Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Consolidated financial statements
for the year ended 31 December 2021
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 2021	1 January – 31 December 2020
Gross written premiums	10	25,080	23,866
Reinsurers' share in gross written premium		(1,300)	(1,016)
Net written premiums		**23,780**	**22,850**
Movement in net provision for unearned premiums		(548)	174
Net earned premiums		**23,232**	**23,024**
Revenue from commissions and fees	11	4,738	4,197
Interest income calculated using the effective interest rate	12	9,782	10,262
Other net investment income	13	418	586
Result on derecognition of financial instruments and investments	14	407	111
Movement in allowances for expected credit losses and impairment losses on financial instruments	15	(1,849)	(3,342)
Net movement in fair value of assets and liabilities measured at fair value	16	797	869
Other operating income	17	1,602	1,395
Claims, benefits and movement in technical provisions		(16,130)	(16,105)
Reinsurers' share in claims, benefits and movement in technical provisions		399	525
Net insurance claims and benefits	18	**(15,731)**	**(15,580)**
Fee and commission expenses	19	(1,194)	(1,031)
Interest expenses	20	(418)	(1,134)
Acquisition expenses	21	(3,572)	(3,317)
Administrative expenses	22	(6,826)	(6,597)
Other operating expenses	24	(3,917)	(5,385)
Operating profit		**7,469**	**4,058**
Share of the net financial results of entities measured by the equity method		(15)	-
Profit before tax		**7,454**	**4,058**
Income tax	25	(2,020)	(1,528)
Net profit, including:		**5,434**	**2,530**
– profit attributable to the equity holders of the Parent Company		3,336	1,912
– profit (loss) attributed to holders of non-controlling interest		2,098	618
Weighted average basic and diluted number of common shares	26	863,344,936	863,332,499
Basic and diluted profit (loss) per common share (in PLN)	26	3.86	2.21

Warsaw, 23 March 2022

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

(in millions of PLN)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2021	1 January – 31 December 2020
Net profit		5,434	2,530
Other comprehensive income	25	(5,148)	1,602
Subject to subsequent transfer to profit or loss		(5,253)	1,549
Valuation of debt instruments		(2,229)	906
Measurement of loan receivables from clients		(38)	17
Foreign exchange translation differences		5	104
Cash flow hedging		(2,991)	522
Not to be transferred to profit or loss in the future		105	53
Valuation of equity instruments		74	58
Actuarial gains and losses related to provisions for employee benefits		31	(5)
Total net comprehensive income		**286**	**4,132**
– comprehensive income attributable to equity holders of the Parent Company		1,324	2,619
– comprehensive income attributable to holders of non-controlling interest		(1,038)	1,513

Warsaw, 23 March 2022

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

(in millions of PLN)

Consolidated statement of financial position

Assets	Note	31 December 2021	31 December 2020 (restated) [1)]	1 January 2020 (restated) [1)]
Goodwill	27	2,778	2,776	4,034
Intangible assets	28	3,403	3,206	3,157
Deferred tax assets	48	3,058	2,511	2,313
Other assets	29	633	753	734
Deferred acquisition costs	30	1,573	1,550	1,574
Reinsurers' share in technical provisions	41	2,540	2,101	1,856
Property, plant and equipment	31	4,144	4,188	4,229
Investment property	32	2,773	2,493	1,981
Entities measured by the equity method	33	93	72	11
Assets securing liabilities	36	1,336	1,481	933
Assets held for sale	49	643	590	580
Loan receivables from clients	34	215,008	197,288	194,868
Financial derivatives	35	8,328	6,339	3,107
Investment financial assets	36	136,954	139,441	110,483
Measured at amortized cost		82,893	66,280	45,603
Measured at fair value through other comprehensive income		44,896	63,872	54,831
Measured at fair value through profit or loss		9,165	9,289	10,049
Receivables	37	9,418	6,246	5,737
Cash and cash equivalents	39	9,447	7,939	7,788
Total assets		**402,129**	**378,974**	**343,385**

[1)] Information on restatement of data as at 1 January and 31 December 2020 is presented in section 5.3.

(in millions of PLN)

Consolidated statement of financial position (cont.)

Equity and liabilities	Note	31 December 2021	31 December 2020	1 January 2020
Equity				
Equity attributable to equity holders of the Parent		17,080	18,777	16,169
Share capital	40.1	86	86	86
Other capital	40.3	14,343	17,093	13,036
Retained earnings		2,651	1,598	3,047
Retained losses		(685)	(314)	(248)
Net profit		3,336	1,912	3,295
Non-controlling interest	2.4	22,914	24,626	23,119
Total equity		**39,994**	**43,403**	**39,288**
Liabilities				
Technical provisions	41	50,173	48,471	47,329
Subordinated liabilities	42	6,274	6,679	6,700
Liabilities on the issue of own debt securities	43	5,940	7,532	9,273
Liabilities to banks	44	7,470	9,751	6,604
Liabilities to clients under deposits	45	265,155	241,975	218,588
Financial derivatives	35	11,880	6,281	3,018
Other liabilities	46	13,203	12,434	10,599
Provisions	47	1,206	1,378	1,211
Deferred tax liability	48	806	949	746
Liabilities related directly to assets classified as held for sale	49	28	121	29
Total liabilities		**362,135**	**335,571**	**304,097**
Total equity and liabilities		**402,129**	**378,974**	**343,385**

