	44	16	41
Other commission	30	94	23	62
Revenue and payments received from funds and mutual fund management companies	122	363	132	384
Pension insurance	28	101	34	103
Other	1	3	3	11
Total revenue from commissions and fees	**1,054**	**3,037**	**1,058**	**3,051**

9.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Loan receivables from clients	1,712	5,941	2,288	6,847
Debt securities measured at fair value through other comprehensive income	233	766	260	755
Debt securities measured at amortized cost	324	971	336	952
Buy-sell-back transactions	-	24	22	57
Term deposits with credit institutions	3	33	24	77
Loans	45	177	68	194
Receivables purchased	23	81	30	92
Receivables	-	1	-	1
Cash and cash equivalents	1	17	12	34
Interest income calculated using the effective interest rate, total	**2,341**	**8,011**	**3,040**	**9,009**

(in millions of PLN)

9.4 Other net investment income

Other net investment income	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Hedge derivatives	96	257	78	215
Dividend income, including:	6	49	24	53
Investment financial assets measured at fair value through profit or loss	6	22	24	31
Investment financial assets measured at fair value through other comprehensive income	-	27	-	22
Foreign exchange differences	58	(23)	185	209
Income on investment property	56	167	65	198
Investment property maintenance expenses	(22)	(67)	(26)	(84)
Investment activity expenses	(6)	(19)	(6)	(18)
Other	6	16	5	17
Other net investment income, total	**194**	**380**	**325**	**590**

9.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Investment financial assets	87	120	121	268
Debt instruments measured at fair value through other comprehensive income	13	107	39	95
Financial instruments measured at fair value through profit or loss	68	(27)	79	157
Equity instruments	8	(46)	(8)	(5)
Participation units and investment certificates	30	(44)	46	90
Debt instruments	30	63	41	72
Instruments measured at amortized cost	6	40	3	16
Loan receivables from clients measured at amortized cost	(1)	1	9	28
Derivatives	155	(5)	(7)	(8)
Short sale	(1)	5	4	4
Receivables	(29)	(97)	(26)	(84)
Investment property	1	3	3	3
Result on derecognition of financial instruments and investments, total	**212**	**27**	**104**	**211**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated)	1 January – 30 September 2019 (restated)
Investment financial assets	(10)	(36)	2	28
Debt instruments measured at fair value through other comprehensive income	(6)	(34)	2	6
Instruments measured at amortized cost	(4)	(2)	-	22
- debt instruments	(8)	(2)	-	(9)
- term deposits with credit institutions	(1)	(1)	1	-
- loans	5	1	(1)	31
Loan receivables from clients	(557)	(2,351)	(517)	(1,583)
Measured at amortized cost	(557)	(2,346)	(518)	(1,566)
Measured at fair value through other comprehensive income	-	(5)	1	(17)
Guarantees and sureties given	6	(219)	(1)	(33)
Receivables	29	(1)	14	14
Associates	-	-	-	(3)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(532)**	**(2,607)**	**(502)**	**(1,577)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Investment financial instruments measured at fair value through profit or loss	81	343	192	501
Equity instruments	29	28	(31)	53
Debt securities	(15)	191	209	241
Participation units and investment certificates	67	124	14	207
Derivatives	(168)	(61)	(387)	(266)
Measurement of liabilities to members of consolidated mutual funds	(2)	(1)	(1)	(5)
Investment contracts for the client's account and risk (unit-linked)	(3)	8	(1)	(7)
Investment property	(2)	172	(16)	(88)
Loan receivables from clients	2	-	1	-
Net movement in fair value of assets and liabilities measured at fair value, total	**(92)**	**461**	**(212)**	**135**

(in millions of PLN)

9.8 Other operating income

Other operating income	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated)	1 January – 30 September 2019 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	198	520	153	446
Revenues from direct claims handling on behalf of other insurance undertakings	45	135	53	162
Reversal of provisions	15	76 [1)]	1	7
Reimbursement of the costs of pursuit of claims	9	31	12	33
Reinsurance commissions and profit participation	16	48	15	44
Reversal of impairment losses for non-financial assets	-	4	7	13
Indemnity received	7	12	4	17
Interest for late payment of amounts due under direct insurance and outward reinsurance	13	46	8	24
Other	48	148	56	138
Other operating income, total	**351**	**1,020**	**309**	**884**

[1)] Including PLN 57 million of the derecognized provision for UOKiK. More information on this matter is presented in section 22.2.

9.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Claims, benefits and movement in technical provisions	**4,162**	**11,770**	**4,095**	**12,219**
In non-life insurance	2,453	7,037	2,472	7,181
- claims and benefits	2,027	5,688	2,025	5,985
- movement in technical provisions	225	752	250	585
- claims handling expenses	201	597	197	611
In life insurance	1,709	4,733	1,623	5,038
- claims and benefits	1,552	4,596	1,517	4,628
- movement in technical provisions	128	38	72	310
- claims handling expenses	29	99	34	100
Reinsurers' share in claims, benefits and movement in technical provisions	**(101)**	**(418)**	**(104)**	**(299)**
In non-life insurance	(101)	(418)	(104)	(299)
Total net insurance claims and benefits	**4,061**	**11,352**	**3,991**	**11,920**

(in millions of PLN)

9.10 Fee and commission expenses

Fee and commission expenses	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Costs of card and ATM transactions, including card issue costs	180	486	149	388
Commissions on acquisition of banking clients	25	80	25	66
Fees for the provision of ATMs	13	35	12	33
Costs of awards to banking clients	5	13	4	12
Costs of bank transfers and remittances	10	29	5	26
Additional services attached to banking products	4	15	6	19
Brokerage fees	6	17	3	11
Costs of administration of bank accounts	1	3	1	3
Costs of banknote operations	9	15	6	13
Fiduciary activity expenses	5	15	5	14
Other commission	17	45	13	35
Total fee and commission expenses	**275**	**753**	**229**	**620**

9.11 Interest expenses

Interest expenses	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Term deposits	71	398	240	744
Current deposits	31	250	135	403
Own debt securities issued	73	265	102	322
Hedge derivatives	4	8	4	7
Loans	-	3	15	20
Repurchase transactions	-	12	22	43
Bank loans contracted by PZU Group companies	7	28	7	23
Leases	7	22	8	22
Other	4	17	8	22
Total interest expenses	**197**	**1,003**	**541**	**1,606**

(in millions of PLN)

9.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Consumption of materials and energy	34	117	38	127
Third party services	414	1,184	406	1,192
Taxes and charges	28	95	30	86
Employee expenses	1,111	3,568	1,154	3,536
Depreciation of property, plant and equipment	140	451	161	467
Amortization of intangible assets	153	346	94	282
Other, including:	724	2,259	784	2,393
- commissions in insurance activities	569	1,767	610	1,861
- advertising	42	139	71	200
- remuneration of group insurance administrators in work establishments	51	154	52	155
- other	62	199	51	177
Movement in deferred acquisition expenses	40	72	52	8
Administrative, acquisition and claims handling expenses, total	**2,644**	**8,092**	**2,719**	**8,091**

9.13 Other operating expenses

Other operating expenses	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated)	1 January – 30 September 2019 (restated)
Impairment of goodwill created as a result of the acquisition of Alior Bank [1]	-	746	-	-
Impairment of goodwill created as a result of the acquisition of Pekao [1]	-	555	-	-
Levy on financial institutions	305	901	283	852
Expenses of the core business of non-insurance and non-banking companies	227	627	185	543
Direct claims handling expenses on behalf of other insurance undertakings	48	143	55	168
Compulsory payments to insurance market institutions and banking market institutions	26	103	25	107
Bank Guarantee Fund	67	473	32	579
Insurance Guarantee Fund	16	47	16	50
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	3	20	3	22
Expenditures for prevention activity	9	38	9	28
Establishment of provisions	33	304	95	214
Amortization of intangible assets purchased in company acquisition transactions	41	131	57	173
Recognition of impairment losses for non-financial assets	7	177 [2]	1	5
Donations	1	29	2	25
Late interest, penalties, indemnities	3	12	4	12
Costs of pursuit of claims	18	63	26	64
Other	20	95	18	104
Other operating expenses, total	**824**	**4,464**	**811**	**2,946**

[1] More information on this matter is presented in section 9.16.1.

[2] Including impairment losses on intangible assets identified during the acquisition of Alior Bank (PLN 161 million). More information on this matter is presented in section 9.16.1.

(in millions of PLN)

9.14 Income tax

Total amount of current and deferred tax	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Recognized through profit or loss, including:	(358)	(1,105)	(470)	(1,372)
- current tax	(430)	(1,414)	(562)	(1,398)
- deferred tax	72	309	92	26
Recognized in other comprehensive income (deferred tax)	(21)	(290)	(45)	(157)
Total	**(379)**	**(1,395)**	**(515)**	**(1,529)**

Income tax on other comprehensive income items	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross other comprehensive income	133	1,604	279	857
Income tax	(21)	(290)	(45)	(157)
Debt instruments	(42)	(147)	(46)	(109)
Loan receivables from clients	-	(1)	(1)	(5)
Cash flow hedging	3	(145)	(12)	(36)
Equity instruments measured at fair value through other comprehensive income	18	3	14	(7)
Net other comprehensive income	**112**	**1,314**	**234**	**700**

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.

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. In the PZU Group's opinion, the Board's interpretation would mean that a different approach is applied in Sweden to companies reporting in euros than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of Article 63 of the Treaty on the Functioning of the European Union (TFEU) on the need to ensure the free movement of capital in the European Union or Articles 49 and 54 TFEU on the freedom of establishment.

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

Due to the uncertainty surrounding the outcome of the tax issue in question, as at 30 September 2020, the PZU Group showed a provision for tax risks in the amount of PLN 85 million (as at 31 December 2019, it was posted as a liability of PLN 79 million).

(in millions of PLN)

9.15 Earnings per share

Earnings per share	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Net profit attributable to the equity holders of the parent company	890	1,191	879	2,360
Weighted average basic and diluted number of common shares	863,328,971	863,326,940	863,302,480	863,280,102
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(194,029)	(196,060)	(220,520)	(242,898)
Basic and diluted earnings (losses) per common share (in PLN)	1.03	1.38	1.02	2.73

In the 9-month periods ended 30 September 2020 and 30 September 2019, there were no transactions or events resulting in the dilution of earnings per share.

9.16 Goodwill

Goodwill	30 September 2020	31 December 2019 (restated)
Pekao [1)]	1,714	2,269
LD [2)]	500	471
Medical companies	284	284
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	41	38
Alior Bank [3)]	-	746
Other	5	5
Total goodwill	**2,765**	**4,034**

[1)] Includes goodwill on acquisition of PIM. As a result of the impairment tests carried out, the PZU Group made a decision to recognize an impairment loss on goodwill resulting from the acquisition of Pekao in the amount of PLN 555 million.

[2)] Includes goodwill resulting from the acquisition of the LD branch in Estonia.

[3)] As a result of the impairment tests carried out, the PZU Group made a decision to recognize an impairment loss on goodwill resulting from the acquisition of Alior Bank in the amount of PLN 746 million.

9.16.1. Testing for impairment

In connection with the COVID-19 pandemic, an in-depth analysis of indications of impairment on all CGUs was carried out. The analysis covered, among others: execution of ongoing financial plans, sales and profitability change rates in the period after lifting the lockdown, adjustments to financial plans taking into account the deterioration of prospects for the activity and changed cost of capital. The analysis did not demonstrate the existence of indications of impairment or, consequently, the need to carry out tests as at 30 June 2020 for insurance and medical undertakings.

In connection with a series of the interest rate cuts by NBP and the increase of credit risk in banking activity, a conclusion was drawn that there are indications of impairment of Pekao and Alior Bank, as a result of which tests for impairment of goodwill in these entities were carried out as at 30 June 2020.

The analysis of the indications for an impairment loss conducted as at 30 September 2020 did not establish a necessity to perform additional impairment tests on top of the ones performed as at 30 June 2020; accordingly, the PZU Group did not recognize any additional impairment losses in the third quarter of 2020.

The test carried out as at 30 June 2020 for Pekao showed that an impairment had occurred and, consequently, an impairment loss on goodwill was recognized in the amount of PLN 555 million. The impairment loss was recognized through profit or loss under other operating expenses and was charged to the net financial result attributable to the owners of the parent company in the amount of PLN 555 million.

(in millions of PLN)

The test carried out for Alior Bank showed certain shortages which resulted in the need to recognize an impairment loss on goodwill in the amount of PLN 746 million and intangible assets involving the trademark and relations with clients in the amount of PLN 161 million. These impairments ensued from the significant deterioration in the business conditions for the banking sector due to the cut of the interest rates by the Monetary Policy Council, elevated credit risk and additional impairments for expected credit losses associated with economic slowdown. As a result of the recognized impairment losses, the carrying amount of the company's goodwill, trademark and relations with clients as at 30 September 2020 was zero. The impairment losses are recognized through profit or loss under other operating expenses. The total impact on the net financial result attributable to the owners of the parent company of the impairment losses on all the said assets related to Alior Bank recognized in the period of 9 months ended 30 September 2020 stood at PLN 788 million.

Pekao and Alior Bank goodwill impairment tests

The recoverable amount was determined on the basis of value in use using the discounted cash flow method. For the needs of the test, financial projections for 2020-2026 were used. Extension of the projections to a period exceeding 5 years made it possible to reflect in full the impact of the assumed macroeconomic changes on the situation of the banks. Considering the uncertainty pertaining to the duration of the pandemic and the severity of its impact on the economy, the value in use was estimated for a number of scenarios, which reflected different future levels of interest rates, costs of risk and operating expenses, including the costs of refund of commissions in connection with the CJEU judgment of 11 September 2019. The value in use was estimated as the average value weighted by the probability of the scenarios. Due to the high degree of uncertainty, the estimates may be subject to significant changes in the future, as we gather knowledge regarding further development of the situation.

The value in use was determined using a discount rate of 8.7% and a 3.5% growth rate after the projection period.

The most significant assumption affecting future cash flows is the level of future interest rates. For the purposes of the test, it was assumed that the NBP reference rate would remain at the current level at least until the end of 2022, following which, depending on the scenario, it would change by 0.0-1.4 p.p. Scenarios assuming further interest rate cuts were not tested as they were deemed unlikely to occur and, in the event of their occurrence, likely to exert only a limited impact on the results.

An increase in the discount rate to 10.6% would result in an impairment loss that would bring down Pekao's goodwill to zero. A decrease in the growth rate after the forecast period by 1 p.p. would increase the impairment loss on Pekao's goodwill by PLN 194 million.

9.17 Intangible assets

Intangible assets by type groups	30 September 2020	31 December 2019 (restated)
Software, licenses and similar assets	1,427	1,278
Trademarks	520	613
- Pekao	340	340
- Alior Bank [1]	-	100
- other	180	173
Client relations	606	797
- Pekao	515	626
- Alior Bank [1]	-	69
- other	91	102
Intangible assets under development	487	452
Other intangible assets	19	17
Total intangible assets	**3,059**	**3,157**

[1] The impairment losses on Alior Bank's trademark and relations with clients were recognized as a result of the impairment tests referred to in section 9.16.1.

(in millions of PLN)

9.18 Other assets

Other assets	30 September 2020	31 December 2019
Reinsurance settlements	60	279
Estimated salvage and subrogation	135	182
Deferred IT expenses	99	79
Accrued direct claims handling receivables	45	58
Costs settled over time	85	75
Inventories	29	36
Payments for taxes on property, means of transport and land	7	-
Payments for the costs of the allowance to the Company Social Benefit Fund	12	-
Accrued commissions	11	14
Other assets	25	11
Total other assets	**508**	**734**

9.19 Property, plant and equipment

Property, plant and equipment by groups by type	30 September 2020	31 December 2019 (restated)
Plant and machinery	640	541
Means of transport	190	179
Property, plant and equipment under construction	143	257
Real property	2,822	2,921
Other property, plant and equipment	341	331
Total property, plant and equipment	**4,136**	**4,229**

9.20 Loan receivables from clients

Loan receivables from clients	30 September 2020	31 December 2019
Measured at amortized cost	193,516	193,244
Measured at fair value through other comprehensive income	1,516	1,381
Measured at fair value through profit or loss	199	243
Total loan receivables from clients	**195,231**	**194,868**

(in millions of PLN)

Loan receivables from clients	30 September 2020	31 December 2019
Retail segment	**109,214**	**105,912**
Operating loans	240	234
Consumer finance	28,120	29,416
Consumer finance loans	3,336	2,778
Loan to purchase securities	47	65
Overdrafts in credit card accounts	1,001	1,087
Loans for residential real estate	75,375	71,301
Other mortgage loans	786	807
Other receivables	309	224
Business segment	**86,017**	**88,956**
Operating loans	27,238	32,760
Car financing loans	5	11
Investment loans	27,300	26,820
Receivables purchased (factoring)	6,529	6,524
Overdrafts in credit card accounts	57	71
Loans for residential real estate	224	190
Other mortgage loans	10,453	9,278
Finance leases	11,792	10,985
Other receivables	2,419	2,317
Total loan receivables from clients	**195,231**	**194,868**

9.21 Financial derivatives

Derivatives	30 September 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**6,261**	**5,829**	**2,402**	**2,483**
Fair value hedging instruments – SWAP transactions	-	207	1	161
Cash flow hedging instruments – SWAP transactions	1,315	678	459	479
Instruments held for trading, including:	4,946	4,944	1,942	1,843
- FRA transactions	1	11	-	-
- SWAP transactions	4,937	4,931	1,933	1,841
- call options (purchase)	5	1	2	1
- put options (sale)	3	1	7	1
Foreign exchange derivatives	**594**	**622**	**540**	**420**
Cash flow hedging instruments – SWAP transactions	31	209	83	25
Instruments held for trading, including:	563	413	457	395
- forward contracts	198	178	170	169
- SWAP transactions	278	150	192	133
- call options (purchase)	65	22	49	19
- put options (sale)	22	63	46	74
Equity derivatives – held for trading	**99**	**68**	**119**	**72**
- call options (purchase)	99	68	118	4
- put options (sale)	-	-	1	68
Commodity derivatives – held for trading	**199**	**180**	**46**	**43**
- forward contracts	34	19	7	5
- SWAP transactions	29	28	14	14
- call options (purchase)	25	3	21	4
- put options (sale)	111	130	4	20
Total derivatives	**7,153**	**6,699**	**3,107**	**3,018**

