Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Consolidated Financial Statements
for the year ended 31 December 2020
prepared in accordance with International Financial Reporting Standards

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(in millions of PLN)

Consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 December 2020	1 January – 31 December 2019 (restated) [1)]
Gross written premiums	10	23,866	24,191
Reinsurers' share in gross written insurance premium		(1,016)	(1,012)
Net written premiums		**22,850**	**23,179**
Movement in net provision for unearned premiums		174	(89)
Net earned premium		**23,024**	**23,090**
Fee and commission income	11	4,197	4,139
Interest income calculated using the effective interest rate	12	10,262	12,015
Other net investment income	13	586	376
Result on derecognition of financial instruments and investments	14	111	278
Movement in allowances for expected credit losses and impairment losses on financial instruments	15	(3,342)	(2,208)
Net movement in fair value of assets and liabilities measured at fair value	16	869	837
Other operating income	17	1,395	1,203
Claims and movement in technical provisions		(16,105)	(16,085)
Claims and movement in insurance liabilities ceded to re-insurers		525	390
Net insurance claims and benefits paid	18	**(15,580)**	**(15,695)**
Fee and commission expense	19	(1,031)	(860)
Interest expenses	20	(1,134)	(2,129)
Acquisition costs	21	(3,317)	(3,363)
Administrative expenses	22	(6,597)	(6,606)
Other operating expenses	24	(5,385)	(3,993)
Operating profit		**4,058**	**7,084**
Share of the net financial results of entities measured by the equity method		-	(4)
Profit before tax		**4,058**	**7,080**
Income tax	25	(1,528)	(1,895)
Net profit, including:		**2,530**	**5,185**
- profit attributable to the equity holders of the Parent Company		1,912	3,295
- profit (loss) attributed to holders of non-controlling interest		618	1,890
Basic and diluted weighted average number of common shares	26	863,332,499	863,285,340
Basic and diluted profit (loss) per common share (in PLN)	26	2.21	3.82

[1)] Information on restatement of data for the period from 1 January to 31 December 2019 is presented in section 5.4.

Warsaw, 24 March 2021

(in millions of PLN)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2020	1 January – 31 December 2019 (restated) [1]
Net profit		2,530	5,185
Other comprehensive income	25	1,602	496
To be reclassified to profit or loss in the future		1,549	489
Valuation of debt instruments		906	375
Measurement of loan receivables from clients		17	18
Conversion FX differences		104	(4)
Cash flow hedging		522	100
Not to be transferred to profit or loss in the future		53	7
Valuation of equity instruments		58	2
Reclassification of real property from property, plant and equipment to investment property		-	6
Actuarial gains and losses related to provisions for employee benefits		(5)	(1)
Total net comprehensive income		**4,132**	**5,681**
- comprehensive income attributable to equity holders of the Parent Company		2,619	3,657
- comprehensive income attributed to holders of non-controlling interest		1,513	2,024

[1] Information on restatement of data for the period from 1 January to 31 December 2019 is presented in section 5.4.

(in millions of PLN)

Consolidated statement of financial position

Assets	Note	31 December 2020	31 December 2019 (restated) [1)]	1 January 2019 (restated) [1)]
Goodwill	27	2,776	4,034	3,871
Intangible assets	28	3,206	3,157	3,180
Deferred tax assets	48	2,511	2,313	2,234
Other assets	29	753	734	562
Deferred acquisition cost	30	1,550	1,574	1,546
Reinsurers' share in technical provisions	41	2,101	1,856	1,512
Property, plant and equipment	31	4,188	4,229	3,184
Investment property	32	2,493	1,981	1,697
Entities carried by the equity method	33	72	11	17
Assets held for sale	49	590	580	1,147
Loan receivables from clients	34	197,288	194,868	182,054
Financial derivatives	35	6,339	3,107	2,487
Investment financial assets	36	140,922	111,416	101,665
Measured at amortized cost		66,864	45,938	45,234
Measured at fair value through other comprehensive income		64,248	55,211	38,737
Measured at fair value through profit or loss		9,810	10,267	17,694
Receivables	37	6,246	5,737	6,343
Cash and cash equivalents	39	7,939	7,788	17,055
Total assets		**378,974**	**343,385**	**328,554**

Equity and liabilities	Note	31 December 2020	31 December 2019 (restated) [1)]	1 January 2019 (restated) [1)]
Equity				
Equity attributable to equity holders of the parent		18,777	16,169	14,925
Share capital	40.1	86	86	86
Other capital	40.3	17,093	13,036	12,566
Retained earnings		1,598	3,047	2,273
Loss carried forward		(314)	(248)	(940)
Net profit		1,912	3,295	3,213
Non-controlling interest	2.4	24,626	23,119	22,482
Total equity		**43,403**	**39,288**	**37,407**
Liabilities				
Technical provisions	41	48,471	47,329	45,839
Subordinated liabilities	42	6,679	6,700	6,061
Liabilities on the issue of own debt securities	43	7,532	9,273	12,009
Liabilities to banks	44	9,751	6,604	6,044
Liabilities to clients under deposits	45	241,975	218,588	207,635
Financial derivatives	35	6,281	3,018	3,365
Other liabilities	46	12,434	10,599	8,805
Provisions	47	1,378	1,211	854
Deferred tax liability	48	949	746	486
Liabilities related directly to assets classified as held for sale	49	121	29	49
Total liabilities		**335,571**	**304,097**	**291,147**
Total equity and liabilities		**378,974**	**343,385**	**328,554**

[1)] Information on restatement of data as at 1 January and 31 December 2019 is presented in section 5.4.

Warsaw, 24 March 2021

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

(in millions of PLN)

Consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Result from previous years	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Conversion FX differences					
Note	40.1		40.3		40.3	40.3	40.3				2.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	-	1	-	-	-	-	(3)	61	58
Valuation of debt instruments	-	-	-	-	453	-	-	-	-	453	453	906
Measurement of loan receivables from clients	-	-	-	-	3	-	-	-	-	3	14	17
Cash flow hedging	-	-	-	-	146	-	-	-	-	146	376	522
Conversion FX differences	-	-	-	-	-	-	106	-	-	106	(2)	104
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	2	-	-	-	2	(7)	(5)
Total net other comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**-**	**707**	**895**	**1,602**
Net profit (loss)	-	-	-	-	-	-	-	-	1,912	1,912	618	2,530
Total comprehensive income	**-**	**-**	**(4)**	**-**	**603**	**2**	**106**	**-**	**1,912**	**2,619**	**1,513**	**4,132**
Other changes, including:	**-**	**(2)**	**2,739**	**619**	**(6)**	**-**	**-**	**(3,361)**	**-**	**(11)**	**(6)**	**(17)**
Distribution of financial result	-	-	2,741	620	-	-	-	(3,361)	-	-	-	-
Transactions on treasury shares	-	(2)	2	-	-	-	-	-	-	-	-	-
Transactions with holders of non-controlling interests	-	-	(10)	-	-	-	-	-	-	(10)	(2)	(12)
Sale of revalued properties and other	-	-	6	(1)	(6)	-	-	-	-	(1)	(4)	(5)
As at 31 December 2020	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**(314)**	**1,912**	**18,777**	**24,626**	**43,403**

Warsaw, 24 March 2021

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

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Result from previous years	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Conversion FX differences					
Note	40.1		40.3		40.3	40.3	40.3				2.4	
As at 1 January 2019	**86**	**(11)**	**12,660**	**18**	**(65)**	**-**	**(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**	**(342)**	**(8)**	**-**	**-**	**(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	(2)	(8)	-	-	1	-	(1)	(4)	(5)
As at 31 December 2019	**86**	**(7)**	**13,113**	**(324)**	**294**	**1**	**(41)**	**(248)**	**3,295**	**16,169**	**23,119**	**39,288**

[1] Information on restatement of data for the period from 1 January to 31 December 2019 is presented in section 5.4.

(in millions of PLN)

Consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 December 2020	1 January – 31 December 2019 (restated) 1)
Profit before tax		4,058	7,080
Adjustments		24,521	(6,032)
Movement in loan receivables from clients		(5,514)	(14,959)
Movement in liabilities under deposits		25,221	10,522
Movement in the valuation of assets measured at fair value		(869)	(837)
Interest income and costs		(2,608)	(2,574)
Realized gains/losses from investing activities and impairment losses		2,931	1,823
Impairment charges for property, plant and equipment, intangible assets and goodwill		1,505	19
FX gains (losses)		(55)	123
Movement in deferred acquisition cost		24	(28)
Amortization of intangible assets and depreciation of property, plant and equipment		1,319	1,293
Movement in the reinsurers' share in technical provisions		(245)	(344)
Movement in technical provisions		1,142	1,490
Change in the balance of receivables		277	(644)
Movement in liabilities		1,616	2,454
Cash flow on investment contracts		6	(13)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		313	158
Income tax paid		(1,886)	(2,084)
Other adjustments		1,344	(2,431)
Net cash flows from operating activities		**28,579**	**1,048**
Cash flow on investing activity			
Inflows		866,620	759,573
- sale of investment property		12	619
- proceeds from investment property		260	305
- sale of intangible assets and components of property, plant and equipment		29	87
- sale of ownership interests and shares		682	3,061
- realization of debt securities		407,813	157,856
- closing of buy-sell-back transactions		246,687	281,450
- closing of term deposits with credit institutions		182,521	289,755
- realization of other investments		26,844	24,678
- interest received		1,566	1,673
- dividends received		149	55
- other investment proceeds		57	34

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 December 2020	1 January – 31 December 2019 (restated) [1)]
Outflows		(894,247)	(764,426)
- purchase of investment property		(200)	(198)
- expenditures for the maintenance of investment property		(139)	(139)
- purchase of intangible assets and components of property, plant and equipment		(1,264)	(903)
- purchase of ownership interests and shares		(615)	(2,633)
- purchase of ownership interests and shares in subsidiaries		(70)	(211)
- decrease in cash due to the sale of entities and change in the scope of consolidation		-	(32)
- purchase of debt securities		(436,679)	(165,545)
- opening of buy-sell-back transactions		(247,271)	(282,273)
- purchase of term deposits with credit institutions		(182,142)	(288,342)
- purchase of other investments		(25,835)	(24,129)
- other expenditures for investments		(32)	(21)
Net cash flows from investing activities		**(27,627)**	**(4,853)**
Cash flows from financing activities			
Inflows		91,069	106,012
- proceeds from loans and borrowings	54	1,661	4,300
- proceeds on the issue of own debt securities	54	9,658	8,820
- opening of repurchase transactions	54	79,750	92,892
Outflows		(92,050)	(111,499)
- dividends paid to equity holders of the parent	40.2.1.1	-	(2,418)
- dividends paid to holders of non-controlling interest		-	(1,385)
- repayment of loans and borrowings	54	(898)	(3,415)
- redemption of own debt securities	54	(11,473)	(10,845)
- closing of repurchase transactions	54	(79,194)	(92,837)
- interest on loans and borrowings	54	(47)	(75)
- interest on outstanding debt securities	54	(163)	(227)
- expenditures on leases		(275)	(297)
Net cash flows from financing activities		**(981)**	**(5,487)**
Total net cash flows		**(29)**	**(9,292)**
Cash and cash equivalents at the beginning of the period		7,788	17,055
Movement in cash due to foreign currency differences		180	25
Cash and cash equivalents at the end of the period, including:	39	7,939	7,788
- restricted cash	39	19	89

[1)] Information on restatement of data for the period from 1 January to 31 December 2019 is presented in section 5.4.

Supplementary information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("consolidated financial statements" and "PZU Group", respectively) have been prepared in line with International Financial Reporting Standards as endorsed by the European Commission ("IFRS"), published and in force as at 31 December 2020.

Period covered by the statements

These consolidated financial statements cover the period of 12 months from 1 January to 31 December 2020.

Approval of the statements

These consolidated financial statements were signed and authorized for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna on 24 March 2021 and will be subject to approval by the shareholder meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

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

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

Going concern assumption

These consolidated financial statements have been drawn up under the assumption that the PZU Group remains a going concern in the foreseeable future, i.e. in the period of at least 12 months after the end of the reporting period. As at the date of signing these 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. More information on this matter is presented in section 5.1.

Discontinued operations

Both in 2020 and in 2019, the PZU Group did not discontinue any material type of activity.

Glossary

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

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. in liquidation.

Idea Bank – Idea Bank SA.

LD – Lietuvos Draudimas AB.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju 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 CO – PZU Centrum Operacji SA.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

RUCH – RUCH Spółka Akcyjna.

Tomma – Tomma Diagnostyka Obrazowa SA.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

BGK – Bank Gospodarstwa Krajowego.

CGU – cash generating unit.

EBA – European Banking Authority.

ECL – expected credit loss.

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

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

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

IBOR – Interbank Offered Rate.

IRS – interest rate swap.

PZU's standalone financial statements for 2020 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2020, prepared in accordance with PAS, signed by the PZU Management Board on 24 March 2021.

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code (consolidated text: Journal of Laws of 2020, Item 1526, as amended).

LGD – loss given default, expressed as a percentage of the total exposure in case of a counterparty's insolvency.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2020.

NBP – National Bank of Poland.

PD – Probability of Default (PD) – probability of default of a counterparty over a specified time horizon.

POCI – Purchased or originated credit-impaired financial assets.

Tax Group – PZU Tax Group – on 20 September 2017, a Tax Group agreement was signed, covering 13 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje, PZU Zdrowie SA, Tulare Investments sp. z o.o., PZU CASH SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA and Omicron Bis SA. The Tax Group was established for a period of 3 years – from 1 January 2018 to 31 December 2020 – and the Head of the First Mazowiecki Tax Office in Warsaw issued a registration decision on 21 November 2017. From 1 January 2021 the Tax Group also includes PZU Project 01 SA, in connection with another Tax Group agreement of 22 September 2020 (registration decision of 11 December 2020), which applies from 1 January 2021 to 31 December 2023. PZU is the parent company representing the Tax Group. The Tax Group performs settlements with the Tax Office on a monthly basis. PZU pays advances for corporate income tax that are due from all the companies to the Tax Office, while the companies transfer the CIT advances related to their business activities to PZU.

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2021 Item 217) and regulations issued thereunder.

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

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

IASB – International Accounting Standards Board.

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

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2020.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

BFG Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated text: Journal of Laws of 2020, Item 842).

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)

Supplementary Oversight Act – Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate (consolidated text: Journal of Laws of 2020, Item 1413, as amended).

EBA Guidelines – 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).

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

(in millions of PLN)

2. Composition of PZU Group

2.1 Key information on the PZU Group

Key information on the Group	
Name of the reporting entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Change of the name of the reporting entity	The name of the reporting entity has not changed
Legal form	Spółka Akcyjna
Registered office	Al. Jana Pawła II 24, 00-133 Warsaw
Country of registration	Poland
Registration address of the entity's offices	Al. Jana Pawła II 24, 00-133 Warsaw
Principal place of business	Poland
Core business	property and casualty insurance (65.12 according to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe).
National Court Register (Krajowy Rejestr Sądowy)	District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, Register of entrepreneurs – number 0000009831
Name of the parent company	no parent company
name of the ultimate parent	no ultimate parent

(in millions of PLN)

2.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 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 Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Establishing, representing and managing mutual funds https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services Sp. z o.o.	Warsaw	07.06.2017	46.81% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	07.06.2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	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
				31 December 2020	31 December 2019	
Consolidated companies – Pekao Group – continued						
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	Dom Inwestycyjny Xelion sp. z o.o. [3)]	Warsaw	11.12.2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a procurement platform
30	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
31	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
32	Corsham Sp. z o.o.	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
33	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
34	Harberton sp. z o.o. in liquidation [4)]	Warsaw	19.02.2020	31.93%	n/a	Business consulting.
35	RBL_VC sp. z o.o. ASI SKA [5)]	Warsaw	17.04.2020	31.93%	n/a	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
39	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/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2020	31 December 2019	
Consolidated companies – PZU Zdrowie Group – continued						
41	Centrum Medyczne Gamma sp. z o.o [6)]	Warsaw	08.09.2015	100.00%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. https://www.radom.pzuzdrowie.pl/
43	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
44	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
45	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
46	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
47	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
48	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
49	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Establishing, representing and managing mutual funds https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
50	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
51	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
52	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
53	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
54	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/
55	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
56	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
57	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment 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
				31 December 2020	31 December 2019	
Consolidated companies – other companies – continued						
58	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
59	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
60	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
61	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
62	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
63	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	n/a	No business conducted.
Consolidated companies – Armatura Group						
64	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/
65	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
66	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	No business conducted.
67	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
68	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
69	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
70	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
71	PZU FIZ Sektora Nieruchomości 7)	Warsaw	01.07.2008	n/a	n/a	as above
72	PZU FIZ Sektora Nieruchomości 2 7)	Warsaw	21.11.2011	n/a	n/a	as above
73	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
74	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
75	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
76	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
77	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
78	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2020	31 December 2019	
Consolidated companies – mutual funds – continued						
79	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
80	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
81	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
82	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
83	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
84	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above
85	inPZU Puls Życia 2025	Warsaw	22.10.2020	n/a	n/a	as above
86	inPZU Puls Życia 2030	Warsaw	22.10.2020	n/a	n/a	as above
87	inPZU Puls Życia 2040	Warsaw	22.10.2020	n/a	n/a	as above
88	inPZU Puls Życia 2050	Warsaw	22.10.2020	n/a	n/a	as above
89	inPZU Puls Życia 2060	Warsaw	22.10.2020	n/a	n/a	as above
Associates						
90	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
91	PayPo sp. z o.o. [8]	Warsaw	15.11.2018	6.39%	6.39%	Financial services. https://paypo.pl/
92	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
93	RUCH SA [9]	Warsaw	23.12.2020	30.92%	n/a	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/

[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] In December 2020 Pekao signed a preliminary sale agreement for 100% shares.
[4] Additional information is presented in item 2.3.1.2.
[5] 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.
[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] 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 31 December 2020 was 18 and 14, respectively (as at 31 December 2019: 18 for each fund).
[8] 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. On 7 January 2021 the PZU Group sold all its shares in PayPo sp. z o.o. (on 10 February 2021 the sale was registered in the National Court Register) The transaction will not affect the PZU Group's consolidated statements to any significant extent.
[9] More information on RUCH is presented in section 2.3.1.1.

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

The detailed accounting policy pertaining to settlement of acquisition transactions are presented in section 5.7.

2.3.1. Acquisitions of companies

2.3.1.1. RUCH

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) by RUCH controlled at the time by Lurena Investments, the assumption of which was to restructure a portion of RUCH's liabilities.

The PZU Group's strategic objective was 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;
- 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.

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 Non-current Assets Held for Sale and Discontinued Operations and the provisions of the Shareholder Agreement and the Investment Agreement, the assets and liabilities of RUCH have been classified by the PZU Group as held for sale.

On 9 November 2020 the execution of the accelerated arrangement proceedings was legally declared.

On 24 November 2020 RUCH's Shareholder Meeting adopted a resolution to decrease (as a result of retirement of the existing shares) and increase (as a result of issue of new shares) the company's share capital, exclude the subscription rights and amend its articles of association, which entailed retiring RUCH's shares held by Harberton. At the same time, the share capital was increased and the shares in RUCH's increased share capital were subscribed for – in accordance with the Investment Agreement by:

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

On 24 November 2020, Harberton granted PKN Orlen an irrevocable power-of-attorney to exercise the voting rights from the remaining 100,000 shares in RUCH, prevailing until the court registers the acts of 24 November 2020.

On 23 December 2020 the District Court, 14th Commercial Division of the National Court Register, registered RUCH's application for decreasing and simultaneously increasing the share capital as a result of which Harberton ceased to be a majority shareholder in RUCH. Accordingly, the PZU Group lost control over RUCH and became a significant shareholder and RUCH became the PZU Group's associate where the Group holds 35% votes at the shareholder meeting.

In connection with losing control, from 23 December 2020, the PZU Group ceased to consolidate RUCH and started measurement using the equity method.

(in millions of PLN)

The settlement of the loss of control over RUCH is presented below:

Settlement of the loss of control over RUCH	
Subscription price of new issue shares	70
Fair value of the retained shareholding, including:	65
- share of the fair value of RUCH's net assets	5
- goodwill	60
Result on the loss of control	**(5)**

The result on the loss of control is presented in the consolidated profit and loss account under "Result on derecognition of financial instruments and investments".

The fair value of the retained shareholder was determined using the discounted cash flow method on the basis of the most up-to-date financial projections. The discount rate used for the needs of calculation of the fair value was set on the level of the weighted average cost of capital. The cost of equity was determined in accordance with the CAPM model, taking into account the market premium. The risk-free rate was determined based on the average yield of 10-year government bonds.

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.

On 1 February 2021 the company was put in liquidation.

2.3.1.3. 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 5.4.

(in millions of PLN)

2.3.2. Changes to consolidation of mutual funds

On 30 November 2020, PZU FIZ Akcji Combo was closed down. This event did not affect the consolidated financial statements.

On 22 October 2020, the following newly established mutual funds were consolidated: inPZU Puls Życia 2025, inPZU Puls Życia 2030, inPZU Puls Życia 2040, inPZU Puls Życia 2050, inPZU Puls Życia 2060.

2.3.3. Liquidations and transactions under joint control

In 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 30 October 2020, PZU Zdrowie SA (acquiring company) merged with FCM Zdrowie 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.

On 19 November 2020 Pekao Powszechne Towarzystwo Emerytalne SA in liquidation was deleted from the National Court Register.

On 30 December 2020 CPF Management was dissolved.

The transactions did not affect the consolidated financial statements.

2.4 Non-controlling interest

2.4.1. Accounting policy

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

2.4.2. Quantitative data

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

Name of the entity	31 December 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%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%
Centrum Medyczne Gamma sp. z o.o. [3)]	0.00%	39.54%

[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)] 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%.

(in millions of PLN)

Carrying amount of non-controlling interests	31 December 2020	31 December 2019
Pekao Group	20,329	18,683
Alior Bank Group	4,296	4,430
Other	1	6
Total	**24,626**	**23,119**

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

Assets	Pekao Group		Alior Bank Group	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Goodwill	692	692	-	-
Intangible assets	1,938	1,683	424	644
Deferred tax assets	1,251	1,087	1,217	1,178
Other assets	53	45	44	35
Property, plant and equipment	2,098	2,112	702	764
Entities carried by the equity method	-	-	5	10
Assets held for sale	53	16	-	-
Loan receivables from clients	141,332	139,464	55,783	55,368
Financial derivatives	5,591	2,457	717	508
Investment financial assets	73,116	48,338	16,037	15,996
Measured at amortized cost	28,569	15,743	8,753	5,387
Measured at fair value through other comprehensive income	43,069	31,167	7,072	10,438
Measured at fair value through profit or loss	1,478	1,428	212	171
Receivables	2,305	1,956	1,106	667
Cash and cash equivalents	4,727	5,463	2,359	1,319
Total assets	**233,156**	**203,313**	**78,394**	**76,489**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Equity				
Equity attributable to equity holders of the parent	25,417	23,360	6,311	6,508
Share capital	262	262	1,306	1,306
Other capital	22,092	20,510	5,776	5,637
Retained earnings	3,063	2,588	(771)	(435)
Non-controlling interest	11	12	-	-
Total equity	**25,428**	**23,372**	**6,311**	**6,508**
Liabilities				
Subordinated liabilities	2,758	2,764	1,793	1,794
Liabilities on the issue of own debt securities	6,152	6,322	1,380	2,951
Liabilities to banks	9,165	6,097	619	437
Liabilities to clients under deposits	177,006	156,688	65,680	62,433
Derivatives	5,690	2,649	479	369
Other liabilities	5,908	4,687	1,794	1,638
Provisions	938	704	337	358
Deferred tax liability	28	30	1	1
Liabilities related directly to assets classified as held for sale	83	-	-	-
Total liabilities	**207,728**	**179,941**	**72,083**	**69,981**
Total equity and liabilities	**233,156**	**203,313**	**78,394**	**76,489**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 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	23,866	-	-	24	23,890
Reinsurers' share in gross written insurance premium	(1,016)	-	-	-	(1,016)
Net written premiums	**22,850**	**-**	**-**	**24**	**22,874**
Movement in net provision for unearned premiums	174	-	-	1	175
Net earned premium	**23,024**	**-**	**-**	**25**	**23,049**
Fee and commission income	4,197	(2,884)	(1,160)	97	250
Interest income calculated using the effective interest rate	10,262	(5,761)	(3,201)	78	1,378
Other net investment income	586	(234)	(133)	5	224
Result on derecognition of financial instruments and investments	111	(124)	(80)	-	(93)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(3,342)	1,620	1,736	-	14
Net change in the fair value of assets and liabilities carried at fair value	869	(133)	(63)	-	673
Other operating income	1,395	(175)	(166)	59	1,113
Claims and movement in technical provisions	(16,105)	-	-	(9)	(16,114)
Claims and movement in insurance liabilities ceded to re-insurers	525	-	-	-	525
Net insurance claims and benefits paid	**(15,580)**	**-**	**-**	**(9)**	**(15,589)**
Fee and commission expense	(1,031)	481	555	(5)	-
Interest expenses	(1,134)	638	427	(17)	(86)
Acquisition costs	(3,317)	-	-	(136)	(3,453)
Administrative expenses	(6,597)	3,288	1,508	(36)	(1,837)
Other operating expenses	(5 385)	1,616	827	1,240	(1 702)
Operating profit (loss)	**4,058**	**(1,668)**	**250**	**1,301**	**3,941**
Share of the net financial results of entities measured by the equity method	-	-	-	-	-
Profit (loss) before tax	**4,058**	**(1,668)**	**250**	**1,301**	**3,941**
Income tax	(1,528)	612	81	-	(835)
Net profit (loss)	**2,530**	**(1,056)**	**331**	**1,301**	**3,106**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 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	24,191	-	-	25	24,216
Reinsurers' share in gross written insurance premium	(1,012)	-	-	-	(1,012)
Net written premiums	**23,179**	**-**	**-**	**25**	**23,204**
Movement in net provision for unearned premiums	(89)	-	-	(12)	(101)
Net earned premium	**23,090**	**-**	**-**	**13**	**23,103**
Fee and commission income	4,139	(2,857)	(1,151)	107	238
Interest income calculated using the effective interest rate	12,015	(6,672)	(3,959)	34	1,418
Other net investment income	376	(229)	52	(7)	192
Result on derecognition of financial instruments and investments	278	(154)	(78)	-	46
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,208)	740	1,468	-	-
Net change in the fair value of assets and liabilities carried at fair value	837	(127)	(219)	3	494
Other operating income	1,203	(211)	(167)	42	867
Claims and movement in technical provisions	(16,085)	-	-	-	(16,085)
Claims and movement in insurance liabilities ceded to re-insurers	390	-	-	-	390
Net insurance claims and benefits paid	**(15,695)**	**-**	**-**	**-**	**(15,695)**
Fee and commission expense	(860)	388	473	(3)	(2)
Interest expenses	(2,129)	1,215	789	(19)	(144)
Acquisition costs	(3,363)	-	-	(60)	(3,423)
Administrative expenses	(6,606)	3,389	1,478	(34)	(1,773)
Other operating expenses	(3,993)	1,567	787	(76)	(1,715)
Operating profit (loss)	**7,084**	**(2,951)**	**(527)**	**-**	**3,606**
Share of the net financial results of entities measured by the equity method	(4)	-	(1)	-	(5)
Profit (loss) before tax	**7,080**	**(2,951)**	**(528)**	**-**	**3,601**
Income tax	(1,895)	825	249	-	(821)
Net profit (loss)	**5,185**	**(2,126)**	**(279)**	**-**	**2,780**

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 31 December 2020	**1 January – 31 December 2019** (restated)	**1 January – 31 December 2020**	**1 January – 31 December 2019** (restated)
Net profit	1,056	2,126	(331)	279
Other comprehensive income	1,001	146	139	22
To be reclassified to profit or loss in the future	939	154	135	38
Valuation of debt instruments	550	63	20	23
Measurement of loan receivables from clients	17	18	-	-
Net cash flow hedges	372	73	115	15
Not to be transferred to profit or loss in the future	62	(8)	4	(16)
Valuation of equity instruments measured at fair value through other comprehensive income	71	(6)	6	(17)
Actuarial gains and losses related to employee provisions	(9)	(2)	(2)	1
Total net comprehensive income	**2,057**	**2,272**	**(192)**	**301**

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 December 2020	1 January – 31 December 2019	1 January – 31 December 2020	1 January – 31 December 2019
Net cash flows from operating activities	23,573	(1,388)	2,776	53
Net cash flows from investing activities	(25,025)	(7,506)	(71)	(335)
Net cash flows from financing activities	624	1,140	(1,691)	(475)
Total net cash flows	**(828)**	**(7,754)**	**1,014**	**(757)**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 31 December 2020	1 January – 31 December 2019	1 January – 31 December 2020	1 January – 31 December 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

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

31 December 2020

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300	34.1875%
2	Funds managed by Nationale Nederlanden Powszechne Towarzystwo Emerytalne Spółka Akcyjna	44,260,638	5.1256%
3	Other shareholders	524,045,062	60.6869%
Total		**863,523,000**	**100.00%**

31 December 2019

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

Information on the number of shares taken into account in the calculation of earnings per share is presented in section 26.

Transactions pertaining to significant stakes in PZU

On 16 December 2020 the funds managed by Nationale Nederlanden Powszechne Towarzystwo Emerytalne Spółka Akcyjna increased their total shareholding in PZU to over 5% of votes at the Shareholder Meeting.

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

4.1 Composition of the parent company's Management Board

From 1 January 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

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

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

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

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

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

The actual value may differ from the estimate value. The judgments, estimates and related assumptions are subject to ongoing verification. Their changes are recognized in the manner described in section 5.2.

(in millions of PLN)

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

Profit and loss account item	Note number	Statement of financial position item	Note number
Gross written premium	10	Goodwill	27
Fee and commission income	11	Intangible assets	28
Interest income calculated using the effective interest rate	12	Deferred acquisition cost	30
Result on derecognition of financial instruments and investments	14	Property, plant and equipment	31
Movement in allowances for expected credit losses and impairment losses on financial instruments	38	Investment property	32
Claims and movement in technical provisions	18	Entities carried by the equity method	33
Interest expenses	20	Loan receivables from clients	34
Acquisition costs	21	Financial derivatives	35
Administrative expenses	22	Investment financial assets	36
Income tax	25	Cash and cash equivalents	39
		Assets and liabilities held for sale	49
		Equity attributable to equity holders of the parent	40
		Non-controlling interest	2.4
		Technical provisions	41
		Subordinated liabilities	42
		Liabilities on the issue of own debt securities	43
		Liabilities to banks	44
		Liabilities to clients under deposits	45
		Other liabilities	46
		Provisions	47
		Deferred income tax	48

5.1 Impact of the COVID-19 pandemic on the estimates and assumptions

The PZU Group assessed the adopted estimates and assumptions taking into account the impact of the COVID-19 pandemic on individual line items of assets and liabilities, revenues and costs. Considering the significant uncertainty regarding the further development of the economic situation, the adopted estimates are subject to change.

The table below presents the elements of the consolidated financial statements impacted by the COVID-19 pandemic and points to notes in which detailed disclosures regarding the respective issues are presented.

Note no.	Area	Impact of the COVID-19 pandemic on PZU Group's activities
7.5.3.1	Interest rate risk	Reduction of net interest income due to interest rate cuts.
7.5.4	Liquidity risk	Increase in banking sector's liquidity. No significant influence on the insurance operations of the PZU Group.
9.3	Fair value hierarchy	The increased volatility in the financial markets, reduced liquidity of some segments resulted in the reclassification of some assets to lower fair value levels.
27.3	Goodwill	The impairment losses for goodwill following from the acquisition of Alior Bank and Bank Pekao SA.
28	Intangible assets	The impairment losses for intangible assets following from the acquisition of Alior Bank.
32.2	Investment property	Decrease in the transaction volume and liquidity in the real estate market. As at 31 December 2020 some sectors returned to business as usual.

Note no.	Area	Impact of the COVID-19 pandemic on PZU Group’s activities
38.1.1	Expected credit losses – loan receivables from clients, investment financial assets	The adverse impact on the economy that may exacerbate the financial standing of some borrowers. The PZU Group has modified its approach to the calculation of expected credit losses taking into account, among others: • projections of macroeconomic assumptions, such as the expected level of the economic slowdown, GDP, employment, house prices, disruptions in capital markets; • possible disruptions in operations resulting from decisions made by state institutions, businesses and consumers to limit the spread of the pandemic; • effectiveness of the aid programs for businesses and consumers. Deterioration of the macroeconomic situation was reflected in changes of the PD and LGD parameters. Moratoria for loan repayments by clients were introduced.
41.2	Technical provisions	In the calculation of its technical provisions, the PZU Group monitors, among other things: • mortality, morbidity and accident rates; • unemployment rate; • rate of return on assets covering the technical provisions. In the case of life insurance, some assumptions have been revised (technical rate, method of calculation of the provisions for the group insurance portfolio and mortality data). For group insurance, a provision for unexpired risk has been established.

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

The accounting policies are changed only if the change:

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

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

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

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

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

In 2020 as well as in 2019, there were not corrections of errors from previous years.

(in millions of PLN)

5.3 Amendments to the applied IFRS

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

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

Name of 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 (IBOR)	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 arrangements 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.