Warsaw, 23 March 2022

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 shares	Supplemen-tary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	40.1		40.3		40.3	40.3	40.3				2.4	
As at 1 January 2021	**86**	**(9)**	**15,848**	**295**	**891**	**3**	**65**	**1,598**	**-**	**18,777**	**24,626**	**43,403**
Valuation of equity instruments	-	-	-	-	49	-	-	-	-	49	25	74
Valuation of debt instruments	-	-	-	-	(1,185)	-	-	-	-	(1,185)	(1,044)	(2,229)
Measurement of loan receivables from clients	-	-	-	-	(8)	-	-	-	-	(8)	(30)	(38)
Cash flow hedging	-	-	-	-	(872)	-	-	-	-	(872)	(2,119)	(2,991)
Foreign exchange translation differences	-	-	-	-	-	-	4	-	-	4	1	5
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	-	-	-	-	-	31	31
Total net other comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**-**	**(2,012)**	**(3,136)**	**(5,148)**
Net profit (loss)	-	-	-	-	-	-	-	-	3,336	3,336	2,098	5,434
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,016)**	**-**	**4**	**-**	**3,336**	**1,324**	**(1,038)**	**286**
Other changes, including:	**-**	**4**	**(1,032)**	**305**	**(15)**	**-**	**-**	**(2,283)**	**-**	**(3,021)**	**(674)**	**(3,695)**
Distribution of financial result	-	-	1,020	305	-	-	-	(1,325)	-	-	(674)	(674)
PZU dividend	-	-	(2,064)	-	-	-	-	(958)	-	(3,022)	-	(3,022)
Transactions on treasury shares	-	4	(3)	-	-	-	-	-	-	1	-	1
Transactions with holders of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Sale of equity instruments designated for measurement at fair value through other comprehensive income	-	-	10	-	(10)	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	5	-	(5)	-	-	-	-	-	-	-
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**3**	**69**	**(685)**	**3,336**	**17,080**	**22,914**	**39,994**

Warsaw, 23 March 2022

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	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Other reserve capital	Cumulative other comprehensive income			Retained profit or loss	Net profit			
					Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences					
Note	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
Foreign exchange translation 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**

(in millions of PLN)

Consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 December 2021	1 January – 31 December 2020
Profit before tax		7,454	4,058
Adjustments		(42)	24,521
Movement in loan receivables from clients	54	(7,576)	(5,514)
Movement in liabilities under deposits	54	9,271	25,221
Movement in the valuation of assets measured at fair value		(797)	(869)
Interest income and expenses		(2,663)	(2,608)
Realized gains/losses from investing activities and impairment losses		1,281	2,931
Impairment charges for property, plant and equipment, intangible assets and goodwill		35	1,505
Net foreign exchange differences		240	(55)
Movement in deferred acquisition expenses		(23)	24
Amortization of intangible assets and depreciation of property, plant and equipment		1,348	1,319
Movement in the reinsurers’ share in technical provisions		(439)	(245)
Movement in technical provisions		1,702	1,142
Movement in receivables	54	(384)	277
Movement in liabilities	54	1,073	1,616
Cash flow on investment contracts		12	6
Acquisitions and redemptions of participation units and investment certificates of mutual funds		155	313
Income tax paid		(1,847)	(1,886)
Subsidy from the Bank Guarantee Fund related to the acquisition of Idea Bank		193	-
Increase in cash related to the acquisition of Idea Bank		1,097	-
Other adjustments		(2,720)	1,344
Net cash flows from operating activities		**7,412**	**28,579**
Cash flow from investing activities			
Proceeds		634,101	866,620
– sale of investment property		171	12
– proceeds from investment property		300	260
– sale of intangible assets and property, plant and equipment		148	29
– sale of ownership interests and shares		1,327	682
– realization of debt securities		326,237	407,813
– closing of buy-sell-back transactions		199,209	246,687
– closing of term deposits with credit institutions		77,207	182,521
– realization of other investments		27,667	26,844
– interest received		1,727	1,566
– dividends received		69	149
– other investment proceeds		39	57