(in millions of PLN)

9.22 Investment financial assets

Investment financial assets	30 September 2020				31 December 2019			
	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	471	772	1,243	n/a	518	845	1,363
Participation units and investment certificates	n/a	n/a	4,945	4,945	n/a	n/a	4,820	4,820
Debt securities	51,367	65,834	4,439	121,640	35,930	54,693	4,602	95,225
Government securities	43,789	45,365	4,308	93,462	29,187	37,476	4,393	71,056
Domestic	43,589	42,788	4,147	90,524	28,985	35,373	4,255	68,613
Fixed rate	40,396	35,155	2,557	78,108	25,785	22,820	3,054	51,659
Floating rate	3,193	7,633	1,590	12,416	3,200	12,553	1,201	16,954
Foreign	200	2,577	161	2,938	202	2,103	138	2,443
Fixed rate	200	2,577	161	2,938	202	2,103	138	2,443
Other	7,578	20,469	131	28,178	6,743	17,217	209	24,169
Fixed rate	1,971	13,233	46	15,250	892	9,032	40	9,964
Floating rate	5,607	7,236	85	12,928	5,851	8,185	169	14,205
Other, including:	9,590	-	-	9,590	10,008	-	-	10,008
Buy-sell-back transactions	4,290	-	-	4,290	4,064	-	-	4,064
Term deposits with credit institutions	1,178	-	-	1,178	1,454	-	-	1,454
Loans	4,122	-	-	4,122	4,490	-	-	4,490
Investment financial assets, total	**60,957**	**66,305**	**10,156**	**137,418**	**45,938**	**55,211**	**10,267**	**111,416**

Equity instruments measured at fair value through other comprehensive income	30 September 2020	31 December 2019
Grupa Azoty SA	175	232
Biuro Informacji Kredytowej SA	179	177
PSP sp. z o.o.	51	50
Polimex-Mostostal SA	28	29
Krajowa Izba Rozliczeniowa SA	15	14
Other	23	16
Equity instruments measured at fair value through other comprehensive income, total	**471**	**518**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	30 September 2020	31 December 2019
Lithuania	918	756
Romania	204	134
Latvia	167	149
Croatia	165	132
Indonesia	129	86
Ukraine	124	130
Russia	95	70
Columbia	91	83
Bulgaria	89	74
Brazil	80	80
Panama	78	74
Hungary	78	57
Philippines	61	59
Peru	60	45
Kazakhstan	60	41
Saudi Arabia	59	27
Uruguay	55	50
Mexico	54	18
South Africa	52	52
Dominican Republic	52	56
Other	267 [1)]	270 [2)]
Total	**2,938**	**2,443**

[1)] The line item "Other" includes bonds issued by 39 countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million.
[2)] The line item "Other" includes bonds issued by 38 countries.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations and local government units	30 September 2020	31 December 2019
National Bank of Poland	9,070	4,815
Domestic local governments	5,854	6,199
Foreign banks	5,520	4,717
Companies from the WIG-Energy Index	1,792	2,375
Manufacturing	965	1,163
Energy and fuel sector companies (including: Companies from the WIG-Fuels Index)	891	651
Financial and insurance services	747	761
Transportation and storage	606	615
Companies from the WIG-Banks Index	552	558
Construction and real estate market service	493	479
Public utility services	407	410
Arts, entertainment and recreation (including: WIG | hotels and restaurants)	356	315
Information and communication (including: WIG | Telecommunications)	301	201
Mining and quarrying (including companies included in the WIG-Mining index)	264	353
Other professional, scientific and technical activity	188	410
Other	172	147
Total	**28,178**	**24,169**

(in millions of PLN)

9.23 Receivables

Receivables – carrying amount	30 September 2020	31 December 2019
Receivables on direct insurance, including:	2,229	2,727
- receivables from policyholders	2,117	2,591
- receivables from insurance intermediaries	93	112
- other receivables	19	24
Reinsurance receivables	110	58
Other receivables	3,496	2,952
- receivables from disposal of securities and margins [1)]	1,831	1,065
- receivables on account of payment card settlements	556	937
- trade receivables	324	249
- receivables from the state budget, other than corporate income tax receivables	144	169
- receivables by virtue of commissions concerning off-balance sheet products	183	153
- prevention settlements	40	47
- receivables from direct claims handling on behalf of other insurance undertakings	16	26
- receivables for acting as an emergency adjuster	12	13
- receivables on account of Corporate Income Tax	65	28
- receivables from security and bid deposits	63	39
- interbank and interbranch receivables	2	35
- other	260	191
Total receivables	**5,835**	**5,737**

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

As at 30 September 2020 and 31 December 2019, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

(in millions of PLN)

9.24 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	170,284	17,609	10,980	6,054	204,927	159,612	16,069	7,855	7,165	190,701
Recognition of instruments at the time of acquisition, creation, granting	34,983	-	-	1	34,984	58,360	-	-	5	58,365
Change attributable to modification of cash flows concerning the given instrument	(7)	(2)	-	-	(9)	(2)	-	-	-	(2)
Changes attributable to the measurement, sale, exclusion or expiration of the instrument (excluding reclassification)	(29,946)	(1,394)	(749)	(421)	(32,510)	(39,687)	(1,855)	(511)	(1,116)	(43,169)
Assets written down from the balance sheet	-	-	(948)	(30)	(978)	-	(50)	(1,015)	-	(1,065)
Reclassification to basket 1	5,278	(5,220)	(58)	-	-	6,125	(6,064)	(61)	-	-
Reclassification to basket 2	(16,554)	17,006	(452)	-	-	(11,063)	11,380	(317)	-	-
Reclassification to basket 3	(1,449)	(1,763)	3,212	-	-	(2,789)	(1,997)	4,786	-	-
Other changes, including foreign exchange differences	185	17	266	5	473	(272)	126	243	-	97
End of the period	**162,774**	**26,253**	**12,251**	**5,609**	**206,887**	**170,284**	**17,609**	**10,980**	**6,054**	**204,927**
Expected credit losses										
Beginning of the period	(800)	(1,321)	(5,247)	(4,315)	(11,683)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Establishment of allowances for newly acquired, created, granted instruments	(631)	-	-	-	(631)	(815)	-	-	(3)	(818)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	631	(609)	(1,743)	106	(1,615)	1,007	(501)	(2,186)	452	(1,228)
Assets written down from the balance sheet	-	-	948	30	978	-	50	1,015	-	1,065
Reclassification to basket 1	(312)	286	26	-	-	(371)	347	24	-	-
Reclassification to basket 2	113	(236)	123	-	-	134	(238)	104	-	-
Reclassification to basket 3	93	305	(398)	-	-	132	224	(356)	-	-
Other changes, including foreign exchange differences	4	(94)	(301)	(29)	(420)	(17)	(14)	(247)	37	(241)
End of the period	**(902)**	**(1,669)**	**(6,592)**	**(4,208)**	**(13,371)**	**(800)**	**(1,321)**	**(5,247)**	**(4,315)**	**(11,683)**
Net carrying amount at the end of the period	**161,872**	**24,584**	**5,659**	**1,401**	**193,516**	**169,484**	**16,288**	**5,733**	**1,739**	**193,244**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	772	609	-	-	1,381	1,511	-	-	-	1,511
Recognition of instruments at the time of acquisition, creation, granting	100	-	-	-	100	571	-	-	-	571
Change in measurement	(14)	95	-	-	81	-	(6)	-	-	(6)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(3)	(45)	-	-	(48)	(686)	(16)	-	-	(702)
Reclassification to basket 2	(138)	138	-	-	-	(624)	624	-	-	-
Other changes	12	(10)	-	-	2	-	7	-	-	7
End of the period	**729**	**787**	**-**	**-**	**1,516**	**772**	**609**	**-**	**-**	**1,381**
Expected credit losses										
Beginning of the period	(4)	(17)	-	-	(21)	(14)	-	-	-	(14)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	(2)	-	-	(4)	2	(9)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	3	-	-	-	3
Reclassification to basket 2	1	(1)	-	-	-	8	(8)	-	-	-
Other changes	1	(1)	-	-	-	(1)	-	-	-	(1)
End of the period	**(5)**	**(21)**	**-**	**-**	**(26)**	**(4)**	**(17)**	**-**	**-**	**(21)**

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

(in millions of PLN)

Debt investment financial assets measured at amortized cost	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	35,614	368	34	-	36,016	34,657	35	33	2	34,727
Recognition of instruments at the time of acquisition, creation, granting	22,685	-	-	-	22,685	9,538	-	-	-	9,538
Change in measurement	640	-	-	-	640	683	-	-	-	683
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(8,037)	(20)	-	-	(8,057)	(9,112)	-	-	(2)	(9,114)
Reclassification to basket 1 [1)]	305	(305)	-	-	-	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	(332)	332	-	-	-
Other changes, including foreign exchange differences	173	(1)	-	-	172	180	1	1	-	182
End of the period	**51,380**	**42**	**34**	**-**	**51,456**	**35,614**	**368**	**34**	**-**	**36,016**
Expected credit losses										
Beginning of the period	(33)	(19)	(34)	-	(86)	(35)	(7)	(33)	-	(75)
Establishment of allowances for newly acquired, created, granted instruments	(18)	-	-	-	(18)	(6)	-	-	-	(6)
Changes attributable to valuation or credit risk level (excluding reclassification)	9	1	-	-	10	(4)	(3)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	5	1	-	-	6	5	-	-	-	5
Reclassification to basket 1	(16)	16	-	-	-	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	9	(9)	-	-	-
Other changes, including foreign exchange differences	(1)	-	-	-	(1)	(2)	-	(1)	-	(3)
End of the period	**(54)**	**(1)**	**(34)**	**-**	**(89)**	**(33)**	**(19)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**51,326**	**41**	**-**	**-**	**51,367**	**35,581**	**349**	**-**	**-**	**35,930**

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

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

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	54,537	156	-	-	54,693	38,142	73	-	-	38,215
Recognition of instruments at the time of acquisition, creation, granting	258,573	-	-	-	258,573	203,057	-	-	-	203,057
Change in measurement	1,039	(3)	-	-	1,036	725	(5)	-	-	720
Change attributable to modification of cash flows concerning the given instrument	(9)	-	-	-	(9)	(8)	-	-	-	(8)
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(248,960)	(30)	-	-	(248,990)	(187,893)	-	-	-	(187,893)
Reclassification to basket 1	14	(14)	-	-	-					
Reclassification to basket 2	(12)	12	-	-	-	(87)	87	-	-	-
Other changes, including foreign exchange differences	532	(1)	-	-	531	601	1	-	-	602
End of the period	**65,714**	**120**	**-**	**-**	**65,834**	**54,537**	**156**	**-**	**-**	**54,693**
Expected credit losses										
Beginning of the period	(41)	(2)	-	-	(43)	(37)	(3)	-	-	(40)
Establishment of allowances for newly acquired, created, granted instruments	(8)	-	-	-	(8)	(18)	-	-	-	(18)
Changes attributable to valuation or credit risk level (excluding reclassification)	(22)	(11)	-	-	(33)	(1)	2	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	7	-	-	-	7	14	-	-	-	14
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	1	(1)	-	-	-
End of the period	**(64)**	**(13)**	**-**	**-**	**(77)**	**(41)**	**(2)**	**-**	**-**	**(43)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	1,455	1	-	-	1,456	2,770	1	9	-	2,780
Recognition of instruments at the time of acquisition, creation, granting	94,984	-	-	-	94,984	228,598	-	-	-	228,598
Change in measurement	23	-	-	-	23	4	-	-	-	4
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(95,271)	-	-	-	(95,271)	(229,902)	-	-	-	(229,902)
Other changes, including foreign exchange differences	(12)	(1)	-	-	(13)	(15)	-	(9)	-	(24)
End of the period	**1,179**	**-**	**-**	**-**	**1,179**	**1,455**	**1**	**-**	**-**	**1,456**
Expected credit losses										
Beginning of the period	(2)	-	-	-	(2)	(2)	-	(9)	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(4)	-	-	-	(4)	(6)	-	-	-	(6)
Changes attributable to variations in measurement of instruments or credit risk level (excluding reclassification)	1	-	-	-	1	2	-	-	-	2
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	-	-	-	-	-
Other changes, including foreign exchange differences	2	-	-	-	2	4	-	9	-	13
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(2)**	**-**	**-**	**-**	**(2)**
Net carrying amount at the end of the period	**1,178**	**-**	**-**	**-**	**1,178**	**1,453**	**1**	**-**	**-**	**1,454**

(in millions of PLN)

Loans	1 January - 30 September 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,517	-	-	-	4,517	4,595	-	-	-	4,595
Recognition of instruments at the time of acquisition, creation, granting	867	-	-	-	867	547	-	-	-	547
Change in measurement	46	-	-	-	46	14	-	-	-	14
Changes attributable to the sale, exclusion or expiration of the instrument (excluding reclassification)	(1,282)	-	-	-	(1,282)	(577)	(61)	-	-	(638)
Reclassification to basket 2	(80)	80	-	-	-	(61)	61	-	-	-
Other changes	-	-	-	-	-	(1)	-	-	-	(1)
End of the period	**4,068**	**80**	**-**	**-**	**4,148**	**4,517**	**-**	**-**	**-**	**4,517**
Expected credit losses										
Beginning of the period	(27)	-	-	-	(27)	(60)	-	-	-	(60)
Establishment of allowances for newly acquired, created, granted instruments	(5)	-	-	-	(5)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	-	-	-	(2)	33	(2)	-	-	31
Changes attributable to sale, exclusion or expiration of the instrument	8	-	-	-	8	1	3	-	-	4
Reclassification to basket 2	5	(5)	-	-	-	1	(1)	-	-	-
End of the period	**(21)**	**(5)**	**-**	**-**	**(26)**	**(27)**	**-**	**-**	**-**	**(27)**
Net carrying amount at the end of the period	**4,047**	**75**	**-**	**-**	**4,122**	**4,490**	**-**	**-**	**-**	**4,490**

Receivables	1 January – 30 September 2020	1 January – 31 December 2019
Gross carrying amount		
Beginning of the period	6,825	7,282
Changes in the period	106	(457)
End of the period	**6,931**	**6,825**
Expected credit losses		
Beginning of the period	(1,088)	(939)
Changes in the period	(8)	(149)
End of the period	**(1,096)**	**(1,088)**
Net carrying amount at the end of the period	**5,835**	**5,737**

9.25 Fair value

9.25.1. Description of valuation techniques

9.25.1.1. 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.

9.25.1.2. Equity-based financial assets

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

9.25.1.3. Participation units and investment certificates of mutual funds

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

9.25.1.4. Derivatives

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

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

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

9.25.1.5. Loan receivables from clients

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

Loan receivables from clients are classified in full to level 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.

9.25.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

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

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

9.25.1.8. Liabilities under deposits

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

9.25.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

9.25.2. Fair value hierarchy

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

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

- loan receivables from clients and liabilities to clients under deposits;
- options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

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

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

9.25.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	27,637	25,842	12,826	66,305	32,595	15,555	7,061	55,211
Equity instruments	216	1	254	471	271	1	246	518
Debt securities	27,421	25,841	12,572	65,834	32,324	15,554	6,815	54,693
Investment financial assets measured at fair value through profit or loss	4,665	5,155	336	10,156	4,985	4,996	286	10,267
Equity instruments	526	-	246	772	613	6	226	845
Participation units and investment certificates	112	4,812	21	4,945	111	4,690	19	4,820
Debt securities	4,027	343	69	4,439	4,261	300	41	4,602
Loan receivables from clients	-	-	1,715	1,715	-	-	1,624	1,624
Measured at fair value through other comprehensive income	-	-	1,516	1,516	-	-	1,381	1,381
Measured at fair value through profit or loss	-	-	199	199	-	-	243	243
Financial derivatives	17	7,037	99	7,153	4	2,985	118	3,107
Investment property	-	160	2,153	2,313	-	153	1,828	1,981
Liabilities								
Derivatives	17	6,615	67	6,699	3	2,947	68	3,018
Liabilities to members of consolidated mutual funds	-	210	-	210	-	90	-	90
Investment contracts for the client's account and risk *(unit-linked)*	-	249	-	249	-	259	-	259
Liabilities on borrowed securities (short sale)	454	-	-	454	293	-	-	293

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 September 2020	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehen-sive income	through profit or loss	
Beginning of the period	**246**	**6,815**	**226**	**19**	**41**	**118**	**68**	**1,381**	**243**	**1,828**
Purchase/opening of the position/granting	4	16,131	28	2	1,122	5	5	99	-	122
Reclassification from Level II [1]	-	327	6	-	29	-	-	-	-	
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	296
Profit or loss recognized in the profit and loss account:	-	149	(17)	-	(2)	19	14	20	(2)	149
- interest income calculated using the effective interest rate	-	141	-	-	-	(2)	-	20	(2)	-
- result on derecognition of financial instruments and investments	-	8	-	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(17)	-	(3)	21	14	-	-	149
Profits or losses recognized in other comprehensive income	4	(50)	-	-	-	-	-	1	-	-
Sales/settlements/repayments	-	(10,558)	-	-	(1,119)	(43)	(20)	15	(42)	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(256)
Reclassification to Level II	-	(242)	-	-	(2)	-	-	-	-	-
Amendments to lease contracts	-	-	-	-	-	-	-	-	-	14
Foreign exchange differences	-	-	3	-	-	-	-	-	-	-
End of the period	**254**	**12,572**	**246**	**21**	**69**	**99**	**67**	**1,516**	**199**	**2,153**

[1] Information on the restatements is presented in section 9.25.6.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 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 comprehen-sive income	through profit or loss	
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:	-	176	111	3	6	57	36	29	(2)	48
- interest income calculated using the effective interest rate	-	170	-	-	-	-	-	29	(2)	-
- result on derecognition of financial instruments and investments	-	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	-	-	-	-	-	-
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 section 9.25.6.