(in millions of PLN)

5.3.2. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendments to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9	1 January 2021	2020/2097	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.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Reform of the interest rate benchmarks (IBOR - phase 2)	1 January 2021	2021/25	The key amendments stipulate that:
			• settlement of modifications of financial assets, financial liabilities and lease liabilities which will be required as a direct consequence of the reform of the interest rate benchmarks and carried out on the basis of economically equivalent principles through update of the effective interest rate,
			• the reform of the interest rate benchmarks directly does not lead to discontinuation of application of hedge accounting principles. Hedging relationships (and the related documentation) must be amended to reflect the modification of the hedged position, hedging instrument and hedged risk. Amended hedging relationships should satisfy all qualifying criteria for application of hedge accounting, including effectiveness requirements,
			• to enable users to understand the nature and scope of the risks following from the reform of interest rate benchmarks to which the entity is exposed, and how the entity manages such risks, as well as the progress of the entity in transition from the interest rate benchmarks to alternative reference rates and how the entity manages the transition, it is required to disclose:
			  • information about the method of managing the transition from the interest rate benchmarks to alternative reference rates, progress made as at the reporting date and the risks resulting from the transition,
			  • quantitative information on financial assets not being derivatives, financial liabilities not being derivatives, and derivatives which are still subject to interest rate benchmarks subject to the reform, broken down by material interest rate benchmarks,
			  • information on the extent to which the reform of the interest rate benchmarks has caused changes in the entity's risk management strategy, description of such changes and the way in which the entity manages this risk.
			
			The PZU Group is currently analyzing the impact of these amendments on its consolidated financial statements.

(in millions of PLN)

- Not approved by the European Commission:

<table>
<tr><th>Name of standard/ interpretation</th><th>Date of issue by IASB</th><th>Effective date (according to IASB)</th><th>Comments</th></tr>
<tr><td>IFRS 17 – Insurance contracts</td><td>18 May 2017
25 June 2020 (amendments to the standard)</td><td>1 January 2023</td><td>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.
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</td></tr>
</table>

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			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.
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.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
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 fulfillment 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.
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 IAS 1 – Presentation of Financial Statements	12 February 2021	1 January 2023	In accordance with the amendments, the entity will be obligated to disclose material accounting policy information rather than significant accounting principles (as previously). The amendment contains examples of identification of material accounting policies and stipulates that an accounting policy may be material due to its nature, even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies may not obscure material accounting policies. The amendment will not affect the PZU Group's consolidated statements to any significant extent.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	12 February 2021	1 January 2023	The amendments to IAS 8 comprise: • replacement of the definition of a change in estimates with a definition of estimates. In accordance with the new definition, estimates are "monetary amounts in financial statements that are subject to measurement uncertainty", • explanation that a change in the estimate resulting from new information or new events is not a correction of error. In addition, the effects of a change in input data or measurement technique applied to determine the estimate are changes in estimates, unless they follow from a correction of errors of previous periods, • clarification that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. The amendment will not affect the PZU Group's consolidated statements to any significant extent.
Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic after 30 June 2021	11 February 2021	1 April 2021	The amendment makes it possible to extend the possibility of treating changes pertaining to lease payments under granted arrangements as if they did not constitute a modification of lease on all payments due on or before 30 June 2022 (currently the arrangement pertains only to payments due by 30 June 2021). The amendment should be applied retrospectively, recognizing the cumulative effect as a correction of the opening balance of retained earnings or other capital component as at the beginning of the annual period in which the amendment was applied. The amendment will not affect the PZU Group's consolidated statements to any significant extent.

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

5.4 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 5.4.1-5.4.3 and 5.4.5-5.4.6 were made.

Due to the final settlement of the acquisition of Tomma shares, the comparative data were transformed, as described in section 5.4.4.

5.4.1. 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.

5.4.2. 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”.

5.4.3. 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.

5.4.4. 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.

5.4.5. 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 consolidated financial statements, these liabilities are presented in the consolidated financial statements consolidated financial statements under separate items of the statement of financial position.

(in millions of PLN)

5.4.6. Change in the presentation of employee benefits

Provisions for holidays, defined benefit plans and other long-term employee benefits in the consolidated financial statements for 2019 are presented in the "Provisions for employee benefits" line item. To increase the usefulness of the reports in the consolidated financial statements they were presented in Other liabilities (Provisions for holidays) and Provisions (defined benefit plans and other long-term employee benefits).

5.4.7. 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 January – 31 December 2019** (historical)	**5.4.1**	**5.4.2**	**1 January – 31 December 2019** (restated)
Interest income calculated using the effective interest rate	n/a	12,015	-	12,015
Other net investment income	n/a	376	-	376
Net investment income	12,391	(12,391)	-	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(2,166)	-	(42)	(2,208)
Other operating income	1,492	-	(289)	1,203
Other operating expenses	(4,324)	-	331	(3,993)
Net profit, including:	**5,185**	**-**	**-**	**5,185**
- profit attributable to the equity holders of the Parent Company	3,295	-	-	3,295
- profit (loss) attributed to holders of non-controlling interest	1,890	-	-	1,890

Consolidated statement of comprehensive income	**1 January – 31 December 2019** (historical)	**5.4.3**	**1 January – 31 December 2019** (restated)
Net profit	5,185	-	5,185
Other comprehensive income	496	-	496
To be reclassified to profit or loss in the future	489	-	489
Valuation of debt instruments	393	(18)	375
Measurement of loan receivables from clients	n/a	18	18
Total net comprehensive income	**5,681**	**-**	**5,681**

Assets	**31 December 2019** (historical)	**5.4.4**	**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)	5.4.4	5.4.5	5.4.6	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	190	10,599
Provisions for employee benefits	534	-	-	(534)	n/a
Provisions	867	-	-	344	1,211
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**

Assets	1 January 2019 (historical)	Adjustments	1 January 2019 (restated)
Total assets	**328,554**	**-**	**328,554**

Equity and liabilities	1 January 2019 (historical)	5.4.4	5.4.5	5.4.6	1 January 2019 (restated)
Total equity	**37,407**	**-**	**-**	**-**	**37,407**
Liabilities					
Technical provisions	45,839	-	-	-	45,839
Subordinated liabilities	n/a	-	6,061	-	6,061
Liabilities on the issue of own debt securities	n/a	-	12,009	-	12,009
Liabilities to banks	n/a	-	6,044	-	6,044
Liabilities to clients under deposits	n/a	-	207,635	-	207,635
Financial derivatives	n/a	-	3,365	-	3,365
Other liabilities	7,407	-	1,202	196	8,805
Provisions for employee benefits	531	-	-	(531)	n/a
Provisions	519	-	-	335	854
Deferred tax liability	486	-	-	-	486
Financial liabilities	236,316	-	(236,316)	-	n/a
Liabilities related directly to assets classified as held for sale	49	-	-	-	49
Total liabilities	**291,147**	**-**	**-**	**-**	**291,147**
Total equity and liabilities	**328,554**	**-**	**-**	**-**	**328,554**

(in millions of PLN)

Consolidated cash flow statement	1 January – 31 December 2019 (historical)	5.4.5	1 January – 31 December 2019 (restated)
Profit before tax	7,080	-	7,080
Adjustments	(6,032)	-	(6,032)
Impairment losses for non-financial assets	-	19	19
Movement in liabilities	1,113	1,341	2,454
Other adjustments	(1,071)	(1,360)	(2,431)
Net cash flows from operating activities	**1,048**	**-**	**1,048**

5.5 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2020 include financial data of the parent company and all its subsidiaries after elimination of intra-group transactions.

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

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

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

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

The rules applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies are presented in section 5.6.

5.5.1. Judgments in exercising control

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

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

(in millions of PLN)

The analysis of prerequisites for exercising control over Pekao and Alior Bank as at 31 December 2020 is presented in the table below.

Criterion	Pekao	Alior Bank
Share in votes at the shareholder meeting	20.02%	31.93%
Other shareholders	Only two shareholders hold a stake of more than 5%, accounting in total for 10.09% shares. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.	Only two shareholders hold stakes between 7% and 10%. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.
Shareholder agreements	On 23 January 2017, PZU and PFR (holding 12.8% of Pekao's share capital) signed a Shareholder Agreement to build Pekao's long-term value, implement a policy aimed at ensuring Pekao's development, financial stability and effective and prudent management. It defines the rules of cooperation between PZU and PFR, in particular pertaining to joint exercise of voting rights from the shares held and the implementation of a common long-term policy for Pekao's business. The Shareholder Agreement provides for the possibility of having real influence on Pekao's operating policies. The Management Board of PZU does not have any information about any agreements that may have been concluded between Pekao's other shareholders.	The Management Board of PZU does not have any information about any agreements that may have been concluded between Alior Bank's other shareholders.
Potential voting rights	No potential voting rights have been identified.	No potential voting rights have been identified.
Capacity to adopt resolutions in line with PZU's intentions	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.
PZU representatives in governing bodies	Supervisory Board members include persons that earlier fulfilled or are fulfilling key management functions at PZU.	Supervisory Board members include persons that earlier fulfilled or are fulfilling key management functions at PZU.
Investor commitments and exposure to variability of returns	In connection with bancassurance, assurbanking activities, joint initiatives in the cost areas, including IT and real property, between PZU and Pekao, PZU has access to financial results, activities and operations that are not available to other shareholders of Pekao.	The PZU Group has undertaken investor commitments towards Alior Bank and conducts operations together with Alior Bank. This which means that it has greater exposure to the variability of Alior Bank's financial results than it is implied by the stake it holds in Alior Bank's equity.

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

5.5.2. Rules of consolidation of mutual funds

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

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

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

(in millions of PLN)

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

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

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

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

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

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

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

FX rates used for translation of financial data of foreign related parties	1 January – 31 December 2020	1 January – 31 December 2019	31 December 2020	31 December 2019
Euro	4.4742	4.3018	4.6148	4.2585
British pound	5.0240	4.9106	5.1327	4.9971
Ukrainian hryvnia	0.1439	0.1502	0.1326	0.1602

5.7 Purchase method

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

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

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

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

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

Determination of goodwill or a gain from a bargain purchase

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

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

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

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

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

Intangible assets

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

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

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

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

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

Loans and advances to customers

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

5.8 Classification of insurance contracts in accordance with IFRS 4

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

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

5.8.1. Classification of non-life insurance contracts

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

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

5.8.2. Classification of life insurance contracts

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

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

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

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

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

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

6. Segment reporting

6.1 Reportable segments

6.1.1. Key classification criterion

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

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

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

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.	

6.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

6.2 Inter-segment settlements

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

6.3 Segment's measure of profit

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

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

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

6.4 Accounting policies applied according to PAS

6.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2020.

PZU's 2020 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

6.4.2. PZU Życie

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

What is unique to PZU Życie is the rules of accounting for insurance 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. The classification of those contracts is described in section 5.8.

6.5 Simplifications in the segmental note

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

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

(in millions of PLN)

6.6 Quantitative data

Corporate insurance (non-life insurance)	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	2,962	3,264
Gross premium written between segments	64	52
Gross written premium	**3,026**	**3,316**
Movement in provision for unearned premiums and gross provision for unexpired risks	96	(283)
Gross earned premium	**3,122**	**3,033**
Reinsurers' share of the gross written premium	(861)	(786)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	104	229
Net earned premium	**2,365**	**2,476**
Investment income, including:	116	100
external operations	116	100
intersegment operations	-	-
Other net technical income	58	32
Income	**2,539**	**2,608**
Net insurance claims	(1,593)	(1,610)
Movement in other net technical provisions	44	7
Acquisition costs	(511)	(519)
Administrative expenses	(144)	(131)
Reinsurance commissions and profit-sharing	47	43
Other	(69)	(71)
Insurance result	**313**	**327**

Mass insurance (non-life insurance)	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	10,200	10,332
Gross premium written between segments	44	71
Gross written premium	**10,244**	**10,403**
Movement in provision for unearned premiums and gross provision for unexpired risks	54	(21)
Gross earned premium	**10,298**	**10,382**
Reinsurers' share of the gross written premium	(78)	(149)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(28)	28
Net earned premium	**10,192**	**10,261**
Investment income, including:	525	481
external operations	525	481
intersegment operations	-	-
Other net technical income	100	126
Income	**10 817**	**10,868**
Net insurance claims	(6,221)	(6,410)
Movement in other net technical provisions	132	(1)
Acquisition costs	(2,010)	(1,986)
Administrative expenses	(673)	(651)
Reinsurance commissions and profit-sharing	-	3
Other	(374)	(374)
Insurance result	**1,671**	**1,449**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	7,007	6,966
Gross premium written between segments	-	-
Gross written premium	**7,007**	**6,966**
Movement in the provision for unearned premiums	(50)	-
Gross earned premium	**6,957**	**6,966**
Reinsurers' share of the gross written premium	(1)	(1)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**6,956**	**6,965**
Investment income, including:	675	668
external operations	675	668
intersegment operations	-	-
Other net technical income	3	3
Income	**7,634**	**7,636**
Net insurance claims and benefits and movement in other net technical provisions	(5,190)	(5,057)
Acquisition costs	(381)	(388)
Administrative expenses	(632)	(640)
Other	(40)	(54)
Insurance result	**1,391**	**1,497**

Individual insurance (life insurance)	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	1,712	1,581
Gross premium written between segments	-	-
Gross written premium	**1,712**	**1,581**
Movement in the provision for unearned premiums	(2)	(2)
Gross earned premium	**1,710**	**1,579**
Reinsurers' share of the gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**1,710**	**1,579**
Investment income, including:	465	548
external operations	465	548
intersegment operations	-	-
Other net technical income	1	1
Income	**2 176**	**2,128**
Net insurance claims and benefits and movement in other net technical provisions	(1,670)	(1,640)
Acquisition costs	(175)	(139)
Administrative expenses	(81)	(72)
Other	(6)	(6)
Insurance result	**244**	**271**

(in millions of PLN)

Investments	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Investment income, including:	383	397
- external operations	323	333
- intersegment operations	60	64
Operating result	**383**	**397**

Banking activity	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019 (restated)
Fee and commission income	4 044	4,008
- external operations	3,945	3,901
- intersegment operations	99	107
Investment income	6 248	8,972
- external operations	6 248	8,972
- intersegment operations	-	-
Income	**10 292**	**12,980**
Fee and commission expense	(1,036)	(862)
Interest expenses	(1,074)	(2,013)
Administrative expenses	(4 782)	(4,850)
Other	(3 206)	(1,757)
Operating result	**194**	**3,498**

Pension insurance	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Investment income, including:	4	6
external operations	4	6
intersegment operations	-	-
Other income	130	142
Income	**134**	**148**
Administrative expenses	(56)	(43)
Other	(5)	(4)
Operating result	**73**	**101**

(in millions of PLN)

Insurance - Baltic States	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	1,694	1,713
Gross premium written between segments	-	-
Gross written premium	**1,694**	**1,713**
Movement in provision for unearned premiums and gross provision for unexpired risks	11	(54)
Gross earned premium	**1,705**	**1,659**
Reinsurers' share of the gross written premium	(65)	(57)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	3	(2)
Net earned premium	**1,643**	**1,600**
Investment income, including:	18	38
external operations	18	38
intersegment operations	-	-
Income	**1,661**	**1,638**
Net insurance claims	(965)	(989)
Acquisition costs	(340)	(335)
Administrative expenses	(141)	(133)
Other	5	4
Insurance result	**220**	**185**

Insurance – Ukraine	1 January 2020 - 31 December 2020	1 January 2019 - 31 December 2019
Gross externally written premium	291	335
Gross premium written between segments	-	-
Gross written premium	**291**	**335**
Movement in provision for unearned premiums and gross provision for unexpired risks	8	(8)
Gross earned premium	**299**	**327**
Reinsurers' share of the gross written premium	(99)	(106)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(4)	(4)
Net earned premium	**196**	**217**
Investment income, including:	39	33
external operations	39	33
intersegment operations	-	-
Income	**235**	**250**
Net insurance claims	(76)	(81)
Acquisition costs	(101)	(118)
Administrative expenses	(33)	(31)
Other	29	19
Insurance result	**54**	**39**

(in millions of PLN)

Investment contracts	**1 January 2020 - 31 December 2020**	**1 January 2019 - 31 December 2019**
Gross written premium	33	35
Movement in the provision for unearned premiums	-	-
Gross earned premium	**33**	**35**
Reinsurers' share of the gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**33**	**35**
Investment income, including:	13	16
external operations	13	16
intersegment operations	-	-
Other income	-	-
Income	**46**	**51**
Net insurance claims and benefits and movement in other net technical provisions	(37)	(42)
Acquisition costs	-	-
Administrative expenses	(3)	(4)
Other	-	-
Operating result	**6**	**5**

Other segments	**1 January 2020 - 31 December 2020**	**1 January 2019 - 31 December 2019**
Investment income, including:	19	6
- external operations	19	6
- intersegment operations	-	-
Other income	1,234	1,086
Income	**1,253**	**1,092**
Costs	(1,288)	(1,149)
Other	28	22
Operating result	**(7)**	**(35)**

(in millions of PLN)

Reconciliations 1 January 2020 - 31 December 2020	Net earned premium	Investment income	Net insurance claims and benefits	Acquisition costs	Administrative expenses	Operating result
Corporate insurance	2,365	116	(1,593)	(511)	(144)	313
Mass insurance	10,192	525	(6,221)	(2,010)	(673)	1,671
Group and individually continued insurance	6,956	675	(5,190)	(381)	(632)	1,391
Individual insurance	1,710	465	(1,670)	(175)	(81)	244
Investments	-	383	-	-	-	383
Banking activity	-	6 248	-	-	(4 782)	194
Pension insurance	-	4	-	(5)	(56)	73
Insurance - Baltic States	1,643	18	(965)	(340)	(141)	220
Insurance – Ukraine	196	39	(76)	(101)	(33)	54
Investment contracts	33	13	(37)	-	(3)	6
Other segments	-	19	-	-	-	(7)
Total segments	**23,095**	**8 505**	**(15,752)**	**(3,523)**	**(6 545)**	**4,542**
Presentation of investment contracts	(33)	(7)	37	-	-	-
Presentation of the movement in other net technical provisions	-	-	(1)	-	-	-
Estimated salvage and subrogation	-	-	24	-	-	24
Valuation of equity instruments	-	(6)	-	-	-	(6)
Real estate valuation	-	-	-	-	(3)	(4)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(185)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(16)	(16)
Consolidation adjustments	(38)	(6)	112	206	(33)	(297) [1)]
Consolidated data	**23,024**	**8,486** [2)]	**(15,580)**	**(3,317)**	**(6,597)**	**4,058**

[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”.

(in millions of PLN)

Reconciliations 1 January 2019 - 31 December 2019 (restated)	**Net earned premium**	**Investment income**	**Net insurance claims and benefits**	**Acquisition costs**	**Administrative expenses**	**Operating result**
Corporate insurance	2,476	100	(1,610)	(519)	(131)	327
Mass insurance	10,261	481	(6,410)	(1,986)	(651)	1,449
Group and individually continued insurance	6,965	668	(5,057)	(388)	(640)	1,497
Individual insurance	1,579	548	(1,640)	(139)	(72)	271
Investments	-	397	-	-	-	397
Banking activity	-	8,972	-	-	(4,850)	3,498
Pension insurance	-	6	-	(5)	(43)	101
Insurance - Baltic States	1,600	38	(989)	(335)	(133)	185
Insurance – Ukraine	217	33	(81)	(118)	(31)	39
Investment contracts	35	16	(42)	-	(4)	5
Other segments	-	6	-	-	-	(35)
Total segments	**23,133**	**11,265**	**(15,829)**	**(3,490)**	**(6,555)**	**7,734**
Presentation of investment contracts	(35)	(7)	42	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	(14)	-	-	-	(14)
Real estate valuation	-	(4)	-	-	(2)	(9)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(12)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(12)	(12)
Consolidation adjustments	(8)	58	96	127	(37)	(599) [1]
Consolidated data	**23,090**	**11,298** [2]	**(15,695)**	**(3,363)**	**(6,606)**	**7,084**

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

[2] The sum of the following line items in the consolidated profit and loss account: "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 – 31 December 2020**					**1 January – 31 December 2019** (restated)				
	Poland	**Baltic States**	**Ukraine**	**Unal-located**	**Consoli-dated value**	**Poland**	**Baltic States**	**Ukraine**	**Unal-located**	**Consoli-dated value**
Gross externally written insurance premium	21,881	1,694	291	-	23,866	22,143	1,713	335	-	24,191
Gross insurance premium written between segments	79	-	-	(79)	-	93	-	-	(93)	-
Fee and commission income	4,197	-	-	-	4,197	4,138	1	-	-	4,139
Investment income [1]	8,429	18	39	-	8,486	11,227	38	33	-	11,298

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

Geographic breakdown	**31 December 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]	7,116	272	6	-	7,394	7,133	247	6	-	7,386
Deferred tax assets	2,507	-	2	-	2,509	2,310	-	3	-	2,313
Assets	376,435	3,406	535	(1,402)	378,974	341,372	2,877	596	(1,460)	343,385

[1] The sum of the following items of the consolidated statement of financial position: "Intangible assets" and "Property, plant and equipment"

6.7 Information on key customers

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

7. Risk management

7.1 Introduction

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

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

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

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

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

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

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

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

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

In addition, PZU as the leading entity in the financial conglomerate manages risk concentration at the level of the overall conglomerate. The leading entity has established the risk concentration management standards, in particular through introduction of rules for identification, measurement and assessment, monitoring and reporting of significant risk concentration and making managerial decisions.

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

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

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

7.2 Split of duties and tasks

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

The first three are:

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

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

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

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

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

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

7.3 Risk appetite, risk profile and risk tolerance

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

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

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

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

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

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

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

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

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

Two levels are distinguished in the risk management process:

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

  A risk concentration management system was implemented to ensure that entities in the financial conglomerate attain their business objectives in a manner ensuring financial stability at the level of both the entire conglomerate and individual entities. The system monitors appropriate risk concentration measures and their limits and threshold values. Risk measurement permits identification of the sources of concentration in individual risks at the level of both the financial conglomerate and individual regulated entities and supports an assessment of the impact of these concentrations on financial stability;

- the entity level, ensuring that the PZU Group entity attains its business objectives in a safe manner appropriate to the scale of the risk involved. Monitored at this level are the limits and risk categories specific to the company and, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance area) and the security management system.

7.5 Risk profile

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

In connection with the COVID-19 pandemic, increased risk was recorded in selected areas, in particular interest rate risk, credit risk, liquidity risk and mortality risk.

When managing the various risk types, the PZU Group identifies, measures and monitors risk concentration. To meet the regulatory obligations imposed on groups identified as financial conglomerates, a model to manage significant risk concentration in the PZU Financial Conglomerate was implemented in 2020 in keeping with the requirements of the Supplementary Oversight Act. Regulated subsidiaries monitor and submit regular reports to the leading entity in the financial conglomerate (PZU) on the measures and data supporting identification of risk concentrations. In the case of identification of an excessive risk concentration, appropriate management actions are implemented on the level of the given entity or the whole financial conglomerate.

7.5.1. Credit risk and concentration risk

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

Credit risk in the PZU Group includes:

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

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

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

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

- the risk of PZU Group customer defaulting against a third party, for example in insurance of cash receivables, insurance guarantees.

7.5.1.1. Concentration risk arising out of lending activity

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

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

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

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

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

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

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

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

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

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

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

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

7.5.1.2. Credit risk in banking activity

Risk assessment in credit process

The provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product.

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

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

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

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

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

The financial effect of the established collateral for the portfolio of exposures measured individually with recognized impairment as at 31 December 2020 is PLN 2,658 million (as at 31 December 2019: PLN 2,902 million). This is an amount by which the level of the required impairment losses for this portfolio would be higher if no discounted cash flows obtained from collateral were taken into account in their estimation.

In connection with the COVID-19 pandemic and the increased credit risk, in 2020 banks introduced limitations in acceptance of new exposures and close monitoring of exposures potentially at risk. The limitations of new sales pertain to, among others, selected industries or countries particularly exposed to the negative economic effects of the pandemic.

Scoring and credit rating

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

(in millions of PLN)

Pekao

Individual client portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Mortgage-backed residential loans	**53,574**	**7,715**	**-**	**61,289**	**52,685**	**5,337**	**-**	**58,022**
Class 1 (0.00% <= PD < 0.06%)	10,325	378	-	10,703	10,583	6	-	10,589
Class 2 (0.06% <= PD < 0.19%)	5,054	296	-	5,350	5,354	8	-	5,362
Class 3 (0.19% <= PD < 0.35%)	25,829	3,438	-	29,267	24,723	2,278	-	27,001
Class 4 (0.35% <= PD < 0.73%)	11,274	1,761	-	13,035	10,600	1,270	-	11,870
Class 5 (0.73% <= PD < 3.50%)	787	1,013	-	1,800	989	880	-	1,869
Class 6 (3.50% <= PD < 14.00%)	188	420	-	608	244	421	-	665
Class 7 (14.00% <= PD < 100.00%)	117	409	-	526	192	474	-	666
Cash (consumer) loans	**9,021**	**2,054**	**-**	**11,075**	**10,187**	**1,730**	**-**	**11,917**
Class 1 (0.00% <= PD < 0.09%)	832	136	-	968	746	131	-	877
Class 2 (0.09% <= PD < 0.18%)	1,630	141	-	1,771	1,551	186	-	1,737
Class 3 (0.18% <= PD < 0.39%)	2,779	151	-	2,930	2,746	211	-	2,957
Class 4 (0.39% <= PD < 0.90%)	2,252	232	-	2,484	2,627	144	-	2,771
Class 5 (0.90% <= PD < 2.60%)	1,107	464	-	1,571	1,714	158	-	1,872
Class 6 (2.60% <= PD < 9.00%)	318	396	-	714	626	327	-	953
Class 7 (9.00% <= PD < 30.00%)	85	292	-	377	156	306	-	462
Class 8 (30.00% <= PD < 100.00%)	18	242	-	260	21	267	-	288
Renewable limits	**123**	**74**	**-**	**197**	**163**	**78**	**-**	**241**
Class 1 (0.00% <= PD < 0.02%)	6	3	-	9	6	1	-	7
Class 2 (0.02% <= PD < 0.11%)	29	11	-	40	39	11	-	50
Class 3 (0.11% <= PD < 0.35%)	41	20	-	61	53	23	-	76
Class 4 (0.35% <= PD < 0.89%)	32	16	-	48	36	14	-	50
Class 5 (0.89% <= PD < 2.00%)	10	9	-	19	16	13	-	29
Class 6 (2.00% <= PD < 4.80%)	5	6	-	11	10	9	-	19
Class 7 (4.80% <= PD < 100.00%)	-	9	-	9	3	7	-	10
Total individual client segment	**62,718**	**9,843**	**-**	**72,561**	**63,035**	**7,145**	**-**	**70,180**

(in millions of PLN)

Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Corporate clients	**22,777**	**3,856**	**-**	**26,633**	**22,226**	**3,236**	**-**	**25,462**
Class 1 (0.00% <= PD < 0.14%)	122	-	-	122	274	1	-	275
Class 2 (0.14% <= PD < 0.25%)	1,010	4	-	1,014	1,881	4	-	1,885
Class 3 (0.25% <= PD < 0.42%)	2,518	5	-	2,523	3,964	162	-	4,126
Class 4 (0.42% <= PD < 0.77%)	5,847	64	-	5,911	6,078	130	-	6,208
Class 5 (0.77% <= PD < 1.42%)	5,556	735	-	6,291	4,813	270	-	5,083
Class 6 (1.42% <= PD < 2.85%)	2,468	578	-	3,046	3,178	540	-	3,718
Class 7 (2.85% <= PD < 6.00%)	3,970	802	-	4,772	566	218	-	784
Class 8 (6.00% <= PD < 12.00%)	1,264	1,517	-	2,781	1,331	1,685	-	3,016
Class 9 (12.00% <= PD < 100.00%)	22	151	-	173	141	226	-	367
Small and medium-sized enterprises (SMEs)	**2,382**	**344**	**-**	**2,726**	**2,977**	**397**	**-**	**3,374**
Class 1 (0.00% <= PD < 0.06%)	16	-	-	16	20	-	-	20
Class 2 (0.06% <= PD < 0.14%)	192	2	-	194	225	-	-	225
Class 3 (0.14% <= PD < 0.35%)	623	37	-	660	773	53	-	826
Class 4 (0.35% <= PD < 0.88%)	645	59	-	704	818	70	-	888
Class 5 (0.88% <= PD < 2.10%)	484	80	-	564	610	68	-	678
Class 6 (2.10% <= PD < 4.00%)	241	56	-	297	258	37	-	295
Class 7 (4.00% <= PD < 7.00%)	93	45	-	138	104	42	-	146
Class 8 (7.00% <= PD < 12.00%)	59	26	-	85	68	46	-	114
Class 9 (12.00% <= PD < 22.00%)	15	16	-	31	84	29	-	113
Class 10 (22.00% <= PD < 100.00%)	14	23	-	37	17	52	-	69
Total corporate segment	**25,159**	**4,200**	**-**	**29,359**	**25,203**	**3,633**	**-**	**28,836**

Local government units (unimpaired) covered by the rating model – gross carrying amount	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Class 1 (0.00% <= PD < 0.04%)	6	-	-	6	19	-	-	19
Class 2 (0.04% <= PD < 0.06%)	223	-	-	223	241	-	-	241
Class 3 (0.06% <= PD < 0.13%)	84	-	-	84	136	-	-	136
Class 4 (0.13% <= PD < 0.27%)	377	-	-	377	508	-	-	508
Class 5 (0.27% <= PD < 0.50%)	319	-	-	319	337	-	-	337
Class 6 (0.50% <= PD < 0.80%)	466	-	-	466	582	-	-	582
Class 7 (0.80% <= PD < 1.60%)	130	-	-	130	103	-	-	103
Class 8 (1.60% <= PD < 100.00%)	-	-	-	-	6	-	-	6
Total local government units	**1,605**	**-**	**-**	**1,605**	**1,932**	**-**	**-**	**1,932**

Portfolio of specialized lending exposures within the meaning of CRR Regulation – unimpaired – by supervisory classes – gross carrying amount	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
High	449	-	-	449	655	-	-	655
Good	2,475	1,911	-	4,386	4,174	-	-	4,174
Satisfactory	105	842	-	947	298	609	-	907
Poor	-	-	-	-	-	55	-	55
Total	**3,029**	**2,753**	**-**	**5,782**	**5,127**	**664**	**-**	**5,791**

(in millions of PLN)

Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Class 1	4	4	-	8	6	-	-	6
Class 2	12	9	-	21	23	4	-	27
Class 3	110	22	-	132	331	9	-	340
Class 4	283	188	-	471	381	15	-	396
Class 5	-	12	-	12	7	14	-	21
Total	**409**	**235**	**-**	**644**	**748**	**42**	**-**	**790**

Pekao's portfolio	31 December 2020			31 December 2019		
	Gross carrying amount	Write-off	Net carrying amount	Gross carrying amount	Write-off	Net carrying amount
Exposures without recognized impairment	140,153	(1,529)	138,624	137,985	(921)	137,064
Portfolio covered by the rating model for the individual client segment	72,561	(635)	71,926	70,180	(473)	69,707
Mortgage loans	61,289	(253)	61,036	58,022	(161)	57,861
Cash (consumer) loans	11,075	(378)	10,697	11,917	(308)	11,609
Renewable limits	197	(4)	193	241	(4)	237
Portfolio covered by the rating model for the corporate segment	29,359	(275)	29,084	28,836	(38)	28,798
Corporate clients	26,633	(213)	26,420	25,462	1	25,463
Small and medium-sized enterprises (SMEs)	2,726	(62)	2,664	3,374	(39)	3,335
Portfolio covered by the rating model for the local government unit segment	1,605	-	1,605	1,932	3	1,935
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	644	(4)	640	791	(3)	788
Specialized Lending exposures	5,782	(114)	5,668	5,791	(73)	5,718
Exposures not covered by the rating model	30,202	(501)	29,701	30,455	(337)	30,118
Exposures with recognized impairment	8,516	(5,595)	2,921	8,083	(5,335)	2,748
Total receivables from clients on account of impaired loans [1)]	**148,669**	**(7,124)**	**141,545**	**146,068**	**(6,256)**	**139,812**

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

(in millions of PLN)

Alior Bank

Loan receivables from clients – outstanding	31 December 2020				31 December 2019			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Retail segment	**29,535**	**1,559**	**-**	**31,094**	**27,001**	**1,360**	**-**	**28,361**
PD < 0.18%	3,364	22	-	3,386	5,002	11	-	5,013
0.18% <= PD < 0.28%	3,451	25	-	3,476	2,597	10	-	2,607
0.28% <= PD < 0.44%	3,049	24	-	3,073	2,397	8	-	2,405
0.44% <= PD < 0.85%	5,080	62	-	5,142	4,605	52	-	4,657
0.85% <= PD < 1.33%	2,927	71	-	2,998	3,063	96	-	3,159
1.33% <= PD < 2.06%	3,197	151	-	3,348	3,201	165	-	3,366
2.06% <= PD < 3.94%	4,993	391	-	5,384	2,693	193	-	2,886
3.94% <= PD < 9.10%	2,114	277	-	2,391	2,414	314	-	2,728
PD => 9.1%	1,272	536	-	1,808	1,029	511	-	1,540
No scoring	88	-	-	88	-	-	-	-
Business segment	**13,936**	**3,802**	**-**	**17,738**	**16,241**	**2,577**	**-**	**18,818**
PD < 0.28%	8	1	-	9	1	-	-	1
0.28% <= PD < 0.44%	40	1	-	41	60	4	-	64
0.44% <= PD < 0.85%	225	65	-	290	513	33	-	546
0.85% <= PD < 1.33%	2,239	100	-	2,339	1,031	48	-	1,079
1.33% <= PD < 2.06%	2,411	184	-	2,595	4,247	44	-	4,291
2.06% <= PD < 3.94%	2,399	377	-	2,776	5,813	875	-	6,688
3.94% <= PD < 9.1%	4,362	1,230	-	5,592	3,077	597	-	3,674
PD => 9.1%	2,026	1,844	-	3,870	1,497	957	-	2,454
No scoring	226	-		226	2	19		21
Total non past due receivables from clients	**43,471**	**5,361**	**-**	**48,832**	**43,242**	**3,937**	**-**	**47,179**

Past due loan receivables from clients	31 December 2020	31 December 2019
Basket 1 and Basket 2	**2,948**	**3,595**
Retail segment	1,438	1,757
Business segment	1,510	1,838
Basket 3	**2,409**	**2,416**
Retail segment	754	711
Business segment	1,655	1,705
Purchased or originated credit-impaired (POCI)	**520**	**663**
Retail segment	174	224
Business segment	346	439
Total past due assets	**5,877**	**6,674**

7.5.1.3. Application of forbearance

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

(in millions of PLN)

The PZU Group defines the list of forbearance arrangements comprising in particular:

- extending the lending period (in the form of an annex to the agreement) or signing a restructuring agreement (in the case of debt that is fully overdue), which results in reduction of the principal and interest installment;
- granting a repayment grace period;
- change of terms and conditions of the agreement allowing for lower interest or principal repayments;
- agreement subject to refinancing.