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 December 2021	1 January – 31 December 2020
Expenditures		(632,248)	(894,247)
– purchase of investment properties		(508)	(200)
– expenditures for the maintenance of investment property		(141)	(139)
– purchase of intangible assets and property, plant and equipment		(1,255)	(1,264)
– purchase of ownership interests and shares		(670)	(615)
– purchase of ownership interests and shares in subsidiaries		(4)	(70)
– decrease in cash due to the sale of entities and change in the scope of consolidation		(6)	-
– purchase of debt securities		(324,661)	(436,679)
– opening of buy-sell-back transactions		(198,696)	(247,271)
– purchase of term deposits with credit institutions		(77,540)	(182,142)
– purchase of other investments		(28,740)	(25,835)
– other expenditures for investments		(27)	(32)
Net cash flows from investing activities		**1,853**	**(27,627)**
Cash flows from financing activities			
Proceeds		97,154	91,069
– proceeds from loans and borrowings	54	63	1,661
– proceeds on the issue of own debt securities	54	3,058	9,658
– opening of repurchase transactions	54	94,033	79,750
Expenditures		(104,977)	(92,050)
– dividends paid to equity holders of the parent	40.2.1.1	(3,022)	-
– dividends to owners of non-controlling interests		(674)	-
– repayment of loans and borrowings	54	(1,800)	(898)
– redemption of own debt securities	54	(5,069)	(11,473)
– closing of repurchase transactions	54	(93,979)	(79,194)
– interest on loans and borrowings	54	(42)	(47)
– interest on outstanding debt securities	54	(99)	(163)
– expenditures on leases	54	(292)	(275)
Net cash flows from financing activities		**(7,823)**	**(981)**
Total net cash flows		**1,442**	**(29)**
Cash and cash equivalents at the beginning of the period		7,939	7,788
Movement in cash due to foreign exchange differences		66	180
Cash and cash equivalents at the end of the period, including:	39	9,447	7,939
– restricted cash	39	28	19

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 the International Financial Reporting Standards as endorsed by the European Commission ("IFRS"), published and in force as at 31 December 2021.

Period covered by the statements

These consolidated financial statements cover the period of 12 months from 1 January to 31 December 2021.

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 23 March 2022 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 British pound – 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 and the armed conflict in Ukraine which began on 24 February 2022 (additional information on this matter is presented in section 58.5.4).

Discontinued operations

Both in 2021 and in 2020, 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

Balta – AAS “BALTA”.

Alior Bank – Alior Bank SA.

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

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

Idea Bank – Idea Bank SA.

LD – AB “Lietuvos draudimas”.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

PIM – Pekao Investment Management SA.

PZU, Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

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.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Xelion – Dom Inwestycyjny Xelion sp. z o.o.

Other definitions

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

CDI – core deposit intangible.

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

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 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 2021.

NBP – National Bank of Poland.

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 22 September 2020, a Tax Group agreement was signed, covering 14 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., 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, PZU Projekt 01 SA. The Tax Group was established for a period of 3 years – from 1 January 2021 to 31 December 2023 – and the Head of the First Mazowiecki Tax Office issued a registration decision on 11 December 2020. 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, as amended) 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.

BMR – Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

Capital Requirements Regulation, CRR – Regulation (EU) 2013/575 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 2021.

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 2021, Item 1130, as amended).

Act on the Rules for Terminating Employment Relationships – Act of 13 March 2003 on special rules for termination of employment for reasons not attributable to employees (consolidated text: Journal of Laws of 2018, Item 1969, as amended).

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 commercial undertakings – 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 2021	31 December 2020	
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 Dec 1991	100.00%	100.00%	Life insurance.https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15 Sep 2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20 Nov 2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31 Oct 2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga, Latvia	30 Jun 2014	100.00% [1)]	99.9949%	Property insurance. http://www.balta.lv/
7	PRJSC IC "PZU Ukraine"	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC "PZU Ukraine Life Insurance"	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB "PZU Lietuva gyvybes draudimas"	Vilnius (Lithuania)	26 Apr 2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	7 Jun 2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	7 Jun 2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	7 Jun 2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	7 Jun 2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	7 Jun 2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11 Dec 2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	7 Jun 2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	7 Jun 2017	46.81% [2)]	46.81% [2)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Krakow	7 Jun 2017	20.02%	20.02%	Call Center services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	7 Jun 2017	20.02%	20.02%	Development activity.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	7 Jun 2017	20.02%	20.02%	Development activity.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	7 Jun 2017	20.02%	20.02%	Business consulting.