(in millions of PLN)

9.25.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 September 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Loan receivables from clients measured at amortized cost	-	-	190,914	190,914	-	-	193,964	193,964
Investment financial assets measured at amortized cost	36,892	6,590	23,109	66,591	26,032	2,149	21,742	49,923
Debt securities	36,892	3,829	16,205	56,926	26,032	1,123	12,674	39,829
Buy-sell-back transactions	-	2,253	2,037	4,290	-	738	3,326	4,064
Term deposits with credit institutions	-	508	670	1,178	-	288	1,168	1,456
Loans	-	-	4,197	4,197	-	-	4,574	4,574
Liabilities								
Liabilities to banks	-	724	6,811	7,535	-	897	5,728	6,625
Liabilities to clients under deposits	-	-	242,728	242,728	-	-	219,233	219,233
Liabilities on the issue of own debt securities [1)]	-	4,849	1,702	6,551	-	6,700	2,667	9,367
Subordinated liabilities [1)]	-	2,779	3,917	6,696	-	2,766	4,014	6,780
Liabilities on account of repurchase transactions	-	300	937	1,237	-	599	-	599

[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.

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

In the period of 9 months ended on 30 September 2020 and 2019, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

9.25.6. Reclassification between fair value hierarchy levels

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

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

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

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

The outbreak of the COVID-19 pandemic translated indirectly into an increase in volatility on the financial markets and a decrease in the liquidity of certain market segments, such as, in particular, corporate and municipal securities. This resulted in the reclassification of some assets to lower fair value levels.

In the period of 9 months ended on 30 September 2020, the following reclassifications of assets between fair value levels were made:

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

In 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 the 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,
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was material and capital market derivatives for which the estimated parameter (correlation) exerted a significant impact on the measurement.

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

In the period of 9 months ended on 30 September 2020, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

(in millions of PLN)

9.27 Assets and liabilities held for sale

Assets and liabilities held for sale	30 September 2020	31 December 2019
Groups held for sale	**417**	**475**
RUCH [1)]	(32)	-
Assets	140	-
Liabilities	172	-
Other groups held for sale	449	475
Assets	480	504
Investment property	431	454
Receivables	5	9
Deferred tax assets	4	6
Cash and cash equivalents	38	34
Other assets	2	1
Liabilities	31	29
Deferred tax liability	12	6
Other liabilities	15	11
Liabilities to banks	3	-
Liabilities for borrowings	-	5
Other financial liabilities	1	6
Other provisions	-	1
Other assets held for sale	**73**	**76**
Property, plant and equipment	40	33
Investment property	33	43
Assets and groups of assets held for sale	**693**	**580**
Liabilities related directly to assets classified as held for sale	**203**	**29**

[1)] More information on the classification of RUCH's assets and liabilities as a group held for sale is presented in section 2.3.1.1.

The "Investment property" line item and the "Other 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.

9.28 Share capital

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

All the Shares have been fully paid for.

As at 30 September 2020 and 31 December 2019

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

(in millions of PLN)

9.29 Distribution of the parent company's profit

Information on the distribution of the parent company's profit is presented in section 21.

9.30 Technical provisions

Technical provisions	30 September 2020			31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**24,501**	**(1,608)**	**22,893**	**24,457**	**(1,856)**	**22,601**
Provision for unearned premiums	8,064	(499)	7,565	8,765	(856)	7,909
Provision for unexpired risk	29	-	29	14	-	14
Provisions for outstanding claims and benefits	10,250	(844)	9,406	9,676	(785)	8,891
- for reported claims	3,664	(729)	2,935	3,414	(670)	2,744
- for claims not reported (IBNR)	4,388	(98)	4,290	4,210	(90)	4,120
- for claims handling expenses	2,198	(17)	2,181	2,052	(25)	2,027
Provision for the capitalized value of annuities	6,156	(265)	5,891	5,999	(215)	5,784
Provisions for bonuses and discounts for insureds	2	-	2	3	-	3
Technical provisions in life insurance	**22,901**	**-**	**22,901**	**22,872**	**-**	**22,872**
Provision for unearned premiums	102	-	102	106	-	106
Life insurance provision	16,389	-	16,389	16,346	-	16,346
Provisions for outstanding claims and benefits	577	-	577	622	-	622
- for reported claims	158	-	158	167	-	167
- for claims not reported (IBNR)	414	-	414	449	-	449
- for claims handling expenses	5	-	5	6	-	6
Provisions for bonuses and discounts for insureds	6	-	6	6	-	6
Other technical provisions	194	-	194	214	-	214
Unit-linked provision	5,633	-	5,633	5,578	-	5,578
Total technical provisions	**47,402**	**(1,608)**	**45,794**	**47,329**	**(1,856)**	**45,473**

9.31 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 September 2020 (in PLN m)	Carrying amount 31 December 2019 (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	2,253	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,262	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	556	554
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	202	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	352	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 4 June 2031	403	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	222	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	193	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	149	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	609	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	46	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	152	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	151	150
Subordinated liabilities					**6,690**	**6,700**

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

9.32 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 September 2020	31 December 2019
Bonds	2,723	3,976
Certificates of deposit	2,347	3,940
Covered bonds	1,433	1,357
Liabilities on the issue of own debt securities, total	**6,503**	**9,273**

(in millions of PLN)

9.33 Liabilities to banks

Liabilities to banks	30 September 2020	31 December 2019
Current deposits	597	412
One-day deposits	128	419
Term deposits	7	41
Loans received	6,296	5,427
Other liabilities	600	305
Liabilities to banks, total	**7,628**	**6,604**

9.34 Liabilities to clients under deposits

Liabilities to clients under deposits	30 September 2020	31 December 2019
Current deposits	205,362	151,417
Term deposits	36,286	66,414
Other liabilities	888	757
Liabilities to clients under deposits, total	**242,536**	**218,588**

(in millions of PLN)

9.35 Other liabilities

Other liabilities	30 September 2020	31 December 2019 (restated)
Liabilities measured at fair value	**918**	**675**
Liabilities on borrowed securities (short sale)	454	293
Investment contracts for the client's account and risk (unit-linked)	249	259
Liabilities to members of consolidated mutual funds	210	90
Liability on the settlement of the acquisition of Tomma shares	5	33
Financial liabilities measured at amortized cost	**10,241**	**9,734**
Accrued expenses	1,320	1,979
Accrued expenses of agency commissions	340	390
Accrued payroll expenses	205	217
Accrued reinsurance expenses	185	706
Accrued employee bonuses	343	367
Other	247	299
Deferred revenue	389	322
Other liabilities	8,532	7,433
Liabilities on account of repurchase transactions	1,260	599
Lease liabilities	1,086	1,066
Liabilities due under transactions on financial instruments	1,096	905
Liabilities to banks for payment documents cleared in interbank clearing systems	1,344	1,096
Liabilities on direct insurance	885	892
Liabilities on account of payment card settlements	398	408
Regulatory settlements	181	289
Liabilities for contributions to the Bank Guarantee Fund	454	356
Reinsurance liabilities	223	197
Estimated non-insurance liabilities	86	161
Liabilities to employees	38	47
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	60	69
Trade liabilities	416	258
Current income tax liabilities	407	352
Liabilities to the state budget other than for income tax	124	182
Liabilities on account of donations	21	23
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	17	12
Insurance Guarantee Fund	13	15
Liability for the refund of loan costs	59	106
Liabilities for direct claims handling	25	29
Other	339	371
Other liabilities, total	**11,159**	**10,409**

(in millions of PLN)

9.36 Other provisions

Movement in other provisions in the period ended 30 September 2020	Beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	358	427	-	(208)	3	580
Provision of potential refunds of borrowing costs	254	109	(236)	-	-	127
Provision for restructuring expenses	34	144	(74)	-	-	104
Provision for tax risk	-	-	-	-	85	85
Provision for disputed claims and potential liabilities	80	14	(12)	(1)	-	81
Provision for legal risk pertaining to mortgage loans in Swiss francs	22	18	-	(8)	-	32
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	11	-	(57)	-	39
Other	34	8	(8)	(10)	1	25
Total other provisions	**867**	**731**	**(330)**	**(284)**	**89**	**1,073**

Movement in other provisions in the period ended 31 December 2019	Beginning of the period	Increase	Utilization	Termination	Other changes	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**

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 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.

The revaluation of the estimate was based on the need to include the most recent data on incoming complaints regarding the refund of the loan costs and on the refund amounts. In the third quarter of 2020, the PZU Group did not revalue its estimates of the legal risk arising from prepayments of consumer loans made before the date of announcement of the CJEU judgment (in the second quarter of 2020 an additional provision of PLN 109 million was set up and which was charged to other operating expenses). As at 30 September 2020, the carrying amount of the provision was PLN 127 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.

Provision for restructuring expenses

The Pekao Management Board reported that on 20 February 2020, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships, it adopted a resolution concerning the intention to effect group layoffs and commence the consultation procedure on group layoffs.

In the period from 13 March 2020 to 31 October 2020, the Pekao Management Board intends to terminate employment contracts with a maximum of 1,200 employees and modify employment conditions with a maximum of 1,350 employees, although Pekao may unilaterally decide to extend the process by at most 5 months.

The total costs related to the termination of employment contracts and the modification of the employment conditions for Pekao employees under group layoffs and the restructuring of the branch network were estimated at PLN 144 million, and the restructuring provision in this amount was established for this purpose. As at 30 September 2020, the carrying amount of this provision was PLN 92 million.

The remaining balance is made up of the following:

- PLN 10 million – pertaining to the restructuring process conducted in PZU and PZU Życie (PLN 10 million as at 31 December 2019);
- PLN 2 million – pertaining to the restructuring processes in Alior Bank (as at 31 December 2019: PLN 5 million).

Provision for tax risk

More information on the provision for tax risk is presented in section 9.14.

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

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

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

Considering the increasing numbers of statements of claim pertaining to CHF mortgage loans observed in the banking sector and the absence 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, as at 30 September 2020, of PLN 105 million (as at 31 December 2019: PLN 59 million), of which PLN 32 million (as at 31 December 2019: PLN 22 million) is related to exposures repaid as at the balance sheet date (and is recognized in "Other provisions"), and PLN 73 million (as at 31 December 2019: PLN 37 million) is related to exposures outstanding as at the balance sheet date, recognized as an element of allowances for expected credit losses and impairment losses on financial instruments.

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 30 September 2020, the PZU Group estimated the portfolio provision for future possible statements of claim of PLN 45 million (as at 31 December 2019: PLN 39 million), the value of which 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.

Considering the inconsistent line of rulings pertaining to CHF mortgage loans and the short period, from the perspective of court cases, for which historical data are available on claims associated with such loans, the estimation of the provision required the adoption of expert assumptions by the PZU Group and entailed a significant degree of 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.

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

Detailed information about the reversal of the provision in the amount of PLN 57 million related to the penalty imposed on PZU in the proceedings initiated by the President of the Office of Competition and Consumer Protection is presented in section 22.2.

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 maintains a provision to cover this risk.

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

(in millions of PLN)

9.37 Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 30 September 2020	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,427	664	3	202	-	6,296
Liabilities on the issue of debt securities	9,273	(2,835)	59	12	(6)	6,503
Bonds	3,976	(1,288)	37	(2)	-	2,723
Certificates of deposit	3,940	(1,614)	22	-	(1)	2,347
Covered bonds	1,357	67	-	14	(5)	1,433
Subordinated liabilities	6,700	(121)	109	2	-	6,690
Liabilities on account of repurchase transactions	599	661	5	-	(5)	1,260
Lease liabilities	1,066	(216)	43	(1)	194	1,086
Total financial liabilities	**23,065**	**(1,847)**	**219**	**215**	**183**	**21,835**

Movement in liabilities attributable to financial activities in the period ended 31 December 2019	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 differences	Change in the composition of the Group	Other changes	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**

10. Assets securing receivables, liabilities and contingent liabilities

Assets securing liabilities and contingent liabilities include primarily mortgage-backed bonds and receivables (in the case of mortgage bond issues) and cash deposits (in the case of coverage of the Settlement Guarantee Fund for the National Depository for Securities).

(in millions of PLN)

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

Financial assets pledged as collateral for liabilities and contingent liabilities	30 September 2020	31 December 2019
Carrying amount of financial assets pledged as collateral for liabilities	11,657	10,522
Repurchase transactions	1,259	598
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	970	938
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	193	122
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	389	302
Lombard and technical credit	5,855	5,758
Other loans	699	709
Issue of covered bonds	1,937	1,872
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	43	33
Derivative transactions	312	190
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**11,657**	**10,522**

11. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2020	31 December 2019
Contingent assets, including:	7	6
- guarantees and sureties received	7	6
Contingent liabilities	64,134	59,437
- for renewable limits in settlement accounts and credit cards	12,040	10,603
- for loans in tranches	31,771	29,867
- guarantees and sureties given	9,994	9,782
- disputed insurance claims	715	773
- other disputed claims	234	212
- other, including:	9,380	8,200
- guaranteeing securities issues	3,743	3,636
- factoring	4,016	3,300
- intra-day limit	409	339
- letters of credit and commitment letters	932	732
- other	280	193

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

In the period of 9 months ended on 30 September 2020 and 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, with the exception of the issue described below.

On 2 November 2020 PZU entered into Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time with Alior Bank. In addition, PZU entered into Annex no. 1 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time defines the rules for PZU to issue insurance guarantees for unfunded credit protection within an exposure limit under instructions from, and in favor of, Alior Bank. The maximum exposure limit for the guarantees issued pursuant to Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is PLN 4,000 million. The limit is in force for a period of 3 years and is a revolving limit, meaning that the expiry of a guarantee makes the “freed up” amount available within the limit minus any possible disbursements under a guarantee.

The fee for extending the guarantee will depend, among other things, on portfolio amortization and the premium for a counter guarantee. At present, it is not possible to state the amount of the fee for a guarantee since it will depend on the amount of the guaranteed sum and the quality of the portfolio collateralizing the guarantee. The issuance of every guarantee will be preceded by an application from Alior Bank and an evaluation and valuation of the portfolio presented for that guarantee. Alior Bank will present a declaration of voluntary submission to enforcement in the form of a notary deed to collateralize the payment of the fee for a guarantee under the executed Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time.

The maximum term of the guarantees issued under Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is 5 years. Alior Bank's share of the due and payable receivables by virtue of the accounts receivable is 10%.

Annex no. 1 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time contemplates contractual penalties that may be due to PZU from Alior Bank if Alior Bank breaches certain obligations stemming from Annex no. 1 to the Agreement. The total maximum amount of contractual penalties cannot exceed PLN 3 million. Annex no. 1 to the Agreement does not rule out the possibility of pursuing damages exceeding the sum total of the contractual penalties.

Annex no. 1 to the Master Agreement to Provide Counter Guarantees from Time to Time defines the rules for the Counterparty to provide counter guarantees under instructions from PZU issued in favor of Alior Bank. The available counter guarantee limit is PLN 2,600 million. The available limit will be reduced each time when each counter-guarantee is extended, by the guaranteed amount specified in the counter-guarantee; the available counter-guarantee limit is renewable, which means that the limit is renewed when a counter-guarantee expires.

12. Commentary to the condensed interim consolidated financial statements

In the period of 9 months ended 30 September 2020, gross written premium was PLN 17,291 million compared to PLN 17,501 million in the corresponding period of the previous year (-1.2%). The decrease in sales applied above all to the following:

- motor insurance in both non-life insurance segments as an effect of the persisting COVID-19 pandemic (dip in the sales of new vehicles and the slowdown on the lease market in the corporate insurance segment and the lower average premium coupled with the fall in the number of insurance policies in the mass insurance segment - impact exerted by the limitation on the own network's accessibility, the temporary closure of branches and dealer network);
- insurance against fire and other damage to property in the corporate insurance segment as a consequence of the execution of a high-value long-term contract in H1 2019,

The declines were partially offset by the higher premium in the following:

- ADD and other insurance as a result of growing the portfolio of insurance offered under strategic partnership in TUW PZUW and growing the sales of insurance offered in cooperation with the PZU Group's banks for mortgage loans and cash loans, and providing insurance cover to physicians and medical personnel against infection with COVID-19;
- unit-linked and protection products offered in collaboration with banks and endowment and term products offered in its own channels;
- portfolio of group health products concluded in a group or continued form.

Investment income including interest expenses in the first 3 quarters of 2020 and in the first 3 quarters of 2019 was PLN 5,269 million and PLN 6,762 million, respectively. A decline in investment income was posted in banking activity and net of banking activity. In banking activity, the decrease in profit was triggered, in particular, by the higher costs of risk due to the establishment of additional loan provisions for the anticipated deterioration in the quality of Bank Pekao and Alior Bank's loan portfolios. At the same time, Alior Bank's net interest income was reduced due to the impact of the CJEU ruling on the refund of part of the commission in the event of an early repayment of consumer loans.

Income on investing activity, excluding banking business,[2] declined mainly due to poorer performance on listed equities, in particular by the deterioration in market conditions due to the COVID-19 pandemic, translating among others into investment performance in the portfolio of assets to cover investment products that have no effect on the PZU Group's overall net result.

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

Net claims and benefits (including the movement in technical provisions) were PLN 11,352 million, down 4.8% from the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, the lower investment result on most unit-linked product portfolios compared to the results generated last year and lower benefits paid in protection products;
- lower loss ratio in the motor insurance class as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with the COVID-19 pandemic.

In turn, an increase in net claims and benefits paid was posted in the non-motor insurance portfolio, including insurance against fire and other damage to property, chiefly due to an above-average number of losses caused by atmospheric phenomena at the turn of the second and third quarters of 2020 and third party liability – in the corresponding period of 2019 there was a lower level of claims and benefits paid in the insurance portfolio of medical entities.