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

In the case of granting a loan moratorium period or other measures to ease the effects of the COVID-19 pandemic, the PZU Group applies an approach consistent with the regulatory guidance in this respect and does not classify such items automatically as forborne.

Loan receivables from clients	31 December 2020						31 December 2019					
			Basket 3						Basket 3			
	Basket 1	Basket 2	Individual analysis	Group analysis	POCI	Total	Basket 1	Basket 2	Individual analysis	Group analysis	POCI	Total
Measured at amortized cost												
Gross forborne exposures	1,153	1,385	1,965	1,031	2,054	7,588	396	796	1,352	701	2,232	5,477
Impairment charges	(12)	(155)	(927)	(524)	(1,509)	(3,127)	(24)	(101)	(415)	(267)	(1,456)	(2,263)
Net forborne exposures	1,141	1,230	1,038	507	545	4,461	372	695	937	434	776	3,214
Measured at fair value through profit or loss	X	X	X	X	X	1	X	X	X	X	X	1
Total	**1,141**	**1,230**	**1,038**	**507**	**545**	**4,462**	**372**	**695**	**937**	**434**	**776**	**3,215**

Movement in net carrying amount of forborne exposures	1 January – 31 December 2020	1 January – 31 December 2019
Opening balance	3,215	2,836
Value of exposures recognized in the period	3,090	1,282
Value of exposures excluded in the period	(702)	(456)
Movements in impairment losses	(761)	(136)
Other changes	(380)	(311)
Total net receivables	**4,462**	**3,215**

7.5.1.4. Credit risk arising out of investing activity

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

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

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

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

(in millions of PLN)

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

Information on the credit quality of assets related to investing activity is presented in section 38.

Exposure to credit risk

The subsequent tables present the exposure to credit risk for credit risk assets in the various categories of Fitch ratings (if there is no Fitch rating then a Standard&Poor's or EuroRating's rating is used instead). The credit risk exposure arising from repo transactions is presented as an exposure to the issuer of the securities taken as collateral.

The table does not include loan receivables from clients and receivables due under insurance contracts. This ensues from the considerable distribution of these asset portfolios meaning, among others, that a significant portion of the receivables comes from entities and private individuals that do not have ratings.

Credit risk assets as at 31 December 2020	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	57,800	71	-	-	57,871
- gross carrying amount	57,850	73	34	-	57,957
- from AAA to A	49,199	-	-	-	49,199
- from BBB to B	609	35	-	-	644
- no rating	8,042	38	34	-	8,114
- allowance for expected credit losses	(50)	(2)	(34)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	63,387	256	-	-	63,643
- from AAA to A	47,181	-	-	-	47,181
- from BBB to B	5,495	55	-	-	5,550
- no rating	10 711	201	-	-	10,912
- allowance for expected credit losses [1]	(68)	(13)			(81)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	3,566
- from AAA to A	X	X	X	X	1,999
- from BBB to B	X	X	X	X	161
- no rating	X	X	X	X	220
- assets at the client's risk	X	X	X	X	1,186
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,609	-	-	-	5,609
- gross carrying amount	5,610	-	-	-	5,610
- from AAA to A	1,156	-	-	-	1,156
- from BBB to B	328	-	-	-	328
- no rating	4,093	-	-	-	4,093
- assets at the client's risk	33	-	-	-	33
- allowance for expected credit losses	(1)	-	-	-	(1)
Loans – carrying amount	3,311	73	-	-	3,384
- gross carrying amount	3,318	79	-	-	3,397
- from BBB to B	40	-	-	-	40
- no rating	3,278	79	-	-	3,357
- allowance for expected credit losses	(7)	(6)	-	-	(13)

(in millions of PLN)

Credit risk assets as at 31 December 2020	Basket 1	Basket 2	Basket 3	POCI	Total
Derivatives	X	X	X	X	6,339
- from AAA to A	X	X	X	X	4,718
- from BBB to B	X	X	X	X	485
- no rating	X	X	X	X	1,108
- assets at the client's risk	X	X	X	X	28
Reinsurers' share in claims provisions	X	X	X	X	1,176
- from AAA to A	X	X	X	X	1022
- from BBB to B	X	X	X	X	1
- no rating	X	X	X	X	153
Reinsurance receivables	X	X	X	X	55
- from AAA to A	X	X	X	X	35
- no rating	X	X	X	X	20
Total	**130,107**	**400**	**-**	**-**	**141,643**

Credit risk assets as at 31 December 2019	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	35,581	349	-	-	35,930
- gross carrying amount	35,614	368	34	-	36,016
- from AAA to A	29,402	-	-	-	29,402
- from BBB to B	994	36	-	-	1,030
- no rating	5,218	332	34	-	5,584
- allowance for expected credit losses	(33)	(19)	(34)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	54,537	156	-	-	54,693
- from AAA to A	43,737	-	-	-	43,737
- from BBB to B	4,505	74	-	-	4,579
- no rating	6,295	82	-	-	6,377
- allowance for expected credit losses [1)]	(41)	(2)	-	-	(43)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	4,602
- from AAA to A	X	X	X	X	3,209
- from BBB to B	X	X	X	X	234
- no rating	X	X	X	X	43
- assets at the client's risk	X	X	X	X	1,116
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,517	1	-	-	5,518
- gross carrying amount	5,519	1	-	-	5,520
- from AAA to A	1,481	1	-	-	1,482
- from BBB to B	451	-	-	-	451
- no rating	3,538	-	-	-	3,538
- assets at the client's risk	49	-	-	-	49
- allowance for expected credit losses	(2)	-	-	-	(2)
Loans – carrying amount	4,490	-	-	-	4,490
- gross carrying amount	4,517	-	-	-	4,517
- from BBB to B	699	-	-	-	699
- no rating	3,818	-	-	-	3,818
- allowance for expected credit losses	(27)	-	-	-	(27)
Derivatives	X	X	X	X	3,107
- from AAA to A	X	X	X	X	2,019
- from BBB to B	X	X	X	X	374
- no rating	X	X	X	X	671
- assets at the client's risk	X	X	X	X	43

(in millions of PLN)

Credit risk assets as at 31 December 2019	Basket 1	Basket 2	Basket 3	POCI	Total
Reinsurers' share in claims provisions	X	X	X	X	1,000
- from AAA to A	X	X	X	X	792
- from BBB to B	X	X	X	X	1
- no rating	X	X	X	X	207
Reinsurance receivables	X	X	X	X	58
- from AAA to A	X	X	X	X	39
- no rating	X	X	X	X	19
Total	**100,125**	**506**	**-**	**-**	**109,398**

[1] The allowance is recognized in the revaluation reserve and does not lower the carrying amount of assets.

7.5.1.5. Reinsurer's credit risk in insurance activity

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

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

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

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2020	Best A.M.'s rating as at 31 December 2020 [2]
Reinsurer 1	218	A+
Reinsurer 2	170	no rating
Reinsurer 3	135	A+
Reinsurer 4	104	A++
Reinsurer 5	98	A+
Reinsurer 6	66	A+
Reinsurer 7	55	A+
Reinsurer 8	47	A+
Reinsurer 9	45	AA-
Reinsurer 10	44	AA-
Others, including: [1]	1,119	
With investment-grade rating	979	BBB- or better
With sub-investment grade rating or unrated	140	BB+ or worse or unrated
Total	**2,101**	

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

(in millions of PLN)

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2019	Standard&Poor's rating as at 31 December 2019 [2]
Reinsurer 1	213	A+
Reinsurer 2	189	no rating
Reinsurer 3	93	AA-
Reinsurer 4	88	AA-
Reinsurer 5	59	AA+
Reinsurer 6	50	A+
Reinsurer 7	49	AA-
Reinsurer 8	47	A
Reinsurer 9	43	AA-
Reinsurer 10	42	AA-
Others, including: [1]	983	
With investment-grade rating	834	BBB- or better
With sub-investment grade rating or unrated	149	BB+ or worse or unrated
Total	**1,856**	

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

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

7.5.1.6. Risk concentration in credit risk

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

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

Industry segment	31 December 2020	31 December 2019
Public administration and defense	14.54%	30.54%
Financial and insurance activities	12.83%	9.81%
Manufacturing	16.09%	13.20%
Wholesale and retail trade; repair of motor vehicles	12.70%	11.29%
Real estate activities	8.78%	8.07%
Construction	5.89%	4.79%
Transportation and storage	5.47%	4.62%
Production and supply of electricity, gas, steam, hot water	4.79%	4.50%
Information and communication	2.59%	2.33%
Other professional, scientific and technical activity	6.79%	2.56%
Mining and quarrying	1.19%	1.01%
Other sectors	8.34%	7.28%
Total	**100.00%**	**100.00%**

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

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

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

PZU Group manages its actuarial risk among others through:

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

Calculation and monitoring of adequacy of technical provisions

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

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

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

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

(in millions of PLN)

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

Tariff strategy and monitoring of premium adequacy

The objective of the tariff policy is to guarantee adequate level of premium (sufficient to cover current and future liabilities under in-force policies and expenditures). Along with developing a premium tariff or tariff changes, simulations are conducted with regard to the projected impact of the changes on the future results. Additionally, regular premium adequacy and portfolio profitability studies are carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given reporting period. The frequency of analyses is adjusted to the materiality of the product and possible fluctuations of its result. If the insurance history is permanently unfavorable then measures are taken to restore the specified profitability level, which involve e.g. adjustment of the premium tariffs, change of the underwriting rules, modification of reinsurance contracts or change of the insured risk profile, through amendments to general terms of insurance.

Underwriting

In the case of corporate clients the underwriting area functions regardless of the sales area, which means that the risk assessment and acceptance rules and the authority levels are defined in the area of underwriting. The process of selling insurance to corporate clients is preceded by a risk analysis and assessment carried out by the sales teams, within the powers they hold. For risks lying beyond the powers of the sales area, underwriting decisions are made by dedicated underwriting teams.

Reinsurance

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

PZU Group limits its risk among others by way of:

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

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

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

Key cost ratios in non-life insurance	**1 January – 31 December 2020**	**1 January – 31 December 2019**
Expense ratio	26.27%	25.80%
Net loss ratio	61.31%	62.10%
Reinsurer's retention ratio	6.78%	6.53%
Combined ratio	87.58%	87.90%

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

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

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

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

(in millions of PLN)

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

Claims development in direct non-life insurance, gross (by reporting period)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Provision at the end of the reporting period	9,870	10,989	11,783	13,312	13,163	13,181	13,990	14,975	15,627	16,540
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
- calculated 1 year later	10,298	11,286	12,241	13,032	12,908	13,353	14,251	14,929	15,833	
- calculated 2 years later	10,753	11,958	12,180	12,719	12,922	13,500	14,281	15,008		
- calculated 3 years later	11,590	11,973	12,080	12,822	13,135	13,518	14,438			
- calculated 4 years later	11,738	11,910	12,172	13,089	13,183	13,686				
- calculated 5 years later	11,702	12,067	12,439	13,172	13,353					
- calculated 6 years later	11,871	12,340	12,536	13,356						
- calculated 7 years later	12,184	12,421	12,713							
- calculated 8 years later	12,282	12,598								
- calculated 9 years later	12,442									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	12,442	12,598	12,713	13,356	13,353	13,686	14,438	15,008	15,833	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	7,584	7,422	7,130	7,119	6,512	5,986	5,463	4,435	2,843	
Provision recognized in the statement of financial position	4,858	5,176	5,583	6,237	6,841	7,700	8,975	10,573	12,990	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(2,572)	(1,609)	(930)	(44)	(190)	(505)	(448)	(33)	(206)	
The above difference as % of provision at the end of the first year	-26%	-15%	-8%	0%	-1%	-4%	-3%	0%	-1%	

(in millions of PLN)

Claims development in direct non-life insurance, net of reinsurance (by reporting period)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Provision at the end of the reporting period	9,305	10,413	11,453	12,814	12,653	12,559	12,880	13,484	13,933	14,545
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
- calculated 1 year later	9,731	10,722	11,787	12,525	12,355	12,576	13,066	13,362	13,952	
- calculated 2 years later	10,185	11,282	11,704	12,201	12,278	12,664	13,005	13,393		
- calculated 3 years later	10,947	11,278	11,599	12,224	12,473	12,615	13,112			
- calculated 4 years later	11,071	11,215	11,642	12,481	12,463	12,758				
- calculated 5 years later	11,047	11,326	11,891	12,515	12,623					
- calculated 6 years later	11,167	11,581	11,938	12,689						
- calculated 7 years later	11,449	11,624	12,109							
- calculated 8 years later	11,512	11,794								
- calculated 9 years later	11,664									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	11,664	11,794	12,109	12,689	12,623	12,758	13,112	13,393	13,952	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	7,030	6,892	6,852	6,789	6,170	5,547	4,856	3,650	2,396	
Provision recognized in the statement of financial position	4,634	4,902	5,257	5,900	6,453	7,211	8,256	9,743	11,556	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(2,359)	(1,381)	(656)	125	30	(199)	(232)	91	(19)	
The above difference as % of provision at the end of the first year	-25%	-13%	-6%	1%	0%	-2%	-2%	1%	0%	

(in millions of PLN)

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

Risk concentration in non-life insurance

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

Exposure to catastrophic losses in property insurance	Sum insured (in PLN m) 31 December 2020							Sum insured (in PLN m) 31 December 2019						
	0-0.2	0.2 - 0.5	0.5 - 2	2 – 10	10 - 50	over 50	Total	0-0.2	0.2 - 0.5	0.5 - 2	2 – 10	10 - 50	over 50	Sum
Dolnośląskie	0.9%	1.3%	1.2%	0.5%	0.4%	1.7%	**6.0%**	1.1%	1.5%	1.2%	0.6%	0.4%	2.1%	**6.9%**
Kujawsko-Pomorskie	0.5%	0.6%	0.5%	0.3%	0.3%	1.1%	**3.3%**	0.6%	0.7%	0.5%	0.4%	0.3%	1.4%	**3.9%**
Lubelskie	0.5%	0.6%	0.2%	0.1%	0.1%	1.6%	**3.1%**	0.6%	0.6%	0.3%	0.2%	0.1%	1.8%	**3.6%**
Lubuskie	0.2%	0.3%	0.2%	0.1%	0.1%	0.5%	**1.4%**	0.3%	0.3%	0.2%	0.2%	0.1%	0.4%	**1.5%**
Łódzkie	0.6%	0.9%	0.6%	0.3%	0.2%	5.3%	**7.9%**	0.7%	1.0%	0.7%	0.3%	0.3%	4.9%	**7.9%**
Małopolskie	0.7%	1.4%	0.8%	0.4%	0.4%	1.4%	**5.1%**	0.8%	1.6%	0.9%	0.5%	0.4%	1.7%	**5.9%**
Mazowieckie	1.5%	2.4%	2.0%	0.8%	0.9%	9.4%	**17.0%**	1.7%	2.5%	2.1%	0.9%	1.0%	9.6%	**17.8%**
Opolskie	0.2%	0.4%	0.3%	0.1%	0.1%	1.4%	**2.5%**	0.3%	0.4%	0.3%	0.1%	0.1%	1.2%	**2.4%**
Podkarpackie	0.5%	0.8%	0.3%	0.2%	0.2%	1.3%	**3.3%**	0.6%	0.8%	0.3%	0.2%	0.2%	0.8%	**2.9%**
Podlaskie	0.3%	0.4%	0.3%	0.1%	0.2%	0.5%	**1.8%**	0.3%	0.4%	0.3%	0.2%	0.1%	0.3%	**1.6%**
Pomorskie	0.5%	0.9%	0.8%	0.4%	0.5%	6.0%	**9.1%**	0.6%	0.9%	0.8%	0.5%	0.5%	3.8%	**7.1%**
Śląskie	1.0%	1.4%	0.9%	0.5%	0.3%	4.3%	**8.4%**	1.2%	1.5%	0.9%	0.5%	0.3%	3.3%	**7.7%**
Świętokrzyskie	0.3%	0.4%	0.2%	0.1%	0.1%	1.1%	**2.2%**	0.4%	0.5%	0.2%	0.1%	0.1%	0.8%	**2.1%**
Warmińsko-Mazurskie	0.3%	0.4%	0.3%	0.2%	0.1%	1.2%	**2.5%**	0.4%	0.4%	0.3%	0.2%	0.1%	0.6%	**2.0%**
Wielkopolskie	1.0%	1.6%	1.2%	0.6%	0.5%	2.0%	**6.9%**	1.1%	1.6%	1.3%	0.7%	0.6%	3.0%	**8.3%**
Zachodniopomorskie	0.3%	0.4%	0.4%	0.3%	0.3%	5.2%	**6.9%**	0.3%	0.4%	0.4%	0.4%	0.4%	2.8%	**4.7%**
Lithuania and Estonia	0.6%	1.7%	2.5%	0.8%	1.0%	2.1%	**8.7%**	0.8%	1.8%	2.5%	0.9%	1.2%	2.2%	**9.4%**
Latvia	0.1%	0.6%	0.8%	0.4%	0.4%	0.5%	**2.8%**	0.1%	0.6%	0.8%	0.4%	0.4%	0.8%	**3.1%**
Ukraine	0.0%	0.0%	0.0%	0.1%	0.1%	0.5%	**0.7%**	0.1%	0.0%	0.1%	0.1%	0.1%	0.6%	**1.0%**
Norway	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	**0.4%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**0.2%**
Total	**10.0%**	**16.5%**	**13.5%**	**6.3%**	**6.2%**	**47.5%**	**100.0%**	**12.0%**	**17.5%**	**14.1%**	**7.4%**	**6.7%**	**42.3%**	**100.0%**

(in millions of PLN)

Capitalized annuities

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

Impact of the change in assumptions regarding the provision for the capitalized value of annuities in non-life insurance on the net financial result and equity	31 December 2020		31 December 2019	
	Gross	net	gross	net
Technical rate - increase by 0.5 p.p.	457	427	441	416
Technical rate - decrease by 1.0 p.p.	(1,180)	(1,104)	(1,141)	(1,080)
Mortality at 110% of the assumed rate	134	129	134	128
Mortality at 90% of the assumed rate	(151)	(143)	(149)	(143)

7.5.2.2. Exposure to insurance risk – life insurance

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

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

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

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

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

Annuity products in life insurance

Impact of the change in assumptions in annuity life insurance on the net financial result and equity	31 December 2020	31 December 2019
Technical rate - decrease by 1.0 p.p.	(20)	(22)
Mortality at 90% of the assumed rate	(9)	(10)

(in millions of PLN)

Life insurance products excluding annuity products

Impact of the change in assumptions in life insurance, excluding provisions in annuity products, on the net financial result and equity	31 December 2020	31 December 2019
Technical rate - decrease by 1.0 p.p.	(2,491)	(1,976)
Mortality at 110% of the assumed rate	(896)	(850)
Morbidity and accident rate – 110% of the assumed rate	(205)	(138)

Effects of lapses in life insurance

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

Item in financial statements	31 December 2020	31 December 2019
Movement in technical provisions	2,213	2,186
Claims paid	(860)	(835)
Movement in deferred acquisition cost	(11)	(12)
Gross financial result	1,342	1,339
Net financial result and equity	1,087	1,085

7.5.3. Market risk

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

Market risk types in the PZU Group include:

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

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

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

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

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

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

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

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

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

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

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

(in millions of PLN)

Exposure to market risk

Carrying amount	Note	31 December 2020				31 December 2019			
		Assets at Group's risk	including banks' assets	Assets at the client's risk	Total	Assets at Group's risk	including banks' assets	Assets at the client's risk	Total
Financial assets and cash exposed to interest rate risk		**343,532**	**298,283**	**1,221**	**344,753**	**309,124**	**267,846**	**1,167**	**310,291**
Fixed-income debt securities	36	99,459	64,231	1,142	100,601	62,965	32,858	1,101	64,066
Variable-income debt securities	36	24,436	22,633	43	24,479	31,144	29,494	15	31,159
Loan receivables from clients	34	197,288	197,288	-	197,288	194,868	194,868	-	194,868
Term deposits in credit institutions	36	919	516	33	952	1,405	599	49	1,454
Loans	36	3,384	-	-	3,384	4,490	-	-	4,490
Cash	39	7,936	7,040	3	7,939	7,786	6,759	2	7,788
Buy-sell-back transactions	36	4,657	1,127	-	4,657	4,064	897	-	4,064
Derivatives	35	5,453	5,448	-	5,453	2,402	2,371	-	2,402
Financial assets exposed to other price risk		**2,676**	**1,486**	**5,059**	**7,735**	**2,163**	**1,079**	**4,725**	**6,888**
Equity instruments	36	1,818	636	5,031	6,849	1,501	486	4,682	6,183
Derivatives	35	858	850	28	886	662	593	43	705
Total		**346,208**	**299,769**	**6,280**	**352,488**	**311,287**	**268,925**	**5,892**	**317,179**

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

Financial assets of banks and financial assets at client's risk	Note	31 December 2020		31 December 2019	
		Pekao and Alior Bank	Financial assets at client's risk	Pekao and Alior Bank	Financial assets at client's risk
Loan receivables from clients	**34**	**197,288**	**-**	**194,868**	**-**
Financial derivatives		**6,298**	**28**	**2,964**	**43**
Investment financial assets		**89,143**	**6,249**	**64,334**	**5,847**
Measured at amortized cost		37,321	33	21,130	49
Debt securities		35,678	-	19,634	-
Sovereign Debt		29,806	-	13,944	-
Domestic		29,806	-	13,944	-
Fixed rate		26,965	-	11,094	-
Floating rate		2,841	-	2,850	-
Other		5,872	-	5,690	-
Fixed rate		2,128	-	797	-
Floating rate		3,744	-	4,893	-
Buy-sell-back transactions		1,127	-	897	-
Term deposits in credit institutions		516	33	599	49

(in millions of PLN)

Financial assets of banks and financial assets at client's risk	Note	31 December 2020		31 December 2019	
		Pekao and Alior Bank	Financial assets at client's risk	Pekao and Alior Bank	Financial assets at client's risk
Measured at fair value through other comprehensive income		50,131	-	41,605	-
Equity instruments		396	-	276	-
Debt securities		49,735	-	41,329	-
Government securities		37,248	-	26,960	-
Domestic		37,248	-	26,960	-
Fixed rate		29,254	-	14,525	-
Floating rate		7,994	-	12,435	-
Other		12,487	-	14,369	-
Fixed rate		4,764	-	6,186	-
Floating rate		7,723	-	8,183	-
Measured at fair value through profit or loss		1,691	6,216	1,599	5,798
Equity instruments		232	376	181	378
Participation units and investment certificates		8	4,655	29	4,304
Debt securities		1,451	1,185	1,389	1,116
Government securities		1,415	1,145	1,226	1,101
Domestic		1,415	1,139	1,226	1,096
Fixed rate		1,117	1,136	247	1,096
Floating rate		298	3	979	-
Foreign		-	6	-	5
Fixed rate		-	6	-	5
Other		36	40	163	15
Fixed rate		3	-	9	-
Floating rate		33	40	154	15
Cash		**7,040**	**3**	**6,759**	**2**
Total financial assets of banks and financial assets at client's risk		**299,769**	**6,280**	**268,925**	**5,892**

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

The PZU Group's exposure to derivatives is presented in section 35.

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	31 December 2020	31 December 2019
Lithuania	910	756
Romania	221	134
Croatia	173	132
Latvia	169	149
Hungary	144	57
Ukraine	132	130
Indonesia	129	86
Columbia	104	83
Russia	100	70
Bulgaria	90	74
Brazil	83	80
Panama	78	74
Mexico	68	18
Kazakhstan	62	41
Peru	58	46
Saudi Arabia	57	27
South Africa	55	52
Uruguay	55	50
Dominican Republic	53	56
Other	328 [1)]	328 [2)]
Total	**3,069**	**2,443**

[1)] The line item "Other" includes bonds issued by 41 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 40 countries.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	31 December 2020	31 December 2019
Foreign banks	7,069	4,717
Domestic local governments	5,859	6,199
National Bank of Poland	2,275	4,815
Companies from the WIG-Energy Index	1,732	2,375
Energy and fuel sector companies (including: Companies from the WIG-Fuels Index)	1,324	651
Financial and insurance services	793	761
Transportation and storage	603	615
Companies included in the WIG-Banks Index	555	558
Manufacturing	482	1,163
Construction and real estate market service	481	479
Public utility services	382	410
Arts, entertainment and recreation (including: WIG | hotels and restaurants)	365	315
Information and communication (including: WIG | Telecommunications)	307	201
Mining and quarrying (including companies included in the WIG-Mining index)	252	353
Other professional, scientific and technical activity	184	410
Other	92	147
Total	**22,755**	**24,169**

(in millions of PLN)

7.5.3.1. Interest rate risk

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

Change in portfolio value caused by a +/-100 bp shift in the yield curve, by currency of the instrument	31 December 2020		31 December 2019	
	decrease	increase	decrease	increase
Polish zloty	3,307	(3,163)	2,090	(1,982)
Euro	34	(30)	16	(16)
US dollar	183	(163)	127	(111)
other	(9)	8	(9)	8
Total	**3,515**	**(3,348)**	**2,224**	**(2,101)**

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

The exposures to interest rate risk and the level of the recorded net interest income in 2020 was significantly impacted by the series of significant interest rate cuts by NBP and increase in the liquidity of the banking sector in response to the developing COVID-19 pandemic. To secure the current accounts and protect the net interest income, the PZU Group continued to pursue its hedging strategy through concluding IRS transactions and purchase of fixed-coupon bonds.

In connection with taking into account the current interest rate levels in the business processes, in the short term the risk associated with low interest rates in the PZU Group's insurance segment is not perceived as significant. The risk is monitored and analyzed on an ongoing basis to ensure proper adaptation of the investment portfolio structure.

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

Entity	Measure	31 December 2020		31 December 2019	
		decrease	increase	decrease	increase
Pekao Group	NII	-6.31%	1.99%	-6.98%	4.08%
	EVE	2.76%	-7.10%	1.61%	-3.04%
Alior Bank Group	NII	-13.09%	1.84%	-9.30%[1)]	3.14%
	EVE	-0.14%	-1.03%	-1.70%	1.35%

[1)] due to the reconstruction of the interest rate risk appetite in September 2020, the data were brought to comparability

(in millions of PLN)

7.5.3.2. Foreign exchange risk

Exposure to FX risk

Assets by currency	31 December 2020					31 December 2019				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Loan receivables from clients	163,264	28,498	1,617	3,909 [1)]	197,288	163,827	25,914	1,423	3,704 [2)]	194,868
Financial derivatives	5,796	374	165	4	6,339	2,626	368	110	3	3,107
Investment financial assets	123,250	7,243	9,374	1,055	140,922	97,050	7,427	5,748	1,191	111,416
Measured at amortized cost	65,120	1,271	205	268	66,864	43,587	1,643	278	430	45,938
Debt securities	57,056	695	5	115	57,871	34,837	969	1	123	35,930
Government securities	50,374	138	5	115	50,632	28,975	88	1	123	29,187
Other	6,682	557	-	-	7,239	5,862	881	-	-	6,743
Buy-sell-back transactions	4,657	-	-	-	4,657	4,064	-	-	-	4,064
Term deposits in credit institutions	576	183	40	153	952	885	175	87	307	1,454
Loans	2,831	393	160	-	3,384	3,801	499	190	-	4,490
Measured at fair value through other comprehensive income	49,915	5,189	8,417	727	64,248	44,523	5,006	4,965	717	55,211
Equity instruments	569	36	-	-	605	504	14	-	-	518
Debt securities	49,346	5,153	8,417	727	63,643	44,019	4,992	4,965	717	54,693
Government securities	38,884	3,749	5,617	-	48,250	30,774	3,600	3,099	3	37,476
Other	10,462	1,404	2,800	727	15,393	13,245	1,392	1,866	714	17,217
Measured at fair value through profit or loss	8,215	783	752	60	9,810	8,940	778	505	44	10,267
Equity instruments	701	15	207	23	946	567	140	114	24	845
Participation units and investment certificates	4,200	730	341	27	5,298	3,954	604	243	19	4,820
Debt securities	3,314	38	204	10	3,566	4,419	34	148	1	4,602
Government securities	3,240	25	168	10	3,443	4,250	19	123	1	4,393
Other	74	13	36	-	123	169	15	25	-	209
Receivables	5,044	1,006	102	94	6,246	4,125	1,404	110	98	5,737
Cash and cash equivalents	3,654	1,810	1,290	1,185 [3)]	7,939	4,973	1,542	482	791 [4)]	7,788
Total assets	**301,008**	**38,931**	**12,548**	**6,247**	**358,734**	**272,601**	**36,655**	**7,873**	**5,787**	**322,916**

[1)] of which PLN 2,617 million in Swiss francs and PLN 611 million in British pounds.

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

[3)] of which PLN 317 million in British pounds, PLN 284 million in Norwegian kroner, PLN 186 million in Swiss francs, PLN 82 million in Swedish kronor, PLN 68 million in Romanian leu and PLN 60 million in Danish kroner.

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

(in millions of PLN)

Liabilities by currency	31 December 2020					31 December 2019				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Subordinated liabilities	6,632	47	-	-	6,679	6,656	44	-	-	6,700
Liabilities on the issue of own debt securities	7,084	429	19	-	7,532	9,006	229	38	-	9,273
Liabilities to banks	5,392	4,171	18	170 [1)]	9,751	3,120	3,242	19	223 [2)]	6,604
Liabilities to clients under deposits	203,273	22,631	12,802	3,269 [3)]	241,975	182,288	22,150	11,123	3,027 [4)]	218,588
Financial derivatives	5,528	501	244	8	6,281	2,529	378	106	5	3,018
Other liabilities	10,661	1,266	418	89	12,434	8,902	1,251	347	99	10,599
Total liabilities by currency	**238,570**	**29,045**	**13,501**	**3,536**	**284,652**	**212,501**	**27,294**	**11,633**	**3,354**	**254,782**

[1)] of which PLN 153 million in Swiss francs.

[2)] of which PLN 187 million in Swiss francs.

[3)] of which PLN 1,740 million in British pounds, PLN 760 million in Swiss francs, PLN 236 million in Norwegian kroner, PLN 134 million in Swedish kronor, PLN 108 million in Canadian dollars, PLN 64 million in Australian dollars, PLN 47 million in Russian ruble, PLN 32 million in Romanian leu, PLN 30 in Czech korunas and PLN 26 million in Japanese yen.

[4)] of which PLN 1,532 million in British pounds, PLN 648 million in Swiss francs, PLN 234 million in Norwegian kroner, PLN 147 million in Swedish kronor, PLN 86 million in Canadian dollars, PLN 48 million in Czech korunas and PLN 121 million in Japanese yen.

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

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

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

Change in portfolio value caused by a +/-20% change of the exchange rate	31 December 2020		31 December 2019	
	decrease	increase	decrease	increase
EUR	(700)	724	(598)	643
USD	(74)	68	(51)	59
GBP	4	(4)	7	(7)
Other	(49)	50	(52)	52
Total	**(819)**	**838**	**(694)**	**747**

7.5.3.3. Equities prices risk

Level of risk exposure

The value of the portfolio of equity financial instruments is presented in section 36.2.

Sensitivity analysis

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

Impact of a change in the measurement of quoted equity instruments on equity	31 December 2020	31 December 2019
increase in measurement of quoted equity instruments by 20%	122	112
decrease in measurement of quoted equity instruments by 20%	(122)	(112)

7.5.4. Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

The following measures aim to reduce financial liquidity risk:

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

- centralization of management of portfolios/funds by TFI PZU;
- limits of liquidity ratios in the banks belonging to the PZU Group.

In connection with the COVID-19 pandemic banks experienced overliquidity in 2020. The pandemic caused a major disruption of the existing simple model involving transfer of funds from bank deposits to finance the economy. In the banks' balance sheets, the inflow of deposits currently remains undisrupted but the outflow is not routed mainly to finance the economy but to purchase of securities issued and guaranteed by the State Treasury. This results in an increase of debt securities and, consequently, which causes an increase in liquidity, in the banks' balance sheets. Reduction of the lending activity results from the banks' restrictive lending policy and, at the same time, clients' aversion to incurring debt in unpredictable conditions. The banks' liquidity situation was additionally strengthened by the reduction of the NBP reserve requirement from 3.5% to 0.5% as of the end of April 2020.