(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 2021	31 December 2020	
Consolidated companies – Pekao Group – continued						
22	Pekao Investment Management SA	Warsaw	11 Dec 2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o. [3]	Warsaw	20 Jul 2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18 Dec 2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18 Dec 2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Wroclaw	18 Dec 2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18 Dec 2015	31.93%	31.93%	IT services.
28	Alior TFI SA	Warsaw	18 Dec 2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	Absource sp. z o.o.	Krakow	4 May 2016	31.93%	31.93%	Service activity in the area of IT.
30	AL Finance sp. z o.o. (formerly Serwis Ubezpieczeniowy sp. z o.o.) [4]	Katowice	30 Jan 2017	31.93%	31.93%	Brokerage activity.
31	Corsham Sp. z o.o.	Warsaw	04 Feb 2019	31.93%	31.93%	Business consulting.
32	RBL_VC sp. z o.o.	Warsaw	07 Nov 2019	31.93%	31.93%	Venture capital fund management activities.
33	RBL_VC sp. z o.o. ASI SKA	Warsaw	17 Apr 2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
Consolidated companies – PZU Zdrowie Group						
34	PZU Zdrowie SA	Warsaw	2 Sep 2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
35	Centrum Medyczne Medica sp. z o.o.	Płock	9 May 2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
36	Sanatorium Uzdrowiskowe “Krystynka” sp. z o.o.	Ciechocinek	9 May 2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
37	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	1 Dec 2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
38	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	1 Dec 2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
39	Centrum Medyczne Gamma sp. z o.o.	Warsaw	8 Sep 2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
40	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	9 Jan 2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
41	Starówka sp. z o.o.	Warsaw	3 Jun 2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.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 2021	31 December 2020	
Consolidated companies – PZU Zdrowie Group – continued						
42	Tomma Diagnostyka Obrazowa SA	Poznań	9 Dec 2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
43	Bonus-Diagnosta sp. z o.o. [5)]	Poznań	9 Dec 2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
44	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	8 Dec 1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
45	PZU Centrum Operacji SA	Warsaw	30 Nov 2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
46	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30 Apr 1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
47	PZU Pomoc SA	Warsaw	18 Mar 2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
48	PZU Finance AB (publ.) in likvidation [6)]	Stockholm (Sweden)	2 Jun 2014	100.00%	100.00%	Financial services.
49	PZU Finanse Sp. z o.o.	Warsaw	8 Nov 2013	100.00%	100.00%	Financial and accounting services.
50	Tower Inwestycje Sp. z o.o.	Warsaw	27 Aug 1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
51	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15 Sep 2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
52	Arm Property sp. z o.o.	Krakow	26 Nov 2014	100.00%	100.00%	Purchase and sale of real estate.
53	Ipsilon sp. z o.o.	Warsaw	2 Apr 2009	100.00%	100.00%	Provision of assistance services and medical services.
54	PZU Corporate Member Limited	London (United Kingdom)	28 Sep 2017	100.00%	100.00%	Investment activity.
55	PZU LAB SA	Warsaw	13 Sep 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
56	Omicron BIS SA	Warsaw	28 Aug 2014	100.00%	100.00%	No business conducted.
57	LLC SOS Services Ukraine	Kiev (Ukraine)	1 Jul 2005	100.00%	100.00%	Assistance services.
58	PZU CASH SA	Warsaw	15 Sep 2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
59	Tulare Investments sp. z o.o.	Warsaw	15 Sep 2017	100.00%	100.00%	No business conducted.

(in millions of PLN)

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				31 December 2021	31 December 2020	
Consolidated companies – other companies – continued						
60	PZU Projekt 01 SA	Warsaw	1 Sep 2020	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
61	Armatura Kraków SA	Krakow	7 Oct 1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
62	Aquaform SA	Środa Wlkp.	15 Jan 2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
63	Aquaform Badprodukte GmbH in liquidation	Anhausen (Germany)	15 Jan 2015	100.00%	100.00%	No business conducted.
64	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15 Jan 2015	100.00%	100.00%	No business conducted.
65	Aquaform Romania SRL [7)]	Prejmer (Romania)	15 Jan 2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
66	PZU SFIO Universum	Warsaw	15 Dec 2009	n/a	n/a	Investment of funds collected from fund members.
67	PZU FIZ Sektora Nieruchomości 2 [8)]	Warsaw	21 Nov 2011	n/a	n/a	as above
68	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12 Dec 2012	n/a	n/a	as above
69	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19 Nov 2012	n/a	n/a	as above
70	inPZU Inwestycji Ostrożnych	Warsaw	10 Apr 2018	n/a	n/a	as above
71	inPZU Obligacje Polskie	Warsaw	10 Apr 2018	n/a	n/a	as above
72	inPZU Akcje Polskie	Warsaw	10 May 2018	n/a	n/a	as above
73	inPZU Akcji Rynków Rozwiniętych	Warsaw	10 May 2018	n/a	n/a	as above
74	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10 May 2018	n/a	n/a	as above
75	inPZU Obligacji Rynków Wschodzących	Warsaw	10 May 2018	n/a	n/a	as above
76	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28 Oct 2019	n/a	n/a	as above
77	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28 Oct 2019	n/a	n/a	as above
78	inPZU Akcje CEE plus	Warsaw	28 Oct 2019	n/a	n/a	as above
79	inPZU Puls Życia 2025	Warsaw	22 Oct 2020	n/a	n/a	as above
80	inPZU Puls Życia 2030	Warsaw	22 Oct 2020	n/a	n/a	as above
81	inPZU Puls Życia 2040	Warsaw	22 Oct 2020	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 2021	31 December 2020	
Consolidated companies – mutual funds – continued						
82	inPZU Puls Życia 2050	Warsaw	22 Oct 2020	n/a	n/a	as above
83	inPZU Puls Życia 2060	Warsaw	22 Oct 2020	n/a	n/a	as above
84	PZU FIZ Legato	Warsaw	11 Aug 2021	n/a	n/a	as above
85	inPZU Akcje Rynku Surowców	Warsaw	15 Dec 2021	n/a	n/a	as above
86	inPZU Akcje Rynku Złota	Warsaw	15 Dec 2021	n/a	n/a	as above
87	inPZU Akcje Sektora Zielonej Energii	Warsaw	15 Dec 2021	n/a	n/a	as above
88	inPZU Akcje Sektora Informatycznego	Warsaw	15 Dec 2021	n/a	n/a	as above
89	inPZU Akcje Sektora Nieruchomości	Warsaw	15 Dec 2021	n/a	n/a	as above
90	inPZU Akcje Europejskie	Warsaw	15 Dec 2021	n/a	n/a	as above
91	inPZU Obligacje Inflacyjne	Warsaw	15 Dec 2021	n/a	n/a	as above
Associates						
92	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	8 Jun 1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
93	Sigma BIS SA	Warsaw	3 Oct 2019	34.00%	34.00%	Advertising activity.
94	RUCH SA	Warsaw	23 Dec 2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
95	Krajowy Integrator Płatności SA [9]	Poznań	31 Mar 2021	7.67%	n/a	Other monetary intermediation. https://tpay.com/