In the first three quarters of 2020 acquisition expenses fell PLN 14 million compared to the corresponding period of the previous year. This decline was in particular the outcome of lower commission costs on motor insurance (driven by lower sales due to the slowdown on the lease market, price pressure and limitations on accessibility to agents and branches) and the decline in indirect costs.

PZU Group's administrative expenses in the first 3 quarters of 2020 were PLN 4,930 million compared to PLN 4,900 million in the corresponding period of 2019, i.e. they were PLN 30 million higher than in the previous year.

Administrative expenses in the banking activity segment (net of adjustments on account of the valuation of assets and liabilities to fair value) dropped by PLN 48 million (-1.3%). This decline was related to Bank Pekao and Alior Bank maintaining cost discipline. At the same time, the administrative expenses of the insurance segments in Poland were PLN 65 million higher compared to the previous year. Their movement was driven predominantly by higher personnel costs in connection with wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic) and an increase in the costs of technical assistance and license fees.

In the first three quarters of 2020, the balance of other operating income and expenses was negative and stood at PLN 3,444 million, compared to the negative balance in 2019 of PLN 2,062 million. The following contributed to this result:

- non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao of PLN 746 million and PLN 555 million, respectively;
- non-recurring effect of the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million;
- lower level of BFG fees – decline from PLN 579 million in the first 3 quarters of 2019 to PLN 473 million in 2020 as a result of a lower fee for compulsory restructuring;
- levy on financial institutions – the PZU Group's liability on account of this levy (in insurance and banking activity in total) in the first 3 quarters of 2020 was PLN 901 million compared to PLN 852 million in the corresponding period of the previous year. The higher burden was attributable to banking activity and resulted from the increase in value of assets forming the taxable base (the rate of the levy did not change);
- reversal of the PLN 57 million provision for the fine imposed on PZU by the President of the Office of Competition and Consumer Protection (UOKiK) on 30 December 2011.

In the first 3 quarters of 2020, operating profit was PLN 2,678 million, down by PLN 2,380 million (-47.1%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- higher profitability in group and individually continued insurance (PLN 236 million) as the outcome of the falling loss ratio of certain risks in the group protection portfolio and the smaller increase in provisions for continued insurance with operating expenses remaining at a balanced level;
- higher profitability of the mass insurance segment (+PLN 126 million) driven by the lower loss ratio in motor insurance, which was partially offset by the deterioration of profitability in agricultural insurance, and higher allocated investment income (depreciation of the Polish zloty);

- lower operating result in the corporate client segment (-PLN 15 million) as the outcome of an increase in the loss ratio on the general TPL insurance and financial insurance portfolio coupled with the concurrent dip in sales, chiefly of motor insurance;
- operating result on individual insurance at a level comparable to that attained in the corresponding period of 2019 (-PLN 3 million) with a growing insurance (chiefly bancassurance) portfolio;
- lower investment income as a result of a decrease in the result on quoted equities in connection with the downturn in economic conditions precipitated by the COVID-19 pandemic;
- poorer performance of the banking segment (-PLN 2,851 million), among others in conjunction with the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the higher costs of risk stemming from the establishment of additional loan provisions for the projected deterioration in the quality of the loan portfolio in Bank Pekao and Alior Bank. At the same time, Alior Bank's net interest income was reduced by the impact of the CJEU ruling on the refund of part of the commission in the event of an early repayment of consumer loans. These effects were partially offset by lower fees paid to the Bank Guarantee Fund in 2020.

Net profit declined in comparison to the first Q3 quarters of 2019 by PLN 2,126 million (-57.7%) to PLN 1,558 million. The net profit attributable to parent company shareholders was PLN 1,191 million, compared to PLN 2,360 million in 2019 (down 49.5%).

As at 30 September 2020, consolidated equity according to IFRS was PLN 42,159 million compared to PLN 37,992 million as at 30 September 2019. Growth pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity (ROE[3]) attributable to the parent company for the period from 1 January 2020 to 30 September 2020 was 9.3%, down 11.5 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2019, equity climbed PLN 2,871 million. The value of non-controlling interests increased compared to the end of the previous year by PLN 1,151 million to PLN 24,270 million, its movement driven by the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the result attributable to non-controlling owners of PLN 367 million (generated by Alior Bank and Bank Pekao). Equity attributable to the owners of the parent company rose by PLN 1,720 million compared to the end of the previous year, driven predominantly by the net result attributable to the parent company generated in the first three quarters of 2020 totaling PLN 1,191 million, the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income.

Total equity and liabilities as at 30 September 2020 increased compared to 31 December 2019 by PLN 30,096 million to PLN 373,481 million. This growth pertained mainly to liabilities to clients in the form of deposits (+PLN 23,948 million).

The investment portfolio (investment financial assets, investment properties and financial derivatives) as at 30 September 2020 totaled PLN 146,884 million and was up PLN 30,380 million versus the end of last year. The increase in the value of investments was associated with Bank Pekao and was related to the higher value of the portfolio of government debt securities. Net of the banking business, the investment portfolio expanded in connection with investment performance and the inflow of premiums driven by business growth. Loan receivables as at 30 September 2020 were PLN 195,231 million, compared to PLN 194,868 million as at 31 December 2019.

Liabilities to clients in the form of deposits were the largest component of liabilities as at 30 September 2020. The increase in the amount thereof by PLN 23,948 million to PLN 242,536 pertained to clients' current deposits. At the same time, a drop in term deposits was recorded.

The value of technical provisions as at the end of Q3 2020 was PLN 47,402 million and accounted for 12.7% of total equity and liabilities. Compared to 31 December 2019, provisions rose by PLN 73 million. This change resulted primarily from the following:

- lower provision for unearned premiums, chiefly as a result of slower sales due to the imposition of social isolation rules, which translated into a limited availability of the sales network, and changes in the structure of the non-life insurance portfolio in the corporate segment (lower share of long-term contracts with a high unit value);

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

- increase in the provision for outstanding claims and benefits in non-life insurance related to the higher level of claims provisions in motor insurance (both segments) and the occurrence of several high unit value events in non-motor insurance;
- increase of the provision for the capitalized value of annuities due to higher provisions for motor TPL.

13. 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);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- 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 Article 412(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 2019 report published on 28 May 2020 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to

(in millions of PLN)

Article 290(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 2019 published in the PZU Group's 2019 solvency and financial condition report was 245%. As at the end of H1 2020, the solvency ratio (standalone and consolidated alike), which was not subject to an audit or review by an audit firm, remained above the 200% mark.

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

14. Segment reporting

14.1 Reportable segments

14.1.1. Key classification criterion

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

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by LD and its branch in Estonia, AAS Balta and PZU LT GD.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

14.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

14.2 Inter-segment settlements

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

14.3 Segment's measure of profit

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

- in the case of corporate, mass, group, individually continued and individual insurance segments – insurance result, which is the financial result before tax and other operating income and expenses (including financial costs), however including investment income (corresponding to the value of technical provisions) determined using the risk-free rate. The insurance result is a measure approximately equivalent to the technical result defined in PAS, taking into account the difference in the recognition of the net result on investments as described in the previous sentence;

- in the case of the investment segment – the investment result of PZU Group companies minus the result allocated to insurance segments and adjusted for dividends received from subsidiaries and valuation of these entities using the equity method (carried out in accordance with PAS);
- in the case of investment contracts – the operating result, calculated in the manner approximately equivalent to the technical result in accordance with PAS;
- in the case of banking activity and foreign insurance activity – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax.

14.4 Accounting policies applied according to PAS

14.4.1. PZU

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

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

14.4.2. PZU Życie

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

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

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

14.5 Simplifications in the segmental note

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

14.6 Quantitative data

Corporate insurance (non-life insurance)	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	516	1,732	590	1,995
Gross written premium – cross-segment	5	15	(1)	5
Gross written premium	**521**	**1,747**	**589**	**2,000**
Movement in provision for unearned premiums and gross provision for unexpired risks	267	591	168	240
Gross earned premium	**788**	**2,338**	**757**	**2,240**
Reinsurers' share in gross written premium	(60)	(272)	(76)	(234)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(131)	(286)	(61)	(169)
Net earned premium	**597**	**1,780**	**620**	**1,837**
Investment income, including:	28	85	32	81
external operations	28	85	32	81
intersegment operations	-	-	-	-
Other net technical income	21	49	7	31
Income	**646**	**1,914**	**659**	**1,949**
Net insurance claims and benefits	(447)	(1,210)	(457)	(1,231)
Acquisition expenses	(128)	(381)	(128)	(382)
Administrative expenses	(32)	(105)	(30)	(91)
Reinsurance commissions and profit participation	11	33	9	28
Other	(5)	(32)	(5)	(39)
Insurance result	**45**	**219**	**48**	**234**

Mass insurance (non-life insurance)	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	2,367	7,587	2,385	7,649
Gross written premium – cross-segment	3	15	7	16
Gross written premium	**2,370**	**7,602**	**2,392**	**7,665**
Movement in provision for unearned premiums and gross provision for unexpired risks	257	173	266	143
Gross earned premium	**2,627**	**7,775**	**2,658**	**7,808**
Reinsurers' share in gross written premium	4	(15)	-	(47)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(31)	(67)	(28)	(42)
Net earned premium	**2,600**	**7,693**	**2,630**	**7,719**
Investment income, including:	135	414	147	385
external operations	135	414	147	385
intersegment operations	-	-	-	-
Other net technical income	31	76	38	110
Income	**2,766**	**8,183**	**2,815**	**8,214**
Net insurance claims and benefits	(1,682)	(4,753)	(1,672)	(4,959)
Acquisition expenses	(502)	(1,490)	(504)	(1,470)
Administrative expenses	(155)	(496)	(150)	(455)
Reinsurance commissions and profit participation	1	-	-	-
Other	(62)	(249)	(66)	(261)
Insurance result	**366**	**1,195**	**423**	**1,069**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	1,746	5,259	1,741	5,212
Gross written premium – cross-segment	-	-	-	-
Gross written premium	**1,746**	**5,259**	**1,741**	**5,212**
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**1,746**	**5,259**	**1,741**	**5,212**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,746**	**5,259**	**1,741**	**5,212**
Investment income, including:	165	458	154	504
external operations	165	458	154	504
intersegment operations	-	-	-	-
Other net technical income	1	2	-	3
Income	**1,912**	**5,719**	**1,895**	**5,719**
Net insurance claims and benefits and movement in other net technical provisions	(1,226)	(3,581)	(1,212)	(3,806)
Acquisition expenses	(92)	(284)	(98)	(285)
Administrative expenses	(149)	(464)	(152)	(462)
Other	(10)	(32)	(14)	(44)
Insurance result	**435**	**1,358**	**419**	**1,122**

Individual insurance (life insurance)	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	476	1,238	421	1,115
Gross written premium – cross-segment	-	-	-	-
Gross written premium	**476**	**1,238**	**421**	**1,115**
Movement in the provision for unearned premiums	1	3	1	3
Gross earned premium	**477**	**1,241**	**422**	**1,118**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**477**	**1,241**	**422**	**1,118**
Investment income, including:	130	261	96	412
external operations	130	261	96	412
intersegment operations	-	-	-	-
Other net technical income	-	1	1	1
Income	**607**	**1,503**	**519**	**1,531**
Net insurance claims and benefits and movement in other net technical provisions	(475)	(1,136)	(398)	(1,192)
Acquisition expenses	(46)	(121)	(34)	(98)
Administrative expenses	(19)	(58)	(17)	(50)
Other	(1)	(4)	(2)	(4)
Insurance result	**66**	**184**	**68**	**187**

(in millions of PLN)

Investments	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Investment income, including:	37	77	43	266
- external operations	23	31	26	128
- intersegment operations	14	46	17	138
Operating result	**37**	**77**	**43**	**266**

Banking activity	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019 (restated)	1 January – 30 September 2019 (restated)
Revenue from commissions and fees	1,030	2,935	1,026	2,948
- external operations	1,003	2,863	1,000	2,878
- intersegment operations	27	72	26	70
Investment income	1,569	4,802	2,280	6,684
- external operations	1,569	4,802	2,280	6,684
- intersegment operations	-	-	-	-
Income	**2,599**	**7,737**	**3,306**	**9,632**
Fee and commission expenses	(276)	(756)	(229)	(620)
Interest expenses	(185)	(953)	(512)	(1,509)
Administrative expenses	(1,181)	(3,604)	(1,213)	(3,652)
Other	(291)	(2,765) [1)]	(293)	(1,341)
Operating result	**666**	**(341)**	**1,059**	**2,510**

[1)] Including impairment losses on goodwill arising from the acquisition of Alior Bank in the amount of PLN 746 million and Pekao in the amount of PLN 555 million. Additional information on this issue is presented in section 9.16.1.

Pension insurance	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Investment income, including:	1	3	1	4
external operations	1	3	1	4
intersegment operations	-	-	-	-
Other income	28	101	35	104
Income	**29**	**104**	**36**	**108**
Administrative expenses	(8)	(34)	(10)	(32)
Other	(2)	(4)	(1)	(3)
Operating result	**19**	**66**	**25**	**73**

(in millions of PLN)

Insurance - Baltic States	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	417	1,252	427	1,283
Gross written premium – cross-segment	-	-	-	-
Gross written premium	**417**	**1,252**	**427**	**1,283**
Movement in provision for unearned premiums and gross provision for unexpired risks	7	19	2	(45)
Gross earned premium	**424**	**1,271**	**429**	**1,238**
Reinsurers' share in gross written premium	(9)	(54)	(10)	(49)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(6)	9	(6)	5
Net earned premium	**409**	**1,226**	**413**	**1,194**
Investment income, including:	8	1	6	28
external operations	8	1	6	28
intersegment operations	-	-	-	-
Income	**417**	**1,227**	**419**	**1,222**
Net insurance claims and benefits paid	(257)	(727)	(262)	(744)
Acquisition expenses	(85)	(254)	(86)	(251)
Administrative expenses	(33)	(104)	(34)	(97)
Other	1	3	1	3
Insurance result	**43**	**145**	**38**	**133**

Insurance – Ukraine	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium – external	78	222	98	247
Gross written premium – cross-segment	-	-	-	-
Gross written premium	**78**	**222**	**98**	**247**
Movement in provision for unearned premiums and gross provision for unexpired risks	(4)	7	(1)	(11)
Gross earned premium	**74**	**229**	**97**	**236**
Reinsurers' share in gross written premium	(25)	(78)	(31)	(77)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	(2)	(2)	(3)
Net earned premium	**47**	**149**	**64**	**156**
Investment income, including:	8	33	8	22
external operations	8	33	8	22
intersegment operations	-	-	-	-
Income	**55**	**182**	**72**	**178**
Net insurance claims and benefits paid	(19)	(55)	(22)	(55)
Acquisition expenses	(25)	(77)	(33)	(84)
Administrative expenses	(8)	(24)	(8)	(22)
Other	6	23	7	19
Insurance result	**9**	**49**	**16**	**36**

(in millions of PLN)

Investment contracts	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Gross written premium	6	21	6	23
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**6**	**21**	**6**	**23**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	**6**	**21**	**6**	**23**
Investment income, including:	5	(3)	3	14
external operations	5	(3)	3	14
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**11**	**18**	**9**	**37**
Net insurance claims and benefits and movement in other net technical provisions	(9)	(12)	(6)	(30)
Acquisition expenses	-	-	-	-
Administrative expenses	-	(2)	(1)	(3)
Operating result	**2**	**4**	**2**	**4**

Other segments	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Investment income, including:	8	18	(4)	5
- external operations	8	18	(4)	5
- intersegment operations	-	-	-	-
Other income	347	927	281	820
Income	**355**	**945**	**277**	**825**
Expenses	(339)	(960)	(291)	(858)
Other	4	20	12	29
Operating result	**20**	**5**	**(2)**	**(4)**

(in millions of PLN)

Reconciliations 1 January 2020 – 30 September 2020	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,780	85	(1,210)	(381)	(105)	219
Mass insurance	7,693	414	(4,753)	(1,490)	(496)	1,195
Group and individually continued insurance	5,259	458	(3,581)	(284)	(464)	1,358
Individual insurance	1,241	261	(1,136)	(121)	(58)	184
Investments	-	77	-	-	-	77
Banking activity	-	4,802	-	-	(3,604)	(341) [1]
Pension insurance	-	3	-	(4)	(34)	66
Insurance - Baltic States	1,226	1	(727)	(254)	(104)	145
Insurance – Ukraine	149	33	(55)	(77)	(24)	49
Investment contracts	21	(3)	(12)	-	(2)	4
Other segments	-	18	-	-	-	5
Total segments	**17,369**	**6,149**	**(11,474)**	**(2,611)**	**(4,891)**	**2,961**
Presentation of investment contracts	(22)	8	12	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	(7)	-	-	-	(7)
Valuation of properties	-	(3)	-	-	(2)	(3)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(8)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [2]	(30)	125	114	145	(27)	(251)
Consolidated data	**17,317**	**6,272** [3]	**(11,352)**	**(2,466)**	**(4,930)**	**2,678**

[1] Including impairment losses on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Pekao (PLN 555 million). Additional information on this issue is presented in section 9.16.1.