The impact of the COVID-19 pandemic on the liquidity of the PZU Group's insurance segment in 2020 should be classified as low. An increase in the number of deaths (mortality rate) was observed, which could result from, among other things, the hindered access to health care and Covid-19 related complications. However this did not significantly impact PZU Group's liquidity risk. In 2020 there were no grounds to take extraordinary management actions regarding liquidity risk in connection with the COVID-19 pandemic. As part of routine management actions regarding liquidity risk in 2020, the PZU Group constantly monitored the level of available liquid funds and the utilization of liquidity limits.

(in millions of PLN)

Risk exposure

Carrying amount of debt instruments, by maturity	31 December 2020							31 December 2019						
	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Over 5 years	Total
Loan receivables from clients	51,145	23,135	18,113	16,480	13,230	75,185	197,288	53,167	19,432	18,451	14,267	14,130	75,421	194,868
Investment (deposit) debt instruments	25,253	21,159	12,116	17,928	13,143	44,474	134,073	16,298	15,935	13,048	9,315	15,156	35,481	105,233
Measured at amortized cost	11,138	9,702	6,493	7,446	6,418	25,667	66,864	7,884	3,526	4,908	5,170	6,675	17,775	45,938
Debt securities	5,558	9,515	6,289	5,563	5,996	24,950	57,871	2,347	3,470	3,950	4,259	4,510	17,394	35,930
Government securities	4,555	9,124	5,764	4,736	5,234	21,219	50,632	1,581	2,770	3,377	3,296	3,815	14,348	29,187
Other	1,003	391	525	827	762	3,731	7,239	766	700	573	963	695	3,046	6,743
Buy-sell-back transactions	4,657	-	-	-	-	-	4,657	4,064	-	-	-	-	-	4,064
Term deposits in credit institutions	923	15	5	9	-	-	952	1,398	56	-	-	-	-	1,454
Loans	-	172	199	1,874	422	717	3,384	75	-	958	911	2,165	381	4,490
Measured at fair value through other comprehensive income	13,777	10,798	4,937	9,930	6,190	18,011	63,643	8,221	10,847	7,504	3,568	7,851	16,702	54,693
Government securities	7,471	9,817	3,559	8,757	4,762	13,884	48,250	2,590	6,742	6,958	2,735	6,281	12,170	37,476
Other	6,306	981	1,378	1,173	1,428	4,127	15,393	5,631	4,105	546	833	1,570	4,532	17,217
Measured at fair value through profit or loss	338	659	686	552	535	796	3,566	193	1,562	636	577	630	1,004	4,602
Government securities	323	653	679	523	520	745	3,443	73	1,549	629	573	607	962	4,393
Other	15	6	7	29	15	51	123	120	13	7	4	23	42	209
Total	**76,398**	**44,294**	**30,229**	**34,408**	**26,373**	**119,659**	**331,361**	**69,465**	**35,367**	**31,499**	**23,582**	**29,286**	**110,902**	**300,101**

(in millions of PLN)

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

Liquidity risk	31 December 2020								31 December 2019 (restated)							
	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 10 years	Over 10 years	Total	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 10 years	Over 10 years	Total
Assets	**130,075**	**41,146**	**32,990**	**30,064**	**19,290**	**60,340**	**58,889**	**372,794**	**101,092**	**34,483**	**34,809**	**25,583**	**28,717**	**64,451**	**54,939**	**344,074**
Cash and cash equivalents	7,232	50	35	28	24	84	486	7,939	3,410	151	109	90	78	290	3,694	7,822
Receivables	3,291	1,600	92	111	337	495	319	6,245	3,725	1,188	352	8	145	321	-	5,739
Loan receivables from clients	46,442	26,786	23,673	19,902	12,874	38,208	44,113	211,998	49,666	25,154	23,366	16,679	16,973	39,462	42,200	213,500
Debt securities	67,012	12,224	8,631	8,266	5,559	21,097	13,788	136,577	38,328	7,483	9,936	7,628	9,180	23,974	9,045	105,574
Loans	228	414	449	1,633	474	456	179	3,833	444	366	986	1,074	2,223	382	-	5,475
Buy-sell-back transactions	4,657	-	-	-	-	-	-	4,657	4,064	-	-	-	-	-	-	4,064
Term deposits in credit institutions	1,213	72	110	124	22	-	4	1,545	1,455	141	60	104	118	22	-	1,900
Liabilities	**(139,157)**	**(20,423)**	**(9,840)**	**(7,835)**	**(6,890)**	**(24,387)**	**(114,314)**	**(322,846)**	**(119,987)**	**(14,179)**	**(6,524)**	**(4,813)**	**(4,317)**	**(17,388)**	**(128,819)**	**(296,027)**
Technical provisions	(13,861)	(2,318)	(1,493)	(1,184)	(914)	(3,928)	(20,920)	(44,618)	(13,107)	(2,002)	(1,373)	(1,103)	(903)	(3,405)	(20,965)	(42,858)
Lease liabilities	(116)	(57)	(18)	(22)	(36)	(98)	(681)	(1,028)	(234)	(221)	(147)	(146)	(65)	(119)	(376)	(1,308)
Other liabilities	(125,180)	(18,048)	(8,329)	(6,629)	(5,940)	(20,361)	(92,713)	(277,200)	(106,646)	(11,956)	(5,004)	(3,564)	(3,349)	(13,864)	(107,478)	(251,861)
Gap	**(9,082)**	**20,723**	**23,150**	**22,229**	**12,400**	**35,953**	**(55,425)**	**49,948**	**(18,895)**	**20,304**	**28,285**	**20,770**	**24,400**	**47,063**	**(73,880)**	**48,047**

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

Off-balance sheet liabilities granted	31 December 2020						31 December 2019					
	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total
Financing	49,733	-	-	-	-	49,733	44,499	-	-	-	-	44,499
Guarantees	14,411	-	-	-	-	14,411	13,481	-	-	-	-	13,481
Total	**64,144**	**-**	**-**	**-**	**-**	**64,144**	**57,980**	**-**	**-**	**-**	**-**	**57,980**

7.5.5. Operational risk

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

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

Operational risk is identified in particular by:

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

Operational risk is assessed and measured by:

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

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

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

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

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

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.

The sales, contract administration and claims handling processes were adapted to ensure business continuity and, at the same time, safe customer service.

Despite the crisis situation, there were no major disruptions in any PZU Group companies associated with continuity of operation or client service.

7.5.6. Compliance risk

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

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

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

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

7.5.7. Model risk

Model risk, classified by the PZU Group as significant, is defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models. The formal identification and assessment process for this risk is currently being developed in PZU and PZU Życie. The process aims to ensure high quality of applied model risk management practices. The model risk management process involves:

- risk identification – taking place through regular identification of the models used in the areas covered by the process and assessment of their materiality;
- risk measurement – based on the results of independent model validations and model result monitoring;
- risk monitoring – involving ongoing analysis of deviations from the adopted points of reference regarding the model risk (among others, verification of the recommendation execution method and comparison of the risk level to the adopted tolerance level);
- risk reporting – involving communicating the process results on the appropriate management level, in particular results of risk monitoring, validation and measurement;
- management actions – aiming to mitigate the model risk level (active – e.g. recommendations resulting from completed validations – and passive – e.g. developing model and model risk management standards).

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

8. Equity management

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

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

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

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

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

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below:

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

External capital requirements

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

Pursuant to 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. For the 2020 report, the publication deadline is no later than 20 weeks after the year end, i.e. in practice until 20 May 2021. Pursuant to 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%. In 2020 the solvency ratio (standalone and consolidated alike) reported to KNF and not subject to verification by an audit firm as at the end of each quarter stayed above the level of 200%. As at the date of signing the consolidated financial statements, the calculation of the solvency ratio as at 31 December 2020 has not yet been available.

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

9. Fair value

9.1 Description of valuation techniques

9.1.1. Debt securities and loans

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

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

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

9.1.2. Equity-based financial assets

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

9.1.3. 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.

9.1.4. 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.

9.1.5. 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.

9.1.6. Property measured at fair value

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

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

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

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

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.

9.1.7. 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 historical credit spread from the issue date.

9.1.8. 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.

9.1.9. Other liabilities

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

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

9.1.9.2. Liabilities to members of consolidated mutual funds

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

9.1.9.3. Liabilities on borrowed securities

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

9.2 Fair value hierarchy

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

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives 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 indicators, including interest rate indices and exchange rates and their baskets. All separated options are offset on an ongoing basis on the interbank market. Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.
Investment property and property designated for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
	Monthly rental rate per 1 m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If historical issue spread above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

(in millions of PLN)

9.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 December 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	27,673	24,797	11,778	64,248	32,595	15,555	7,061	55,211
Equity instruments	257	1	347	605	271	1	246	518
Debt securities	27,416	24,796	11,431	63,643	32,324	15,554	6,815	54,693
Investment financial assets measured at fair value through profit or loss	3,616	5,709	485	9,810	4,985	4,996	286	10,267
Equity instruments	575	1	370	946	613	6	226	845
Participation units and investment certificates	134	5,143	21	5,298	111	4,690	19	4,820
Debt securities	2,907	565	94	3,566	4,261	300	41	4,602
Loan receivables from clients	-	-	1,662	1,662	-	-	1,624	1,624
Measured at fair value through other comprehensive income	-	-	1,475	1,475	-	-	1,381	1,381
Measured at fair value through profit or loss	-	-	187	187	-	-	243	243
Financial derivatives	-	6,246	93	6,339	4	2,985	118	3,107
Investment property	-	186	2,307	2,493	-	153	1,828	1,981
Liabilities								
Derivatives	-	6,221	60	6,281	3	2,947	68	3,018
Liabilities to members of consolidated mutual funds	-	265	-	265	-	90	-	90
Investment contracts for the client's account and risk *(unit-linked)*	-	268	-	268	-	259	-	259
Liabilities on borrowed securities (short sale)	851	-	-	851	293	-	-	293

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 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	24	16,974	28	2	4,070	6	6	99	-	198
Reclassification from Level II [1]	-	43	4	-	30	-	-	-	-	-
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	296
Profit or loss recognized in the profit and loss account:	-	181	113	-	1	25	19	30	-	229
- interest income calculated using the effective interest rate	-	172	-	-	-	-	-	30	-	-
- result on derecognition of financial instruments and investments	-	9	-	-	2	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	113	-	(1)	25	19	-	-	229
Profits or losses recognized in other comprehensive income	77	13	-	-	-	-	-	15	-	-
Sales/settlements/repayments	-	(12,536)	-	-	(4,048)	(56)	(33)	(50)	(56)	(1)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(257)
Reclassification to Level II	-	(59)	-	-	-	-	-	-	-	-
Amendments to lease contracts	-	-	-	-	-	-	-	-	-	14
Foreign exchange differences	-	-	(1)	-	-	-	-	-	-	-
As at the end of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**

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

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 2019	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
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 item 9.3.

(in millions of PLN)

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

Both in 2020 and in 2019, no changes were made in the fair value measurement method for financial instruments measured at fair value that would be of material significance for the consolidated financial statements.

9.2.1.2. Investment property classified as Level III fair value

The table below presents the key parameters used in measuring the largest investment properties (including those presented as held for sale).

All real properties classified as level III fair value were measured by the income approach using the investment method and the straight capitalization technique or using a mixed approach. That valuation employed unobservable input data such as:

- capitalization rate – determined through analysis of rates of return obtained in transactions for similar real properties;
- monthly rental rate per 1 m^2 of relevant space or per parking space

Properties classified as level III	Type of space	31 December 2020			31 December 2019		
		Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement	Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement
Investment property							
office	Office Parking	740	12.50 – 14.50 EUR 40.00 – 75.00 EUR	6.25% – 7.25%	663	12.00 – 14.50 EUR 40.00 – 70.00 EUR	6.00% – 7.50%
warehouse	Office Warehouse	1,507	8.50 – 9.00 EUR 3.30 – 3.50 EUR	5.75% – 7.00%	1,119	9.00 EUR 3.20 – 3.50 EUR	5.90% – 6.45%
other		60			46		
Total		**2,307**			**1,828**		
Investment property held for sale							
trading	Trade	162	depending on size of leased space	7.75% - 10.00%	153	depending on size of leased space	7.65% - 9.75%
warehouse	Office Warehouse	273	9.00 EUR 3.50 EUR	5.75% – 6.75%	296	9.00 EUR 3.40 – 3.50 EUR	6.50% – 6.95%
other		67			48		
Total		**502**			**497**		

Properties classified as level III	Fair value	Estimate variable	Assumed fluctuation of the estimate variable	Impact on measurement
Investment property	2,307	Capitalization rate	+ 0.25 p.p.	(97)
			- 0.25 p.p.	105
		Monthly rent rate	+ 5%	97
			- 5%	(99)
Investment property held for sale	502	Capitalization rate	+ 0.25 p.p.	(17)
			- 0.25 p.p.	19
		Monthly rent rate	+ 5%	17
			- 5%	(17)

(in millions of PLN)

9.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 December 2020					31 December 2019				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	193,609	193,609	195,637	-	-	193,964	193,964	193,244
Investment financial assets measured at amortized cost	42,591	7,450	22,845	72,886	66,864	26,032	2,149	21,742	49,923	45,938
Debt securities	42,591	6,168	15,045	63,804	57,871	26,032	1,123	12,674	39,829	35,930
Buy-sell-back transactions	-	1,000	3,657	4,657	4,657	-	738	3,326	4,064	4,064
Term deposits in credit institutions	-	282	670	952	952	-	288	1,168	1,456	1,454
Loans	-	-	3,473	3,473	3,384	-	-	4,574	4,574	4,490
Liabilities										
Liabilities to banks	-	2,504	7,140	9,644	9,751	-	897	5,728	6,625	6,604
Liabilities to clients under deposits	-	-	241,171	241,171	241,975	-	-	219,233	219,233	218,588
Liabilities on the issue of own debt securities [1])	-	6,423	1,130	7,553	7,532	-	6,700	2,667	9,367	9,273
Subordinated liabilities [1)]	-	2,761	4,038	6,799	6,679	-	2,766	4,014	6,780	6,700
Liabilities on account of repurchase transactions	-	744	410	1,154	1,154	-	599	-	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.

9.3 Reclassification between fair value hierarchy levels

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

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

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

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

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 2020, the following transfers of assets between fair value levels were made:

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

10. Gross written premium

10.1 Accounting policy

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

(in millions of PLN)

10.1.1. Non-life insurance

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

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

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

10.1.2. Life insurance

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

10.2 Quantitative data

Gross written premiums	**1 January – 31 December 2020**	**1 January – 31 December 2019**
Gross written premiums in non-life insurance	14,989	15,494
In direct insurance	14,763	15,278
In indirect insurance	226	216
Gross written premium in life insurance	8,877	8,697
Individual insurance premiums	1,868	1,730
Individually continued insurance premiums	2,048	2,026
Group insurance premiums	4,961	4,941
Total gross written premiums	**23,866**	**24,191**

In 2020 and in 2019, PZU Group companies did not conclude inward reinsurance contracts in life insurance.

Gross written premium in non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	**1 January – 31 December 2020**	**1 January – 31 December 2019**
Results of accidents and illnesses (group 1 and 2)	893	750
Motor – third party liability (group 10)	5,387	5,765
Other motor (group 3)	3,699	3,920
Marine, air and cargo (groups 4, 5, 6, 7)	148	116
Fire and other property damages (groups 8 and 9)	3,067	3,193
Third party liability (groups 11, 12, 13)	873	868
Credit and guarantee (groups 14, 15)	89	86
Assistance (group 18)	515	536
Legal protection (group 17)	12	11
Other (group 16)	306	249
Total	**14,989**	**15,494**

(in millions of PLN)

11. Fee and commission income

11.1 Accounting policy

The fees and commissions not settled according to the effective interest rate are recognized to reflect the transfer of the promised services to the client in the amount reflecting the fee to which the PZU Group is entitled in return for such services. Commission income is settled by the straight-line method when they are charged in advance for a non-recurring activity or when they pertain to granted loans with undetermined schedules of future cash flows for which the effective interest rate cannot be determined. Other fees and commissions for financial services not related directly with the creation of a financial asset (e.g. cash management services, brokerage services, investment advisory services, financial planning, investment banking services and asset management services) and margins earned on FX transactions with clients are recognized once in the profit and loss account when the service is provided.

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

11.2 Quantitative data

Fee and commission income	1 January – 31 December 2020	1 January – 31 December 2019
Banking activity	3,553	3,463
Margin on foreign exchange transactions with clients	756	788
Brokerage fees	172	92
Fiduciary activity	65	59
Payment card and credit card services	959	930
Fees on account of insurance intermediacy activities	65	75
Loans and borrowings	413	418
Bank account-related services	442	412
Transfers	265	316
Cash operations	85	98
Receivables purchased	55	49
Guarantees, letters of credit, collections, promises	78	77
Commissions on leasing activity	65	57
Other commission	133	92
Income and fees from funds and mutual fund companies	509	528
Pension insurance	130	143
Other	5	5
Total revenue from commissions and fees	**4,197**	**4,139**

12. Interest income calculated using the effective interest rate

12.1 Accounting policy

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

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

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

(in millions of PLN)

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

12.2 Quantitative data

Interest income calculated using the effective interest rate	1 January – 31 December 2020	1 January – 31 December 2019
Loan receivables from clients	7,571	9,119
Debt securities measured at fair value through other comprehensive income	980	1,017
Debt securities measured at amortized cost	1,296	1,268
Buy-sell-back transactions	25	73
Term deposits in credit institutions	37	99
Loans	223	254
Receivables purchased	100	136
Receivables	12	2
Cash and cash equivalents	18	47
Interest income calculated using the effective interest rate, total	**10,262**	**12,015**

13. Other net investment income

13.1 Accounting policy

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

13.2 Quantitative data

Other net investment income	1 January – 31 December 2020	1 January – 31 December 2019
Hedge derivatives	348	296
Dividend income, including:	59	57
Investment financial assets measured at fair value through profit or loss	33	35
Investment financial assets measured at fair value through other comprehensive income	26	22
Foreign exchange differences	55	(123)
Income on investment property	224	255
Investment property maintenance expenses	(96)	(108)
Investment activity expenses	(26)	(26)
Other	22	25
Other net investment income, total	**586**	**376**

14. Result on derecognition of financial instruments and investments

14.1 Accounting policy

The result on derecognition of financial instruments and investments contains gains and losses arising from the sale of financial instruments and investment property.

(in millions of PLN)

14.2 Quantitative data

Result on derecognition of financial instruments and investments	1 January – 31 December 2020	1 January – 31 December 2019
Investment financial assets	265	352
Debt instruments measured at fair value through other comprehensive income	171	150
Financial instruments carried at fair value through profit or loss	45	174
Equity instruments	(41)	(18)
Participation units and investment certificates	(1)	118
Debt instruments	87	74
Instruments measured at amortized cost	49	28
Loan receivables from clients measured at amortized cost	(3)	33
Derivatives	23	(1)
Short sale	10	4
Receivables	(182)	(112)
Investment property	3	2
Result on the loss of control over RUCH	(5)	-
Result on derecognition of financial instruments and investments, total	**111**	**278**

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

15.1 Accounting policy

Impairment losses contain the balance of impairment losses recognized and reversed in accordance with the rules described in section 38.1.

15.2 Quantitative data

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 December 2020	1 January – 31 December 2019 (restated)
Investment financial assets	(22)	21
Debt instruments measured at fair value through other comprehensive income	(38)	(3)
Instruments measured at amortized cost	16	24
- debt instruments	1	(8)
- term deposits in credit institutions	1	(1)
- loans	14	33
Loan receivables from clients	(3,117)	(2,148)
Measured at amortized cost	(3,113)	(2,142)
Measured at fair value through other comprehensive income	(4)	(6)
Guarantees and sureties given	(194)	(42)
Receivables	(10)	(36)
Associate – EMC Instytut Medyczny SA	-	(3)
Cash and cash equivalents	1	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(3,342)**	**(2,208)**

(in millions of PLN)

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

16.1 Accounting policy

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

16.2 Quantitative data

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 December 2020	1 January – 31 December 2019
Investment financial instruments measured at fair value through profit or loss	723	522
Equity instruments	215	122
Debt securities	191	139
Participation units and investment certificates	317	261
Derivatives	(85)	325
Measurement of liabilities to members of consolidated mutual funds	(15)	(5)
Investment contracts for the client's account and risk (unit-linked)	(8)	(10)
Investment property	252	2
Loan receivables from clients	2	3
Net movement in fair value of assets and liabilities measured at fair value, total	**869**	**837**

17. Other operating income

Other operating income	1 January – 31 December 2020	1 January – 31 December 2019 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	672	568
Revenues from direct claims handling on behalf of other insurance undertakings	179	217
Provisions dissolved	169	17
Reimbursement of the costs of pursuit of claims	39	46
Reinsurance commissions and profit-sharing	67	66
Release of impairment charges for non-financial assets	4	-
Indemnification received	8	23
Interest for late payment of amounts due under direct insurance and outward reinsurance	55	34
Gain from sale of property, plant and equipment	1	11
Other	201	221
Other operating income, total	**1,395**	**1,203**

18. Claims and movement in technical provisions

18.1 Accounting policy

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

18.1.1. Non-life insurance

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

(in millions of PLN)

18.1.2. Life insurance

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

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

18.2 Quantitative data

Claims and movement in technical provisions	1 January – 31 December 2020	1 January – 31 December 2019
Claims and movement in technical provisions	**16,105**	**16,085**
In non-life insurance	9,205	9,328
- claims and benefits	7,480	7,925
- movement in technical provisions	874	584
- claims handling expenses	851	819
In life insurance	6,900	6,757
- claims and benefits	6,493	6,102
- movement in technical provisions	273	520
- claims handling expenses	134	135
Reinsurers' share in claims, benefits and movement in technical provisions	**(525)**	**(390)**
In non-life insurance	(525)	(390)
Total net insurance claims and benefits	**15,580**	**15,695**

Claims and benefits handling expenses by type	1 January – 31 December 2020	1 January – 31 December 2019
Materials and energy used	14	15
External services	296	260
Taxes and fees	31	32
Employee expenses	454	431
Depreciation of property, plant and equipment	14	15
Depreciation of intangible assets	27	23
Other, including:	149	178
- awarded costs, interest and fines in indemnity cases	136	167
- other	13	11
Total claims and benefits handling expenses	**985**	**954**

(in millions of PLN)

19. Fee and commission expense

Fee and commission expense	1 January – 31 December 2020	1 January – 31 December 2019
Costs of card and ATM transactions, including card issue costs	672	530
Commissions on acquisition of banking clients	107	97
Fees for the provision of ATMs	45	44
Costs of awards to banking clients	17	16
Costs of bank transfers and remittances	39	41
Additional services attached to banking products	23	23
Brokerage fees	25	15
Costs of administration of bank accounts	5	5
Costs of banknote operations	21	17
Fiduciary activity expenses	20	18
Other commission	57	54
Total fee and commission expenses	**1,031**	**860**

20. Interest expenses

20.1 Accounting policy

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

20.2 Quantitative data

Interest expenses	1 January – 31 December 2020	1 January – 31 December 2019
Term deposits	436	969
Current deposits	267	542
Own debt securities issued	316	428
Hedge derivatives	16	16
Loans	3	23
Repurchase transactions	13	57
Bank loans contracted by PZU Group companies	36	33
Lease	28	29
Other	19	32
Total interest expenses	**1,134**	**2,129**

21. Acquisition costs

21.1 Accounting policy

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

According to the accrual accounting principle, some of the acquisition expenses are amortized over time, in accordance with the principles described in sections 30.1.1 and 30.1.2.

(in millions of PLN)

21.2 Quantitative data

Acquisition expenses by type	1 January – 31 December 2020	1 January – 31 December 2019
Materials and energy used	25	29
External services	85	87
Taxes and fees	4	5
Employee expenses	635	631
Depreciation of property, plant and equipment	28	27
Depreciation of intangible assets	25	36
Other, including:	2,483	2,581
- commissions in insurance activities	2,416	2,508
- advertising	61	66
- other	6	7
Movement in deferred acquisition cost	32	(33)
Acquisition expenses, total	**3,317**	**3,363**

22. Administrative expenses

22.1 Accounting policy

Administrative expenses include, among others:

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

22.2 Quantitative data

Administrative expenses by type	1 January – 31 December 2020	1 January – 31 December 2019
Materials and energy used	128	129
External services	1,243	1,273
Taxes and fees	102	81
Employee expenses	3,659	3,673
Depreciation of property, plant and equipment	580	578
Depreciation of intangible assets	397	326
Remuneration of group insurance administrators in work establishments	205	206
Other, including:	283	340
- advertising	155	244
- other	128	96
Administrative expenses, total	**6,597**	**6,606**

(in millions of PLN)

23. Employee expenses

Employee expenses	1 January – 31 December 2020	1 January – 31 December 2019
Payroll	4,299	4,264
Defined contribution plans, including:	794	758
- obligatory burdens on salary	701	679
- 3rd pillar pension insurance, including costs of EPS or ECS contributions incurred in the period	93	79
Other	273	230
Total employee expenses	**5,366**	**5,252**

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

24. Other operating expenses

Other operating expenses	1 January – 31 December 2020	1 January – 31 December 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	1,203	1,134
Expenses of the core business of non-insurance and non-banking companies	801	713
Direct claims handling expenses on behalf of other insurance undertakings	194	226
Compulsory payments to insurance market institutions and banking market institutions	128	129
Bank Guarantee Fund	541	611
Insurance Guarantee Fund	63	67
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	26	27
Expenditures for prevention activity	56	48
Provisions established	428	443
Amortization of intangible assets purchased in company acquisition transactions	173	233
Recognition of impairment losses for non-financial assets	208 [2)]	19
Donations	30	25
Late interest, penalties, indemnities	5	22
Costs of pursuit of claims	82	92
Other	146	204
Other operating expenses, total	**5,385**	**3,993**

[1)] More information on this matter is presented in section 27.3.

[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 27.3.

25. Income tax

25.1 Accounting policy

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

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

(in millions of PLN)

25.2 Quantitative data

Income tax	1 January – 31 December 2020	1 January – 31 December 2019
Profit before tax (consolidated)	4,058	7,080
CIT rate (or range of CIT rates) for the country of the parent company's seat (%)	19%	19%
Income tax which would be calculated as the product of gross accounting profit of the entities and the CIT rate in the country of the parent company's seat	771	1,345
Differences between the income tax calculated above and the income tax shown in the profit and loss account:	757	550
- levy on financial institutions	223	215
- provisions for credit receivables in the part not covered by deferred tax	50	70
- measurement of financial assets	30	(3)
- recognition/reversal of impairment losses for receivables, not classified as tax-deductible expenses	34	65
- recognition/reversal of other provisions and impairment losses for assets, not classified as tax-deductible expenses	319	44
- fee payable to BFG	103	116
- differences due to different tax rates	(17)	(16)
- taxation of insurance activities in Ukraine	7	7
- tax losses	10	26
- other tax increases, abandonments, exemptions, deductions and reductions	(2)	26
Income tax shown in the profit and loss account	**1,528**	**1,895**

Total amount of current and deferred tax	1 January – 31 December 2020	1 January – 31 December 2019
1. Recognized through profit or loss, including:	**1,528**	**1,895**
- current tax	1,841	1,844
- deferred tax	(313)	51
2. Recognized in other comprehensive income, including:	**356**	**117**
- deferred tax	356	117

Income tax on other comprehensive income items	1 January – 31 December 2020	1 January – 31 December 2019 (restated)
Gross other comprehensive income	1,958	613
Income tax	(356)	(117)
Valuation of debt instruments	(213)	(88)
Measurement of loan receivables from clients	(4)	(4)
Cash flow hedging	(123)	(24)
Valuation of equity instruments	(17)	(1)
Actuarial gains and losses related to provisions for employee benefits	1	-
Net other comprehensive income	**1,602**	**496**

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

(in millions of PLN)

26. Earnings per share

26.1 Accounting policy

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

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

26.2 Quantitative data

Earnings per share	1 January – 31 December 2020	1 January – 31 December 2019
Net profit attributable to the equity holders of the parent company	1,912	3,295
Basic and diluted weighted average number of common shares	863,332,499	863,285,340
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	190,501	237,660
Basic and diluted earnings (losses) per common share (in PLN)	2.21	3.82

In 2020 and 2019, there were no transactions or events resulting in the dilution of earnings per share.

27. Goodwill

27.1 Accounting policy

Goodwill, whose initial value has been determined in a manner described in section 5.7 is not amortized, but at the end of each financial year and any time there are any indications of impairment, it is tested for impairment. The goodwill impairment test involves assessing the recoverable amount of the individual cash-generating units to which goodwill has been allocated and comparing it with their carrying amount (including the allocated goodwill). If the recoverable amount is lower than the impairment loss applies first to the goodwill allocated to the cash-generating unit. The cash-generating unit, for which the test is performed may not be larger than an operating segment.

27.2 Quantitative data

Goodwill	31 December 2020	31 December 2019 (restated)
Pekao [1)]	1,714	2,269
Lietuvos Draudimas AB [2)]	511	471
Medical companies	284	284
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	41	38
Alior Bank	-	746
Other	5	5
Total goodwill	**2,776**	**4,034**

[1)] Includes goodwill on acquisition of PIM.

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

(in millions of PLN)

Movement in goodwill	1 January – 31 December 2020	1 January – 31 December 2019 (restated)
Gross goodwill at the beginning of the period	4,049	3,885
- acquisition of medical companies	-	169
- FX gains	43	(5)
Gross goodwill at the end of the period	4,092	4,049
Impairment charges at the beginning of the period	(15)	(14)
- impairment charges – Alior Bank	(746)	-
- impairment charges – Pekao	(555)	-
- FX gains	-	(1)
Impairment losses at the end of the period	(1,316)	(15)
Net goodwill at the end of the period	**2,776**	**4,034**

27.3 Testing for impairment

Impairment tests for goodwill were performed as at 31 December 2020 for all the CGUs, to which goodwill was allocated. As a result of the tests, no need has been found to recognize impairment losses.

In connection with the economic downturn caused by the COVID-19 pandemic, which led to a series of interest rate cuts by NBP and the increase of credit risk in banking activity, in 2020 tests for impairment of the Pekao and Alior Bank CGUs were carried out. The test carried out for Pekao as at 30 June 2020 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. The tests carried out as at 31 March and 30 June 2020 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. As a result of the recognized impairment losses, the carrying amount of the company's goodwill, trademark and relations with clients as at 31 December 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 2020 stood at PLN 788 million. These impairments ensued from the significant deterioration in the business conditions for the banking sector due to the cuts of the interest rates by the Monetary Policy Council, elevated credit risk and additional impairments for expected credit losses associated with economic slowdown.

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

Cash-generating units (CGUs)

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

Carrying amount

The carrying amount comprises CGU net assets, including intangible assets such as trademarks and client relations, which were identified in connection with the acquisition of CGU and goodwill. For the entities, in which non-controlling interests exist, the carrying amount for the purposes of the test is increased by the portion of goodwill allocated to non-controlling interests (it is not presented in the consolidated statement of financial position).

(in millions of PLN)

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

Recoverable amount

The recoverable amount of individual CGUs was determined based on value in use of the entities, using the discounted cash flow method based on the most current financial projections, for a period not exceeding 5 years, which are presented in the table below. CGU financial projections take into account the product offering and market growth prospects, balance sheet structure and available capital surpluses, to-date results and expected macroeconomic parameters, such as the interest rate levels and economic growth. The discount rates used for testing of the insurance companies were set at the cost of equity level. In the case of medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was set in accordance with the CAPM model. Also, size premiums were applied in justified cases. Risk-free rates were determined based on the yield of 10-year government bonds offered by the country where the CGU is domiciled and the betas were based on measures of similar listed entities. Market premiums were 6.0% (5.5% in 2019). For regulated entities (banks and insurance companies, financial institutions), the projected cash flows incorporate the requirement to maintain an adequate level of own funds (economic capital). Cash flows of the mass insurance segment were calculated based on the amount of hypothetical dividends that the segment could have paid if it had operated as a separate insurance company. The amount of dividends depends on the projected technical results of that segment, net of income tax and levy on financial institutions and capital surpluses allocated to that segment as at the balance sheet date and in subsequent periods. The growth ratios after the projection period were determined while taking into account the long term growth prospects for the market on which the entity conducts its business. Growth rates do not exceed the long-term GDP growth forecasts of the country in nominal terms.

Cash generating unit	31 December 2020			31 December 2019		
	Discount rate	Growth rate after the projection period	Timeframe of financial projections	Discount rate	Growth rate after the projection period	Timeframe of financial projections
Pekao	8.7%	3.5%	6 years	8.7%	3.5%	3 years
Alior Bank	n/a	n/a	n/a	8.8%	3.5%	5 years
Lietuvos Draudimas AB	6.1%	3.0%	5 years	5.7%	3.0%	3 years
Mass insurance segment	7.5%	2.5%	3 years	7.4%	2.5%	3 years
AAS Balta	6.1%	3.0%	5 years	6.1%	3.0%	3 years
Medical companies	5.7%-6.3%	2.0%-3.0%	3 years	5.8%-6.4%	2.0%-3.0%	3 years

Sensitivity analysis

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

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

(in millions of PLN)

Cash generating unit	31 December 2020			31 December 2019		
	Surplus (in PLN m)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (in PLN m)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Pekao	170	8.8%	2.7%	1,084	9.6%	2.5%
Alior Bank	n/a	n/a	n/a	136	9.0%	2.4%
Lietuvos Draudimas AB	320	6.9%	2.1%	333	6.5%	0.4%
AAS Balta	253	8.4%	0.3%	502	11.2%	(3.2%)
Mass insurance segment	8,864	23.4%	n/a [1]	10,103	34.9%	nd. [1]
Medical companies	720 [2]	6.2%-28.1%	(41.0%)-2.3%	442	7.2-16.0%	(10.5)-1.4%

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

[2] The amount of the surplus results from recognizing Tomma whose surplus as at 31 December 2020 was PLN 284 million. Tomma, acquired in December 2019, was not tested as at 31 December 2019.