[1] After the share purchase transactions from minority shareholders in 2021, only one minority shareholder remains in Balta with 1 share.
[2] PZU directly holds a 33.5% equity stake in Pekao Financial Services sp. z o.o. while Pekao holds 66.5%.
[3] On 20 July 2021, Pekao Leasing sp. z o.o. purchased 100 shares in PeUF sp. z o.o., which represented 100% in the capital and votes in the company.
[4] On 6 August 2021, a change of the company's name was registered.
[5] Additional information on the acquisition of NZOZ Grupa Medical sp. z o.o. and its subsequent merger with Bonus-Diagnosta sp. z o.o. is presented in section 2.3.1.3.
[6] On 4 May 2021, the Shareholder Meeting decided to commence the company's liquidation procedure. On 20 May 2021, the competent registry court in Stockholm announced the initiation of the company's voluntary liquidation process and the liquidator commenced activities aimed at the liquidation of the entity.
[7] On 5 January 2022, the company was deleted from the register.
[8] PZU FIZ Sektora Nieruchomości 2 conducts its investment activity through 30 (consolidated) subsidiary companies established under commercial law as special-purpose vehicles. Additional information on the merger of PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 is presented in section 2.3.2.
[9] Pekao's associate in which it holds a 38.33% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

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

Detailed accounting rules applicable to the recognition of acquisition transactions are presented in section 5.6.

2.3.1. Acquisitions of companies

2.3.1.1. Acquisition of Idea Bank's enterprise

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 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(1) of the BFG Act, of Idea Bank's enterprise, comprising its overall rights and liabilities as at the end of the date of initiation of the resolution, i.e. as at 31 December 2020 ("Transaction"), excluding specific property rights and liabilities specified in the BFG's 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, 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.

(in millions of PLN)

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. Pekao did not acquire all assets of Idea Bank. In particular, it did not acquire any shares in Idea Bank's subsidiaries or associates.

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 ("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 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). An increase in such risk-weighted exposure amounts could impact Pekao's capital requirements.

In connection with the foregoing, the CRM Guarantee is used by Pekao as "recognized unfunded credit protection" within the meaning of CRR. As regards to credit risk, this made 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 CRR. As a consequence of obtaining the opinion referred to in Article 116(4) of CRR and after the CRM Guarantee satisfies the remaining premises for the "recognized unfunded credit protection", the exposures covered by the Loss Cover Guarantee are 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.

Purchase price allocation

Pekao performed a purchase price allocation for the Transaction by applying the principles set forth in IFRS 3 Business combinations as at the date of obtaining control (i.e. 3 January 2021) on the basis of the data as at 31 December 2020.

List of Idea Bank's assets and liabilities as at 31 December 2020 by carrying amount and recognized fair value:

Statement of financial position item	Carrying amount	Adjustment to fair value	Fair value
Intangible assets	144	(104)	40
Other assets	16	(16)	-
Property, plant and equipment	36	(7)	29
Assets held for sale	1	-	1
Loan receivables from clients	12,049	12	12,061
Financial derivatives	9	-	9
Investment financial assets	748	(194)	554
Measured at amortized cost	271	(180)	91
Measured at fair value through other comprehensive income	412	(14)	398
Measured at fair value through profit or loss	65	-	65
Receivables	286	(58)	228
Cash and cash equivalents	1,107	(10)	1,097
Total assets	**14,396**	**(377)**	**14,019**
Liabilities to banks	126	(1)	125
Liabilities to clients under deposits	13,514	62	13,576
Financial derivatives	155	9	164
Other liabilities	342	2	344
Provisions	8	(4)	4
Total liabilities	**14,145**	**68**	**14,213**
Fair value of net assets acquired			**(194)**
Subsidy from the Bank Guarantee Fund			193
Goodwill			**(1)**

As a result of the foregoing, the PZU Group recognized the goodwill created through the merger in the amount of PLN 1 million, calculated as the difference between the net amount of identifiable acquired assets and assumed liabilities (PLN -194 million) and the amount of the subsidy from the Bank Guarantee Fund (PLN 193 million). Goodwill will not be tax deductible.

The determination of the fair value of the acquired assets and liabilities and the identification and recognition of the acquired intangible assets was carried out based on the available information and best estimates as at the date of preparation of the consolidated financial statements. The distinct assets and liabilities were measured at fair value based on their carrying amounts as at 31 December 2020 obtained by the PZU Group from the Bank Guarantee Fund 3 January 2021.

Cash and cash equivalents, receivables

The balance of these items has been adjusted to reflect all economic events pertaining to 31 December 2020 which, for operational reasons, were not included in the trial balance obtained by the PZU Group on 3 January 2021.