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

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

(in millions of PLN)

Reconciliations 1 January 2019 – 30 September 2019 (restated)	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,837	81	(1,231)	(382)	(91)	234
Mass insurance	7,719	385	(4,959)	(1,470)	(455)	1,069
Group and individually continued insurance	5,212	504	(3,806)	(285)	(462)	1,122
Individual insurance	1,118	412	(1,192)	(98)	(50)	187
Investments	-	266	-	-	-	266
Banking activity	-	6,684	-	-	(3,652)	2,510
Pension insurance	-	4	-	(3)	(32)	73
Insurance - Baltic States	1,194	28	(744)	(251)	(97)	133
Insurance – Ukraine	156	22	(55)	(84)	(22)	36
Investment contracts	23	14	(30)	-	(3)	4
Other segments	-	5	-	-	-	(4)
Total segments	**17,259**	**8,405**	**(12,017)**	**(2,573)**	**(4,864)**	**5,630**
Presentation of investment contracts	(23)	(7)	30	-	-	-
Estimated salvage and subrogation	-	-	(10)	-	-	(10)
Valuation of equity instruments	-	(31)	-	-	-	(31)
Valuation of properties	-	(3)	-	-	(2)	(7)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(4)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(9)	4	77	93	(24)	(510)
Consolidated data	**17,227**	**8,368** [2]	**(11,920)**	**(2,480)**	**(4,900)**	**5,058**

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

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

Geographic breakdown	1 January – 30 September 2020					1 January – 30 September 2019 (restated)				
	Poland	Baltic States	Ukraine	Unal-located	Consoli-dated value	Poland	Baltic States	Ukraine	Unal-located	Consoli-dated value
Gross written premium – external	15,817	1,252	222	-	17,291	15,971	1,283	247	-	17,501
Gross written premium – cross-segment	13	-	-	(13)	-	9	-	-	(9)	-
Revenue from commissions and fees	3,037	-	-	-	3,037	3,051	-	-	-	3,051
Investment income [1]	6,238	1	33	-	6,272	8,318	28	22	-	8,368

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

(in millions of PLN)

Geographic breakdown	30 September 2020					31 December 2019 (restated)				
	Poland	Baltic States	Ukraine	Unal-located	Consoli-dated value	Poland	Baltic States	Ukraine	Unal-located	Consoli-dated value
Non-current assets, other than financial assets [1]	6,922	268	5	-	7,195	7,133	247	6	-	7,386
Deferred tax assets	2,507	-	3	-	2,510	2,310	-	3	-	2,313
Assets	371,041	3,243	538	(1,341)	373,481	341,372	2,877	596	(1,460)	343,385

[1] Applies to intangible assets and property, plant and equipment.

14.7 Information on key customers

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

15. Commentary to segment reporting and investing activity

15.1 Corporate insurance – non-life insurance

During the first 3 quarters of 2020, in the corporate insurance segment, gross written premium decreased by PLN 253 million (-12.7% y/y) as compared to the first 3 quarters of 2019. The following factors were recorded concerning premiums:

- lower premium on motor insurance (-19.7% y/y) as a result of a lower number of insurance contracts (effect of lower sales of new vehicles and a downturn in the leasing market due to the persisting COVID-19 pandemic) exacerbated by the dip in the average premium due to ongoing price pressure;
- lower premium from insurance against fire and other damage to property (-18.1% y/y) as a consequence of the execution of a high-value long-term contract in 2019,
- growth of the assistance insurance portfolio under strategic partnerships in TUW PZUW and higher sales of motor own damage insurance and cargo insurance;
- higher premium in the third party liability portfolio (+2.8% y/y)

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	1,747	2,000	(12.7%)
Net earned premium	1,780	1,837	(3.1%)
Investment income	85	81	4.9%
Net insurance claims and benefits paid	(1,210)	(1,231)	(1.7%)
Acquisition expenses	(381)	(382)	(0.3%)
Administrative expenses	(105)	(91)	15.4%
Reinsurance commissions and profit-sharing	33	28	17.9%
Other	17	(8)	(312.5%)
Insurance result	**219**	**234**	**(6.4%)**
acquisition expenses ratio (including reinsurance commission) [1]	19.6%	19.3%	0.3 p.p.
administrative expense ratio [1]	5.9%	5.0%	0.9 p.p.
loss ratio [1]	68.0%	67.0%	1.0 p.p.
combined ratio (COR) [1]	93.4%	91.2%	2.2 p.p.

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

Net insurance claims and benefits slipped 1.7% while net earned premium edged down by 3.1%, translating into deterioration in the loss ratio by 1.0 percentage point. The higher loss ratio in the segment was driven by the following factors:

- higher loss ratio in the non-motor insurance portfolio, including:
  - third party liability – in the corresponding period of 2019 lower level of claims and benefits paid in the insurance portfolio of medical entities,
  - insurance guarantees due to the occurrence of several high unit value events;
- decline in the loss ratio in motor insurance, in motor TPL and motor own damage alike, chiefly as a consequence of the lower frequency of notifying claims stemming from the limitations in domestic and international traffic due to pandemic. Effect partially offset by the observed increase in the average payout, the occurrence of a high unit value event and the impact exerted by the PLN's depreciation against the EUR in FX claims.

The increase in investment income allocated to the corporate insurance segment ensued chiefly from the strong depreciation of the EUR exchange rate to the PLN partially offset by the fall in interest rates.

Keeping acquisition expenses (net of reinsurance commissions) at a flat level (-0.3% y/y) in the corporate insurance segment versus the first 3 quarters of 2019 was the outcome of a shift in the product mix (higher percentage of motor insurance in the portfolio) and a shift in the sales channel mix (slowdown in sales by lease firms).

The increase in administrative expenses y/y of 15.4% (PLN 14 million) was driven predominantly by the growing personnel costs as a result of wage pressure on the market, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic) and an increase in the costs of technical assistance and license fees.

In Q3 2020, the corporate insurance segment generated an operating result of PLN 219 million, signifying a 6.4% decline compared to the corresponding period of the previous year. The lower result is the outcome of the higher loss ratio on the general TPL insurance and financial insurance portfolio coupled with the concurrent dip in sales, chiefly of motor insurance.

15.2 Mass insurance – non-life insurance

During the first 3 quarters of 2020, gross written premium in the mass insurance segment fell PLN 63 million (-0.8% y/y) compared to the corresponding period of 2019. This growth resulted primarily from the following:

- gross written premium in motor insurance down 3.8% y/y as a consequence of the lower average premium accompanied by the simultaneous decline in the number of insurance contracts - impact exerted by the limitation on accessibility to its own network, temporary closure of branches and the dealer network due to the restrictions implemented on account of the pandemic and rising price pressure;
- higher premium in ADD and other insurance (+16.0% y/y), chiefly as a result of the growing sales of insurance offered in cooperation with the Group's banks for mortgage loans and cash loans, and providing insurance cover to physicians and medical personnel against a COVID-19 infection. This effect was partly offset by lower sales of travel insurance;
- higher sales of insurance against fire and other damage to property, including apartment insurance.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	7,602	7,665	(0.8%)
Net earned premium	7,693	7,719	(0.3%)
Investment income	414	385	7.5%
Net insurance claims and benefits paid	(4,753)	(4,959)	(4.2%)
Acquisition expenses	(1,490)	(1,470)	1.4%
Administrative expenses	(496)	(455)	9.0%
Reinsurance commissions and profit-sharing	-	-	-
Other	(173)	(151)	14.6%
Insurance result	**1,195**	**1,069**	**11.8%**
acquisition expenses ratio (including reinsurance commission)[1)]	19.4%	19.0%	0.4 p.p.
administrative expense ratio [1)]	6.4%	5.9%	0.5 p.p.
loss ratio [1)]	61.8%	64.2%	(2.4) p.p.
combined ratio (COR) [1)]	87.6%	89.2%	(1.6) p.p.

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

Net insurance claims and benefits declined 4.2%, which when coupled with net earned premium remaining at a balanced level (-0.3% y/y) translates into the loss ratio improving by 2.4 percentage points.

This change resulted mainly from the following:

- lower loss ratio in the motor insurance class as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with the COVID-19 pandemic and rising loss inflation;
- deterioration of the loss ratio in non-motor insurance, including insurance against fire and other damage to property, chiefly due to an above-average number of losses caused by atmospheric phenomena at the turn of the second and third quarters of 2020;

The increase in investment income allocated to the mass insurance segment ensued chiefly from the strong depreciation of the EUR exchange rate to the PLN partially offset by the fall in interest rates.

After the first 9 months of 2020, acquisition expenses in the mass insurance segment were PLN 1,490 million, up PLN 20 million (+1.4%) from the corresponding period last year, which considering the decrease in net earned premium by 0.3%, represented a 0.4 p.p. deterioration in the acquisition expense ratio. The driver of this change in the level of acquisition expenses was the higher level of direct acquisition expenses due to the shift in the mix of products and sales channels (a lower rate of growth in sales of motor TPL insurance characterized by lower commission rates).

The increase in administrative expenses of PLN 41 million (+ 9% y/y) was mainly driven by rising personnel costs, the higher provision for holiday leave (lower propensity of employees to take holiday leave during the pandemic) and additional expenditures related to the aid package for sales due to COVID-19.

The higher operating result in the mass insurance segment up PLN 126 million (+11.8%) in comparison to the first 3 quarters of 2019 was mainly driven by the lower loss ratio in motor insurance, which was partially offset by the deterioration of profitability in agricultural insurance and higher allocated investment income (depreciation of PLN).

15.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 47 million (0.9%) higher than in the corresponding period of last year, which resulted primarily from the following:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of September 2020, PZU Życie had nearly 2.2 million in force contracts of this type.
- active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements.

(in millions of PLN)

At the same time, revenues from group protection products remained under pressure posed by higher attrition of the insureds in groups (work establishments), and the limited pressure on the growth rate of the average premium made it possible to control the loss ratio in group protection products.

Data from the profit and loss account – group and individually continued insurance	**1 January – 30 September 2020**	**1 January – 30 September 2019**	**% change**
Gross written premium	5,259	5,212	0.9%
Group insurance (periodic premium)	3,725	3,695	0.8%
Individually continued insurance (periodic premium)	1,534	1,517	1.1%
Net earned premium	5,259	5,212	0.9%
Investment income	458	504	(9.1)%
Net insurance claims and benefits and movement in other net technical provisions	(3,581)	(3,806)	(5.9)%
Acquisition expenses	(284)	(285)	(0.4)%
Administrative expenses	(464)	(462)	0.4%
Other	(30)	(41)	(26.8)%
Insurance result	**1,358**	**1,122**	**21.0%**
Insurance result net of the conversion effect	**1,349**	**1,110**	**21.5%**
acquisition expense ratio [1)]	5.4%	5.5%	(0.1) p.p.
administrative expense ratio [1)]	8.8%	8.9%	(0.1) p.p.
insurance margin net of the conversion effect [1)]	25.7%	21.3%	4.4 p.p.

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

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment investment income fell chiefly as a consequence of the poorer performance of unit-linked products, especially employee pension schemes (downturn in conditions on the financial markets caused by the COVID-19 pandemic). Income allocated according to transfer prices also fell as interest rates fell despite the higher level of technical provisions in protection insurance products.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 3,581 million, which signifies a y/y decline of PLN 225 million, or 5.9%. This change was driven by the following factor in particular:

- lower payouts of benefits in group protection products, chiefly on riders related to hospitalization and surgical operations and on permanent disability and loss of health, which might have been partly due to the lower level of human activity caused by the pandemic and changes in client behaviors in terms of channels through which claims are reported;
- lower than last year increase in mathematical provisions in continued products as a result of the change in the percentage of “old” and “new” continuation among the persons joining and remaining in the insured portfolio – in “new” continuation the unit cost of setting up mathematical provisions for future benefit payments is lower; moreover, the number of new persons in the portfolio lower than in the previous year;
- lower benefits paid in Employee Pension Schemes (EPS, a third pillar pension security product) versus last year, which was caused by the lower amount of transfer payments;
- lower value of medical benefits under health products despite the growth of this contract portfolio (effect of the temporary lockdown, lower frequency of on-site doctor’s appointments and diagnostics),
- lower amount of benefits in continued insurance related to permanent dismemberment and permanent disability, which may stem from diminished activity due to the pandemic;
- declining value of benefits for childbirth, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS).

The foregoing effects were partially offset by the following:

- higher disbursements of benefits in the portfolio of bank protection products as a result of an increase in individual benefits;

(in millions of PLN)

- lower than last year pace of conversion of long-term policies into yearly renewable term agreements in type P group insurance;
- higher value of benefits related to the deaths of insureds and spouses / life partners in group insurance and individually continued insurance alike;

Acquisition expenses in the group and individually continued insurance segment during the first 3 quarters of 2020 were PLN 284 million, falling by PLN 1 million (0.4%) compared to last year.

The increase in administrative expenses y/y of 0.4% (PLN 2 million) was driven predominantly by the growing personnel costs as a result of wage pressure, higher costs of amortization of computer programs related to running projects and the higher costs of handling life products.

Operating profit in the group and individually continued insurance segment in the first three quarters of 2020 climbed compared to the corresponding period of 2019 by PLN 236 million (21.0%) to PLN 1,358 million. The operating profit, net of the effect of converting long-term contracts into renewable contracts in type P group insurance was up y/y by PLN 239 million (21.5%). The decline in the loss ratio on some risks in the group protection portfolio and the smaller increase in provisions for continued insurance with acquisition and administrative expenses remaining at a balanced level were the main drivers to make a positive contribution to the results generated.

15.4 Individual insurance - life insurance

The growth in gross written premium by PLN 123 million (11.0%) to PLN 1,238 million compared to Q3 2019 was the result of the following favorable drivers:

- higher contributions to the unit-linked insurance accounts offered jointly with banks;
- higher contributions to other unit-linked insurance, including contracts executed under individual retirement accounts;
- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation under the contracts in the portfolio exceeds the value of lapses;
- growth of the portfolio of insureds in protection products in the bancassurance channel.

At the same time, the withdrawal of the structured product offered in the own network from the offering at the beginning of 2020 was a negative driver.

Data from the profit and loss account – individual insurance	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	1,238	1,115	11.0%
Net earned premium	1,241	1,118	11.0%
Investment income	261	412	(36.7)%
Net insurance claims and benefits and movement in other net technical provisions	(1,136)	(1,192)	(4.7)%
Acquisition expenses	(121)	(98)	23.5%
Administrative expenses	(58)	(50)	16.0%
Other	(3)	(3)	-
Insurance result	**184**	**187**	**(1.6)%**
acquisition expense ratio [1)]	9.8%	8.8%	1.0 p.p.
administrative expense ratio [1)]	4.7%	4.5%	0.2 p.p.
insurance margin [1)]	14.9%	16.8%	(1.9) p.p.

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

The investment result consists of income allocated using transfer prices and income on investment products. The income in the individual insurance segment was predominantly a consequence of the poorer performance of investment products, in particular as a result of the downturn in the financial markets caused by the COVID-19 pandemic. Income allocated using transfer prices fell slightly due to the level of market interest rates diminishing in protection products.

(in millions of PLN)

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 1,136 million, signifying a decrease in this item by PLN 56 million compared to the corresponding period of 2019. The change in the result generated on funds in investment products made a major contribution to this decrease. From the operational point of view, this factor was rather insignificant as it was offset by other relevant items of the profit and loss account. The decline in the technical provisions for the structured product as the outcome of more tranches reaching maturity and the absence of new contributions as the product was withdrawn from sale also made a positive contribution to the deviation of this line item. The following factors adversely affected the amount of claims and benefits paid: changes to the unit-linked portfolio in which many more requests for withdrawal of the surrender value were registered and the higher growth of provisions in bank protection products as a result of higher sales.

In the first 3 quarters of 2020, acquisition expenses in the individual insurance segment increased 23.5% to PLN 121 million. The higher costs ensued chiefly from the higher sales of protection insurance in the banking channel and the associated increase in the fees for intermediaries.

The increase in administrative expenses y/y of 16% (PLN 8 million) was driven predominantly by the growing personnel costs as a result of wage pressure.

The segment's operating result dipped in comparison to last year by PLN 3 million to PLN 184 million. This was mostly the effect of lower income being allocated as an outcome of falling interest rates and higher administrative expenses. These effects were partially offset by the more robust performance of banking products, investment and protection alike, due to their dynamic growth.

15.5 Bank segment

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

Banking activity (m PLN)	1 January – 30 September 2020	1 January – 30 September 2019	% change
Revenues and expenses on account of fees and commissions	2,179	2,328	(6.4)%
Investment income	4,802	6,684	(28.2)%
Interest expenses	(953)	(1,509)	(36.8)%
Administrative expenses	(3,604)	(3,652)	(1.3)%
Other	(2,765)	(1,341)	106.0%
Total	**(341)**	**2,510**	**x**

In the first three quarters of 2020, the banking activity segment generated an operating loss (net of amortization of intangible assets acquired as part of the transactions to take over the banks) of PLN 341 million, which signifies a decrease by PLN 2,851 million compared to the corresponding period of 2019. The lower result was predominantly caused by the COVID-19 pandemic raising the costs of risk due to the establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio. Moreover, the interest rate cuts (by an average of approx. 140 bps in H1 of this year) contributed to the decline in net interest income generated by the banks. The segment's performance was also affected by Alior Bank's goodwill impairment of PLN 746 million and Bank Pekao's goodwill impairment of PLN 555 million.

In the first three quarters of 2020, Bank Pekao contributed PLN 1,369 million to operating profit (net of the amortization of intangible assets acquired as part of the acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN -409 million.

Investment income, which decreased to PLN 4,802 million y/y in 2020 (down 28.2% y/y) is the key component of the segment's revenue. Investment income consists of interest income, dividend revenue, the trading result and the result on impairment losses.

As at the end of Q3 2020, the portfolio of loan receivables in both banks increased by a total of 0.7% compared to the corresponding period of 2019, whereas the y/y decline in investment income was primarily due to the higher costs of risk stemming from the establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio. The cost of allowances for expected credit losses and impairment losses on financial instruments in the first three quarters totaled PLN 1,084 million in Bank Pekao and PLN 1,501 million in Alior Bank. At the same time, Alior Bank's net interest income was reduced by the impact of the CJEU ruling on the refund of part of the commission in the event of an early repayment of consumer loans. The total impact of the judgment was estimated at PLN 232 million, of which PLN 134 million involved current returns charged to net interest income. The remaining PLN 99 million was an additional provision for loans repaid before 11 September 2019 and was posted to other operating expenses.

The profitability of the banks in the PZU Group in the first 3 quarters of 2020 measured by the net interest margin was 2.6% in Bank Pekao and 4.0% in Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks posted a decline in their interest margins due to the interest rate cuts that took place in March, April and May.