Impairment test for Pekao's goodwill

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 2021-2026 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. 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. 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.

28. Intangible assets

28.1 Accounting policy

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

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

The method used to measure the fair value of an intangible asset acquired in a business combination is presented in section 5.7.

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

Intangible assets are amortized over their estimated economic life:

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

Impairment

At the end of the reporting period, assets are reviewed to determine whether there are any indications of impairment. If such indications are identified, the asset is tested for impairment in order to determine its recoverable amount.

Due to the COVID-19 pandemic, in 2020 the PZU Group analyzed the impact that the pandemic could have on the possibility of impairment of intangible assets. The PZU Group recognized impairment losses on the trademark and client relations as a result of acquisition of Alior Bank. These assets were written off in full as at 30 June 2020 as part of the test for Alior Bank referred to in section 27.3.

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

Where necessary, an impairment loss is recognized reducing the portfolio value to the recoverable amount. In the situation when an asset does not generate cash flows that would be largely independent from cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of assets generating independent cash flows, to which the asset belongs. The possible impairment losses are recognized as cost in the consolidated profit and loss account under “Other operating expenses”.

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

(in millions of PLN)

28.2 Quantitative data

Movement in intangible assets (by type groups) in the year ended 31 December 2020	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	2,955	612	1,975	463	85	6,090
Changes:	487	10	24	102	14	637
- purchases and in-house production	82	-	-	773	5	860
- change in composition of the Group	-	-	-	-	-	-
- transfers	648	-	-	(655)	7	-
- sale and liquidation	(249)	-	-	(7)	(2)	(258)
- foreign exchange differences and other	6	10	24	(9)	4	35
Gross value at the end of the period	**3,442**	**622**	**1,999**	**565**	**99**	**6,727**
Accumulated depreciation at the beginning of the period	(1,662)	-	(1,177)	-	(68)	(2,907)
Changes:	(209)	-	(196)	-	(8)	(413)
- depreciation for the period	(450)	-	(173)	-	(7)	(630)
- sale and liquidation	242	-	-	-	2	244
- transfers	-	-	-	-	-	-
- foreign exchange differences and other	(1)	-	(23)	-	(3)	(27)
Accumulated amortization at the end of the period	**(1,871)**	**-**	**(1,373)**	**-**	**(76)**	**(3,320)**
Impairment charges at the beginning of the period	(15)	-	-	(11)	-	(26)
Changes charged to other operating expenses	(8)	(100)	(61)	(12)	-	(181)
Other changes	-	-	-	6	-	6
Impairment losses at the end of the period	**(23)**	**(100)**	**(61)**	**(17)**	**-**	**(201)**
Net value of intangible assets at the end of the period	**1,548**	**522**	**565**	**548**	**23**	**3,206**

(in millions of PLN)

Movement in intangible assets (by type groups) in the year ended 31 December 2019 (restated data)	**Software, licenses and similar assets**	**Trademarks**	**Client relations**	**Intangible assets under development**	**Other intangible assets**	**Total intangible assets**
Gross value at the beginning of the period	2,563	611	1,900	365	80	5,519
Changes:	392	1	75	98	5	571
- purchases and in-house production	43	-	-	486	5	534
- change in composition of the Group	-	3	78	1	1	83
- transfers	370	-	-	(377)	(1)	(8)
- sale and liquidation	(22)	-	-	(3)	-	(25)
- foreign exchange differences and other	1	(2)	(3)	(9)	-	(13)
Gross value at the end of the period	**2,955**	**612**	**1,975**	**463**	**85**	**6,090**
Accumulated depreciation at the beginning of the period	(1,299)	-	(947)	-	(64)	(2,310)
Changes:	(363)	-	(230)	-	(4)	(597)
- depreciation for the period	(383)	-	(233)	-	(8)	(624)
- sale and liquidation	22	-	-	-	-	22
- transfers	-	-	-	-	4	4
- foreign exchange differences and other	(2)	-	3	-	-	1
Accumulated amortization at the end of the period	**(1,662)**	**-**	**(1,177)**	**-**	**(68)**	**(2,907)**
Impairment charges at the beginning of the period	(14)	-	-	(11)	(4)	(29)
Changes charged to other operating expenses	(1)	-	-	(2)	-	(3)
Other changes	-	-	-	2	4	6
Impairment losses at the end of the period	**(15)**	**-**	**-**	**(11)**	**-**	**(26)**
Net value of intangible assets at the end of the period	**1,278**	**612**	**798**	**452**	**17**	**3,157**

Amortization of intangible assets, by their presentation in consolidated profit and loss account	**1 January – 31 December 2020**	**1 January – 31 December 2019**
Claims and movement in technical provisions	27	23
Acquisition costs	25	36
Administrative expenses	397	326
Other operating expenses [1)]	181	239
Total amortization	**630**	**624**

[1)] Including the amortization of intangible assets purchased in company acquisition transactions in the amount of PLN 173 million (PLN 233 million in 2019).

(in millions of PLN)

29. Other assets

Other assets	31 December 2020	31 December 2019
Reinsurance settlements	282	279
Estimated salvage and subrogation	189	182
Deferred IT expenses	91	79
Accrued direct claims handling receivables	51	58
Costs settled over time	67	75
Inventory	40	36
Accrued commissions	14	14
Other assets	19	11
Total other assets	**753**	**734**

Other assets	31 December 2020	31 December 2019
Short-term	648	615
Long-term	105	119
Total other assets	**753**	**734**

30. Deferred acquisition cost

30.1 Accounting policy

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

30.1.1. Non-life insurance

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

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

30.1.2. Life insurance

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

30.2 Quantitative data

Deferred acquisition cost	31 December 2020	31 December 2019
Short-term	1,409	1,450
Long-term	141	124
Total deferred acquisition cost	**1,550**	**1,574**

(in millions of PLN)

Movement in deferred acquisition expenses	1 January – 31 December 2020	1 January – 31 December 2019
Net value at the beginning of the period	1,574	1,546
Property insurance	1,459	1,445
Life insurance	115	101
Acquisition expenses pertaining to future periods	1,745	1,775
Amortization for the period recognized through profit or loss	(1,769)	(1,747)
Foreign exchange differences	-	-
Net value at the end of the period	**1,550**	**1,574**
Property insurance	1,423	1,459
Life insurance	127	115

31. Property, plant and equipment

31.1 Accounting policy

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

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

Annual depreciation rates for material assets are presented below:

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

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

The principles for recognizing impairment losses are the same as those applicable to intangible assets that are described in section 28.1.

As at 31 December 2020, analyzing impairment symptoms, the PZU Group took into account the potential impact of the COVID-19 pandemic on potential impairment losses on property, plant and equipment. As a result of the analyses, no need has been found to recognize impairment losses on property, plant and equipment.

(in millions of PLN)

31.2 Quantitative data

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2020	Plant and machinery	Means of transport	Property, plant and equipment under construction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	1,227	267	257	3,982	599	6,332
Changes:	232	20	(28)	289	58	571
- purchases and in-house production	86	22	441	21	25	595
- increase in right-of-use assets	-	10	-	284	4	298
- change in composition of the group	-	-	-	1	-	1
- sale and liquidation	(123)	(19)	(1)	(17)	(33)	(193)
- decrease in right-of-use assets (termination of agreements, sales)	-	(4)	-	(39)	-	(43)
- transfers to categories held for sale under IFRS 5	-	-	-	-	-	-
- transfers to/from investment property	-	-	-	-	-	-
- transfers	281	9	(456)	103	63	-
- foreign exchange differences and other	(12)	2	(12)	(64)	(1)	(87)
Gross value at the end of the period	**1,459**	**287**	**229**	**4,271**	**657**	**6,903**
Accumulated depreciation at the beginning of the period	(677)	(88)	-	(968)	(260)	(1,993)
Changes:	(132)	(26)	-	(388)	(46)	(592)
- depreciation for the period	(201)	(20)	-	(126)	(57)	(404)
- amortization of right-of-use assets	-	(14)	-	(269)	(2)	(285)
- sale and liquidation	69	8	-	7	16	100
- transfers to categories held for sale under IFRS 5	-	-	-	-	-	-
- foreign exchange differences and other	-	-	-	-	(3)	(3)
Accumulated amortization at the end of the period	**(809)**	**(114)**	**-**	**(1,356)**	**(306)**	**(2,585)**
Impairment charges at the beginning of the period	(9)	-	-	(93)	(8)	(110)
Changes charged to other operating expenses	(6)	(1)	-	(18)	(2)	(27)
Changes charged to other operating income	2	-	-	1	1	4
Other changes	-	-	-	4	(1)	3
Impairment losses at the end of the period	**(13)**	**(1)**	**-**	**(106)**	**(10)**	**(130)**
Net value of property, plant and equipment – at the end of the period	**637**	**172**	**229**	**2,809**	**341**	**4,188**
- including net value of right-of-use assets	-	21	-	973	4	998

The value of right-of-use assets is presented in section 50.

(in millions of PLN)

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2019 (restated data)	**Plant and machinery**	**Means of transport**	**Property, plant and equipment under construction**	**Real estate**	**Other property, plant and equipment**	**Total property, plant and equipment**
Gross value at the beginning of the period	1,109	226	198	2,780	485	4,798
Posting of right-of-use assets as at the time of application of IFRS 16	76	3	-	1,168	3	1,250
Changes:	42	38	59	34	111	284
- purchases and in-house production	107	37	295	21	18	478
- increase in right-of-use assets	-	40	-	168	-	208
- change in composition of the group	4	1	1	33	63	102
- sale and liquidation	(84)	(55)	-	(55)	(18)	(212)
- decrease in right-of-use assets (termination of agreements, sales)	(57)	-	-	(78)	-	(135)
- transfers to categories held for sale under IFRS 5	(25)	(1)	-	(82)	(4)	(112)
- transfers to/from investment property	-	-	-	(3)	-	(3)
- transfers	102	44	(231)	43	42	-
- foreign exchange differences and other	(5)	(28)	(6)	(13)	10	(42)
Gross value at the end of the period	**1,227**	**267**	**257**	**3,982**	**599**	**6,332**
Accumulated depreciation at the beginning of the period	(576)	(88)	-	(617)	(233)	(1,514)
Changes:	(101)	-	-	(351)	(27)	(479)
- depreciation for the period	(172)	(23)	-	(139)	(45)	(379)
- amortization of right-of-use assets	(19)	(13)	-	(264)	(1)	(297)
- sale and liquidation	66	36	-	21	16	139
- transfers to categories held for sale under IFRS 5	24	1	-	30	3	58
- foreign exchange differences and other	-	(1)	-	1	-	-
Accumulated amortization at the end of the period	**(677)**	**(88)**	**-**	**(968)**	**(260)**	**(1,993)**
Impairment charges at the beginning of the period	(4)	-	-	(85)	(11)	(100)
Changes charged to other operating expenses	(5)	-	-	(5)	(1)	(11)
Other changes	-	-	-	(3)	4	1
Impairment losses at the end of the period	**(9)**	**-**	**-**	**(93)**	**(8)**	**(110)**
Net value of property, plant and equipment – at the end of the period	**541**	**179**	**257**	**2,921**	**331**	**4,229**
- including net value of right-of-use assets	-	30	-	994	2	1,026

"Transfers to and from investment property" items include amounts corresponding to those explained in section 32.

32. Investment property

32.1 Accounting policy

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

Investment property is initially recognized at purchase price or production cost, plus transaction costs. After initial recognition it is measured at fair value, in accordance with the rules described in section 9.1.6. Gains and losses resulting from the change of fair value of investment property are recognized in the consolidated profit and loss account under "Net movement in fair value of assets and liabilities measured at fair value" item in the period in which they occurred.

(in millions of PLN)

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

- if the carrying amount determined as at that date is higher than the fair value, the difference is recognized in the consolidated profit and loss account under "Other operating expenses".
- if the existing carrying amount is lower than the fair value then the difference is first recognized in the consolidated profit and loss account under "Other operating income" as a reversal of the impairment loss (up to the amount of the impairment loss previously recognized, whereby the amount recognized in the consolidated profit and loss account may not exceed the amount of the impairment loss that would have been determined after deducting the accumulated depreciation had no impairment loss been recognized), and the remaining part of the difference - in other comprehensive income under "Reclassification of real property from property, plant and equipment to investment property".

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

32.2 Estimates and assumptions

The COVID-19 pandemic has impact on the real estate market, bringing down the transaction volume and liquidity. Limited market activity was observed in all real estate market sectors. As at 31 December 2020 (valuation date of a major part of the PZU Group's investment property portfolio), some real estate market sectors started to function normally, which was reflected in the valuation.

The impact of the factors having a significant impact on the investment property valuations is presented in section 9.2.1.2.

32.3 Quantitative data

Movement in investment property	1 January – 31 December 2020	1 January – 31 December 2019
Net book value at the beginning of the period	1,981	1,697
Posting of right-of-use assets as at the time of application of IFRS 16	-	45
Increases:	538	215
- purchase	228	195
- increase in right-of-use assets	14	-
- transfers from real estate for own use	-	3
- transfers from held for sale categories under IFRS 5	296	17
Decreases	(260)	(30)
- sale and liquidation	(2)	(14)
- transfers to categories earmarked for sale according to IFRS 5	(257)	(16)
- decrease of right-of-use assets	(1)	-
Gain (loss) on remeasurement to fair value	234	54
- recorded in financial result	233	46
- through other comprehensive income	1	8
Net carrying amount at the end of the period, including	**2,493**	**1,981**
- buildings and structures	2,262	1,798
- own land	170	135
- perpetual usufruct right to land and cooperative ownership right to premises	61	48

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

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

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2020.

(in millions of PLN)

33. Entities carried by the equity method

33.1 Accounting policy

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

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

Associates and joint ventures are measured by the equity method, in which on initial recognition the investment is recognized at purchase price. The goodwill resulting from a surplus of the purchase price over the fair value of identifiable assets and liabilities of the associate is recognized in the carrying amount of the investment. In the next periods the carrying amount is adjusted to recognize the investor's share in the associate's or joint venture's gains or losses and impairment losses, if any. The share of the PZU Group in the financial result of the associates and joint ventures is recognized in the consolidated profit and loss account under "Share of the net profit of entities measured by the equity method", while share in movement in other comprehensive income under other comprehensive income. Distributions received from a associate or joint venture reduce the carrying amount of the investment.

33.2 Quantitative data

Associates	31 December 2020	31 December 2019
RUCH	65	-
PayPo sp. z o.o.	5	9
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	1	1
Associates, total	**72**	**11**

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

34. Loan receivables from clients

34.1 Accounting policy

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

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

Information on the SPPI test is presented in section 36.1.1.

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

(in millions of PLN)

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

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

Information on the impact of the COVID-19 pandemic on the calculation of the expected credit losses on loan receivables from clients is presented in section 38.1.1.

Modification of financial assets

If terms and conditions of a financial asset agreement change, the modified and original cash flows are compared. If the identified difference is material then the original financial asset is removed from the statement of financial position and the modified financial asset is recognized at its fair value.

The result as at the date of determining the effects of a material modification is presented in the consolidated profit and loss account under "Result on derecognition of financial instruments and investments".

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

in the "Interest income calculated using the effective interest rate" line item.

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

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

- qualitative – change of currency (unless it results from existing contractual provisions or requirements of the applicable legal regulations), change (replacement) of debtor (except for addition/resignation of a joint debtor or inheritance of a loan), consolidation of several exposures into a single one under an annex or an arrangement/ restructuring agreement, change of the interest type;
- quantitative – among others % thresholds of margin change, increase of the financing amount and changes in the residual financing period.

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

34.2 Quantitative data

Loan receivables from clients	31 December 2020	31 December 2019
Measured at amortized cost	195,626	193,244
Measured at fair value through other comprehensive income	1,475	1,381
Measured at fair value through profit or loss	187	243
Total loan receivables from clients	**197,288**	**194,868**

(in millions of PLN)

Loan receivables from clients	31 December 2020	31 December 2019
Retail segment	**110,230**	**105,912**
Operating loans	244	234
Consumer Finance	27,286	29,416
Consumer finance loans	3,852	2,778
Loan to purchase securities	26	65
Overdrafts in credit card accounts	993	1,087
Loans for residential real estate	76,782	71,301
Other mortgage loans	772	807
Other receivables	275	224
Business segment	**87,058**	**88,956**
Operating loans	26,722	32,760
Car financing loans	4	11
Investment loans	27,295	26,820
Receivables purchased (factoring)	7,049	6,524
Overdrafts in credit card accounts	56	71
Loans for residential real estate	233	190
Other mortgage loans	10,641	9,278
Financial lease	12,330	10,985
Other receivables	2,728	2,317
Total loan receivables from clients	**197,288**	**194,868**

35. Financial derivatives

35.1 Accounting policy

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

Derivative financial instruments held for trading are recognized at fair value on the transaction date and subsequently measured at fair value in accordance with the rules described in section 9.1.4.

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

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

As at 31 December 2020, PZU Group companies were not parties to agreements including embedded derivatives whose character and related risks were not closely linked to the base agreement.

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

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

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

- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Evaluation of the impact of the IBOR reform on hedge accounting

The PZU Group intends to continue the established hedging relationships in hedge accounting, despite:

- the uncertainty regarding the amount and timing of the cash flows as a result of the IBOR reform in cash flow hedge accounting,
- the uncertainty regarding the possibility of unambiguous identification and replacement of the benchmark in hedged and hedging instruments as part of fair value hedge accounting.

As part of the established hedging relationships, the PZU Group identifies the following interest rate reference rates: WIBOR, EURIBOR, LIBOR CHF, LIBOR USD. As at 31 December 2020 the aforementioned reference rates are quoted daily and available for application, and the resulting cash flows are normally exchanged with the counterparties.

The Group assessed that in the case of WIBOR and EURIBOR there is currently no uncertainty regarding the dates or amounts of cash flows resulting from the IBOR reform. Both indicators went through the reform and are prepared by administrators holding authorizations in accordance with the European Union's benchmark regulation (BMR Regulation). The PZU Group does not expect it will be necessary to change the hedged risk for other benchmarks.

In the case of LIBOR CHF and LIBOR USD, the established hedging relationships exceed the announced dates for discontinuation of both benchmarks, i.e. 31 December 2021 for LIBOR CHF and 20 June 2023 for LIBOR USD. The PZU Group expects that these benchmarks will be replaced by new reference indicators: LIBOR CHF by SARON (Swiss Averaged Rate Overnight) administered by SIX Swiss Exchange and LIBOR USD by SOFR (Secured Overnight Financing Rate) administered by Federal Reserve Bank of New York, but there is uncertainty regarding the dates and cash flow amounts for the new indicators. Such uncertainty may influence the assessments of the effectiveness of the relationship and high probability of the hedged position. For the needs of these assessments the PZU Group assumes that the interest rate benchmarks on which cash flows from the hedged position or hedging instrument will not change as a result of the IBOR reform.

The PZU Group has devised an action plan for the eventuality of material changes or discontinuation of preparation of a benchmark. One of these actions in the plan is to introduce appropriate clauses in the agreements with the counterparties. As regards hedging instruments the PZU Group actively cooperates with the counterparties to introduce rules of conduct consistent with the ISDA (ISDA Fallbacks Protocol) methodology.

35.2 Types of hedging strategies

35.2.1. Fair value hedges

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

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

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

(in millions of PLN)

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

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

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

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

The table presents nominal values and interest rate of hedging instruments

	Currency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	280	-	-	200	480	-	-	280	200	480
Average interest rate of the fixed-rate part	PLN	0.3	-	-	0.3	0.3	-	-	1.8	1.8	1.8
Par value	EUR	-	346	309	681	1,336	-	471	605	628	1,704
Average interest rate of the fixed-rate part	EUR	-	(0.1)	0.8	(0.2)	0.1	-	1.2	0.4	(0.1)	0.4
Par value	USD	-	-	631	112	743	-	-	637	114	751
Average interest rate of the fixed-rate part	USD	-	-	2.0	0.2	1.8	-	-	3.7	2.0	3.5
Total		**280**	**346**	**940**	**993**	**2,559**	**-**	**471**	**1,522**	**942**	**2,935**

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020 Hedges of securities measured at amortized cost	31 December 2020 Hedges of securities measured at fair value	31 December 2020 Total	31 December 2019 Hedges of securities measured at amortized cost	31 December 2019 Hedges of securities measured at fair value	31 December 2019 Total
Hedging instruments						
Par value	200	2,359	2,559	200	2,735	2,935
Carrying amount – assets	-	-	-	-	1	1
Carrying amount – liabilities	27	171	198	15	146	161
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(11)	(34)	(45)	(6)	(37)	(43)
Hedge inefficiency amount recognized in the profit and loss account	-	(1)	(1)	-	(1)	(1)
Hedged items						
Carrying amount – assets	225	2,596	2,821	214	2,973	3,187
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet – assets	25	188	213	14	175	189
Change in value of the hedged item used as the basis for estimating hedge inefficiency	11	34	45	5	36	41
Accumulated adjustment to fair value of a hedged item remaining in the balance sheet, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-	-	-	-	-

Fair value hedge of fixed-coupon debt securities

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

The table presents nominal values and interest rate of hedging instruments

	Curr-ency	31 December 2020 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	31 December 2019 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	430	250	-	680	-	-	-	-	-
Average interest rate of the fixed-rate part	PLN	-	2.4	0.2	-	1.6	-	-	-	-	-
Par value	EUR	-	-	46	108	154	-	-	-	13	13
Average interest rate of the fixed-rate part	EUR	-	-	0.7	0.7	0.7	-	-	-	0.7	0.7
Total		**-**	**430**	**296**	**108**	**834**	**-**	**-**	**-**	**13**	**13**

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020 Hedging of investment financial assets measured at amortized cost	fair value	Total	31 December 2019 Hedging of investment financial assets measured at amortized cost	fair value	Total
Hedging instruments						
Par value	680	154	834	-	13	13
Carrying amount – assets	-	-	-	-	-	-
Carrying amount – liabilities	6	2	8	-	-	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(2)	(1)	(3)	-	-	-
Hedge inefficiency amount recognized in the profit and loss account	3	2	5	-	-	-
Hedged items						
Carrying amount – assets	674	153	827	-	14	14
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position – assets	2	-	2	-	-	-
Change in value of the hedged item used as the basis for estimating hedge inefficiency	5	3	8	-	-	-
Accumulated adjustment to fair value of a hedged item remaining in the statement of financial position, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-	-	-	-	-

35.2.2. Cash flow hedges

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

The result of measurement of the effective part of cash flow hedges is recognized in other comprehensive income. Ineffective part of the hedging is presented through profit or loss – in the profit and loss account in the “Net movement in fair value of assets and liabilities measured at fair value” item.

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

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

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

(in millions of PLN)

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

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

	Currency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	12,337	3,355	15,692	600	1,400	7,000	3,200	12,200
Average interest rate of the fixed-rate part	PLN	-	-	1.9	0.8	1.7	3.9	3.6	2.3	2.0	2.4

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	15,692	12,200
Carrying amount – assets	767	290
Carrying amount – liabilities	2	8
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	475	50
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	8	(1)
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(467)	(50)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	669	201
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

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

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

	Currency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	85	168	266	519	-	47	215	289	551
Average interest rate of the fixed-rate part	PLN	-	0.3	0.3	0.7	0.5	-	1.8	1.8	1.9	1.9
Par value	EUR	-	636	-	-	636	-	29	624	-	653
Average interest rate of the fixed-rate part	EUR	-	(0.5)	-	-	(0.5)	-	(0.4)	(0.4)	-	(0.4)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	1,155	1,204
Carrying amount – assets	7	3
Carrying amount – liabilities	48	29
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(15)	(11)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	15	11
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(37)	(22)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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

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

(in millions of PLN)

	Currency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	CHF/ PLN	-	299	1,279	1,036	2,614	-	274	863	1,541	2,678

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	2,614	2,678
Carrying amount – assets	-	-
Carrying amount – liabilities	561	391
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	14	32
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(17)	(49)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(39)	(54)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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

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

As of 1 January 2019, the PZU Group established a new relationships, analogous to the existing one, which hedges only the foreign exchange risk. The new relationship covered all FX Swap transactions designated for hedge accounting after 31 March 2019. The previous relationship expired in February 2020.

(in millions of PLN)

	Currency	31 December 2020 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	31 December 2019 Maturity Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/ PLN	6,494	3,115	461	-	10,070	1,996	1,300	-	-	3,296
Average rate		4.5	4.6	4.6		4.5	4.4	4.4	-	-	4.4
Par value	EUR/ USD	2,323	1,361	-	-	3,684	1,022	681	-	-	1,703
Average rate		1.2	1.2	-	-	1.2	1.1	1.2	-	-	1.1
Par value	USD/ PLN	324	132	-	-	456	95	569	-	-	664
Average rate		3.7	3.8	-	-	3.7	3.9	3.9	-	-	3.9

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	14,210	5,663
Carrying amount – assets	5	83
Carrying amount – liabilities	264	25
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(1)	2
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	1	(2)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	1	2
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

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

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

	Currency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	1,091	1,366	15,167	-	17,624	168	2,244	7,272	222	9,906
Average interest rate of the fixed-rate part	PLN	2.2	2.1	1.0	-	1.2	1.8	2.0	2.0	1.8	2.0
Par value	EUR	-	-	46	-	46	-	-	43	-	43
Average interest rate of the fixed-rate part	EUR	-	-	(0.1)	-	(0.1)	-	-	(0.1)	-	(0.1)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	17,670	9,949
Carrying amount – assets	335	135
Carrying amount – liabilities	78	41
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	188	61
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	223	40
Hedge inefficiency amount recognized in the profit and loss account	-	1
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	(80)	(25)
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(185)	(57)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	192	50
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

(in millions of PLN)

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

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

	Cur-rency	31 December 2020 Maturity					31 December 2019 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/ PLN	-	-	443	663	1,106	-	-	288	966	1,254
Average rate		-	-	1.5	2.2	1.9	-	-	1.3	2.1	1.9
Par value	USD / PLN	-	-	285	160	445	-	-	65	380	445
Average rate		-	-	4.2	5.2	4.6	-	-	4.8	4.7	4.7
Par value	GBP / PLN	-	-	77	508	585	-	-	15	594	609
Average rate		-	-	3.3	4.4	4.3	-	-	3.1	4.4	4.4

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2020	31 December 2019
Hedging instruments		
Par value	2,136	2,308
Carrying amount – assets	4	31
Carrying amount – liabilities	40	10
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(57)	21
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	43	13
Hedge inefficiency amount recognized in the profit and loss account	-	(10)
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	(100)	18
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	58	(31)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	57	13
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

35.2.2.7. Movement in the revaluation reserve and non-controlling interests resulting from the measurement of the hedging derivatives in hedge accounting

Revaluation reserve and non-controlling interests resulting from the measurement of the hedging derivatives in hedge accounting	31 December 2020	31 December 2019
Opening balance	190	83
Profits or losses resulting from hedging – recognized in other comprehensive income	653	107
Interest rate risk	596	59
Interest rate risk and currency risk	57	48
As at the end of the period	**843**	**190**

(in millions of PLN)

35.3 Quantitative data

Derivatives as at 31 December 2020	Base amount by maturities					Assets	Liabilities
	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total		
Related to interest rates	**22,096**	**50,251**	**175,484**	**45,384**	**293,215**	**5,453**	**5,212**
Fair value hedging instruments – SWAP transactions	280	776	1,236	1,101	3,393	-	206
Cash flow hedging instruments – SWAP transactions	1,091	2,386	29,802	5,988	39,267	1,113	729
Instruments carried as held for trading, including:	20,725	47,089	144,446	38,295	250,555	4,340	4,277
- FRA transactions	3,306	1,176	-	-	4,482	1	1
- SWAP transactions	16,964	44,563	141,616	37,883	241,026	4,333	4,274
- call options (purchase)	-	891	2,426	385	3,702	5	1
- put options (sale)	455	-	404	27	886	1	1
- cap floor options	-	459	-	-	459	-	-
Related to exchange rates	**57,722**	**19,473**	**6,936**	**27**	**84,158**	**660**	**877**
Cash flow hedging instruments – SWAP transactions	9,141	4,608	461	-	14,210	5	264
Instruments carried as held for trading, including:	48,581	14,865	6,475	27	69,948	655	613
- forward contracts	26,427	8,192	3,634	27	38,280	340	277
- SWAP transactions	18,811	2,796	787	-	22,394	225	257
- call options (purchase)	2,162	2,602	1,304	-	6,068	67	38
- put options (sale)	1,181	1,275	750	-	3,206	23	41
Related to prices of securities	**237**	**1,935**	**667**	**-**	**2,839**	**93**	**61**
- call options (purchase)	229	1,935	667	-	2,831	93	61
- put options (sale)	8	-	-	-	8	-	-
Related to commodity prices	**1,222**	**1,572**	**184**	**-**	**2,978**	**133**	**131**
- forward contracts	235	115	-	-	350	3	7
- SWAP transactions	622	887	117	-	1,626	74	72
- call options (purchase)	216	570	67	-	853	19	1
- put options (sale)	149	-	-	-	149	37	51
Total	**81,277**	**73,231**	**183,271**	**45,411**	**383,190**	**6,339**	**6,281**

(in millions of PLN)

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

36. Investment financial assets

36.1 Accounting policy

36.1.1. Recognition and classification

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

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

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

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

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

Business models

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

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

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

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

SPPI test

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

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

- conditional events that could change the amounts and timing of cash flows;
- factors modifying the interest rate;
- terms of prepayment and extension;

- terms limiting the right to obtain cash flows;
- factors that modify the time value of money, including periodic resets of the interest rate.

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

The SPPI test is carried out:

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

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

36.1.2. Measurement principles

Financial assets measured at amortized cost

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

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

Financial assets measured at amortized cost include, among others:

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

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

The results of the measurement at amortized cost are recognized in the profit and loss account in the “Interest income calculated using the effective interest rate” item.

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

This category of financial assets also includes equity instruments, for which an irrevocable designation has been made to be measured at fair value, with subsequent changes in fair value recognized in other comprehensive income. The decision on such classification is made individually for each instrument. The portfolio of equity instruments measured at fair value through other comprehensive income comprises assets which have been classified as material from PZU Group's perspective. If such assets are sold, the result on sales is transferred to supplementary capital.

Financial assets at fair value through profit or loss

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

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

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

36.1.3. Exclusion from the statement of financial position

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

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

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

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

(in millions of PLN)

36.2 Quantitative data

Investment financial assets	31 December 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	605	946	1,551	n/a	518	845	1,363
Participation units and investment certificates	n/a	n/a	5,298	5,298	n/a	n/a	4,820	4,820
Debt securities	57,871	63,643	3,566	125,080	35,930	54,693	4,602	95,225
Government securities	50,632	48,250	3,443	102,325	29,187	37,476	4,393	71,056
Domestic	50,417	45,577	3,262	99,256	28,985	35,373	4,255	68,613
Fixed rate	47,227	37,420	2,695	87,342	25,785	22,820	3,054	51,659
Floating rate	3,190	8,157	567	11,914	3,200	12,553	1,201	16,954
Foreign	215	2,673	181	3,069	202	2,103	138	2,443
Fixed rate	215	2,673	181	3,069	202	2,103	138	2,443
Other	7,239	15,393	123	22,755	6,743	17,217	209	24,169
Fixed rate	2,466	7,671	53	10,190	892	9,032	40	9,964
Floating rate	4,773	7,722	70	12,565	5,851	8,185	169	14,205
Other, including:	8,993	-	-	8,993	10,008	-	-	10,008
Buy-sell-back transactions	4,657	-	-	4,657	4,064	-	-	4,064
Term deposits in credit institutions	952	-	-	952	1,454	-	-	1,454
Loans	3,384	-	-	3,384	4,490	-	-	4,490
Investment financial assets, total	**66,864**	**64,248**	**9,810**	**140,922**	**45,938**	**55,211**	**10,267**	**111,416**

Equity instruments measured at fair value through other comprehensive income	31 December 2020		31 December 2019	
	Fair value	Dividends recognized in the period	Fair value	Dividends recognized in the period
Grupa Azoty SA	198	-	232	-
Biuro Informacji Kredytowej SA	240	24	177	20
PSP sp. z o.o.	59	-	50	-
Polimex-Mostostal SA	51	-	29	-
Krajowa Izba Rozliczeniowa SA	19	1	14	1
Astaldi SpA	15	-	-	-
Other	23	1	16	1
Equity instruments measured at fair value through other comprehensive income, total	**605**	**26**	**518**	**22**

(in millions of PLN)

37. Receivables

Receivables – carrying amount	31 December 2020	31 December 2019
Receivables on direct insurance, including:	2,399	2,727
- receivables from policyholders	2,288	2,591
- receivables from insurance intermediaries	98	112
- other receivables	13	24
Reinsurance receivables	55	58
Other receivables	3,792	2,952
- receivables from disposal of securities and margins [1]	1,861	1,065
- receivables on account of payment card settlements	807	937
- trade receivables	303	249
- receivables from the state budget, other than corporate income tax receivables	144	169
- receivables by virtue of commissions concerning off-balance sheet products	175	153
- prevention settlements	38	47
- receivables from direct claims handling on behalf of other insurance undertakings	18	26
- receivables for acting as an emergency adjuster	10	13
- receivables on account of Corporate Income Tax	76	28
- receivables from security and bid deposits	38	39
- interbank and interbranch receivables	4	35
- other	318	191
Total receivables	**6,246**	**5,737**

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

As at 31 December 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.