Moreover, in the area of receivables from banks, a loan was measured at fair value (using the fair value methodology similar to that presented in respect of loan receivables from clients).

Loan receivables from clients

Loan receivables from clients have been measured at fair value in accordance with the requirements of IFRS 3 and IFRS 13.

As regards outstanding loans, including acquired receivables, investment loans and operating loans, their fair value has been estimated using the income method in which future expected principal and interest flows from the portfolio are discounted, with prepayments taken into account.

Furthermore, the PZU Group has decided that the CRM guarantee obtained from the Bank Guarantee Fund should be treated as an integral part of the acquired loan portfolio covered by the guarantee, meaning that the measurement of loan receivables from clients at fair value reflects the effect of the guarantee by limiting the expected credit losses (due to applying reduced risk weights to the cost of capital mark-up).

Future cash flows calculated in this manner have been discounted with a rate taking into account the following components: the risk-free rate estimated in accordance with the IRS contract quotations based on WIBOR 1M, the cost of equity mark-up and a component representing the calibration margin.

After the CRM guarantee is recognized as unfunded protection, reduced risk weights for the cost of capital mark-up have been applied in the valuation of the loan portfolio.

Investment securities

The fair value adjustment of investment securities is a consequence of revaluation of the following items:

- value of corporate bonds, using the same rules as those described for loan receivables from clients, and
- value of shares of a financial entity, estimated using the discounted dividend model.

Intangible assets

The fair value adjustment of intangible assets is predominantly a consequence of adopting the perspective of an average market participant for the measurement and taking into account the entity's plans for the continuation and further use of the intangible assets in question.

No grounds have arisen from the conducted analyses for the recognition of relationships with clients holding core deposit intangibles (CDIs) or relationships on credit products, chiefly due to the absence of a significant difference between the average level of interest on the acquired accounts and the opportunity cost of funding for the PZU Group as well as the banking sector's significant excess liquidity. In respect of credit products, no significant relationships have been identified due to the low level of net interest income and commission income in relation to the corresponding significant costs of risk and administrative expenses.

Property, plant and equipment

The fair value adjustment of property, plant and equipment is predominantly a consequence of the perspective of an average market participant adopted for measurement. As regards lease agreements, the shutdown of the acquired facilities has been assumed. This approach is based on an analysis of the market, assessment of how attractive the locations of the branches are and a comparison of the pricing terms with the currently executed contracts of a similar size in similar locations.

Receivables

The fair value adjustment of receivables is chiefly a consequence of the revaluation of significant receivables from corporate clients based on the same approach as that applied to the measurement of credit exposures.

Liabilities to clients under deposits

In respect of current accounts, the assumption has been made that due to their nature (including the possibility of the withdrawal funds on demand, their renewability providing an opportunity to amend the contractual terms upon renewal, and the absence of maturity), their fair value does not differ from the carrying amount.

The fair value adjustment of term deposits and structured deposits has been estimated by discounting future values of term deposits and structured deposits, consisting of the repayments of nominal values and interest accrued until the date of repayment.

Provisions

The fair value adjustment of provisions is predominantly a consequence of the impairment loss on the restructuring provision.

Other liabilities

The fair value adjustment of other liabilities is a consequence of the revaluated provision for future liabilities. The value of liabilities has been estimated based on the expected future cash outflows and taking into account the discount factors resulting from the current market conditions.

2.3.1.2. Krajowy Integrator Płatności SA

On 31 March 2021, Pekao closed the purchase transaction, as a result of which it became the owner of 210,641 shares representing 38.33% of capital and 38.33% votes at the Shareholder Meeting of Krajowy Integrator Płatności SA, operator of the Tpay.com system. The purchase price was PLN 42 million. As a result of the transaction, Pekao will offer its business clients a fully comprehensive payment acceptance offer supplemented with products for the quickly growing e-Commerce sector.

2.3.1.3. NZOZ Grupa Medical sp. z o.o.

On 31 May 2021, Bonus-Diagnosta sp. z o.o. acquired for PLN 4 million a 100% stake in NZOZ Grupa Medical sp. z o.o., which has been subject to consolidation since that date. On 2 November 2021, the merger of Bonus-Diagnosta sp. z o.o. (acquiring company) with NZOZ Grupa Medical sp. z o.o. (acquired company) was registered, as a result of which NZOZ Grupa Medical sp. z o.o. ceased to exist under its business name.

2.3.1.4. PeUF sp. z o.o.

On 20 July 2021, Pekao Leasing sp. z o.o. purchased 100 shares in PeUF sp. z o.o., which represented 100% in the capital and votes in the company for the total price of PLN 5 thousand. Peuf sp. z o.o. has been consolidated since 20 July 2021.

2.3.2. Changes to consolidation of mutual funds

On 12 March 2021, PZU FIO Ochrony Majątku was consolidated after control over the fund was obtained.

On 8 June 2021, PZU FIZ AN Sektor Nieruchomości (the acquired fund) was deleted from the register of mutual funds as a result of its merger with PZU FIZ AN Sektor Nieruchomości 2 (the acquiring fund). The transaction had no effect on the consolidated financial statements.