The net fee and commission income in the banking activity segment amounted to PLN 2,179 million and was 6.4% lower than in the corresponding period of last year. The main cause of the poorer commission income was the growing costs of card servicing and the lower level of client activity due to economic constraints in particular imposed in Q2 2020. The segment's administrative expenses totaled PLN 3,604 million and consisted of Bank Pekao's expenses of PLN 2,453 million and Alior Bank's expenses of PLN 1,151 million. The decline in expenses by 1.3% y/y resulted, among others, from both banks maintaining strong cost discipline in personnel costs and other categories.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 473 million) and the levy on other financial institutions (PLN 660 million). As a result, the Cost/Income[4] ratio stood at 43% for both banks. This ratio was 43% for Bank Pekao and 45% for Alior Bank, respectively.

15.6 Investments

Net investment result and interest expenses

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

- lower investment income in the portfolio of assets to cover investment products, even though it does not affect the PZU Group's overall net result because it is offset by the movement in net insurance claims and benefits;
- lower result on listed equities, in particular due to the deterioration of the market conditions caused by the COVID-19 pandemic;
- lower result on the floating coupon bonds due to the decline of interest rates.

These declines were partly counterweighed by the posting of positive foreign exchange differences on portfolios measured in EUR and covering insurance liabilities, the valuation of which is shown by the movement in net insurance claims and benefits, and an increase in real property valuation, in part as a result of the settlement of developer gains on real properties in the warehouse sector generated in the second quarter.

Operating income of the investment segment (based exclusively on external transactions) was lower than in the corresponding period of last year primarily due to the worse conditions on the market.

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

(in millions of PLN)

15.7 Pension insurance

Pension insurance	1 January – 30 September 2020	1 January – 30 September 2019	% change
Investment income	3	4	(25.0)%
Other income	101	104	(2.9)%
Income	**104**	**108**	**(3.7)%**
Administrative expenses	(34)	(32)	6.3%
Other	(4)	(3)	33.3%
Operating result	**66**	**73**	**(9.6)%**

Revenue on core business in the pension insurance segment in Q3 2020 and Q3 2019 was PLN 104 million and PLN 108 million, respectively. Revenue down by PLN 4 million is the effect of the decline in revenue on management fees and revenue on the reserve account.

Administrative expenses of PTE PZU rose PLN 2 million y/y (6.30%). The change to the obligatory contributions to the Insurance Guarantee Fund in the National Depository for Securities (KDPW) was the main driver of the deviation – in 2019 costs were incurred for the additional contribution to the Insurance Guarantee Fund.

At the end of Q3 2020, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 128.6 billion, down 16.9% from the end of 2019. In this period OFE PZU's assets fell 19.0% to PLN 17.5 billion. In the period from January to September 2020, OFE PZU's rate of return was -17.0%, which was a reflection of the downturn in conditions on the capital markets in Poland and across the world.

15.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	1,252	1,283	(2.4)%
Net earned premium	1,226	1,194	2.7%
Investment income	1	28	(96.4)%
Net insurance claims and benefits paid	(727)	(744)	(2.3)%
Acquisition expenses	(254)	(251)	1.2%
Administrative expenses	(104)	(97)	7.2%
Other	3	3	0.0%
Insurance result	**145**	**133**	**9.0%**
EUR exchange rate in PLN	4.4420	4.3086	3.1%
acquisition expense ratio [1)]	20.7%	21.0%	(0.3) p.p.
administrative expense ratio [1)]	8.5%	8.1%	0.4 p.p.

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

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

The Lithuanian non-life insurance market share at the end of Q3 2020 was 29.0%, while the life insurance market share was 6.4%. The market share in the Estonian market was 14.9%. In turn, as at the end of Q2 2020, the market share in the Latvian market was 27.8%.

On account of its activity in the Baltic States, the PZU Group generated as at the end of Q3 2020 an insurance result of PLN 145 million compared with PLN 133 million at the end of September of last year.

(in millions of PLN)

This result was driven by the following factors:

- decline in gross written premium. It totaled PLN 1,252 million, down PLN 31 million (i.e. 2.4%) compared to the corresponding period of the previous year. Sales were down PLN 37 million and were generated in non-life insurance, chiefly as a result of lower sales of motor TPL and motor own damage insurance and property insurance. In life insurance, sales climbed PLN 6 million. Net earned premium was up PLN 32 million in comparison with the end of the third quarter of last year;
- lower investment income. At the end of Q3 2020, the investment result was down PLN 27 million in comparison with the corresponding period of the past year due to the lower valuation of investment assets;
- decrease in net claims and benefits. They totaled PLN 727 million, down 2.3% in comparison with Q3 of the previous year. The loss ratio in non-life insurance stood at 59.4%, down 1.5 p.p. from September of 2019. In life insurance the value of benefits was PLN 34 million, down PLN 15 million higher from the corresponding period of the previous year;
- higher acquisition expenses. The segment's expenditures for this purpose totaled PLN 254 million and were up 1.2% over the corresponding period of last year. In turn, the acquisition expense ratio calculated based on net earned premium declined 0.3 p.p. compared to the end of Q3 of the previous year;
- increase in administrative expenses. They were PLN 104 million, up 7.2% from the comparable period last year (the growth was equal to 4.5% in the functional currency). A higher administrative expense ratio of 8.5% was reported, signifying incremental growth of 0.4 p.p. relative to the corresponding period of the previous year.

15.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	222	247	(10.1)%
Net earned premium	149	156	(4.5)%
Investment income	33	22	50.0%
Net insurance claims and benefits paid	(55)	(55)	0.0%
Acquisition expenses	(77)	(84)	(8.3)%
Administrative expenses	(24)	(22)	9.1%
Other	23	19	21.1%
Insurance result	**49**	**36**	**36.1%**
exchange rate UAH/PLN	0.1471	0.1472	(0.1)%
acquisition expense ratio [1)]	51.7%	53.8%	(2.1) p.p.
administrative expense ratio [1)]	16.1%	14.1%	2.0 p.p.

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

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

The Ukrainian non-life insurance market share at the end of Q1 2020 was 3.5%, while the life insurance market share was 11.7%.

The Ukraine Segment closed Q3 2020 with an operating profit of PLN 49 million, compared to PLN 36 million at the end of Q3 of the previous year.

The change in the result generated by the segment was caused by the following factors:

- decline in gross written premium. It totaled PLN 222 million, down PLN 25 million (or 10.1%) compared to the third quarter of the previous year. Sales of non-life insurance were down PLN 28 million from the third quarter of last year, mostly as a result of the fall in travel insurance and other TPL insurance required when applying for a visa to Poland as well as in green card insurance due to the limitation of transborder traffic. Sales growth of PLN 3 million generated in collaboration with banks was posted in life insurance;
- higher investment income. It totaled PLN 33 million and was PLN 11 million higher than in the corresponding period of the previous year;

(in millions of PLN)

- keeping the costs of net claims and benefits paid at the same level - they totaled PLN 55 million. Claims paid in non-life insurance fell PLN 8 million while life insurance benefits rose PLN 8 million;
- lower acquisition expenses. They stood at PLN 77 million compared to PLN 84 million at the end of Q3 of the previous year. The drop in non-life insurance was equal to PLN 5 million, while in life insurance it was PLN 2 million;
- increase in administrative expenses. They stood at PLN 24 million. For comparison: they were PLN 22 million in the corresponding period of the previous year. The segment's administrative expense ratio edged up 2.0 p.p. to 16.1%.

15.10 Investment contracts

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

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

Gross written premium generated on investment contracts in the first 3 quarters of 2020 decreased by PLN 2 million (-8.7%) to PLN 21 million, compared to the corresponding period in 2019. These changes resulted primarily from the decrease in the level of payments made to IRSA accounts, after the product was withdrawn from the offering.

Data from the profit and loss account – investment contracts	1 January – 30 September 2020	1 January – 30 September 2019	% change
Gross written premium	21	23	(8.7)%
Group insurance	1	1	-
Individual insurance	20	22	(9.1)%
Net earned premium	21	23	(8.7)%
Investment income	(3)	14	x
Net insurance claims and benefits and movement in other net technical provisions	(12)	(30)	(60.0)%
Acquisition expenses	-	-	x
Administrative expenses	(2)	(3)	(33.3)%
Other	-	-	x
Operating result	**4**	**4**	**-**
operating profit margin	19.0%	17.4%	1.6 p.p.

The investment result in the segment of investment contracts decreased compared to the previous year, chiefly due to the lower rate of return on IRSAs.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 18 million y/y to PLN 12 million, mostly due to the difference in investment income in unit-linked products described above. In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses totaled PLN 2 million, signifying a decline of PLN 1 million year on year. The segment's operating result was PLN 4 million and did not change due to minor changes in the contract portfolio in this segment.

16. Impact of non-recurring events on operating results

The result generated in the first 3 quarters of 2020 was burdened with the non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank in the amount of PLN 746 million and Bank Pekao in the amount of PLN 555 million.

Moreover, in the first 3 quarters of 2020, a non-recurring effect was recognized of the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million.

The effect of converting long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was PLN 3 million lower in the first 3 quarters of 2020 than in the comparable period of the previous year (PLN 9 million in the first 3 quarters of 2020 compared to PLN 12 million in the first 3 quarters of 2019).

Moreover, in June 2020, the PZU Group revised some of its assumptions applied for the calculation of provisions in life insurance. Accordingly, a decision was made to decrease the technical rate for the continued and group insurance portfolio to 1.5% (to date it had ranged from 1.5% to 3%, depending on the date of execution or modification of the policy). In addition, since the PZU Group has observed a more pronounced mismatch between the historic mortality assumptions and behavior of the portfolio and the probability of having co-insureds, the decision was made to update the assumptions. The PZU Group also modified its method of calculating provisions for the group insurance portfolio and applied an individual approach to them instead of the hypothetical portfolio structure used previously.

Impairments of intangible assets, including goodwill and the revision of life insurance provisions did not exert a material adverse impact on the Group's solvency according to data as at 30 June 2020.

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

17.1 Macroeconomic environment

Gross domestic product

The COVID-19 pandemic landed a major blow to the global economy. Supply disruptions, the implementation of limitations on the movement of people and limitations on business activities and the ensuing fall-off of demand led to a very strong decline in GDP in most countries in the second quarter of 2020.

Poland's GDP slumped 8.4% y/y in this period. The largest decline in added value took place in the services most severely affected by the restrictions to combat the pandemic. It was 78.4% y/y in restaurant and hotel services. Consumption in the household sector slumped 10.8% y/y in the second quarter of 2020, while gross fixed capital formation constricted by 10.7% y/y. Net exports and public consumption acted as drivers limiting the decline of GDP in the second quarter by adding 1.1 p.p. and 0.5 p.p., respectively to the rate of GDP growth.

In the third quarter of 2020 economic activity rebounded dynamically as previous restrictions were lifted. Industrial production sold edged up 3.2% y/y during this period (following a 13.6% decline y/y in the second quarter). Retail sales moved up 1% y/y in the third quarter (compared to a 10.7% drop y/y in the previous quarter). In turn, the decline in construction and assembly production became more profound. From July to September the average (calculated as the average of monthly growth rates y/y) pace of decline was roughly 10.9% y/y (versus -2.8% y/y one quarter ago).

The quick GDP estimate for Q3 was published on 13 November, with preliminary data on 30 November. The median market forecast is roughly -1.7% y/y. The rebound of GDP in the third quarter in the US and the eurozone proved to be stronger than expected according to preliminary data.

Labor market and consumption

The situation on the labor market improved in the third quarter of the current year. The decline in employment in the corporate sector in the second quarter (226 thousand FTEs evaporated) largely stemmed from the temporary limitation on the size of FTEs and people being out on sick and guardianship leave. Research into People's Economic Activity demonstrated that at that time the number of professionally active people diminished while the number of professionally passive people was on the rise – but the number of employed persons (actively seeking employment) stayed at a similar level. Companies endeavored to preserve headcount; government programs were helpful in this respect. In the third quarter, due to the normalization of the situation and reinstatement of the full extent of working time, headcount in companies moved up again (126 thousand more in September than in June). In this period the average headcount in the corporate sector was still 1.9% lower than in the same period last year.

The number of persons registered as unemployed in the third quarter of this year stayed at a level similar to the one observed at the end of the second quarter. The scenario anticipating more people registering as unemployed after the expiry of some government programs (solidarity allowances) and the elapse of the deadlines for the termination notices activated earlier did not materialize. As a result, the registered unemployment rate stayed at 6.1% from June to September (5.4% in March).

As the epidemiological situation normalized and the amount of working time increased, wages also rose. The pace of growth of the average gross monthly salary in businesses accelerated to 4.3% y/y in the third quarter of this year (2.1% y/y in the second quarter).

Consumer spending rose dynamically in the third quarter of this year versus the second quarter of 2020 when household consumption fell 10.8% y/y. This was due to the abolishment of the limitations on doing business in services and releasing deferred demand - the demand for durable goods also climbed markedly. The behavior of retail sales in the third quarter suggests that household consumption was nearly able to reach the level seen in the similar quarter of the previous year.

Inflation, monetary policy, interest rates

Inflation, as measured by the Consumer Price Index (CPI), decreased in the third quarter to 3.0% y/y compared to 3.2% y/y in the previous quarter. The deceleration in the page of food price inflation and the softening of the growth rate of energy prices were conducive to a slight decrease in inflation. Fuel prices climbed in Q3 while their annual pace of growth continued to be clearly negative. At the same time, however, net core inflation climbed to 4.2% y/y from 3.8% y/y in the second quarter of 2020. This chiefly followed from the persistently high rate of growth of prices for services (7.0% y/y) – even though the prices of transport services and organized international travel on an annual basis dropped. The maintenance of elevated inflation stemmed, among others, from the relatively moderate impact exerted by the shock related to the pandemic on the standing of companies and the labor market.

In the period from June to September 2020 the National Bank of Poland's interest rates did not budge. The reference interest rate remained steady at the 0.1% level set in May 2020. The National Bank of Poland also continued to pursue its plan to purchase treasury securities and debt securities guaranteed by the State Treasury on the secondary market within the framework of structural open market operations. According to the Monetary Policy Council, by pursuing a soft monetary policy the National Bank of Poland is alleviating the adverse consequences of the pandemic, supports economic rejuvenation and curtails the risk of inflation falling below NBP's inflation target in the mid-term.

Public finance

Eurostat has reported that Poland's public debt calculated using ESA2010 methodology was 55.1% of GDP in the second quarter of 2020 versus 47.9% of GDP in the first quarter of 2020 and 47.9% of GDP in the second quarter of 2019. Eurostat also reported that the seasonally adjusted public finance deficit in Poland in Q2 2020 was 19.8% of GDP, while it was 4.0% of GDP one quarter earlier. The Central Statistical Office (GUS) confirmed its calculation of the deficit of the general government sector for 2019. It was PLN 15.9 billion, or 0.7% of GDP, while this sector's debt totaled PLN 1,045.4 billion, or 45.7% of GDP.

The state budget deficit in September of this year totaled PLN 13.8 billion. This result is worse than one year ago when in the corresponding period the budget had a deficit of PLN 1.8 billion. The deficit expansion is the outcome of the decline in tax income and the high pace of incremental growth in expenditures. The slump in tax income is the result of limiting economic activity related to the COVID-19 pandemic. The higher pace of spending growth was driven, among other factors, by the implementation of the state's social policy programs and the additional funds related to the emergence of the pandemic. According to the amended State Budget Act, the borrowing needs at the end of the third quarter of this year was satisfied to the tune of approximately 98%. The 2020 budgetary act amended in the third quarter calls for the state to have a budgetary deficit of PLN 109 billion. The approved bill containing the budget for 2021 calls for a deficit of PLN 82 billion.

Situation on the financial markets

In the third quarter of 2020 the yields of 10-year treasury bonds in the US and Germany were relatively stable. In the US yields climbed from 0.65% at the end of June to 0.68% at the end of September. In Germany they dipped from -0.46% to -0.52%, respectively. Yields stayed low due to the uncertainty related to the further development of the pandemic and its economic repercussions. After taking decisive measures in the first half of the year, the FED and ECB changed gears to observe and analyze the current situation and the consequences of the decisions made.

In the third quarter of 2020 the yields on Polish 10-year treasury bonds slumped from 1.39% at the end of June to 1.31% at the end of September. The spread over 10-year German bonds at the beginning of the previous quarter was 185 basis points, while it narrowed to 183 basis points at the end of the third quarter.

The Euro exchange rate expressed in the US currency at the end of September 2020 rose to 1.17 from 1.12 at the end of June. The Euro exchange rate expressed in Polish zloty at the end of the third quarter was 4.53 versus 4.47 at the end of the previous quarter. The US dollar exchange rate expressed in Polish zloty at the end of September 2020 was 3.87, while at the end of June it was 3.98. In the same period, the swiss franc exchange rate increased from 4.18 to 4.19. The Polish zloty strengthened in July and September. In September, however, it weakened accompanying the intensification of the pandemic in Poland and other European countries.

Equity prices on the global markets surged in the third quarter of 2020. In this period, the American S&P500 stock index improved 8.5% while the German DAX index climbed 3.65%. The WIG index slipped 0.3% and the WIG20 index fell 2.6% in the third quarter. In turn, the mWIG40 rose 2.7% and the sWIG80 surged upward 6.0%. The mining, IT and telecom sectors behaved the best from among the main sector indices. In turn, the fuel, chemical and banking sector had the worst performance.

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

The key risk factors are correlated to the further development of the COVID-19 pandemic, including the significant likelihood of its intensification in the northern hemisphere in the fall, and the scale of constraints affecting economic activity as a result of upholding the necessary restrictions in Poland and with its trading partners. Disruptions associated with the pandemic pose the strongest hit to the service sector, transport, trade, restaurant and hotel services, and the broadly construed cultural and entertainment sector. Supply chains may also be disrupted – though this is much less likely than in the spring. The restrictions to counter the pandemic introduced in the fourth quarter will probably contribute to a decline in GDP in this period, and also a drop in household consumption and a deterioration in the labor market. An additional risk factor will involve the repercussions of the “second wave” of the pandemic in and around the Polish economy.