Receivables – according to maturity stipulated in the terms and conditions of the agreement	31 December 2020	31 December 2019
Up to 1 year [1]	5,978	5,531
1 to 5 years	177	205
Over 5 years	91	1
Receivables – according to maturity stipulated in the terms and conditions of the agreement, total	**6,246**	**5,737**

[1] Including past due receivables.

38. Impairment of financial assets

38.1 Accounting policy and material estimates

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

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

Objective evidence of impairment includes information on:

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

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

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

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

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

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

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

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

The charge is calculated in three categories:

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

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

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

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

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

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

For exposures outstanding as at 31 December 2020 the PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and the provision amount is an element of the credit loss, i.e. the difference between the expected cash flows from the given exposure and the contractual cash flows.

Consequently, the PZU Group recognizes the amount of the provision pertaining to credit exposures outstanding as at 31 December 2020 (comprising existing and possible future statements of claim) in the impairment losses for loan receivables from clients and, accordingly, in the “movement in allowances for expected credit losses and impairment losses”.

Additional information on estimation of the provisions associated with the legal risk pertaining to FX mortgage loans in Swill francs is presented in section 47.3.

38.1.1. Changes in the calculation of expected credit losses due to the COVID-19 pandemic

The COVID-19 pandemic resulted in an economic downturn in Poland and its environment. Its negative impact on the economy (among others suspension or limitation of activity in some sectors, disruptions of the supply chain, unavailability and dismissal of employees, changes in consumer behaviors, economic slowdown at business partners) may lead to a significant deterioration of the financial standing of some borrowers. The PZU Group is taking steps to reduce credit risk and support its clients. Such activities include, among others, intensified monitoring of the loan portfolio, with particular emphasis on increased-risk industries, strengthening the instruments mitigating credit risk, including legal collateral established on receivables, both at the stage of financing and monitoring, verification of the procedures in the area of financing individual business lines and their adaptation to the existing situation, granting loans with BGK guarantees securing up to 80% of the exposure value, postponing payments of principal and interest installments at the client’s request for up to 6 months, deferring the application of sanctions resulting from failure to fulfill the contractual clauses.

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 uniqueness of the current situation associated with the COVID-19 pandemic, the calculation of expected credit losses is subject to particular uncertainty, and the adopted expert assumptions may be modified in subsequent periods.

The PZU Group endeavors to adequately reflect the potential deterioration of the quality of the credit portfolio in the expected credit losses for basket 1 and basket 2 and to calculate appropriate charges for the non-performing portfolio (basket 3), considering the possible difficulties with raising funds. An increase in the charges results largely from the projections of future changes in the quality of the credit portfolio, taken into account in the calculation of expected credit losses but not in the current evolution. The PZU Group has not identified any material increase in the scale of client defaults, resulting in a significant increase in non-performing loans.

The starting point for estimation of the expected credit losses are the forecasts for the macroeconomic situation. According to preliminary estimates of the Central Statistical Office (GUS), GDP in 2020 declined by 2.7 % relative to 2019. At the same time, the PZU Group assumes economic growth of approx. 4% in 2021. The unemployment rate increased to approx. 6.2% at the end of 2020 (compared to 5.2% in December 2019). The PZU Group expects that this indicator will stabilize in 2021.

The expected deterioration of the macroeconomic situation in 2020 was reflected in a modification of the risk parameters (PD and LGD) 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) – pertaining to, among others, the scale of the economic slowdown, support from the government and state institutions. Due to the unique nature of the current situation, the scale of the expert judgment in the credit risk assessment is increased relative to previous periods.

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 EBA Guidelines. 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. In the case of identification of material deterioration of the economic and financial standing of a client operating in industries at risk, the exposure was reclassified to basket 2 or 3.

The cost of impairment losses on expected credit losses and impairment losses on loan receivables from clients in 2020 was PLN 1,672 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 and its is not possible to resolve whether the additional charge recognized resulted only from the COVID-19 pandemic or also from the situation which would have occurred regardless of it.

Moratoria implemented in 2020 due to COVID-19

In 2020, due to the COVID-19 pandemic, the PZU Group introduced the following loan repayment programs:

- moratoria prepared on the initiative of the PZU Group (non-statutory moratoria) – the possibility of suspending the repayment of principal and interest installments or grace period involving suspension of the payment of principal installments with simultaneous extension of the lending period, simplified extensions of the credit limits.

  The possibility of taking advantage of the moratoria by the clients depended on the timely service of their loan and the assessment of the client's financial standing.
- moratoria prepared by the PZU Group in accordance with EBA Guidelines (statutory moratoria) – on 29 May 2020 the KNF Office notified the EBA of the banks' position prepared under the patronage of the Polish Bank Association on the EBA Guidelines, which was introduced by the PZU Group for loan agreements concluded before 13 March 2020 on the following rules:
  - for individual clients, micro and small businesses, the Group introduced the possibility of deferring principal or principal and interest installments for a period specified by the client, up to 6 months (regardless of the number of applications submitted by the given client). The application of the moratorium is dependent on the timely service of the loan by the individual client and their creditworthiness taking into account COVID-19 (in the case of businesses),
  - for medium-sized enterprises (with the turnover up to EUR 50 million) the Group introduced the possibility of deferring the principal or principal and interest installments in accordance with the client's request for a term they specify, up to: 6 months (principal installments) and 3 months (principal and interest installments), under the condition the client had creditworthiness at the end of 2019 and, for big corporations (with the turnover over EUR 50 million) the Group introduced the possibility of deferring principal installments in accordance with the client's request, for a period they specify, up to 6 months under the condition the client had creditworthiness at the end of 2019.
- suspension of performance of the agreement pursuant to the provisions of 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 (statutory moratoria), i.e.:
  - consumer clients who lost their job or other main source of income after 13 March 2020,
  - during the term of the suspension of performance of the agreement the client is not obligated to make any payments under the agreement, including loan installments, except for the fees for insurance associated with such agreements and no interest is accrued.

  The program applies for the duration of the state of epidemic threat or state of epidemic.

All of the above 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 immaterial modifications. As at 31 December 2020, the gross carrying amount of the credit portfolio covered by the aforementioned moratoria was PLN 21.2 billion.

Additionally, banks from the PZU Group signed a number of portfolio guarantee agreements with BGK, limiting the effects of COVID-19.

In the PZU Group insurance segment, in the credit risk area, the impact of the COVID-19 pandemic was low; just like in 2019, no indications of impairment were identified in the portfolio, hence no exposure was classified to basket 3 (instruments for which impairment has been recognized). During 2020 the structure of the financial instruments held changed significantly; the share of corporate exposures, which in principle are characterized by higher risk parameters (PD, LGD), was reduced in favor of purchase of Polish treasury bonds or bonds guaranteed by the State Treasury.

The share of the impairment losses in the credit portfolio (understood as the relation of accumulated impairment losses on account of the credit risk to the gross carrying amount of all PZU Group assets exposed to credit risk subject to the IFRS 9 regime) in 2020 dropped relative to 2019 due to the change of the portfolio structure to a safer one, shift of the rating structure associated with the overall improvement of the financial results of the entities, and improvement of internal macroeconomic forecasts for Poland relative to the negative scenarios associated with the COVID-19 pandemic from Q1. The value of the impairment losses in the portfolios of investment debt financial assets carried at fair value through other comprehensive income and at amortized cost and loans increased in 2020 by PLN 24 million, while the carrying amount of these assets increased during that time by PLN 29,785 million.

38.1.2. Calculation of PD and LGD parameters

PZU Group uses the PD and LGD parameters to estimate allowances for expected credit losses.

For issuers and exposures that are externally rated, PDs is assigned on the basis of the average market default rate for the rating classes concerned. First, the internal rating of an entity/issue is determined in accordance with the internal rating methodology. The tables published by external rating agencies are used to estimate average PD.

The Moody’s RiskCalc model is used for issuers of corporate bonds and corporate loans, for which no external rating is available. The EDF parameter (expected default frequency) is used to estimate PD. When estimating lifetime PD for exposures with maturity above 5 years (in the RiskCalc model, the forward EDF curve refers to a 5-year period), it is assumed that in subsequent years PD is constant and corresponds to the value determined by the model for the 5th year.

For loan receivables from clients PD is estimated based on internal models depending on the segment group, individual credit quality of the customer, and the exposure lifecycle phase.

For issuers of corporate bonds and corporate loans, 12-month LGD is determined based on the Moody’s RiskCalc model (LGD module). When estimating lifetime LGD for exposures with a maturity above 5 years, it is assumed that in subsequent years LGD is constant and corresponds to the value determined by the module for the 5th year.

If a credit rating agency has allocated a separate recovery rate to the instrument concerned then this parameter is used. For a given RR (*recovery rate*) parameter, the formula: LGD = 1-RR is applied.

Where the RiskCalc model cannot be used to estimate LGD levels and where the instrument does not have an LGD awarded by an external rating agency, then the average RR should be used, based on market data (properly differentiating the corporate and sovereign debt classes) supplied by external rating agencies using the following formula: LGD = 1-RR. When lifetime LGD must be estimated, the value of this parameter is assumed to be constant. The degree of subordination of debt is taken into account when selecting data for LGD.

38.1.3. Change in credit risk since initial recognition

At each reporting date, the PZU Group shall assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the PZU Group should use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the PD for the financial instrument as at the reporting date with the PD as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort.

It is recognized that the credit risk on a financial instrument has not increased significantly at initial recognition and on the reporting date if the financial instrument features low credit risk (that is, it has an external investment-grade rating). This pertains in particular to treasury bonds:

The PZU Group assesses whether the credit risk of financial instruments has increased significantly by comparing the PD parameter for the rest of its lifetime on the reporting date with the PD parameter for the rest of its lifetime estimated at the time of initial recognition.

The PZU Group regularly monitors the effectiveness of the criteria used to identify a significant increase in credit risk, in order to confirm that:

- the criteria allow for identification of a significant increase in credit risk before the impairment of the exposure occurs;
- the average time between identifying a significant increase in credit risk and impairment is reasonable;
- exposures are in principle not transferred directly from basket 1 (12-month ECL) to basket 3 (impairment);
- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

In the case of loan receivables from clients, the identification of a significant credit risk growth is based on an analysis of qualitative (such as the occurrence of a 30-day past due period, customer's classification in the watch list, forbearance) and quantitative premises.

38.1.4. Identified impaired financial assets (basket 3)

The PZU Group classifies financial assets to basket 3 when the premises for impairment losses such as, among others, delay in payment of more than 90 days, are satisfied with simultaneous satisfaction of the unpaid amount materiality threshold, exposure being included in the restructuring process or occurrence of another qualitative premise of impairment losses.

In 2021 the PZU Group will implement the EBA/GL/2016/07 guidelines as regards qualitative premises, in accordance with which in the case of retail exposures, it will use the definition of default on the level of individual credit instruments instead of the borrower's total liabilities (excluding overdue amounts material for the entire relationship), and in the case of commercial exposures, the definition of default on the debtor level will be applied.

38.1.5. Financial assets impaired due to credit risk (POCI)

Acquired or granted financial assets impaired due to credit risk (POCI) is assets with impairment losses determined at the time of the initial recognition. The POCI classification does not change over the life of the instrument until derecognition.

POCI assets arise from:

- acquisition of a contract satisfying the definition of POCI (e.g. on combination with another entity or purchase of a portfolio);
- conclusion of a POCI contract on the initial granting (e.g. granting of a loan to a client in a poor financial condition);
- modification of a contract (e.g. in the course of restructuring) resulting in excluding an asset from the statement of financial position and recognizing a new asset satisfying the definition of POCI.

As at the initial recognition, POCI assets are recognized at the fair value, without recognizing allowances for expected credit losses.

38.1.6. Receivables from policyholders

In accordance with the provisions of IFRS 9 item 5.5.15, a simplified model, in which an aggregate assessment of the impairment is carried out and the impairment losses are estimated at the expected credit loss amount over the entire lifetime, is applied for receivables from policyholders which do not contain a significant financing component.

Receivables are grouped by similar credit risk characteristics. For receivables before maturity, the value of the receivable that is likely to become due is determined based on a historical analysis of the percentage of the ratio of receivables that are not paid before maturity. The amount of write-off for expected credit losses is determined on the basis of the uncollectibility ratio for matured receivables with the shortest past due period.

(in millions of PLN)

For matured receivables, an age structure is prepared, depending on the past due period. For this group, the value of the allowance for expected credit losses is calculated in separate ranges of past due periods, based on the uncollectibility ratios determined through historical analysis.

38.2 Quantitative data

Loan receivables from clients measured at amortized cost	1 January - 31 December 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	47,445	-	-	1	47,446	58,360	-	-	5	58,365
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(39,726)	(694)	(816)	(734)	(41,970)	(39,687)	(1,855)	(511)	(1,116)	(43,169)
Change attributable to modification of cash flows concerning the given instrument	(7)	(1)	(3)	-	(11)	(2)	-	-	-	(2)
Assets from the statement of financial position	-	-	(1,822)	(39)	(1,861)	-	(50)	(1,015)	-	(1,065)
Reclassification to basket 1	4,833	(4,765)	(68)	-	-	6,125	(6,064)	(61)	-	-
Reclassification to basket 2	(17,442)	17,887	(445)	-	-	(11,063)	11,380	(317)	-	-
Reclassification to basket 3	(2,463)	(1,784)	4,247	-	-	(2,789)	(1,997)	4,786	-	-
Other changes, including foreign exchange differences	194	(14)	256	9	445	(272)	126	243	-	97
As at the end of the period	**163,118**	**28,238**	**12,329**	**5,291**	**208,976**	**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	(657)	-	-	(1)	(658)	(815)	-	-	(3)	(818)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	610	(853)	(2,478)	243	(2,478)	1,007	(501)	(2,186)	452	(1,228)
Assets from the statement of financial position	-	-	1,805	39	1,844	-	50	1,015	-	1,065
Reclassification to basket 1	(303)	280	23	-	-	(371)	347	24	-	-
Reclassification to basket 2	113	(239)	126	-	-	134	(238)	104	-	-
Reclassification to basket 3	151	323	(474)	-	-	132	224	(356)	-	-
Other changes, including foreign exchange differences	(23)	(66)	(272)	(14)	(375)	(17)	(14)	(247)	37	(241)
As at the end of the period	**(909)**	**(1,876)**	**(6,517)**	**(4,048)**	**(13,350)**	**(800)**	**(1,321)**	**(5,247)**	**(4,315)**	**(11,683)**
Net carrying amount at the end of the period	**162,209**	**26,362**	**5,812**	**1,243**	**195,626**	**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 - 31 December 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	43	57	-	-	100	-	(6)	-	-	(6)
Changes attributable to sale, exclusion or expiration of the instrument	(76)	(51)	-	-	(127)	(686)	(16)	-	-	(702)
Reclassification to basket 2	(132)	132	-	-	-	(624)	624	-	-	-
Other changes	13	8	-	-	21	-	7	-	-	7
As at the end of the period	**720**	**755**	**-**	**-**	**1,475**	**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	-	-	-	-	-	(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	(2)	-	-	(1)	(1)	-	-	-	(1)
As at the end of the period	**(4)**	**(22)**	**-**	**-**	**(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 - 31 December 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	31,790	-	-	-	31,790	9,538	-	-	-	9,538
Change in measurement	820	-	-	-	820	683	-	-	-	683
Changes attributable to sale, exclusion or expiration of the instrument	(10,834)	(33)	-	-	(10,867)	(9,112)	-	-	(2)	(9,114)
Reclassification to basket 1	299	(299)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(38)	38	-	-	-	(332)	332	-	-	-
Other changes, including foreign exchange differences	199	(1)	-	-	198	180	1	1	-	182
As at the end of the period	**57,850**	**73**	**34**	**-**	**57,957**	**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	(20)	-	-	-	(20)	(6)	-	-	-	(6)
Changes attributable to valuation or credit risk level (excluding reclassification)	9	-	-	-	9	(4)	(3)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	11	1	-	-	12	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)
As at the end of the period	**(50)**	**(2)**	**(34)**	**-**	**(86)**	**(33)**	**(19)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**57,800**	**71**	**-**	**-**	**57,871**	**35,581**	**349**	**-**	**-**	**35,930**

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January - 31 December 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	405,843	-	-	-	405,843	203,057	-	-	-	203,057
Change in measurement	1,054	(1)	-	-	1,053	725	(5)	-	-	720
Change attributable to modification of cash flows concerning the given instrument	(12)	-	-	-	(12)	(8)	-	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	(398,632)	(49)	-	-	(398,681)	(187,893)	-	-	-	(187,893)
Reclassification to basket 1	13	(13)	-	-	-	-	-	-	-	-
Reclassification to basket 2	(163)	163	-	-	-	(87)	87	-	-	-
Other changes, including foreign exchange differences	747	-	-	-	747	601	1	-	-	602
As at the end of the period	**63,387**	**256**	**-**	**-**	**63,643**	**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	(35)	-	-	-	(35)	(18)	-	-	-	(18)
Changes attributable to valuation or credit risk level (excluding reclassification)	(5)	(10)	-	-	(15)	(1)	2	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	11	1	-	-	12	14	-	-	-	14
Reclassification to basket 1	(1)	1	-	-	-	-	-	-	-	-
Reclassification to basket 2	3	(3)	-	-	-	1	(1)	-	-	-
As at the end of the period	**(68)**	**(13)**	**-**	**-**	**(81)**	**(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.

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

(in millions of PLN)

Term deposits in credit institutions	1 January - 31 December 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	110,971	-	-	-	110,971	228,598	-	-	-	228,598
Change in measurement	26	-	-	-	26	4	-	-	-	4
Changes attributable to sale, exclusion or expiration of the instrument	(111,481)	-	-	-	(111,481)	(229,902)	-	-	-	(229,902)
Other changes, including foreign exchange differences	(18)	(1)	-	-	(19)	(15)	-	(9)		(24)
As at the end of the period	**953**	**-**	**-**	**-**	**953**	**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	-	-	-	-	-	(6)	-	-	-	(6)
Changes attributable to valuation or credit risk level (excluding reclassification)	-	-	-	-	-	2	-	-	-	2
Other changes	1	-	-	-	1	4	-	9	-	13
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(2)**	**-**	**-**	**-**	**(2)**
Net carrying amount at the end of the period	**952**	**-**	**-**	**-**	**952**	**1,453**	**1**	**-**	**-**	**1,454**

(in millions of PLN)

Loans	1 January - 31 December 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	1,173	-	-	-	1,173	547	-	-	-	547
Change in measurement	56	-	-	-	56	14	-	-	-	14
Changes attributable to sale, exclusion or expiration of the instrument	(2,349)	-	-	-	(2,349)	(577)	(61)	-	-	(638)
Reclassification to basket 2	(79)	79	-	-	-	(61)	61	-	-	-
Other changes	-	-	-	-	-	(1)	-	-	-	(1)
As at the end of the period	**3,318**	**79**	**-**	**-**	**3,397**	**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)	3	-	-	-	3	33	(2)	-	-	31
Changes attributable to sale, exclusion or expiration of the instrument	16	-	-	-	16	1	3	-	-	4
Reclassification to basket 2	6	(6)	-	-	-	1	(1)	-	-	-
As at the end of the period	(7)	(6)	-	-	(13)	**(27)**	**-**	**-**	**-**	(27)
Net carrying amount at the end of the period	**3,311**	**73**	**-**	**-**	**3,384**	**4,490**	**-**	**-**	**-**	**4,490**

Receivables	1 January – 31 December 2020	1 January – 31 December 2019
Gross carrying amount		
Beginning of the period	6,825	7,282
Changes in the period	508	(457)
As at the end of the period	**7,333**	**6,825**
Expected credit losses		
Beginning of the period	(1,088)	(939)
Changes in the period	1	(149)
As at the end of the period	**(1,087)**	**(1,088)**
Net carrying amount at the end of the period	**6,246**	**5,737**

39. Cash and cash equivalents

39.1 Accounting policy

Cash and cash equivalents include, among other things, cash at hand and on current bank accounts, including the account kept with NBP.

Cash is recognized at its nominal value.

(in millions of PLN)

39.2 Restricted cash

The consolidated cash flow statement carries the cash of insurance companies' Preventive Funds and VAT split-payments as restricted cash. Pursuant to the Polish regulations and the internal regulations of the PZU Group companies that are based on them, this cash may be spent only for specific purposes as part of preventive activities or VAT split-payments.

39.3 Quantitative data

Cash and cash equivalents carried in the statement of financial position and in the cash flow statement	31 December 2020	31 December 2019
Cash in the central bank [1]	1,098	2,655
Cash on hand and on bank accounts	6,841	5,132
Other	-	1
Cash and cash equivalents carried in the statement of financial position and in the cash flow statement, total	**7,939**	**7,788**

[1] The amount pertains to the reserve requirement maintained by Pekao and Alior Bank on the current account kept with NBP, whose amount is consistent with the decisions of the Monetary Policy Council.

40. Equity attributable to equity holders of the parent

40.1 Share capital

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

All shares have been fully paid for.

As at 31 December 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**			

The structure of PZU's shareholders and information on transactions with material blocks of PZU shares are presented in section 3.

40.2 Distribution of the parent company's profit

As regards distribution of profit for 2020 and previous years, only the profit captured in the PZU standalone financial statements prepared in accordance with PAS is subject to distribution.

40.2.1.1. Distribution of the 2019 profit

On 26 May 2020, PZU's Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2019 totaling PLN 2,651 million by earmarking:

- PLN 2,644 million as supplementary capital;
- PLN 7 million to 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.

40.2.1.2. Distribution of the 2020 profit

As at the date of signing these consolidated financial statements, the PZU Management Board has not adopted a resolution in the matter of the proposed distribution of the 2020 profit.

40.3 Other capital

40.3.1. Accounting policy

Treasury shares purchased and retained by consolidated PZU Group companies are shown at purchase price.

The "Supplementary capital" item includes:

- the effect of distribution of profit, in accordance with the legal regulations in effect in the country of the company's domicile (in Poland under the Commercial Company Code) and the articles of association of PZU Group companies;
- the capital created upon the sale of investment property previously transferred from own property, according to the rules described in section 32;
- the difference between the change in value of non-controlling interest and fair value of payment in transactions with non-controlling interests.

Results of the following are posted in the "Revaluation reserve" item:

- revaluation of financial assets classified as assets measured at fair value through other comprehensive income;
- revaluation of property to its fair value on the date when it is classified from own property to investment property;
- measurement of hedging instruments, in respect to the part constituting effective cash flow hedge;

after taking into account the corresponding change in deferred tax assets or liabilities;

The item "Actuarial gains and losses related to provisions for employee benefits" includes amounts resulting from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments – demographic (e.g. mortality, employee turnover) and financial (e.g. discount rate or projected salary growth rate).

"Foreign exchange translation differences" include differences resulting from translation of financial data of foreign entities using exchange rates, in accordance with the rules described in section 5.6.

(in millions of PLN)

40.3.2. Quantitative data

Other capital	31 December 2020	31 December 2019
Treasury stock	(9)	(7)
Supplementary capital	15,848	13,113
Share premium account	538	538
Distribution of results of PZU Group companies	15,264	12,523
Other	46	52
Revaluation reserve	891	294
Valuation of debt instruments measured at fair value through other comprehensive income	888	432
Valuation of equity instruments measured at fair value through other comprehensive income	(262)	(263)
Reclassification of real property from property, plant and equipment to investment property	71	77
Entities carried by the equity method	-	-
Cash flow hedging	194	48
Other reserve capital	295	(324)
Actuarial gains and losses related to provisions for employee benefits	3	1
Conversion FX differences	65	(41)
Lietuvos Draudimas AB	94	5
AAS Balta	31	4
PZU Ukraine	(54)	(40)
PZU Ukraine Life	(12)	(12)
Other	6	2
Total other capital	**17,093**	**13,036**

41. Technical provisions

41.1 Accounting policy

41.1.1. Non-life insurance

Provision for unearned premiums and provision for unexpired risk

Provision for unearned premiums is calculated at the end of each reporting period on a case-by-case basis, with the precision of one day.

Provision for unexpired risk is recognized as an addition to the provision for unearned premiums to cover future claims, benefits and expenses, including deferred acquisition expenses, in relation to insurance agreements that do not expire on the last day of the reporting period. The provision for unexpired risk is calculated for insurance groups at the end of each reporting period.

The total amount of the provision for unexpired risk is determined for those insurance groups where the current year loss ratio is greater than 100%, as a difference between the product of the provision for unearned premiums and the loss ratio of the current financial year and the provision for unearned premiums for the same insurance period.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits includes:

- provision for outstanding claims and benefits for losses and accidents incurred and reported (RBNP) by the end of the reporting period;

- provision for losses and accidents incurred but not reported (IBNR) by the end of the reporting period
- provision for claims handling expenses.

The RBNP provision is calculated on a case-by-case basis by claims handling units or, if available information is not sufficient to assess the provision amount, at the average claim amount determined using the actuarial method. The provision recognized takes into account the insured's deductible, the expected increase in prices of goods and repair services and may not be greater than the sum insured or indemnity. The provision is updated as soon as information influencing its amount is available, on a case-by-case assessment or estimation of losses and claims.

The IBNR provision is recognized for losses and claims that are not reported by the balance sheet date, as at which the provision is recognized. IBNR is calculated using the loss triangle analysis method: a generalized Chain Ladder method and for a small number or value of losses the Bornhuetter-Ferguson method, broken down by the years in which the losses occurred. The calculations are based on the annual triangles of claims paid and claims reported. For third party liability insurance for owners of motor vehicles for the mass client the IBNR provision is determined on the basis of multiple simulations of the claim development model (the so-called bootstrap) to obtain an estimation of the distribution of future claims and benefits.

The provision for direct claims handling expenses for reported claims is calculated for each claim individually, and for claims incurred but not reported – using the generalized Chain Ladder method (based on the cost triangles analysis, broken down by the years in which the losses occurred).

The provision for indirect claims handling expenses is calculated using the actuarial method, as a product of the ratio of the percentage of indirect claims handling expenses in claims paid and direct claims handling expenses and the sum of provision for claims reported but not paid and the provision for losses and accidents incurred but not reported and the provision for direct claims handling expenses.

The 1st and the 2nd provisions and the provision for claims handling expenses are recognized at the nominal value, i.e. they are not discounted.

Provision for the capitalized value of annuities

Provision for the capitalized value of annuities is calculated on a case-by-case basis as the present value of an annuity (lifetime or temporary) paid in advance.

The provision for the capitalized value of annuities from losses incurred but not recognized as annuities by the date of calculating the provision (i.e. IBNR provision for annuities), is created on the basis of expected number of new annuities and the expected average value of future annuities.

Provision adequacy tests

Provision adequacy testing is not required in non-life insurance. However when consolidated financial statements are prepared, a procedure that is similar to the provision adequacy test in life insurance is conducted to verify whether claims provisions within individual products are sufficient. The test takes into account current trends in accident incidence, reporting rates and claim payments. If the estimates that consider current trends are higher than claims provisions then the provisions are increased up to the estimated amount.

The mechanism for recognizing the provision for unexpired risks in non-life insurance corresponds to the minimum requirements for the provisions adequacy test.

41.1.2. Life insurance

Provision for unearned premiums and provision for unexpired risk

Provision for unearned premiums is created as the portion of gross written premium that corresponds to future reporting periods, pro rata to the period for which the premium is written.

The provision for unexpired risk is created for annual renewable insurance in which a deficit on future contributions occurred relative to the expected benefits and other outflows (costs and commissions). The provision is created cumulatively for the entire insurance portfolio as the value of the expected future loss during the liability period.

Life insurance provision

Life insurance provision is calculated using prospective actuarial methods, for each insurance contract individually, using the net premium reservesmethod; they are equal to the difference between:

- expected present value of guaranteed benefits that may arise out of the insurance cover provided;
- present value of premiums expected to be paid until the end of the term of these contracts.

In unit-linked insurance, a life insurance provision is created to cover current claims arising out of the insurance cover over and above the amount of the unit-linked fund; it corresponds to the part of the payments collected for the insurance cover that is attributable to future reporting periods.

The calculation of a life insurance provision also includes a mark-up on costs, while the provisions themselves are not reduced by the value of deferred acquisition expenses.

Unit-linked life insurance provision

Unit-linked life insurance provisions are recognized in the amount of the investment made under the terms of the contract.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits is created separately for:

- claims reported but not paid – using the individual method or, if the loss amount cannot be assessed (if the occurrence of losses is a mass phenomenon), using the average claim from the quarter immediately preceding the reporting quarter;
- claims incurred but not reported – using the flat-rate method, as a percentage of claims paid for the last twelve months.

The provision for outstanding claims and benefits also includes the provision for claims handling expenses.

Provisions for bonuses and discounts for insureds

The provision is recognized in an amount taking into account the expected amounts by which future claims will be increased or future premiums will be decreased, in accordance with the current bonuses and discounts granting method.

Other technical provisions

Other technical provisions in life insurance include:

- revaluation provision for claims under individual life insurance and annuities taken over from Państwowy Zakład Ubezpieczeń;

- provision for pending court proceedings and benefits arising out of court rulings (pursuant to Article 358 § 3 of the Civil Code Act of 23 April 1964 (consolidated text: Journal of Laws of 2019, item 1145 as amended) changing the amount or performance of a cash benefit;

  the amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements. The value of these benefits has been determined by extrapolating the historical trend of benefits estimated based on the number of completed court proceedings and settlements and the value of the awarded amounts;
- low interest rate provision - related to the expected decrease in return on assets covering life insurance provisions for traditional individual life insurance and provisioning of children and disability pensions. The amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements.
  - the amount of the mathematical provisions calculated by using appropriate mathematical formulas and by applying modified technical rates, considering their expected reduction in the future, and
  - the amount of the mathematical provisions calculated in line with the applicable provisioning regulations, at the original technical rate that was used to price the products.

Provision adequacy tests

At the end of each year, for each product in the life insurance portfolio, the amount of technical provisions recognized in the consolidated financial statements is compared with the present value of expected future cash flows, i.e. the economic value of liabilities. These cash flows projections include: premium income, expenditures on benefits, expenses, fees and commissions and are based on several assumptions regarding: mortality, loss ratio, lapse rates, servicing expenses, yields curves and other product-specific assumptions (e.g. indexation).

The assumptions used to project future cash flows, regarding expected future mortality, loss ratio, lapse rates and other product-specific assumptions, are reviewed and updated on an annual basis based on current experience and observed trends. Taken together with the assessment of their further development, they constitute the best estimate assumption for further developments in mortality, loss, lapses, etc.

Future indexations of sum insured and premium amounts resulting from the profit participating rights, defined as the excess of rates of return on investments over the technical rate, are based on a projection of future rates of return on the current portfolio of assets to cover provisions for these products, together with their expected future reinvestments at the present term structure of interest rates, i.e. in line with current market expectations.

Future costs are projected based on the expected number of contracts remaining in the portfolio in successive periods and the average unit service cost per contract. The assumptions for unit costs are adopted on the basis of expected future portfolio maintenance and servicing expenses, asset management and claims handling expenses. It is assumed that unit service costs will rise in successive years of the projection period by the cost increase ratio. The amount of future commissions is determined based on the agreed commission rates for individual contracts in their successive years.

The present value of future cash flows is calculated using the discount factors based on the unadjusted yield of Polish government bonds according to their current market quotations.

The test compares the present value of projected cash flows with the amount of provisions shown at the end of each year. If provisions are found to be insufficient in relation to the value of discounted cash flows, changes are introduced to the existing provisioning rules and consequently their value is adjusted.

The purpose of the provision adequacy test is to assess whether the technical provision amounts captured in the consolidated financial statements are sufficient, rather than to assess adequacy of the individual assumptions. Accordingly, the provision adequacy test does not directly identify the degree of adequacy or inadequacy of the individual assumptions adopted in technical provision estimation process.

41.1.3. Reinsurers' share

Reinsurers' share in the provision for unearned premiums, in the provision for unexpired risk and in the provision for outstanding claims and benefits is determined at the amount stated in the terms and conditions of the relevant reinsurance treaties.

Reinsurers' share in claims and benefits is determined for those insurance groups, for which there is reinsurance coverage, to the extent to which reinsurers participate in the claims and benefits according to the terms and conditions of the pertinent reinsurance treaties in effect in a given period.

41.2 Estimates and assumptions

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.

41.2.1. Non-life insurance

As regards non-life insurance, the risks associated with the COVID-19 pandemic may pertain to the largest extent to, among other things, commercial credit insurance, financial guarantees, job loss or loss of profit insurance, or motor insurance.

As regards financial guarantees, the PZU Group has not recorded an increase in the loss ratio in connection with the impact of the COVID-19 pandemic on the contracts performed by our clients. Approx. 60% of the value of exposures in the guarantee portfolio are clients from the construction industry which was affected by the COVID-19 pandemic only insignificantly.

In the bank credit insurance segment, the increase of the loss ratio may result from an increase of the unemployment rate and discontinuation of repayment of mortgage loans by the borrowers. This risk is mitigated by the loan repayment moratoria granted by banks.

The PZU Group did not observe any increase in the loss ratio in the financial loss insurance segment and cash receivables insurance, either. The market situation is stabilized by such elements as the governmental aid programs and the sustainable activity of the commercial credit insurers who do not cancel limits en masse, which could cause an insolvency domino effect.

The COVID-19 epidemic may potentially cause a decrease of the provision for the capitalized value of annuities due to the increased mortality and decrease in the annuity recipient portfolio. In the case of non-annuity provisions, they take into account the current loss ratio resulting from the decreased exposure in some products. The PZU Group does not expect the observed trends to be long-term, hence the assumptions were not modified in the applied provision calculation models.