On 11 August 2021, the newly-established PZU FIZ Legato was consolidated.

On 29 September 2021, PZU FIZ Dynamiczny in liquidation was removed from the register of mutual funds.

On 30 September 2021, in connection with the loss of control, PZU FIO Ochrony Majątku and PZU Globalny Obligacji Korporacyjnych were deconsolidated.

On 15 December 2021, new mutual funds were registered: inPZU Akcje Rynku Surowców, inPZU Akcje Rynku Złota, inPZU Akcje Sektora Zielonej Energii, inPZU Akcje Sektora Informatycznego, inPZU Akcje Sektora Nieruchomości, inPZU Akcje Europejskie and inPZU Obligacje Inflacyjne, all subject to consolidation.

2.3.3. Sales of companies

2.3.3.1. PayPo sp. z o.o.

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 has not affected the PZU Group's consolidated statements to any significant extent.

2.3.3.2. Xelion

On 29 October 2021, Pekao signed the final share purchase agreement for 100% of shares in Xelion, as a result of which it sold to Quercus TFI SA (through the intermediation of a special-purpose vehicle Quercus Agent Transferowy sp. z o.o.) 120,100 shares representing a 100% stake in capital and 100% votes at the Shareholder Meeting of Xelion. The final purchase agreement of Xelion's shares was signed after the conditions precedent for the transaction included in the preliminary share purchase agreement signed in December 2020 were satisfied, i.e. after the relevant regulatory approvals have been obtained and after Xelion's cash has been paid out to Pekao.

On 29 October 2021, the title to Xelion shares was transferred to Quercus Agent Transferowy sp. z o.o.

2.3.4. Transactions under joint control

In 2021, the following business combinations were registered:

- 31 May 2021 – the merger of PZU Zdrowie SA (acquiring company) with Polmedic Sp. z o.o. (acquired company);
- 1 July 2021 – the merger of AL. Finance sp. z o.o. (acquiring company) with NewCommerce Services sp. z o.o. (acquired company);

(in millions of PLN)

- 2 November 2021 – the merger of Bonus-Diagnosta sp. z o.o. (acquiring company) with NZOZ Grupa Medical sp. z o.o. (acquired company).

The transactions had no effect on the consolidated financial statements.

2.3.5. Completed liquidation of companies

On 29 September 2021, Harberton sp. z o.o. in liquidation was removed from the National Court Register.

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

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 acquisition of 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 2021	31 December 2020
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%
Balta	0.00% [3)]	0.0051%

[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)] After the share purchase transactions from minority shareholders in 2021, only one minority shareholder remains in Balta with 1 share.

Carrying amount of non-controlling interests	31 December 2021	31 December 2020
Pekao Group	19,028	20,329
Alior Bank Group	3,885	4,296
Other	1	1
Total	**22,914**	**24,626**

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.

(in millions of PLN)