In particular, apart from chance events (such as floods, cyclones, drought), the main risk factors that may affect the PZU Group’s standing in the following quarters include the following:

- possible increase in the number of deaths due to the COVID-19 pandemic;
- drop in GDP in Poland related to the following:
  - possible limitation in household and corporate spending, including on purchases of motor insurance policies (for instance, due to softer sales of new cars), lower sales of loans and associated borrowers’ insurance products and a slump in demand for life insurance products, in particular as a result of a smaller pool of benefits offered by companies;
  - poorer financial standing of companies exacerbating credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
  - a slump in the rate of growth in new mortgage loans and a slower pace of growth in consumer loans;
- possible upward movement in unemployment, downsizing and lower household income;
- greater difficulties with retaining the portfolio of insureds in group life insurance in connection with the possible growth of unemployment and suspending / winding up the businesses of companies operating in industries at risk; the temporary decline in sales, especially in unit-linked insurance on account of financial risk and the less extensive accessibility to bank branches;

- large degree of uncertainty concerning the future development of paramedical benefits in connection with the COVID-19 pandemic;
- unfavorable situation on the capital markets resulting in the following: declining value of the investment portfolio, assets under management (TFI PZU, OFE PZU) and lower attractiveness of products, especially unit-linked products;
- risk of lower interest rates, which contributes to a lower level of investment income, which makes it harder for insurers to reach their guaranteed rates of return;
- increase in the prices of spare parts affecting claims handling expenses due, among other things, to the depreciation of the Polish zloty against the euro (impact on the mass and corporate insurance segments);
- coming into force of further regulations or financial burdens on insurance undertakings;
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and rivalry to attract clients (with an impact exerted on the mass and corporate insurance segments);
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and the quality of the product offering as well as fostering entry and exit obstacles for clients to overcome with independent intermediaries (with an impact being exerted in particular on the group and individually continued insurance segment);
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- availability of medical personnel in public health care centers (affecting health products);
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- preparation of pension fund companies for potential organizational and legal changes arising from the transformation of open-end pension funds into mutual funds and of pension fund companies into mutual fund companies (impact on the pension segment);
- introduction of a new pension security system (Employee Capital Schemes) and its impact on the third pension pillar products functioning thus far (the level of clients' contributions to the EPS programs and IRA contracts currently held in the PZU Group's portfolio and on the level of results generated in these lines of business for the PZU Group);
- the business, tax and regulatory environment, including in particular the policy pursued by the Monetary Policy Council in terms of shaping the level of interest rates and the reserve requirement play a major role for banks, the abolishment of the systemic risk buffer and the change of regulatory requirements pertaining to capital ratios, aid programs to alleviate the repercussions of the slowdown in the Polish economy and mainly the development of the COVID-19 pandemic and the sudden deterioration in economic activity in Poland and the ensuing limitation on the activity of clients and their poorer financial standing.

17.3 Impact exerted by the COVID-19 pandemic

The PZU Group's operations were affected by the COVID-19 pandemic which reached Poland in March 2020 and triggered to a downturn in economic activity in Poland and its environment. The demand and supply shock associated directly with the decline in business activity in a number of industries increased the level of uncertainty among enterprises and households, thereby deteriorating the conditions for business development at PZU.

In the period of 9 months ended on 30 September 2020, legal regulations were adopted with a view to counteracting the pandemic and curtailing its impact on the economy, including the Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them (Journal of Laws of

2020, item 374, as amended), the Act of 16 April 2020 on Special Support Instruments in Connection with the Spread of the SARS-CoV-2 Virus (Journal of Laws of 2020, item 695, as amended), the Act of 14 May 2020 Amending Certain Acts in Respect of Protective Measures in Connection with the Spread of the SARS-CoV-2 Virus (Journal of Laws of 2020, item 875, as amended) and the Act of 19 June 2020 on Interest Subsidies for Bank Loans Granted to Commercial Undertakings Affected by COVID-19 and on a Simplified Procedure for Approval of a Settlement in Connection with the Occurrence of COVID-19 (Journal of Laws of 2020, item 1086, as amended).

These statutes provide for a number of solutions applicable to various areas of economic life, including instruments that enable economic operators to maintain financial liquidity (exemption from payment of social security contributions, micro-loans and idle time pay) and regulations aligning legal solutions with the realities of the electronic economy.

In the period of 9 months ended on 30 September 2020 the PZU Group implemented payment moratoria consistent with the guidelines given by the European Banking Authority and suspended the performance of loan agreements pursuant to the Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises They Cause. These moratoria were evaluated by the PZU Group with an eye to satisfying the modification criteria within the meaning of IFRS 9. Having regard for their nature, they constituted negligible modifications.

The Office of the Polish Financial Supervision Authority has developed a Supervisory Incentive Package for Security and Development in the insurance market, containing a collection of measures devised to strengthen the Polish insurance sector, in particular by ensuring protection of clients and reducing the impact of market fluctuations on the insurance sector.

Moreover, the insurance sector has developed its own solutions to assist clients affected by the pandemic. These solutions are included in the “Recommendations of pro-client activities for the insurance market” issued by the Polish Insurance Association, in which the Association puts forward the following recommendations (among others) to its members: deferment (suspension) of premium payments (for certain types of insurance), reduction or no increase in the installment payment for motor third party liability insurance, introduction of a simplified method of handling simple and relatively small claims.

The Business Continuity Plans that PZU had in place did not provide for an epidemic scenario of the COVID-19 type. After the announcement of a crisis situation in PZU on 25 February 2020, the Crisis Management Team has taken action to supplement the contingency plans, including in respect of transition to and performance of remote work and levels of response in the event of an epidemiological threat at PZU. At the same time, action has been taken to expand, reconfigure and scale up the capacity of the VPN environment as well as make developmental changes in the IT systems while maintaining business continuity and securing the interests of insurance clients.

Another component of these activities was an information campaign targeted at clients and dubbed “We operate remotely, but always near you”, encouraging the remote use of the PZU Group’s services: via the website, the “my PZU” mobile application or the hotline. Clients have been offered the option to postpone the date of payment of their premiums, break down the payment into installments or have the insurer temporarily take over the payment of premiums. The claims handling process has been simplified. The scale of PZU Zdrowie’s medical services provided remotely (over the phone or via a video call) has been expanded.

In addition to the above factors which influence the conditions of operation and the PZU Group’s results, the situation in individual areas of activity is influenced by sector-specific factors and their changes. The most important one is the level of competition in individual product groups constituting the core of PZU Group’s business. Moreover, the COVID-19 pandemic has triggered a number of processes that will affect the operation of the insurance market, both in the short term and in the long term.

In connection with the NBP’s series of interest rate cuts and elevated credit risk in banking activity, an impairment test was performed on the goodwill of Pekao and Alior Bank (more information has been presented in section 9.16.1). The COVID-19 pandemic also triggered an increase in allowances for expected credit losses on loan receivables from clients (for additional information, see section 5.2.1.1).

The decline in bond yields caused by the interest rate cuts suppresses the projected rates of return on assets covering the provisions, which led to the PZU Group making the decision to reduce the technical rate for its portfolio of group and continued insurance (more information on this subject has been presented in section 5.2.3).

In connection with the lockdown of the Polish economy, the loss ratio in motor own damage and motor TPL insurance declined due to the lower frequency of claims (which resulted from less domestic and international traffic) with an increase in the average claim. Similarly, a material decline in the loss ratio in group and health insurance occurred in life insurance (caused by lower payouts of benefits in group protection products, chiefly on riders related to hospitalization, which might have been due to the suppressed level of human activity on account of the pandemic).

The risk factors that may affect the PZU Group's financial results are depicted in detail in section 17.2.

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

PZU did not publish any standalone or consolidated result forecasts.

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

In the 9-month period ended 30 September 2020, neither PZU nor its subsidiaries issued, redeemed or repaid to a material extent any debt securities or equity securities.

20. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2020, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no corrective measures were taken until the end of the reporting period.

21. Dividends

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

On 21 April 2020, the PZU Management Board decided to submit a motion to PZU's Ordinary Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2019 in the amount of PLN 2,651 million as follows:

- designate PLN 2,644 million for supplementary capital;
- designate PLN 7 million for the Company Social Benefit Fund.

The proposed profit distribution complied with the stance of the KNF expressed in its letter of 26 March 2020 and sent to insurance and reinsurance undertakings in which KNF indicates that having regard for the current situation involving the epidemic announced in Poland and its possible further adverse economic consequences as well as their expected adverse impact on the insurance sector, the regulatory authority expects that insurance undertakings retain the entirety of profit earned in previous years, notwithstanding the actions previously undertaken in this area. In addition, KNF has emphasized that it is advisable for undertakings not to take other actions without making arrangements with the regulatory authority, in particular, actions falling outside the scope of their ongoing business and operating activity that could lead to weakening their capital base.

On 28 April 2020, the PZU Supervisory Board issued a favorable opinion on the PZU Management Board's motion.

On 26 May 2020, the PZU Shareholder Meeting distributed PZU's net profit for 2019 in accordance with the PZU Management Board's proposal.

22. Disputes

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

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

Estimates of the provision amounts for individual cases take into account all information available on the date of publishing this periodic report; however, this figure may change in the future. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 30 September 2020, the total value of the disputes in all 262,144 cases (as at 31 December 2019: 294,687 cases) pending before courts, arbitration bodies and public administration authorities in which PZU Group entities take part, was PLN 8,675 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,433 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,242 million (as at 31 December 2019: PLN 4,070 million) of accounts receivable of PZU Group companies.

During the 9-month period ended 30 September 2020 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 September 2020, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

22.2 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 ADD 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 did 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. On 10 June 2020, the Supreme Court dismissed the cassation appeal filed by the President of UOKiK, which finally closes the case.

Consequently, PZU derecognized the provision for the above penalty, recognizing revenue of PLN 57 million.

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. This decision is legally binding. Following the execution of the composition and reduction of claims to 20.93% of the reported receivables, PZU received 206,139 PBG bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of PBG's shares as at 30 September 2020 was PLN 1 million (PLN 0.3 million as at 31 December 2019). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 30 September 2020 and 31 December 2019.

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).

22.4 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. 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. This decision is legally binding. The PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%; accordingly, as at 30 September 2020, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

(in millions of PLN)

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

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

Issuer rating

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

Current rating

PZU and PZU Życie hold an S&P rating of A- with a stable outlook. This rating was affirmed on 6 April 2020 when the agency changed the ratings outlook for the Company from positive to stable.

The rating outlook has changed as a result of the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. According to S&P, this may affect the PZU Group's business; in particular, it may lead to a lower contribution from banking activity. At the same time, the analysts emphasized that the PZU Group's position should continue to be stable. This outlook reflects the viewpoint of the agency's analysts that the PZU Group will maintain its leading business position in Poland, a strong capital position and a stable result on insurance activity whereby it will be capable of withstanding any further potential deterioration in the business environment.

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

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

Poland's credit rating

On 2 October 2020, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

When justifying the rating, the S&P Agency pointed in its communique, among others, to the diversified economy, qualified workforce, manageable levels of public and private debt, the robust position of the external balance sheet, the cautiously pursued monetary policy with a stable banking system and the relatively deep domestic capital market as the bases for retaining its rating.

According to S&P, the pandemic will exert an adverse impact on the economy – this agency forecasts a decrease in real GDP of 3.4% in 2020. At the same time, S&P indicates that this will be the lowest decline in the entire EU thanks to the relatively diversified and competitive export base, dependent to a lesser degree on the automotive sector and tourism, and also the usage of substantial funds under the extraordinary policy pursued to soften the adverse effects of the COVID-19 pandemic. According to the agency, the fiscal means employed to respond to the crisis, as some of the highest in Central and Eastern Europe, combined with the measures taken at the EU level and the standard transfers of EU funds supported by domestic demand and the resurgence in the eurozone may contribute to further economic growth, which S&P forecasts to be 4.5% in 2021 and 3.6% in 2022. According to the agency's estimates, the deficit of the general government sector will be 9.3% of GDP in 2020, below the government's official forecasts (12% of GDP). The agency anticipates that the net debt of the general government sector will climb to 58.7% of GDP at the end of 2021, and then it will stabilize.[5]

24. Related party transactions

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

In the 9-month period ended 30 September 2020, neither PZU nor its subsidiaries executed any transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on the arm's length principle.

[5] https://www.gov.pl/web/finanse/sp-potwierdza-dotychczasowy-rating-polski4

(in millions of PLN)

24.2 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 September 2020 and as at 30 September 2020		1 January – 31 December 2019 and as at 31 December 2019		1 January – 30 September2019 and as at 30 September 2019	
	Key management	Other related parties [1]	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium	-	2	-	4	-	3
in non-life insurance	-	2	-	4	-	3
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Expenses	-	-	-	-	-	-
Investment financial assets	-	3	-	-	-	-
Receivables	-	-	-	-	-	-
Liabilities	-	1	-	-	-	-
Liabilities under deposits		1	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] Associates measured by the equity method.

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

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

25. Other information

25.1 KNF Office inspections in PZU and PZU Życie

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. In its letter of 15 October 2019, at the request of PZU Życie, KNF agreed to postpone the time limit for the implementation of two of its recommendations, of 31 December 2019 and 31 January 2020 to 30 April 2020 and 31 May 2020, respectively. On 28 May 2020, PZU Życie announced that all recommendations had been implemented. On 1 September 2020 PZU Życie transmitted additional explanations and documents to KNF in connection with KNF's inquiry of 31 August 2020.

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 Article 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. On 7 April 2020, PZU Życie notified the regulatory authority of the implementation of all of the recommendations and, on 29 May and 5 June 2020, it provided additional explanations and evidence of their implementation.

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. On 23 April 2020, PZU Życie submitted a request to extend the time limit for implementation of the recommendation until 31 December 2020. On 28 April 2020, the Polish Financial Supervision Authority requested PZU Życie to provide additional information related to the implementation of the recommendation. On 4 May 2020, PZU Życie provided pertinent explanations and applied for KNF's consent to change the date of implementation of the recommendation to 30 September 2020. On 5 May 2020, KNF set 30 September 2020 as the time limit for the implementation of the recommendation and imposed an obligation on PZU Życie to provide, on the last day of each month, information on the implementation of each item on the schedule and explain the reasons for any delays in their implementation. On 6 October 2020, PZU Życie announced the timely implementation of the recommendation.

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 29 October 2020, PZU received a post-inspection report to which it submitted its comments on 16 November. KNF did not identify any breaches of law.

During the period from 10 September to 9 November 2020 KNF conducted an inspection pertaining to PZU Życie's provisions for the purposes of solvency. As at the date of conveying this periodic report PZU Życie has not received an inspection report.

The Management Board of PZU believes that the results of the audit have not exerted any impact on the consolidated financial statements.

25.2 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. Moreover, by letter of 28 January 2020, the dismissed members of the Alior Leasing sp. z o.o. management board extended their statement of claim for severance pay with a claim for payment of benefits under the management option plan referred to above (according to the extension of the statement of claim, the amount of the extended claim does not cover all claims under the management option plan). 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. On 1 September 2020 the first instance court rejected the extended statement of claim lodged by the dismissed members of the Management Board of Alior Leasing sp. z o.o. Accordingly, no 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.

25.3 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.

On 30 June 2020, the PZU Management Board adopted a resolution on the execution of a lease agreement for the PZU Head Office with the Lessor. On the same date, an agreement was signed to lease office space, commercial and service space, storage space and parking spaces in the Building ("Lease Agreement"). The lease agreement contains clauses contemplating 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.

The total estimated gross value of the Lease Agreement to lease the Building over the 10 years of its duration is approximately PLN 787 million, while the gross incremental costs related to relocation are approximately PLN 65 million. The amounts stated above may vary as a result of specific arrangements concerning the final layout, the final scope of adaptation work, the costs of fit-out and the date of translating some of the costs and financial incentives between EUR and PLN. The total value of the Lease Agreement as at 30 June 2020 should not change by more than 5% of the specified amount.