As a result of the analyses, 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. The developments are constantly monitored and, in the case of observing any major changes to the loss ratio, the assumptions made for the calculation of provisions will be adequately modified.

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

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

Both as at 31 December 2020 and 31 December 2019, a discount rate of -0.3% was assumed for all annuities.

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

(in millions of PLN)

The estimated final value of claims and benefits paid in provision development triangles and the analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities are presented in section 7.5.2.1.

41.2.2. Life insurance

The amount of the life insurance provision corresponds to the value of liabilities under insurance contracts concluded. It is calculated as the difference between the present value of expected benefits and the present value of expected premiums. 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.

In 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% (from the technical rates used previously, of between 1.5% and 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.

The effect of the modified assumptions on the technical provisions in life insurance is presented in the following table.

Impact of the changed assumptions on the value of provisions in life insurance	
Continued insurance portfolio	
Impact of the change in the technical rate	2,473
Impact of the changed assumptions on mortality and probabilities of the insured having co-insureds	(2,523)
Group insurance portfolio	
Impact of the change in the method to the individual approach	34
Impact of the change in the technical rate	39
Impact of the changed assumptions on mortality and probabilities of the insured having co-insureds	(29)

(in millions of PLN)

A provision for unexpired risk in the amount of PLN 51 million was established for the group insurance portfolio being annual renewable insurance products as of 31 December 2020. Its aim is to cover the deficit on future contributions with respect to the expected benefits and other outflows (costs and commissions) arising from increased mortality resulting from the COVID-19 pandemic.

The analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate technical provisions in life insurance is presented in section 7.5.2.2.

41.3 Quantitative data

Technical provisions	31 December 2020			31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**25,276**	**(2,100)**	**23,176**	**24,457**	**(1,856)**	**22,601**
Provision for unearned premiums	8,645	(924)	7,721	8,765	(856)	7,909
Provision for unexpired risk	32	-	32	14	-	14
Provision for outstanding claims and benefits	10,371	(903)	9,468	9,676	(785)	8,891
- for reported claims	3,590	(738)	2,852	3,414	(670)	2,744
- for claims not reported (IBNR)	4,573	(146)	4,427	4,210	(90)	4,120
- for claims handling costs	2,208	(19)	2,189	2,052	(25)	2,027
Provision for the capitalized value of annuities	6,226	(273)	5,953	5,999	(215)	5,784
Provisions for bonuses and discounts for insureds	2	-	2	3	-	3
Technical provisions in life insurance	**23,195**	**(1)**	**23,194**	**22,872**	**-**	**22,872**
Provision for unearned premiums	106	(1)	105	106	-	106
Provision for unexpired risk	51	-	51	-	-	-
Life insurance provision	16,309	-	16,309	16,346	-	16,346
Provision for outstanding claims and benefits	613	-	613	622	-	622
- for reported claims	175	-	175	167	-	167
- for claims not reported (IBNR)	433	-	433	449	-	449
- for claims handling expenses	5	-	5	6	-	6
Provisions for bonuses and discounts for insureds	6	-	6	6	-	6
Other technical provisions	190	-	190	214	-	214
Technical provisions for life insurance if the policyholder bears the investment risk	5,920	-	5,920	5,578	-	5,578
Total technical provisions	**48,471**	**(2,101)**	**46,370**	**47,329**	**(1,856)**	**45,473**

41.3.1. Technical provisions in non-life insurance

Provisions (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	31 December 2020			31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Results of accidents and illnesses (group 1 and 2)	708	(23)	685	520	(28)	492
Motor – third party liability (group 10)	15,030	(643)	14,387	14,639	(416)	14,223
Other motor (group 3)	3,006	(30)	2,976	3,058	(34)	3,024
Marine, air and cargo (groups 4, 5, 6, 7)	169	(82)	87	137	(66)	71
Fire and other property damages (groups 8 and 9)	2,797	(794)	2,003	2,721	(798)	1,923
Third party liability (groups 11, 12, 13)	2,519	(187)	2,332	2,374	(193)	2,181
Credit and guarantee (groups 14, 15)	237	(105)	132	244	(102)	142
Assistance (group 18)	375	(2)	373	357	(1)	356
Legal protection (group 17)	20	-	20	15	-	15
Other (group 16)	415	(234)	181	392	(218)	174
Total technical provisions	**25,276**	**(2,100)**	**23,176**	**24,457**	**(1,856)**	**22,601**

(in millions of PLN)

Technical provisions in non-life insurance	31 December 2020			31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Short-term	5 216	(550)	4,666	5,124	(501)	4,623
Long-term	20,060	(1,550)	18,510	19 333	(1 355)	17,978
Total technical provisions	**25,276**	**(2,100)**	**23,176**	**24,457**	**(1,856)**	**22,601**

Non-current provisions are provisions from which projected cash flows will occur after elapse of more than 12 months of the end of the reporting period, i.e. 31 December 2020.

Movement in provisions

Movement in provision for unearned premiums in non-life insurance	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	8,765	(856)	7,909	8,416	(594)	7,822
Increase (decrease) in provisions for policies concluded in the current year	7,684	(732)	6,952	6,991	(753)	6,238
Increase (decrease) in provisions for policies concluded in previous years	(7,851)	659	(7,192)	(6,649)	494	(6,155)
Foreign exchange differences in the period	47	5	52	7	(3)	4
Total technical provisions	**8,645**	**(924)**	**7,721**	**8,765**	**(856)**	**7,909**

Movement in provision for unexpired risk	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	14	-	14	10	-	10
Increase (decrease) in provisions for policies concluded in the current year	26	-	26	11	-	11
Increase (decrease) in provisions for policies concluded in previous years	(10)	-	(10)	(7)	-	(7)
Foreign exchange differences in the period	2	-	2	-	-	-
As at the end of the period	**32**	**-**	**32**	**14**	**-**	**14**

Movement in provisions for outstanding claims and benefits in non-life insurance	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	9,676	(785)	8,891	9,098	(724)	8,374
Claims paid for losses in previous years, including:	(2,964)	282	(2,682)	(3,170)	248	(2,922)
- claims paid	(2,559)	278	(2,281)	(2,745)	243	(2,502)
- claims handling expenses	(405)	4	(401)	(425)	5	(420)
Increase (decrease) in provisions, of which:	3,635	(406)	3,229	3,734	(302)	3,432
- for losses in current year	3,595	(217)	3,378	3,831	(264)	3,567
- for losses in previous years	40	(189)	(149)	(97)	(38)	(135)
Other changes	-	(4)	(4)	-	(1)	(1)
Foreign exchange differences in the period	24	10	34	14	(6)	8
As at the end of the period	**10,371**	**(903)**	**9,468**	**9,676**	**(785)**	**8,891**

(in millions of PLN)

Movement in provision for the capitalized value of annuities in non-life insurance	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	5,999	(215)	5,784	5,981	(194)	5,787
Claims paid for losses in previous years	(272)	7	(265)	(309)	8	(301)
Increase (decrease) in provisions for losses in previous years	196	(76)	120	66	(30)	36
Change in assumptions resulting from a change of technical rates	(10)	-	(10)	(16)	-	(16)
Increase in provisions for losses in current year	305	12	317	274	1	275
Other changes	8	(1)	7	3	-	3
As at the end of the period	**6,226**	**(273)**	**5,953**	**5,999**	**(215)**	**5,784**

41.3.2. Technical provisions in life insurance

Movement in life insurance provisions, provisions for bonuses and discounts and other technical provisions - insurance contracts	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	16,566	-	16,566	16,464	-	16,464
Increase (decrease) in provisions for policies concluded in current year	357	-	357	392	-	392
Increase (decrease) in provisions for policies concluded in previous years	(409)	-	(409)	(303)	-	(303)
Foreign exchange differences	(9)	-	(9)	13	-	13
As at the end of the period	**16,505**	**-**	**16,505**	**16,566**	**-**	**16,566**

Movement in technical provisions for life insurance movement if the policyholder bears the investment risk	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	5,578	-	5,578	5,176	-	5,176
Fund increases due to premiums	1,273	-	1,273	1,183	-	1,183
Fees charged	(105)	-	(105)	(102)	-	(102)
Income on fund's investments	354	-	354	385	-	385
Fund reductions due to claims, surrenders etc.	(1,143)	-	(1,143)	(1,024)	-	(1,024)
Other changes	(37)	-	(37)	(40)	-	(40)
As at the end of the period	**5,920**	**-**	**5,920**	**5,578**	**-**	**5,578**

Movement in provisions for outstanding claims and benefits	1 January - 31 December 2020			1 January - 31 December 2019		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	622	-	622	592	-	592
Claim reserves used during the year	(620)	-	(620)	(592)	-	(592)
Establishment of claims provisions during the year	611	-	611	622	-	622
As at the end of the period	**613**	**-**	**613**	**622**	**-**	**622**

42. Subordinated liabilities

42.1 Accounting policy

Subordinated liabilities are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods subordinated liabilities are measured at amortized cost.

Subordinated liabilities (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

42.2 Quantitative data

	Par value (in millions)	Cur-rency	Interest rate	Issue date/ Maturity date	Carrying amount 31 December 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	2,265	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,254	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	552	554
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	201	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	350	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	401	401
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	224	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 / 31 March 2021	195	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 / 6 December 2021	147	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	604	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 / 29 April 2021	68	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	47	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 / 16 May 2022	151	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	70	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	150	150
Subordinated liabilities					**6,679**	**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.

Subordinated liabilities by maturity	31 December 2020	31 December 2019
Up to 1 year	410	-
1 to 5 years	1,246	902
Over 5 years	5,023	5,798
Total subordinated liabilities by maturity	**6,679**	**6,700**

(in millions of PLN)

43. Liabilities on the issue of own debt securities

43.1 Accounting policy

Liabilities on the issue of own debt securities are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument. In the next periods they are measured at amortized cost.

Liabilities on the issue of own debt securities (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

43.2 Quantitative data

Liabilities on the issue of own debt securities	31 December 2020	31 December 2019
Bonds	4,597	3,976
Certificates of deposit	1,611	3,940
Covered bonds	1,324	1,357
Liabilities on the issue of own debt securities, total	**7,532**	**9,273**

Liabilities on the issue of own debt securities by maturity	31 December 2020	31 December 2019
Up to 1 year	6,189	6,726
1 to 5 years	1,051	2,185
Over 5 years	292	362
Liabilities on the issue of own debt securities by maturity, total	**7,532**	**9,273**

44. Liabilities to banks

44.1 Accounting policy

Liabilities to banks are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods they are measured at amortized cost.

Liabilities to banks (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

44.2 Quantitative data

Liabilities to banks	31 December 2020	31 December 2019
Current deposits	914	412
One-day deposits	1,826	419
Term deposits	123	41
Loans received	6,439	5,427
Other liabilities	449	305
Liabilities to banks, total	**9,751**	**6,604**

(in millions of PLN)

Liabilities to banks by maturity	31 December 2020	31 December 2019
Up to 1 year	5,014	1,847
1 to 5 years	3,744	4,116
Over 5 years	993	641
Liabilities to banks by maturity, total	**9,751**	**6,604**

45. Liabilities to clients under deposits

45.1 Accounting policy

Liabilities to clients under deposits are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods they are measured at amortized cost.

Liabilities to clients under deposits (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

45.2 Quantitative data

Liabilities to clients under deposits	31 December 2020	31 December 2019
Current deposits	210,212	151,417
Term deposits	30,849	66,414
Other liabilities	914	757
Liabilities to clients under deposits, total	**241,975**	**218,588**

Liabilities to clients under deposits by maturity	31 December 2020	31 December 2019
Up to 1 year	241,238	216,990
1 to 5 years	720	1,534
Over 5 years	17	64
Liabilities to clients under deposits by maturity, total	**241,975**	**218,588**

46. Other liabilities

46.1 Accounting policy

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

A financial liability (or part thereof) is excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

Financial liabilities measured at fair value through profit or loss included in particular:

- liabilities on borrowed securities (short sale);
- investment contracts for the client’s account and risk (unit-linked);
- liabilities to members of consolidated mutual funds.

Financial liabilities measured at amortized cost included in particular liabilities on account of repurchase transactions.

Due to the short-term nature, trade liabilities are recognized at the amount of the required payment.

(in millions of PLN)

Accrued expenses resulting from benefits provided for PZU Group companies by external business partners or from an obligation to provide benefits whose value can be estimated, despite the fact that the date when the liability is created is not yet known, is measured at the amount of estimated future cash flows.

The cost of employee vacation time is recognized on an accrual basis, using the liability method. The liability on account of employee vacation time is determined based on the difference between the actual amount of vacation time used by employees and the amount that would have been used if the vacation time had been taken pro rata to the elapse of time in the period when the employees are entitled to their vacation time.

46.2 Quantitative data

Other liabilities	31 December 2020	31 December 2019 (restated)
Liabilities measured at fair value	**1,389**	**675**
Liabilities on borrowed securities (short sale)	851	293
Investment contracts for the client's account and risk (unit-linked)	268	259
Liabilities toward participants in consolidated mutual funds	265	90
Liability on the settlement of the acquisition of Tomma shares	5	33
Accrued expenses	**1,963**	**2,030**
Accrued expenses of agency commissions	359	390
Accrued payroll expenses	609	635
Accrued reinsurance expenses	731	706
Other	264	299
Deferred revenue	**395**	**322**
Other liabilities	**8,687**	**7,572**
Liabilities on account of repurchase transactions	1,154	599
Lease liabilities	1,064	1,066
Liabilities due under transactions on financial instruments	1,044	905
Liabilities to banks for payment documents cleared in interbank clearing systems	1,140	1,096
Liabilities on direct insurance	915	892
Liabilities on account of payment card settlements	354	408
Regulatory settlements	223	289
Liabilities for contributions to the Bank Guarantee Fund	514	356
Reinsurance liabilities	223	197
Estimated non-insurance liabilities	143	161
Liabilities to employees	42	47
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	30	69
Trade liabilities	611	258
Current income tax liabilities	355	352
Liabilities on account of employee leaves	156	139
Liabilities to the state budget, other than income tax liabilities	116	182
Liabilities on account of donations	21	23
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	21	12
Insurance Guarantee Fund	14	15
Liability for the refund of loan costs	88	106
Liabilities for direct claims handling	31	29
Other	428	371
Other liabilities, total	**12,434**	**10,599**

As at 31 December 2020 and 31 December 2019, the fair value of other liabilities did not differ significantly from their carrying amount, primarily due to fact that over 90% of them are short-term liabilities.

(in millions of PLN)

Other liabilities by maturity	31 December 2020	31 December 2019 (restated)
Up to 1 year	11,246	9,592
1 to 5 years	759	544
Over 5 years	429	463
Total other liabilities by maturity	**12,434**	**10,599**

47. Provisions

47.1 Accounting policy

Provisions are liabilities the amount or payment date of which are uncertain. Provisions are established on the basis of a current obligation following from past events, whose fulfillment will cause an outflow of resources embodying economic benefits. The provision amount is calculated on the basis of a reliable estimate of such outflow as at the balance sheet date.

Provisions for granted guarantees and sureties are calculated as the difference between the expected value of the balance sheet exposure which will result from a granted off-balance sheet liability and the present value of expected future cash flows obtained from the balance sheet exposure resulting from the granted liability.

The provision for restructuring costs is recognized only if, in addition to the general criteria for recognizing provisions, also the specific criteria pertaining to provisions for restructuring costs are satisfied. These include, among others, holding a detailed, formal restructuring plan and evoking a justified expectation of the parties to which the plan pertains that restructuring actions will be taken (through commencement of implementation of the plan or announcement of its key elements).

In connection with the adopted accounting policy and the fact that PZU Group companies have not spun off defined benefit plan assets, the carrying amount of defined benefit plan provisions equals to the present value of liabilities corresponding to them.

Defined contribution plans include the costs of contributions constituting statutory charges on employee salaries incurred by the employer. They include, among others, part of the contributions for retirement and disability pension insurance, Labor Fund, Guaranteed Employee Benefit Fund and the charge for the Company Social Benefit Fund. The costs of defined contribution plans are charged to the profit and loss account in the period to which they pertain.

Defined benefit plans include, among others, the costs of retirement severance pays and post-mortem benefits. The costs of defined benefit plans estimated using actuarial methods are recognized on an accrual basis by applying the forecast specific entitlements method.

Actuarial gains and losses are recognized in full in the period in which they occurred in the “Actuarial gains and losses related to provisions for employee benefits” item in other comprehensive income. More information is presented in section 40.3.1.

47.2 Estimates and assumptions

Provisions for disputable cases are calculated using the individual method, taking into account the likelihood of occurrence of an outflow of resources embodying economic benefits to fulfill an existing obligation. An outflow of resources is deemed likely if it is more possible that the event will occur than that it will not occur, i.e. when the probability of occurrence of the event is higher than the probability that the event will not occur.

Detailed descriptions and provision amounts are presented in section 55.

The provisions for retirement severance pays and post-mortem benefits are estimated with actuarial methods using appropriate actuarial techniques and assumptions – discount rates, consistent with the zero-coupon Treasury bond yield curve, mortality rate adopted at the level specified in the PLET, expected salary increase rate in individual PZU Group companies, employee turnover rate (diversified in terms of, among others, the employee’s age, years in service and gender) and the disability rate (disability pensions) adopted as an appropriate percentage of the mortality rate.

(in millions of PLN)

47.3 Quantitative data

Provisions	31 December 2020	31 December 2019 (restated)
Short-term	543	530
Long-term	835	681
Total provisions	**1,378**	**1,211**

Movement in provisions in the period ended 31 December 2020	As at the beginning of the period	Increase	Utilization	Termination	Other changes	End of the period
Provisions for guarantees and sureties given	358	512	-	(318)	3	555
Provision for retirement severance pays	319	42	(31)	(16)	9	323
Provision for disputed claims and potential liabilities	80	27	(18)	(4)	(5)	80
Provision of potential refunds of borrowing costs	254	144	(270)	-	-	128
Provision for tax risk	-	4	-	(89)	85	-
Provision for legal risk pertaining to mortgage loans in Swiss francs	22	77	-	(8)	-	91
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	11	-	(57)	-	39
Provision for restructuring costs	34	144	(85)	-	-	93
Provision for post-mortem benefits	25	5	-	-	2	32
Other	34	21	(7)	(11)	-	37
Total provisions	**1,211**	**987**	**(411)**	**(503)**	**94**	**1,378**

Movement in provisions in the period ended 31 December 2019 (restated data)	As at the 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 retirement severance pays	313	48	(27)	(16)	1	319
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 costs	20	85	(78)		7	34
Provision for post-mortem benefits	22	2			1	25
Other	31	16	(8)	(5)	-	34
Total provisions	**854**	**824**	**(157)**	**(322)**	**12**	**1,211**

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.

Based on the legal interpretations in its possession, for the settlement of credit costs with borrowers the PZU Group applied the 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.

(in millions of PLN)

In the case of early repayments of consumer and mortgage loans made before the date of the CJEU judgment, the PZU Group estimates the amount of expected disbursements pursuant to IAS 37 and recognizes a provision for this purpose which is charged to other operating expenses.

In 2020, PLN 270 million of the provision was utilized and its amount as at 31 December 2020 was PLN 128 million (PLN 254 million as at 31 December 2019). 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 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.

The PZU Group conducted a sensitivity analysis of the impact of changes in significant parameters of the provision on its amount.

Parameter	Scenario	Impact on the amount of the provision 31 December 2020	Impact on the amount of the provision 31 December 2019
Change in the number of complaints	+1,000	3	2
	-1,000	(3)	(2)
Change in the average refund amount	+10%	13	25
	-10%	(13)	(25)

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

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

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

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

- can abusive provisions regarding the method of determining the exchange rate of the currency in a indexed or denominated loan agreement be replaced by the provisions of civil or common law;
- if it is impossible to determine a binding exchange rate of a foreign currency in a denominated loan agreement, can the agreement bind the parties to the remaining extent;
- if it is impossible to determine a binding exchange rate of a foreign currency in a loan agreement, can the agreement bind the parties to the remaining extent;

- if a loan agreement is invalidated will the theory of balance or the theory of two condictions apply;
- what is the moment determining the start of the statute of limitations period if the bank makes a claim against the borrower for refund of the disbursed loan;
- is it possible for banks and borrowers to receive remuneration for the use of funds.

In the opinion of the PZU Group, the Supreme Court ruling expected to be handed down on 13 April 2021 in the above issues may have significant impact on the further line of court rulings in this respect. At the same time, discussions are waged in Poland regarding implementation of possible systemic solutions pertaining to FX mortgage loans in Swiss francs. In accordance with the proposal of the KNF Chairman of 8 December 2020, clients would have the possibility of converting their FX mortgage loan into a PLN loan (as if the borrower had, from the beginning, a PLN loan with interest based on WIBOR 3M with a margin adequate to historical levels (depending on when the loan was granted).

As at 31 December 2020, there were 592 individual course cases pending against the PZU Group pertaining to FX mortgage loans in Swiss francs which were granted in previous years with the total disputed amount of PLN 160 million (as at 31 December 2019 there were 195 cases pending with the value of PLN 59 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid. As at 31 December 2020, the PZU Group received 36 unfavorable court judgments in cases filed by borrowers, including 3 final judgments declaring the loan agreement invalid, and 13 favorable court judgments, including 2 final judgments dismissing the claim for declaring the loan agreement invalid and a claim for payment in connection with invalidity of the loan agreement (as at 31 December 2019: 2 unfavorable court judgments – no final judgments declaring the loan agreement invalid and 4 favorable non-final judgments dismissing the claim for payment).

Considering the increase in the number of disputed cases in which the PZU Group is a party, and the increase in the number of statements of claim pertaining to CHF mortgage loans in the whole banking sector, as well as the strengthening unfavorable trend in the line of rulings, as at 31 December 2020, the PZU Group updated the estimation of the provision for legal risk associated with FX mortgage loans in Swiss franc in the total amount of PLN 436 million (PLN 59 million as at 31 December 2019).

The above amount comprises a provision for individual court cases in which the PZU Group is a party and a portfolio provision for the remaining FX mortgage loans in Swiss franc which are exposed to legal risk associated with the nature of these agreements.

For the needs of estimation of the provision, the PZU Group assesses 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.

As regards existing court cases, the PZU Group assesses each time the probability of losing the case and the probability of a specific outcome (depending on what the statement of claim pertains to).

As at 31 December 2020, the PZU Group estimated the total amount of this provision at PLN 76 million (PLN 20 million as at 31 December 2019).

As regards the portfolio provision, as at 31 December 2020 the PZU Group based the calculations on 3 possible scenarios, to reflect best in the estimates of the portfolio provision the various possible solutions regarding CHF mortgage loans which are currently analyzed in the banking sector. In previous periods the PZU Group used one scenario.

The PZU Group decided to introduce the scenario method due to the significant changes observed in the banking market during 2020, especially regarding the significant increase in the disputed cases, still increasing complexity of the legal problems and the various sectoral solutions in the area of CHF mortgage loans being discussed.

The calculation of the provision carried out as at 31 December 2020 was based on the following equivalent scenarios:

- base scenario – assumes that approx. 6% of FX borrowers (with both active and repaid loans) have filed or will file over the next 3 years statements of claim challenging the loan agreement and estimates the probability of losing the court cases and the possible financial effects if the case is lost, adopting the following possible resolutions:
  - 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),

(in millions of PLN)

- recognizing the indexation clause as abusive and replacing the Pekao exchange rate table in it with the average NBP exchange rate,
- dismissing the statement of claim.

The base scenario, as at 31 December 2020, takes into account the existing history of statements of claim, both against the Group and observed in the market, and uses the opinions of an external law firm to determine the probability of losing the disputed cases and the probability of possible solutions. As at 31 December 2020, the PZU Group estimates that the probability of losing a disputable case is in the range of 80% (up 10 p.p. relative to the assumptions in this respect as at 31 December 2019).

An additional element of the estimates in the base scenario is the distribution of the probability of the possible resolution of the disputable case which is associated with a specific level of loss. The biggest share in possible resolution scenarios – 70% (35% as at 31 December 2019) was assigned to invalidating the loan agreement.

- amicable settlement scenario – litigations regarding CHF loan agreements are possible, however clients will use them to a much lesser extent than in the base scenario, as most of them (approx. 75-80%) will take advantage of the option of a settlement with the bank, relying on the solutions discussed in the banking sector, in accordance with the proposal of the KNF Chairman. In the settlement scenario the financial effects are equal to the sum of the differences between the current balance of the CHF loan and the balance of the PLN mortgage loan based on the WIBOR rate plus the loan margin, granted at the same time and for the same term as the CHF loan and repaid by the borrower in accordance with the repayments made in the CHF loan. With the current market parameters and assuming that all borrowers for whom the conversion of the loan into PLN in accordance with the proposal of the Chairman of KNF would be favorable would enter into an appropriate agreement with the Bank, PZU Group's loss on this account would amount to PLN 350-400 million.
- negative scenario – in the case of a negative (for the banks) resolution of the Supreme Court's Civil Chamber in its full composition
and in connection with this resolution, unfavorable line of rulings of common courts pertaining to CHF mortgage loans, the number of possible statements of claim will be in the future nearly 3 times higher than assumed in the base scenario, with simultaneous higher probability both with regard to unfavorable court judgments as to the principle (increase to 95%) and their resolutions in the form of declaring the entire CHF mortgage loan agreement invalid (95% of the resolutions).

Considering the short history of the data on the scale of the statements of claim (in particular on final verdicts), the significant complexity of the different legal aspects which may occur with regard to such loan agreements and the resulting undeveloped direction of possible court resolutions, the estimates regarding the above provision required that the PZU Group make a number of expert assumptions on the basis of its professional judgment.

New rulings and the expected resolution of the full composition of the Supreme Court's Civil Chamber and the possible sectoral solutions which will appear in the Polish market for CHF mortgage loans may have impact on the amount of the provision established by the PZU Group and necessitate a change of individual assumptions adopted in the calculations, in particular for the weights of individual scenarios, probability of unfavorable solutions or the possible number of statements of claim. In connection with this uncertainty it is possible that the provision amount will change in the future.

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

Parameter	Scenario	Impact on the amount of the provision
Number of cases brought to court	+20%	34
	-20%	(34)
Probability of losing the case	+10 p.p.	26
	-10 p.p.	(26)
Probability of the agreement invalidation scenario	+10 p.p.	10
	-10 p.p.	(10)

(in millions of PLN)

The PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and the provision amount is the difference between the expected cash flows from the given exposure and the contractual cash flows within the meaning of IFRS 9.

In connection with the above, for the FX exposures of CHF mortgage loans outstanding as at 31 December 2020, it has been assumed that the provision amount (comprising the existing and possible future statements of claim) is recognized in "Impairment losses for loan receivables from clients" (in correspondence with the "Movement in allowances for expected credit losses and impairment losses on financial instruments" item up to the amount of the credit exposure. The PZU Group recognizes that with regard to the CHF loan portfolio there was a significant increase in credit risk from the date of initial recognition and classifies these loans into Basket 2.

In the case of part of the provision pertaining to repaid CHF mortgage loans (comprising existing and possible future statements of claim) or if the provision amount exceeds the net carrying amount of the credit exposure, the provision amount is recognized as "Provisions" (in correspondence with "Other operating expenses").

In accordance with the above rules, as at 31 December 2020, the total provision amount of PLN 436 million was allocated in the following manner:

- PLN 345 million (PLN 37 million as at 31 December 2019) for current and future court cases pertaining to balance sheet exposures recognized as an element of the impairment losses for loan receivables from clients in correspondence with the "Movement in allowances for expected credit losses and impairment losses",
- PLLN 91 million (PLN 22 million as at 31 December 2019) for existing and future disputable cases pertaining to repaid exposures recognized as provisions in correspondence with "Other operating expenses".

A summary of the recognition of the provision for legal risk pertaining to CHF mortgage loans in the statement of financial position and profit and loss account is presented in the tables below.

Consolidated statement of financial position line items	31 December 2020	31 December 2019
Impairment losses for loan receivables from clients	345	37
individual provision	65	17
portfolio provision	280	20
Other provisions	91	22
individual provision	11	3
portfolio provision	80	19
Total	**436**	**59**

Consolidated profit and loss account line items	31 December 2020	31 December 2019
Movement in allowances for expected credit losses and impairment losses on financial instruments	(309)	37
Other operating expenses	(68)	22
Total	**(377)**	**59**

Provisions for guarantees and sureties given

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

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

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 55.2.

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.

Provision for tax risk

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.

At the same time, on 27 August 2020, PZU Finance AB (publ.) submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB (publ.) received the tax decision from the tax office confirming that the tax was calculated correctly. The decision is not final. Consequently, PZU Group assesses the probability that the tax will have to be paid at less than 50%. As a consequence, the provision was reversed (as at 31 December 2019, it was posted as a liability of PLN 79 million) recognizing income (in other operating income) in the amount of PLN 89 million, recognizing at the same time a contingent liability.

Provision for restructuring costs

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 intended to terminate employment contracts with a maximum of 1,200 employees and modify employment conditions with a maximum of 1,350 employees, although Pekao could 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 31 December 2020, the value of the provision was PLN 81 million and pertained to disbursements to be made in 2021.

The remaining balance is made up of the following:

- PLN 9 million – pertaining to the restructuring process conducted in PZU and PZU Życie (PLN 10 million as at 31 December 2019);
- PLN 3 million – pertaining to the restructuring processes in Alior Bank, including the provision recognized in 2019 in connection with the acquisition of SKOK Jaworzno (as at 31 December 2019: PLN 5 million).

(in millions of PLN)

48. Deferred income tax

48.1 Accounting policy

The level of deferred tax liabilities and assets is determined using the balance sheet method using the corporate income tax rates which are expected to be in effect when the asset or liability is realized, in accordance with the provisions of tax law in the countries of registered offices of PZU Group companies, issued by the end of the reporting period.

In the case of all consolidated companies participating in the PGK Tax Group, the deferred tax assets and liabilities are set off based on the assumption that the Tax Group will be extended for the next periods, therefore for the needs of this set-off, the period in which the temporary differences are expected to be reversed is not analyzed.

48.2 Estimates and assumptions

PZU Group Companies have estimated the future taxable income for the possibility of realizing deductible temporary differences on account of tax losses incurred by these companies. As a result of these estimates, no deferred tax assets have been recognized pertaining to some of the tax losses.

48.3 Quantitative data

48.3.1. Deferred tax assets

Unrecognized deferred tax assets resulting from the tax loss according to legally permissible realization term	31 December 2020	31 December 2019
up to 1 year	6	1
1 to 5 years	21	14
over 5 years	3	3
term unlimited by law	2	2
Total	**32**	**20**

Movement in deferred tax assets in the year ended 31 December 2020	As at the beginning of the period	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Loan receivables from clients	1,143	162	(4)	-	1,301
Upfront bank commissions	620	(27)	-	5	598
Liabilities to clients under deposits	68	(42)	-	-	26
Intangible assets – trademarks and client relations	(246)	47	-	-	(199)
Financial instruments	121	244	(267)	2	100
Real property	(52)	2	-	3	(47)
Accrued reinsurance income and expenses	18	(3)	-	-	15
Provisions for employee benefits	70	7	2	-	79
Provisions for bonuses	63	(8)	-	-	55
Other provisions and liabilities	468	47	-	15	530
Tax losses carried forward	36	-	-	1	37
Provision for restructuring costs	4	12	-	-	16
Total deferred tax assets	**2,313**	**441**	**(269)**	**26**	**2,511**

(in millions of PLN)

Movement in deferred tax assets in the year ended 31 December 2019	As at the beginning of the period	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Loan receivables from clients	1,158	(25)	(4)	14	1,143
Upfront bank commissions	580	36	-	4	620
Liabilities to clients under deposits	58	9	-	1	68
Intangible assets – trademarks and client relations	(291)	50	-	(5)	(246)
Financial instruments	237	(79)	(38)	1	121
Real property	(61)	12	-	(3)	(52)
Accrued reinsurance income and expenses	34	(16)	-	-	18
Provisions for employee benefits	72	(2)	-	-	70
Provisions for bonuses	74	(15)	-	4	63
Other provisions and liabilities	332	119	-	17	468
Tax losses carried forward	37	(1)	-	-	36
Provision for restructuring costs	4	-	-	-	4
Total deferred tax assets	**2,234**	**88**	**(42)**	**33**	**2,313**

48.3.2. Deferred tax liability

Movement in deferred tax liabilities in the year ended 31 December 2020	As at the beginning of the period	Changes recognized in the financial result	Changes recognized in other comprehensive income	Other changes	Balance at the end of the period
Financial instruments	350	93	86	(1)	528
Recovery receivables	8	5	-	-	13
Real property	75	56	-	(10)	121
Deferred acquisition cost	282	10	-	-	292
Accrued reinsurance income and expenses	(6)	(16)	-	-	(22)
Intangible assets – trademarks and client relations	71	(4)	-	1	68
Provisions for employee benefits	(18)	-	1	-	(17)
Provision for bonuses	(52)	-	-	-	(52)
Liabilities unpaid to natural persons (under mandate contracts, agency contracts etc.)	(77)	5	-	-	(72)
Other provisions and liabilities	(104)	(4)	-	2	(106)
Prevention fund	13	(2)	-	-	11
Equalization provision	144	(33)	-	-	111
Tax losses carried forward	(17)	(1)	-	(1)	(19)
Other discrepancies	77	19	-	(3)	93
Total movement in deferred tax liabilities	**746**	**128**	**87**	**(12)**	**949**

(in millions of PLN)

Movement in deferred tax liabilities in the year ended 31 December 2019 (restated)	**As at the beginning of the period**	**Changes recognized in the financial result**	**Changes recognized in other comprehensive income**	**Change in the composition of the Group and other changes**	**As at the end of the period**
Financial instruments	122	153	74	1	350
Recovery receivables	9	(1)	-	-	8
Real property	57	(7)	1	24	75
Deferred acquisition cost	277	5	-	-	282
Accrued reinsurance income and expenses	(6)	-	-	-	(6)
Intangible assets – trademarks and client relations	58	2	-	11	71
Provisions for employee benefits	(15)	(3)	-	-	(18)
Provision for bonuses	(53)	(4)	-	5	(52)
Liabilities unpaid to natural persons (under mandate contracts, agency contracts etc.)	(73)	(4)	-	-	(77)
Other provisions and liabilities	(105)	(3)	-	4	(104)
Prevention fund	14	(1)	-	-	13
Equalization provision	145	(1)	-	-	144
Tax losses carried forward	(17)	3	-	(3)	(17)
Other discrepancies	73	-	-	4	77
Total movement in deferred tax liabilities	**486**	**139**	**75**	**46**	**746**

49. Assets and liabilities held for sale

49.1 Accounting policy

Assets and liabilities or groups held for sale are classified as held for sale if there is a sale plan for them and there is an active program of finding the buyer.

Assets and liabilities held for sale or groups held for sale are measured as one of the two values, whichever is lower: previous carrying amount or fair value minus the costs of effecting the sale.

(in millions of PLN)

49.2 Quantitative data

Assets held for sale by classification before transfer	31 December 2020	31 December 2019
Assets	517	504
Investment property	439	454
Investment financial assets measured at fair value through other comprehensive income	28	-
Intangible assets	2	-
Property, plant and equipment	4	-
Receivables	5	9
Deferred tax assets	-	6
Cash and cash equivalents	33	34
Other assets	6	1
Liabilities related directly to assets classified as held for sale	121	29
Liabilities to clients under deposits	76	-
Other liabilities	30	22
Deferred tax liability	14	6
Other provisions	1	1
Other assets held for sale	**73**	**76**
Property, plant and equipment	10	33
Investment property	63	43
Assets and groups of assets held for sale	**590**	**580**
Liabilities related directly to assets classified as held for sale	**121**	**29**

The “Investment property” line item and the “Groups held for sale” section presented mainly the properties held by real estate sector mutual funds as held for sale, since the expected investment horizon has been reached.

Data took into account in the measurement of investment properties presented as held for sale are presented in section 9.2.1.2.

50. Lease

50.1 Accounting policy

PZU Group companies are parties to lease agreements, both as lessors and as lessees.

An agreement is a lease or comprises a lease if it transfers the right to control the use of an identified asset for the given period in return for a fee.

50.1.1. PZU Group as the lessee

On the date when the leased asset is available for use, the PZU Group recognizes the right-of-use asset and the lease liability.

Pursuant to item 4 of IFRS 16, the PZU Group does not apply this standard to intangible assets.

The lease period is an irrevocable period of use of an asset, determined taking into consideration:

- the options of extending or shortening, if they are in principle certain;
- material investments in the leased item undertaken during the term of the agreement which are expected to bring significant economic benefits for the PZU Group company, on the basis of which decisions will be taken on extending or terminating the agreement;
- the costs associated with termination of the lease, such as costs of negotiation, costs of relocation, costs of search for different premises/property adequate to the company’s business needs, termination penalty and costs associated with adaptation of the subject matter of the agreement being returned to a specific condition;
- the significance of the asset for the activity of the PZU Group company, considering the specialization of the asset, its location and availability of relevant alternative solutions;

- conditions associated with exercising the option (i.e. if the option can be exercised when one or more conditions have been satisfied) and the probability of fulfillment of such conditions.

Assessing the probability of exercise of the aforementioned options, the company takes into account all material facts and circumstances which constitute an economic incentive to exercise the option to extend the lease and or not to exercise the option to terminate the lease.

The PZU Group determines the lease period for agreements for an indefinite term taking into account the economic factors, the existing practice and the available information which may be helpful in determining the period of use of the asset. To determine the lease period, the PZU Group uses professional judgment. In particular, for the perpetual usufruct right to land, the lease period is determined as the time remaining from the date of implementation of IFRS 16 or from the date of purchase of the perpetual usufruct right to land (of acquired after 1 January 2019) until the date of expiry of such right.

On initial recognition:

- the lease liability is measured at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available;
- right-of-use assets are measured at cost, which includes the initial lease liability amount, any lease payments paid on or before the commencement date, less any lease incentives received, all initial costs incurred by the lessee, and an estimate of the costs to be incurred in disassembling and removing the asset, renovating the site where it was located, if the lease contract so requires.

The PZU Group recognizes assets and liabilities in respect of lease at a net amount. The VAT amount is recognized in expenses of the current period.

Lease payments are discounted using the interest rate implicit in the lease, if it can be easily determined, or the lessee's marginal interest rate.

The lessee's marginal interest rate is determined on the basis of current valuations of financial instruments issued by PZU Group and other PZU Group entities, coming from an active market. If there are no such instruments, or there is no active market, the marginal interest rate is determined on the basis of valuations of the financial instruments issued by other entities with similar business profiles and credit risk level. For all contracts ending on the same date and with a fixed amount of monthly payments (this group includes most lease contracts in the PZU Group) a fixed contract discount rate has been calculated.

In subsequent periods:

- the right-of-use asset is measured using the cost less depreciation and impairment model or at fair value (in the case of assets being investment properties);
- the liability is measured at amortized cost.

Right-of-use assets are depreciated using the straight-line method from the lease commencement date to the earlier of the end of the useful life or the end of the lease period.

Right-of-use assets are recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities as financial liabilities.

Changes in lease payments (resulting from, among others, changes in the index, rate, lease period) are taken into account, updating the valuation of lease liabilities and an appropriate adjustment of the right-of-use assets. The lease period is updated in the case of:

- occurrence of a significant event or significant change in the circumstances which the PZU Group controls and as a result of which it is possible to assume with sufficient certainty that the PZU Group will exercise an option which has not been previously taken into consideration in the determination regarding the lease period, or that it will not exercise an option which has been previously taken into consideration in such determinations;
- change of the irrevocable period of lease or new determination of the lease period in the case of amendment of the agreement, if such change has not been recognized as a separate lease.

(in millions of PLN)

Short-term lease and low-value asset lease

The PZU Group does not recognize right-of-use assets for short-term leases and for leases for which the underlying asset has a low value. Low-value assets were deemed to be assets with an original value of the underlying asset equal to or lower than PLN 20 thousand. In such a case the PZU Group recognizes lease payments as a cost in the consolidated profit and loss account during the lease period.

50.1.2. PZU Group as the lessor

On the date of commencement of the lease, the PZU Group classifies the given lease agreement as:

- finance lease – if substantially all of the risks and benefits following from the holding of the underlying asset are transferred or as
- operating lease – if the above conditions are not satisfied.

Classifying the given lease agreement, the PZU Group takes into account, among others, the fact whether the lease period constitutes a larger part of the economic useful life of the asset.

Finance lease

On the lease commencement date, the PZU Group recognizes the receivable in the amount of the net lease investment, i.e. the current value of minimum lease payments and unguaranteed residual value, if any, ascribed to the PZU Group. During the lease period the PZU Group recognizes interest income on the lease receivables.

Operating leases

Operating lease agreements pertain primarily to real property.

Lease payments under operating leases are recognized in the profit and loss account as income using the straight line method throughout the term of the lease.

50.2 Quantitative data

50.2.1. PZU Group as the lessor

50.2.1.1. Finance lease

Leasing investments	31 December 2020	31 December 2019
Undiscounted lease payments	13,306	10,688
Up to 1 year	4,726	4,156
More than one year less than two years	3,405	3,049
From 2 to 3 years	2,399	982
From 3 to 4 years	1,361	1,279
From 4 to 5 years	683	626
Over 5 years	732	596
Unrealized financial income	(837)	(903)
Discounted unguaranteed residual values	-	-
Net lease investments	**12,469**	**9,785**

(in millions of PLN)

50.2.1.2. Operating leases

Operating lease transactions pertain principally to investment property lease agreements. The table below presents future minimum lease payments under operating lease (undiscounted amounts).

Future minimum receivables on lease payments	31 December 2020	31 December 2019
Up to 1 year	235	164
More than one year less than two years	186	149
From 2 to 3 years	168	137
From 3 to 4 years	133	104
From 4 to 5 years	72	85
Over 5 years	158	168
Total future minimum receivables on lease payments	**952**	**807**

50.2.2. PZU Group as the lessee

Right-of-use assets carried as property, plant and equipment	31 December 2020	31 December 2019
Means of transportation	21	30
Other property, plant and equipment	4	2
Real property	973	994
Total right-of-use assets	**998**	**1,026**

Movement in right-of-use assets used for own needs is presented together with the movement in property, plant and equipment in section 31.2.

Lease-related costs	1 January – 31 December 2020	1 January – 31 December 2019
Depreciation of right-of-use assets	285	297
Plant and machinery	-	19
Means of transportation	14	13
Other property, plant and equipment	2	1
Real property	269	264
Interest on lease liabilities	28	29
Short-term lease-related costs	95	114
Low-value asset lease-related costs	1	-
Costs of variable lease payments not carried in valuation of lease liabilities	-	-

(in millions of PLN)

51. Assets securing receivables, liabilities and contingent liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 December 2020	31 December 2019
Carrying amount of financial assets pledged as collateral for liabilities	11,671	10,522
Repurchase transactions	1,154	598
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	980	938
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	216	122
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	391	302
Lombard and technical credit	5,852	5,758
Other loans	699	709
Issue of covered bonds	1,838	1,872
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	43	33
Derivative transactions	456	190
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House – Derivative transactions	42	-
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**11,671**	**10,522**

52. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2020	31 December 2019
Contingent assets, including:	7	6
- guarantees and sureties received	7	6
Contingent Liabilities	65,785	59,437
- for renewable limits in settlement accounts and credit cards	11,324	10,603
- for loans in tranches	33,239	29,867
- guarantees and sureties given	9,826	9,782
- disputed insurance claims	771	773
- other disputed claims	222	212
- other, including:	10,403	8,200
- guaranteeing securities issues	4,339	3,636
- factoring	4,136	3,300
- intra-day limit	425	339
- letters of credit and commitment letters	1,231	732
- other	272	193

53. Offsetting financial assets and financial liabilities

53.1 Accounting policy

The offsetting agreements entered into by the Group include:

- International Swaps and Derivatives Association (ISDA) Master Agreements and other master agreements pertaining to derivatives,
- Global Master Repurchase Agreement (GMRA) pertaining to securities purchase/sale and repurchase transactions

The offsetting agreements entered into by the PZU Group do not satisfy the offsetting criteria in the statement of financial position. For the provisions of such agreements provide for the right to offset the recognized amounts which is exercisable only in the case of occurrence of a specific event (breach of the agreement).

The PZU Group received and submitted collateral in the form of margins and liquid securities for transactions on derivatives.

These collaterals are established on standard industry terms. Collaterals in the form of margin follow from, e.g. the Credit Support Annex (CSA) – constituting an annex to ISDA master agreements.

(in millions of PLN)

53.2 Quantitative data

The disclosures in the tables below apply to financial assets and liabilities that are subject to enforceable netting master agreements or similar agreements, irrespective of whether they are set off in the statement of financial position.

Financial assets and liabilities subject to offset, if any	31 December 2020	31 December 2019
Financial assets		
Financial derivatives		
Carrying amount of the items from the statement of financial position	6,339	3,107
Carrying amount of the items not subject to offset, if any	375	239
Net carrying amount – subject to offset, if any	5,964	2,868
Potential offset amounts	5,236	2,596
- financial instruments (includes received collateral on securities)	4,700	2,103
- received cash collateral	536	493
Net value	728	272
Financial liabilities		
Financial derivatives		
Carrying amount of the items from the statement of financial position	6,281	3,018
Carrying amount of the items not subject to offset, if any	199	157
Net carrying amount – subject to offset, if any	6,082	2,861
Potential offset amounts	5,647	2,754
- financial instruments (includes received collateral on securities)	4,724	2,136
- received cash collateral	923	618
Net value	435	107

54. Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 31 December 2020	As at the beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,427	716	-	296	-	6,439
Liabilities on the issue of debt securities	9,273	(1,816)	67	19	(11)	7,532
Bonds	3,976	583	40	(1)	(1)	4,597
Certificates of deposit	3,940	(2,355)	27	1	(2)	1,611
Covered bonds	1,357	(44)	-	19	(8)	1,324
Subordinated liabilities	6,700	(162)	138	3	-	6,679
Liabilities on account of repurchase transactions	599	556	5	-	(6)	1,154
Lease liabilities	1,066	(275)	37	-	236	1,064
Total	**23,065**	**(981)**	**247**	**318**	**219**	**22,868**

(in millions of PLN)

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	**23,006**	**1,301**	**(1,684)**	**265**	**31**	**91**	**55**	**23,065**

55. Disputes

The PZU Group entities participate in a number of litigations and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance agreements, disputes concerning labor relationships and disputes relating to contractual obligations. For typical administrative proceedings involving the PZU Group companies include proceedings conducted by KNF, proceedings related to untimely payout of benefits, proceedings conducted by the Financial Ombudsman, proceedings related to delays or no reply to complaints, and proceedings related to the possession of real properties.

Such proceedings and litigation are of a typical and repetitive nature and usually no particular case is of material importance to the PZU Group.

The majority of disputes involving the PZU Group companies concerned four companies: PZU, PZU Życie, Pekao and Alior Bank. Additionally, PZU and PZU Życie are parties to proceedings conducted before the President of the Office of Competition and Consumer Protection.

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

As at 31 December 2020, the total value of dispute in all 282,352 cases (as at 31 December 2019: 294,687) cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,825 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,408 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,417 million (as at 31 December 2019: PLN 4,070 million) of receivables of PZU Group companies.

In 2020 and by the date of signing the consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

55.1 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.

In PZU' s opinion, the rescission of the resolution will not lead to the occurrence of a claim on the part of PZU shareholders for payment of a dividend.

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 31 December 2020, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the

PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

55.2 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 closed the case.

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

55.3 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 31 December 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 31 December 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).

55.4 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. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. Additionally, the PZU Group posits that the probability of outflow of funds on this account is estimated at a level below 50%, accordingly, as at 31 December 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.

55.5 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 Court of Administration. As at the date of signing the consolidated financial statements, the Supreme Court of Administration did not review the appeal.

56. Transactions with related entities

56.1 Key management

The PZU Management Board Members and PZU Group Directors are assumed to be the key management of the PZU Group.

In 2020 and in 2019, the PZU Group companies did not grant any loans or similar benefits to members of their key management.

Compensation of the key management and members of the PZU SA Supervisory Board

The compensation paid to members of PZU's key management staff (PZU Management Board Members, senior managers and Supervisory Board members who discharged their duties for at least one day in 2020 and 2019) is presented below. The figures are presented in thousands of PLN.

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2020 (PLN thousand)		1 January – 31 December 2019 (PLN thousand)	
		including part of variable compensation for 2017-2019		including part of variable compensation for 2017 and 2018
Management Board, of which:	**12,892**	**3,909**	**10,664**	**4,412**
Beata Kozłowska-Chyła	776	-	n/a	n/a
Ernest Bejda	617	-	n/a	n/a
Marcin Eckert	1,321	391	672	-
Małgorzata Kot	297	-	n/a	n/a
Tomasz Kulik	1,567	637	1,482	627
Maciej Rapkiewicz	1,567	637	1,733	879
Małgorzata Sadurska	1,581	651	1,543	689
Krzysztof Szypuła	415[1)]	-	n/a	n/a
Aleksandra Agatowska	356	282	611	423
Adam Brzozowski	1 395[2)]	310	532	-
Elżbieta Häuser-Schöneich	1 395[3)]	310	532	-
Paweł Surówka	1 605[4)]	691	1,799	915
Roger Hodgkiss	n/a	n/a	1 760[5)]	879

(in millions of PLN)

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2020 (PLN thousand)		1 January – 31 December 2019 (PLN thousand)	
High-level managers (PZU Group Directors), including:	**2,374**	**741**	**3,530**	**2,034**
Aleksandra Agatowska	384	-	239	-
Bartłomiej Litwińczuk	616	244	821	482
Dorota Macieja	616	244	754	415
Małgorzata Kot	140	-	n/a	n/a
Roman Pałac	618[6)]	253	923	572
Tomasz Karusewicz	n/a	n/a	793[7)]	565
Supervisory Board, of which:	**2,007**	**-**	**1,761**	**-**
Maciej Łopiński	195	-	184	-
Paweł Górecki	193	-	182	-
Robert Śnitko	188	-	167	-
Marcin Chludziński	177	-	167	-
Agata Górnicka	177	-	167	-
Robert Jastrzębski	193	-	176	-
Tomasz Kuczur	177	-	101	-
Elżbieta Mączyńska-Ziemacka	177	-	101	-
Krzysztof Opolski	188	-	101	-
Józef Wierzbowski	106	-	n/a	n/a
Maciej Zaborowski	177	-	167	-
Alojzy Nowak	59	-	182	-
Katarzyna Lewandowska	n/a	n/a	66	-

1) Including fixed compensation and annual bonus for the function of Managing Director on Product Strategy discharged from 1 January to 9 September 2020.
2) Including non-competition fee of PLN 210 thousand and severance pay of PLN 233 thousand.
3) Including non-competition fee of PLN 210 thousand and severance pay of PLN 233 thousand.
4) Including non-competition fee of PLN 483 thousand and severance pay of PLN 242 thousand.
5) Including non-competition fee of PLN 383 thousand and severance pay of PLN 192 thousand.
6) Including non-competition fee of PLN 193 thousand and severance pay of PLN 97 thousand.
7) Including non-competition fee of PLN 49 thousand and severance pay of PLN 77 thousand.

In 2020, PZU Management Board Members were paid part of the benefits for 2017-2019 under the variable compensation system. The payout of the remaining part of the bonus for 2017-2020 may be made in subsequent periods. A provision has been recognized for these benefits with the total amount of PLN 15,688 thousand as at 31 December 2020 (including the employer's burdens; PLN 11,791 thousand as at 31 December 2019).

Compensation and other short-term employee benefits paid by other PZU Group entities	1 January – 31 December 2020 (PLN thousand)		1 January – 31 December 2019 (PLN thousand)	
		including part of variable compensation for 2017-2019		including part of variable compensation for 2017 and 2018
Management Board, of which:	**892**	**-**	**1,471**	**1,012**
Marcin Eckert	-	-	48	-
Małgorzata Kot	224	-	n/a	n/a
Tomasz Kulik	-	-	298	298
Maciej Rapkiewicz	-	-	135	135
Krzysztof Szypuła	668[1)]	-	n/a	n/a
Aleksandra Agatowska	n/a	n/a	788	377
Paweł Surówka	-	-	67	67
Roger Hodgkiss	n/a	n/a	135	135

(in millions of PLN)

Compensation and other short-term employee benefits paid by other PZU Group entities	1 January – 31 December 2020 (PLN thousand)		1 January – 31 December 2019 (PLN thousand)	
High-level managers (PZU Group Directors), including:	**3,573**	**1,429**	**3,831**	**1,946**
Aleksandra Agatowska	784	285	n/a	n/a
Bartłomiej Litwińczuk	934	377	979	471
Dorota Macieja	934	377	943	434
Roman Pałac	921[2)]	390	1,052	526
Tomasz Karusewicz	n/a	n/a	857[3)]	515

[1)] Including fixed compensation and annual bonus for the function of Managing Director on Product Strategy discharged from 1 January to 9 September 2020.
[2)] Including non-competition fee of PLN 280 thousand and severance pay of PLN 140 thousand.
[3)] Including non-competition fee of PLN 74 thousand and severance pay of PLN 115 thousand.

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2020 (PLN thousand)	1 January – 31 December 2019 (PLN thousand)
Management Board, of which:	**2,626**	**2,242**
Beata Kozłowska-Chyła	118	n/a
Ernest Bejda	58	n/a
Marcin Eckert	657[1)]	200
Małgorzata Kot	90	n/a
Tomasz Kulik	156	649[2)]
Maciej Rapkiewicz	160	227
Małgorzata Sadurska	241	259
Krzysztof Szypuła	101	n/a
Adam Brzozowski	214	148
Paweł Surówka	661[3)]	331
Elżbieta Häuser-Schöneich	170	119
Aleksandra Agatowska	n/a	207
Roger Hodgkiss	n/a	102
High-level managers (PZU Group Directors), including:	**697**	**768**
Aleksandra Agatowska	214	n/a
Bartłomiej Litwińczuk	235	200
Dorota Macieja	209	197
Roman Pałac	39	228
Tomasz Karusewicz	n/a	143

[1)] Including PLN 445 thousand for the Advanced Management Program at Harvard Business School.
[2)] Including PLN 473 thousand for the Advanced Management Program at Harvard Business School.
[3)] Including PLN 515 thousand for the Advanced Management Program at Harvard Business School.

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

In 2020, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on non-arm's length conditions.

(in millions of PLN)

56.3 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 December 2020 and as at 31 December 2020		1 January – 31 December 2019 and as at 31 December 2019	
	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium				
in non-life insurance	-	3	-	4
in life insurance (including volumes in investment contracts)	-	-	-	-
Other income	-	-	-	-
Expenses	-	7	-	-
Investment financial assets	-	3	-	-
Receivables	-	-	-	-
Liabilities under deposits	1	-	-	-
Other liabilities	-	6	-	-
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.

56.4 Transactions with State Treasury's related parties

Transactions with subsidiaries, joint ventures and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and investment contracts and banking services. Such transactions are concluded and settled on terms and conditions available to customers, who are not related parties. Receivables from and liabilities to parties related to the State Treasury under insurance contracts are usually short-term.

(in millions of PLN)

57. Headcount

The following table presents average headcount (in FTEs) in PZU Group companies.

Item	1 January – 31 December 2020	1 January – 31 December 2019
Management Boards (number of persons at the end of the reporting period)	149	151
Management staff	3,856	4,085
Other employees	36,800	37,159
Total	**40,805**	**41,395**

58. Other information

58.1 Audit fee payable to the audit firm auditing the financial statements

The table below presents the amounts due to the PZU Group's audit firm (KPMG Audyt sp. z ograniczoną odpowiedzialnością sp. k., "KPMG Audyt", and members of the KPMG network) for the audit of financial statements of the consolidated PZU Group companies performed by KPMG, paid or payable for the period, plus VAT, determined in accordance with the accrual principle.

Item	1 January – 31 December 2020 (PLN thousand)	1 January – 31 December 2019 (PLN thousand)
Audit of the financial statements	8,698	8,371
Other assurance services	4,901	5,148
Total	**13,599**	**13,519**

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors in the list of audit firms under no. 3546 as an entity auditing financial statements for the years 2014-2016, and on 27 April 2017, the PZU Supervisory Board exercised the option of extending this cooperation to include the years 2017-2018. On 23 May 2019, after KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt to audit PZU's standalone and consolidated financial statements, the PZU Supervisory Board made the decision to select KPMG Audyt again as the audit firm to audit the 2019-2020 financial statements.

In connection with Article 49 of the Act of 31 March 2020 amending the Act on special solutions connected with preventing, counteracting and combating COVID-19, other infectious diseases and crises caused by them and certain other acts ("Act"), which extended the maximum period of uninterrupted engagement to carry out statutory audit to ten years by abolishing the limit set forth in Article 134 sec. 1 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, on 28 May 2020, the PZU Supervisory Board gave its consent to renew the engagement for KPMG Audyt for reviews and audits of the standalone financial statements of PZU and the consolidated financial statements of the PZU Group for years 2021-2022 with an extension option to 2023.

To enable performance of the work described above, relevant annexes to the previously signed agreements were concluded.

The existing cooperation with KPMG Audyt, pertaining to the reviews and audits of the standalone financial statements of PZU and consolidated financial statements of the PZU Group has continued without interruption since 2014.

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

In 2020 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 question 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.

No guarantee was issued under this agreement in 2020.

58.3 KNF Office inspections in PZU and PZU Życie

58.3.1. PZU

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 7 January 2021, PZU received a recommendation to refrain from breaching the interests of parties entitled to indemnification under motor TPL insurance, consisting in applying in the calculation of the indemnification using the cost estimate method out-of-date, unreliable data on the man-hour rates in the car repair market that do not match the actual repair costs from the place of residence, seat or the injured party or the place of repair of the vehicle. On 19 February 2021, PZU informed KNF about implementing the recommendations and, on 19 March 2021 provided KNF, on its request, with additional documents and explanations pertaining to the implementation of the recommendation.

58.3.2. 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 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. The recommendations pertained to ensuring effective control systems and mechanisms allowing for a reliable and adequate measurement of assets and liabilities (options) where estimates are an important part. On 6 October 2020, PZU Życie announced the timely implementation of the recommendation.

During the period from 10 September to 9 November 2020 KNF conducted an inspection pertaining to PZU Życie's technical provisions for the purposes of solvency. On 16 December 2020, PZU Życie received an inspection report and submitted additional clarifications to the report.

On 11 December 2020, PZU Życie received recommendations following an analysis carried out by KNF in the period from July to November 2020 pertaining to performance of selected obligations following from the act on combating money laundering and financing of terrorism, as regards adaptation of the internal procedures to the contents of the provisions of law and verification of the client's identification data, with a deadline set for 30 June 2021.

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

58.4 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.

58.5 Approval of the prospectus for the program to issue banking securities

On 31 December 2020, KNF approved Alior Bank's prospectus prepared in connection with the public offering and intention to apply for admission to trading on the regulated market of banking securities issued under the Second Program to Issue Banking Securities with the total par value of up to PLN 5,000 million.

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

In December 2020 Alior Bank and Alior Leasing sp. z o.o. received from the former members of the Alior Leasing sp. z o.o. management board summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw on account of the management plan. As at the date of publication of the consolidated financial statements Alior Bank and Alior Leasing sp. z o.o. did not receive a statement of claim under the said arbitration proceedings. In the opinion of Alior Bank and Alior Leasing sp. z o.o., the likelihood of obtaining an effective ruling obligating the defendants to pay compensation to the plaintiffs on account of the management plan is low. Accordingly, these circumstances justify the decision not to include relevant provision in the consolidated financial statements.

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

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

58.6.1. Lease agreement for the building of PZU's new Head Office

On 4 February 2020 the PZU Management Board adopted a resolution to select an offer in the proceeding to lease headquarters for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a company belonging to the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU Head Office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office.

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 31 December 2020 should not change by more than 5% of the specified amount.

58.7 Subsequent events

58.7.1. Acquisition of Idea Bank

On 30 December 2020, BFG made a decision to apply the resolution instrument to Idea Bank due to satisfaction of the following premises:

- threat of the Idea Bank's bankruptcy,
- lack of premises indicating that possible regulator measures or Idea Bank's efforts will eliminate the threat of bankruptcy in due time,
- initiation of the resolution against Idea Bank was necessary to protect the public interest, understood as stability of the financial sector.

The resolution instrument applied by the Bank Guarantee Fund against Idea Bank involved the take-over as of 3 January 2021 by Pekao, with the effect specified in Article 176 sec. 1 of the BFG Act, of Idea Bank's enterprise, comprising its overall rights and liabilities as at 31 December 2020 ("Transaction"), excluding specific property rights and liabilities specified in the BFG decision, comprising among others:

- property rights and liabilities associated with actual, legal and prohibited acts in connection with:
  - trading in financial instruments and other acts pertaining to:
    - financial instruments issued by GetBack SA and GetBack SA's related parties,
    - investment certificates, in particular investment certificates issued by Lartiq (formerly Trigon) [Profit XXII NS FIZ, Profit XXIII, NS FIZ, Profit XXIV NS FIZ] represented by Lartiq TFI SA (formerly Trigon TFI SA), Universe NS FIZ, Universe 2 NS FIZ and other mutual funds represented by Altus TFI SA,
  - providing insurance cover, performing insurance intermediation activities or distribution of unit-linked life insurance (also life insurance in which the benefit is determined on the basis of specified indices or other underlying values),
  - provision of services as an agent of an investment firm,
  - activity of Idea Bank S.A. which is not covered by Pekao's articles of association,

  and claims arising from such rights and liabilities, including those subject to civil and administrative proceedings, regardless of the date of incurring them;
- shares in Idea Bank's subsidiaries and associates;
- corporate bonds issued by GetBack SA;

hereinafter: "Acquired Business".

Execution of the acquisition of the Acquired Business does not have any material impact on Pekao's financial profile, including in particular its capital and liquidity parameters.

Idea Bank was commercial bank offering banking services provided to individual and institutional clients, such as, among others, acceptance of cash deposits payable on demand or upon maturity and keeping accounts for such deposits, granting loans, granting bank guarantees, issuing securities. Idea Bank's capital adequacy according to the latest available financial statements prepared as at 30 September 2020 was 2.51% (relative to 10.5% required by the law) and was significantly below the regulatory requirements.

The initiation of the resolution process made it possible to reduce the effects of the risk of bankruptcy of Idea Bank and, as a consequence, the resulting negative effects for the banking sector.

The acquisition of Idea Bank did not entail any payment from Pekao. As a result of the Transaction the PZU Group acquired Idea Bank's assets and liabilities whose total estimate fair value was negative.

Considering the foregoing, on 8 January 2021 Pekao received from BFG support in the form of a subsidy of PLN 193 million to cover the difference between the value of the acquired liabilities and the value of the acquired property rights of Idea Bank.

As an inseparable element of the Transaction, Pekao also received from BFG a guarantee to cover the losses resulting from the risk associated with property rights or liabilities of the entity in restructuring referred to in Article 112 sec. 3 item 1 of the BFG Act ("Loss Cover Guarantee") which includes a guarantee to cover losses resulting from credit risk associated with credit assets

(in millions of PLN)

("CRM Guarantee") and a guarantee to cover losses (other than losses resulting from credit risk) associated with the Acquired Business ("Other Risk Guarantee").

The acquisition is associated with the takeover of credit assets in the Acquired Business and could result in an increase in the amount of risk-weighted exposures (it is calculated by multiplying the exposure amounts and the risk weight following from the provisions of CRR Regulation). An increase in such risk-weighted exposure amounts could impact Pekao's capital requirements.

In connection with the above, the CRM Guarantee will be used by Pekao as "recognized unfunded credit protection" within the meaning of the CRR Regulation. As regards to credit risk, this will make it possible to assign to the acquired exposures a risk weight appropriate for the entity providing the protection – BFG, classified as a public sector entity in accordance with the KNF opinion referred to in Article 116(4) of the CRR Regulation. As a consequence of obtaining the opinion referred to in Article 116(4) of the CRR Regulation and after the CRM Guarantee satisfies the remaining premises for the "recognized unfunded credit protection", the exposures covered by the Loss Cover Guarantee can be treated as exposures to central government, resulting in a significant reduction of the capital requirement on account of credit risk on the part of Pekao.

List of Idea Bank's assets and liabilities at 31 December 2020 by carrying amount, i.e. without adjustments applied for the needs of settlement of the Transaction:

Statement of financial position item	31 December 2020
Intangible assets	144
Other assets	16
Property, plant and equipment	36
Assets held for sale	1
Loan receivables from clients	12,049
Financial derivatives	9
Investment financial assets	748
Measured at amortized cost	271
Measured at fair value through other comprehensive income	477
Receivables	286
Cash and cash equivalents	1,107
Total assets	**14,396**
Liabilities to banks	126
Liabilities to clients under deposits	13,514
Financial derivatives	155
Other liabilities	342
Provisions	8
Total liabilities	**14,145**

The total estimate fair value of the above assets and liabilities calculated by Pekao for the needs of submission of a binding offer to purchase the Acquired Business was negative and ranged from PLN -110 million to PLN -276 million.

Pekao will settle the Transaction applying the principles following from IFRS 3 Business combinations on the basis of the financial data pertaining to the Acquired Business as at 31 December 2020.

Application of IFRS 3 requires, among others, carrying out a process of identification and measurement of the acquired assets and liabilities at fair value as at the date of recognizing and measuring goodwill or a gain from a bargain purchase.

The above process requires collecting and analyzing huge volumes of data and carrying out a number of calculations on their basis, to determine the fair value of individual assets and liabilities in a reliable and trustworthy manner.

Considering the fact that the Transaction took place on 3 January 2021, the PZU Group started this process but did not have the possibility of settling the acquisition or provisional settlement of the acquisition between the date of obtaining control and the date of publication of the consolidated financial statements.

58.7.2. Group layoff program in Pekao

On 3 March 2021 Pekao, in accordance with the provisions of the Act of 13 March 2003 on the Special Rules for Terminating Employment Relationships with Employees for Reasons Not Attributable to Employees (consolidated text in the Journal of Laws of 2018, item 1969), it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

Pekao's intention is to definitively terminate employment contracts with no more than 1,110 employees and change the terms of employment of no more than 1,250 employees, which is approx. 8% and 9% of all Pekao employees as at 1 March 2021, respectively.

Pekao expects that the group layoffs will start in the last week of March 2021 and will end by 30 June 2021.

On 3 March 2021 Pekao notified the trade union organizations active in Pekao and the Workers Council of the reasons for the planned group layoff and requested that the trade union organizations and the Workers Council engage in consultation. Moreover, Pekao will notify the labor office of its intention to conduct group layoffs.

The group layoff process is a derivative of the long-term changes in the banking sector accelerated by the Covid-19 pandemic and an element of the reorganization of Pekao's outlet network and structures aimed at adapting the bank better to the current market situation and client preferences.

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 Accounting Department	.... (signature)

Warsaw, 24 March 2021