25.4 Approval of the base prospectus for Alior Bank's bond offering program

On 4 May 2020, KNF approved Alior Bank's base prospectus prepared in connection with:

- the program, to be offered in the Republic of Poland, of unsecured bearer bonds with a par value of at least PLN 100 each, up to a total maximum par value of PLN 1,500 million, established by Alior Bank within the framework of its multi-annual bond issue program, up to a total maximum par value of PLN 5,000 million; and
- its intention to apply for admission and floating of each series of bonds on a regulated market (main or parallel market) for debt securities operated by the Warsaw Stock Exchange or a regulated market for debt securities operated by BondSpot SA.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	30 September 2020	30 June 2020	31 December 2019	30 September 2019
I. Intangible assets, including:	295,875	299,475	316,213	308,312
- goodwill	-	-	-	-
II. Investments	37,486,648	36,609,068	36,659,625	35,787,382
1. Real property	319,045	322,881	332,768	334,103
2. Investments in related parties, of which:	15,997,299	15,315,192	16,480,547	16,042,848
- investments in related parties measured by the equity method	15,241,119	14,698,098	15,966,388	15,566,611
3. Other financial investments	21,170,304	20,970,995	19,846,310	19,410,431
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-	-
IV. Receivables	3,229,719	3,387,251	2,084,819	2,145,603
1. Receivables on direct insurance	1,409,446	1,648,077	1,740,713	1,710,022
1.1. From related parties	2,310	2,980	2,581	1,270
1.2. From other entities	1,407,136	1,645,097	1,738,132	1,708,752
2. Reinsurance receivables	224,829	238,580	114,501	158,897
2.1. From related parties	140,776	190,028	84,424	131,003
2.2. From other entities	84,053	48,552	30,077	27,894
3. Other receivables	1,595,444	1,500,594	229,605	276,684
3.1. Receivables from the state budget	2,561	2,064	2,001	1,988
3.2. Other receivables	1,592,883	1,498,530	227,604	274,696
a) from related parties	1,400,074	1,382,127	101,075	72,946
b) from other entities	192,809	116,403	126,529	201,750
V. Other assets	286,720	379,678	251,987	213,437
1. Property, plant and equipment	109,071	113,339	125,846	123,263
2. Cash	177,649	266,339	126,141	90,174
3. Other assets	-	-	-	-
VI. Prepayments and accruals	1,935,220	2,220,308	2,283,770	1,973,934
1. Deferred tax assets	-	-	-	-
2. Deferred acquisition costs	1,344,916	1,433,752	1,344,569	1,332,446
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	590,304	786,556	939,201	641,488
VII. Unpaid share capital	-	-	-	-
VIII. Treasury stock	-	-	-	-
Total assets	**43,234,182**	**42,895,780**	**41,596,414**	**40,428,668**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2020	30 June 2020	31 December 2019	30 September 2019
I. Equity	16,809,259	15,936,232	14,956,862	14,243,976
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	8,458,090	8,458,025	5,814,241	5,814,241
3. Revaluation reserve	6,834,614	6,221,431	6,405,257	5,884,651
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	-	-
6. Net profit (loss)	1,430,203	1,170,424	2,651,012	2,458,732
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	2,253,418	2,279,023	2,279,173	2,258,633
III. Technical provisions	23,030,132	23,571,888	23,114,021	22,629,338
IV. Reinsurers' share in technical provisions (negative figure)	(1,307,564)	(1,489,911)	(1,541,000)	(1,110,984)
V. Estimated salvage and subrogation (negative figure)	(72,554)	(77,476)	(107,764)	(93,213)
1. Gross estimated salvage and subrogation	(75,758)	(80,537)	(110,822)	(96,184)
2. Reinsurers' share in estimated salvage and subrogation	3,204	3,061	3,058	2,971
VI. Other provisions	606,688	630,815	562,642	566,041
1. Provisions for pension benefits and other compulsory employee benefits	50,666	65,270	45,681	43,339
2. Deferred tax liability	535,618	544,203	439,661	440,338
3. Other provisions	20,404	21,342	77,300	82,364
VII. Liabilities for reinsurers' deposits	-	-	-	-
VIII. Other liabilities and special-purpose funds	1,152,008	1,175,017	1,028,124	1,175,425
1. Liabilities on direct insurance	377,968	384,874	420,799	439,754
1.1. To related parties	5,269	5,377	13,937	9,751
1.2. To other entities	372,699	379,497	406,862	430,003
2. Reinsurance liabilities	148,212	258,677	78,341	130,440
2.1. To related parties	15,763	13,218	10,724	22,098
2.2. To other entities	132,449	245,459	67,617	108,342
3. Liabilities on the issue of own debt securities and drawn loans	-	-	-	-
4. Liabilities to credit institutions	12	12	12	78,494
5. Other liabilities	514,414	415,396	429,031	417,607
5.1. Liabilities to the state budget	142,431	47,588	74,570	141,440
5.2. Other liabilities	371,983	367,808	354,461	276,167
a) to related parties	142,523	133,925	122,608	26,180
b) to other entities	229,460	233,883	231,853	249,987
6. Special-purpose funds	111,402	116,058	99,941	109,130
IX. Prepayments and accruals	762,795	870,192	1,304,356	759,452
1. Accrued expenses	690,516	791,614	1,241,848	707,585
2. Negative goodwill	-	-	-	-
3. Deferred income	72,279	78,578	62,508	51,867
Total equity and liabilities	**43,234,182**	**42,895,780**	**41,596,414**	**40,428,668**

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2020	30 June 2020	31 December 2019	30 September 2019
Book value	16,809,259	15,936,232	14,956,862	14,243,976
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	19.47	18.45	17.32	16.50
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	19.47	18.45	17.32	16.50

2. Interim statement of off-balance sheet line items

Off-balance sheet items	30 September 2020	30 June 2020	31 December 2019	30 September 2019
1. Contingent receivables, including:	4,133,986	4,211,260	4,256,977	4,408,886
1.1. Guarantees and sureties received	2,745	2,686	2,957	2,957
1.2. Other [1)]	4,131,241	4,208,574	4,254,020	4,405,929
2. Contingent liabilities, including:	1,248,939	1,072,976	1,149,099	946,980
2.1. Guarantees and sureties given	90,073	5,094	6,052	85,850
2.2. Accepted and endorsed bills of exchange	-	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-	-
5. Third party assets not recognized in assets	110,360	122,329	122,054	119,907
6. Other off-balance sheet line items	-	-	-	-
Total off-balance sheet line items	**5,493,285**	**5,406,565**	**5,528,130**	**5,475,773**

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

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Technical account of non-life insurance	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
I. Premium income (1-2-3+4)	3,070,435	9,110,869	3,142,504	9,219,622
1. Gross written premium	2,549,985	9,013,347	2,684,647	9,396,302
2. Reinsurers' share in gross written premium	31,105	225,915	56,864	206,467
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	(701,422)	(628,015)	(596,974)	(243,312)
4. Reinsurers' share in the movement in provision for unearned premiums	(149,867)	(304,578)	(82,253)	(213,525)
II. Net investment income (including costs) transferred from the general profit and loss account	33,074	159,956	65,637	195,537
III. Other net technical income	49,905	119,070	43,571	138,707
IV. Claims and benefits (1+2)	2,052,947	5,754,248	2,056,579	5,995,388
1. Net claims and benefits paid	1,855,351	5,245,306	1,896,246	5,538,613
1.1. Gross claims and benefits paid	1,945,713	5,483,961	1,931,811	5,756,246
1.2. Reinsurers' share in claims and benefits paid	90,362	238,655	35,565	217,633
2. Movement in provision for outstanding claims and benefits, net of reinsurance	197,596	508,942	160,333	456,775
2.1. Movement in provision for outstanding claims and benefits, gross	164,973	579,936	166,910	440,438
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	(32,623)	70,994	6,577	(16,337)
V. Movement in other technical provisions, net of reinsurance	-	-	-	-
1. Movement in other technical provisions, gross	-	-	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-	-	-
VI. Net bonuses and discounts with the movement in provisions	(483)	(518)	291	446
VII. Insurance activity expenses	766,154	2,341,749	783,490	2,304,781
1. Acquisition expenses, including:	609,754	1,829,911	631,216	1,841,058
- movement in deferred acquisition costs	88,836	(347)	89,155	(5,856)
2. Administrative expenses	165,662	538,063	161,309	491,927
3. Reinsurance commissions and profit participation	9,262	26,225	9,035	28,204
VIII. Other net technical charges	57,342	250,815	62,369	275,202
IX. Movement in loss ratio (risk) equalization provisions	-	-	-	-
X. Technical result of non-life insurance	**277,454**	**1,043,601**	**348,983**	**978,049**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
I. Technical result of non-life insurance or life insurance	277,454	1,043,601	348,983	978,049
II. Investment income	197,864	1,865,695	500,224	2,334,051
1. Investment income on real estate	1,549	4,337	1,419	4,289
2. Investment income from related parties	2,437	1,381,488	350,807	1,769,043
2.1. on ownership interests or shares	-	1,376,738	346,460	1,759,274
2.2. On borrowings and debt securities	2,285	3,986	3,874	8,715
2.3. On other investments	152	764	473	1,054
3. Other financial investment income	111,507	377,263	134,338	346,794
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	861	7,592	3,170	8,585
3.2. On debt securities and other fixed income securities	100,391	313,200	105,578	308,675
3.3. On term deposits with credit institutions	2	3,525	1,275	(14,422)
3.4. On other investments	10,253	52,946	24,315	43,956
4. Gain on revaluation of investments	-	-	2,307	2,307
5. Gain on realization of investments	82,371	102,607	11,353	211,618
III. Unrealized investment gains	(41,763)	120,711	40,816	121,413
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V. Investment activity expenses	14,736	857,835	49,660	255,786
1. Real estate maintenance expenses	646	2,348	821	2,662
2. Other investment activity expenses	10,110	29,813	8,331	31,769
3. Loss on revaluation of investments[1)]	-	744,973	14	14
4. Loss on realization of investments	3,980	80,701	40,494	221,341
VI. Unrealized investment losses	20,145	122,000	13,662	94,668
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	33,074	159,956	65,637	195,537
VIII. Other operating income	44,203	204,033	57,093	213,105
IX. Other operating expenses	114,503	374,447	133,410	454,284
X. Operating profit (loss)	295,300	1,719,802	684,747	2,646,343
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	20,884	(58,169)	29,016	48,073
XIV. Profit (loss) before tax	316,184	1,661,633	713,763	2,694,416
XV. Income tax	56,405	231,430	81,931	235,684
a) current part	93,259	209,104	153,487	217,937
b) deferred part	(36,854)	22,326	(71,556)	17,747
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**259,779**	**1,430,203**	**631,832**	**2,458,732**

[1)] The value of the line item "Loss on revaluation of investments" in 2020 is entirely attributable to the impairment losses on shares in related parties.

(in thousands of PLN)

	1 July – 30 September 2020	1 January – 30 September 2020	1 July – 30 September 2019	1 January – 30 September 2019
Net profit (loss) (annualized)[1)]	1,033,469	1,910,417	2,506,725	3,287,316
Weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Earnings (loss) per common share (PLN)	0.30	1.66	0.73	2.85
Weighted average diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN)	0.30	1.66	0.73	2.85

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

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 30 September 2020	1 January – 31 December 2019	1 January – 30 September 2019
I. Equity at the beginning of the period (Opening Balance)	14,956,862	13,924,661	13,924,661
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	14,956,862	13,924,661	13,924,661
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	5,814,241	5,507,572	5,507,572
2.1. Change in supplementary capital	2,643,849	306,669	306,669
a) additions (by virtue of):	2,643,849	306,669	306,669
- distribution of profit (above the statutorily required amount)	2,643,739	306,374	306,374
- from revaluation reserve – by sale and liquidation of fixed assets	110	295	295
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	8,458,090	5,814,241	5,814,241
3. Revaluation reserve at the beginning of the period	6,405,257	5,599,176	5,599,176
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	6,405,257	5,599,176	5,599,176
3.1. Change in the revaluation reserve	429,357	806,081	285,475
a) additions (by virtue of):	803,452	968,880	717,781
- valuation of financial investments	732,894[1)]	940,809	717,781
- additions by virtue of disposal of available for sale instruments	20,605	3,486	-
- additions by virtue of hedge accounting	49,953	24,585	-
b) reductions (by virtue of)	374,095	162,799	432,306
- valuation of financial investments	355,210	101,479	432,011
- reductions by virtue of the disposal of instruments available for sale	13,710	32,311	-
- sale of fixed assets	110	295	295
- reductions by virtue of hedge accounting	5,065	28,714	-
3.2. Revaluation reserve at the end of the period	6,834,614	6,405,257	5,884,651

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2020	1 January – 31 December 2019	1 January – 30 September 2019
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	2,651,012	2,731,561	2,731,561
5.1. Retained earnings at the beginning of the period	2,651,012	2,731,561	2,731,561
a) changes in the accepted accounting policies	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,651,012	2,731,561	2,731,561
a) increases	-	-	-
b) decreases	2,651,012	2,731,561	2,731,561
- transfers to supplementary capital	2,643,739	306,374	306,374
- disbursement of dividends	-	2,417,864	2,417,864
- transfers/charges to the Company Social Benefit Fund	7,273	7,323	7,323
5.3. Retained earnings at the end of the period	-	-	-
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	-	-	-
6. Net result	1,430,203	2,651,012	2,458,732
a) net profit	1,430,203	2,651,012	2,458,732
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	16,809,259	14,956,862	14,243,976

[1] PLN 358,027 thousand of which is attributable to impairment losses on shares in related parties (PLN 34,842 thousand in Alior Bank and PLN 323,185 thousand in Bank Pekao).

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 30 September 2020	1 January – 31 December 2019	1 January – 30 September 2019
A. Cash flows from operating activities			
I. Proceeds	10,969,730	14,438,482	10,750,706
1. Proceeds on direct activity and inward reinsurance	10,045,274	13,233,994	9,882,592
1.1. Proceeds on gross premiums	9,711,341	13,070,733	9,760,704
1.2. Proceeds on subrogation, salvage and claim refunds	306,390	136,701	101,778
1.3. Other proceeds on direct activity	27,543	26,560	20,110
2. Proceeds from outward reinsurance	252,710	382,164	305,098
2.1. Payments received from reinsurers for their share of claims paid	192,678	282,277	238,559
2.2. Proceeds on reinsurance commissions and profit participation	57,656	83,247	64,023
2.3. Other proceeds from outward reinsurance	2,376	16,640	2,516
3. Proceeds from other operating activity	671,746	822,324	563,016
3.1. Proceeds for acting as an emergency adjuster	325,038	360,547	253,834
3.2. Disposal of intangible assets and property, plant and equipment other than investments	1,286	7,425	4,374
3.3. Other proceeds	345,422	454,352	304,808
II. Expenditures	10,069,841	13,317,836	9,965,377
1. Expenditures on direct activity and inward reinsurance	8,235,913	11,141,626	8,459,124
1.1. Gross premium refunds	163,803	272,824	205,179
1.2. Gross claims and benefits paid	5,081,451	6,971,858	5,296,122
1.3. Acquisition expenditures	1,343,273	1,705,833	1,286,930
1.4. Administrative expenditures	1,140,446	1,450,393	1,092,942
1.5. Expenditures for claims handling and pursuit of subrogation	203,958	322,824	240,490
1.6. Commissions paid and profit-sharing on inward reinsurance	187,290	272,868	218,518
1.7. Other expenditures on direct activity and inward reinsurance	115,692	145,026	118,943
2. Expenditures on outward reinsurance	651,662	576,286	479,118
2.1. Premiums paid for reinsurance	651,432	576,003	478,902
2.2. Other expenditures on outward reinsurance	230	283	216
3. Expenditures on other operating activity	1,182,266	1,599,924	1,027,135
3.1. Expenditures for acting as an emergency adjuster	191,665	175,692	120,540
3.2. Purchase of intangible assets and property, plant and equipment other than investments	52,525	107,156	82,283
3.3. Other operating expenditures	938,076	1,317,076	824,312
III. Net cash flows on operating activity (I-II)	**899,889**	**1,120,646**	**785,329**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2020	1 January – 31 December 2019	1 January – 30 September 2019
B. Cash flow on investing activity			
I. Proceeds	84,763,318	213,107,377	194,284,706
1. Sale of real estate	10,306	16,806	13,924
2. Sale of ownership interests and shares in related parties	-	7,739	7,695
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	50,745	239,999	239,093
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	10,000	10,000
5. Realization of debt securities issued by other entities	940,840	8,661,781	8,459,486
6. Liquidation of term deposits with credit institutions	31,037,679	144,819,006	135,356,380
7. Realization of other investments	52,270,108	57,088,308	48,027,014
8. Proceeds from real estate	5,425	7,025	5,343
9. Interest received	392,937	484,673	396,464
10. Dividends received	45,952	1,759,995	1,759,995
11. Other investment proceeds	9,326	12,045	9,312
II. Expenditures	85,534,406	209,011,004	189,968,633
1. Purchase of real estate	1,198	3,079	1,739
2. Purchase of ownership interests and shares in related parties	4,200	1,046	26
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	43,546	126,089	105,818
4. Purchase of debt securities issued by related parties and extension of loans to these parties	47,395	109,018	77,414
5. Purchase of debt securities issued by other entities	2,235,031	8,141,405	8,004,020
6. Purchase of term deposits with credit institutions	31,174,763	144,084,939	134,630,634
7. Purchase of other investments	51,968,859	56,460,378	47,085,935
8. Expenditures to maintain real estate	34,890	54,837	40,165
9. Other expenditures for investments	24,524	30,213	22,882
III. Net cash flows from investing activities (I-II)	**(771,088)**	**4,096,373**	**4,316,073**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2020	1 January – 31 December 2019	1 January – 30 September 2019
C. Cash flows from financing activities			
I. Proceeds	212,589	24,964,616	24,706,275
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	212,589	24,964,616	24,706,275
3. Other financial proceeds	-	-	-
II. Expenditures	293,744	31,261,040	30,924,096
1. Dividends	153	2,417,864	2,417,864
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	212,595	28,710,674	28,373,735
5. Interest on loans and borrowings and issued debt securities	80,996	132,502	132,497
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(81,155)**	**(6,296,424)**	**(6,217,821)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**47,646**	**(1,079,405)**	**(1,116,419)**
E. Balance sheet change in cash, including:	51,508	(1,095,394)	(1,131,361)
- movement in cash due to foreign exchange differences	3,862	(15,989)	(14,942)
F. Cash at the beginning of the period	126,141	1,221,535	1,221,535
G. Cash at the end of the period (F+/-E), including:	177,649	126,141	90,174
- restricted cash	48,718	28,512	47,886

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2019.

9. Changes in accounting policies

In the 9-month period ended 30 September 2020, no changes were made to the accounting principles (policy).

10. Impairment losses for investments in related parties

In connection with the COVID-19 pandemic taking place in 2020 PZU has identified indications for impairment of the investments in Alior Bank and Bank Pekao and carried out impairment tests for these assets as at 30 June 2020, based on Polish Accounting Standard no. 4 “Impairment of assets”. The tests resulted in recognizing, in H1 2020, impairment losses on the value of investments in related parties in the total amount of: PLN 1,103,000 thousand, PLN 744,973 thousand of which was recognized through profit or loss (PLN 694,158 thousand pertained to Alior Bank and PLN 50,815 thousand to Bank Pekao), and PLN 358,027 thousand was recognized in equity (PLN 34,842 of which pertained to Alior Bank and PLN 323,185 thousand to Bank Pekao).

The impairment losses on investments in related parties are recognized through profit or loss in the “Loss on revaluation of investments” line item.

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 18 November 2020