Assets	Pekao Group		Alior Bank Group	
	31 December 2021	31 December 2020 (restated)	31 December 2021	31 December 2020 (restated)
Goodwill	693	692	-	-
Intangible assets	2,129	1,938	426	424
Deferred tax assets	1,650	1,251	1,352	1,217
Other assets	52	53	39	44
Property, plant and equipment	1,979	2,098	755	702
Entities measured by the equity method	44	-	-	5
Assets securing liabilities	846	743	131	446
Assets held for sale	14	53	-	-
Loan receivables from clients	156,692	141,332	57,907	55,783
Financial derivatives	8,007	5,591	272	717
Investment financial assets	69,781	72,373	15,992	15,591
Measured at amortized cost	46,736	28,569	6,578	8,395
Measured at fair value through other comprehensive income	22,372	42,781	9,265	6,984
Measured at fair value through profit or loss	673	1,023	149	212
Receivables	3,653	2,305	2,215	1,106
Cash and cash equivalents	4,967	4,727	3,748	2,359
Total assets	**250,507**	**233,156**	**82,837**	**78,394**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Equity				
Equity attributable to equity holders of the Parent	23,791	25,417	5,708	6,311
Share capital	263	262	1,306	1,306
Other capital	19,402	22,092	4,658	5,776
Retained earnings	4,126	3,063	(256)	(771)
Non-controlling interest	12	11	-	-
Total equity	**23,803**	**25,428**	**5,708**	**6,311**
Liabilities				
Subordinated liabilities	2,761	2,758	1,347	1,793
Liabilities on the issue of own debt securities	5,356	6,152	584	1,380
Liabilities to banks	7,040	9,165	462	619
Liabilities to clients under deposits	194,260	177,006	71,489	65,680
Derivatives	10,191	5,690	1,224	479
Other liabilities	6,240	5,908	1,732	1,794
Provisions	831	938	290	337
Deferred tax liability	25	28	1	1
Liabilities related directly to assets classified as held for sale	-	83	-	-
Total liabilities	**226,704**	**207,728**	**77,129**	**72,083**
Total equity and liabilities	**250,507**	**233,156**	**82,837**	**78,394**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 2021	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	25,080	-	-	39	25,119
Reinsurers' share in gross written premium	(1,300)	-	-	-	(1,300)
Net written premiums	**23,780**	**-**	**-**	**39**	**23,819**
Movement in net provision for unearned premiums	(548)	-	-	(6)	(554)
Net earned premiums	**23,232**	**-**	**-**	**33**	**23,265**
Revenue from commissions and fees	4,738	(3,230)	(1,397)	157	268
Interest income calculated using the effective interest rate	9,782	(5,702)	(2,883)	133	1,330
Other net investment income	418	(424)	195	(5)	184
Result on derecognition of financial instruments and investments	407	(41)	(27)	-	339
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,849)	785	1,049	-	(15)
Net movement in fair value of assets and liabilities measured at fair value	797	(39)	(410)	-	348
Other operating income	1,602	(285)	(192)	68	1,193
Claims, benefits and movement in technical provisions	(16,130)	-	-	(1)	(16,131)
Reinsurers' share in claims, benefits and movement in technical provisions	399	-	-	-	399
Net insurance claims and benefits	**(15,731)**	**-**	**-**	**(1)**	**(15,732)**
Fee and commission expenses	(1,194)	550	651	(8)	(1)
Interest expenses	(418)	205	167	(16)	(62)
Acquisition expenses	(3,572)	-	-	(153)	(3,725)
Administrative expenses	(6,826)	3,634	1,458	(139)	(1,873)
Other operating expenses	(3,917)	1,538	564	(69)	(1,884)
Operating profit (loss)	**7,469**	**(3,009)**	**(825)**	**-**	**3,635**
Share of the net financial results of entities measured by the equity method	(15)	(2)	-	-	(17)
Profit (loss) before tax	**7,454**	**(3,011)**	**(825)**	**-**	**3,618**
Income tax	(2,020)	828	306	-	(886)
Net profit (loss)	**5,434**	**(2,183)**	**(519)**	**-**	**2,732**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 2020	PZU Group	Elimination of Alior Bank's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	23,866	-	-	24	23,890
Reinsurers' share in gross written 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 premiums	**23,024**	**-**	**-**	**25**	**23,049**
Revenue from commissions and fees	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 movement in fair value of assets and liabilities measured at fair value	869	(133)	(63)	-	673
Other operating income	1,395	(175)	(166)	59	1,113
Claims, benefits and movement in technical provisions	(16,105)	-	-	(9)	(16,114)
Reinsurers' share in claims, benefits and movement in technical provisions	525	-	-	-	525
Net insurance claims and benefits	**(15,580)**	**-**	**-**	**(9)**	**(15,589)**
Fee and commission expenses	(1,031)	481	555	(5)	-
Interest expenses	(1,134)	638	427	(17)	(86)
Acquisition expenses	(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**

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 31 December 2021	1 January – 31 December 2020	1 January – 31 December 2021	1 January – 31 December 2020
Net profit	2,183	1,056	519	(331)
Other comprehensive income	(2,966)	1,001	(1,122)	139
Subject to subsequent transfer to profit or loss	(3,012)	939	(1,150)	135
Valuation of debt instruments	(1,226)	550	(92)	20
Measurement of loan receivables from clients	(38)	17	-	-
Net cash flow hedges	(1,748)	372	(1,060)	115
Foreign exchange translation differences	-	-	2	-
Not to be transferred to profit or loss in the future	46	62	28	4
Valuation of equity instruments measured at fair value through other comprehensive income	7	71	28	6
Actuarial gains and losses related to employee provisions	39	(9)	-	(2)
Total net comprehensive income	**(783)**	**2,057**	**(603)**	**(192)**

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 December 2021	1 January – 31 December 2020	1 January – 31 December 2021	1 January – 31 December 2020
Net cash flows from operating activities	1,848	23,573	3,377	2,776
Net cash flows from investing activities	1,751	(25,025)	(479)	(71)
Net cash flows from financing activities	(3,379)	624	(1,546)	(1,691)
Total net cash flows	**220**	**(828)**	**1,352**	**1,014**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 31 December 2021	1 January – 31 December 2020	1 January – 31 December 2021	1 January – 31 December 2020
Date of ratifying the dividend	11 June 2021	-	-	-
Record date	10 September 2021	-	-	-
Dividend payment date	29 September 2021	-	-	-
Dividend per share (PLN)	3.21	-	-	-
Dividend due to the PZU Group	169	-	-	-
Dividend due to non-controlling shareholders	674	-	-	-

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 2021

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 [1)]	45,167,000	5.2305%
3	Other shareholders	523,138,700	60.5820%
Total		**863,523,000**	**863,523,000**

[1)] Number of shares held by funds at the Extraordinary Shareholder Meeting of PZU held on 12 October 2021.

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%**

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

Transactions with material blocks of PZU shares

In 2021 and until the date of signing the consolidated financial statements, no significant changes occurred in PZU's shareholder structure.

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 2021, 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.

On 7 June 2021, Marcin Eckert submitted his resignation from serving in the capacity of a PZU Management Board Member, effective as of the time of its submission to the Company.

On 20 July 2021, the PZU Supervisory Board appointed Krzysztof Kozłowski to the PZU Management Board and entrusted him with discharging the function of a PZU Management Board Member starting 4 August 2021 for a joint term of office encompassing three full financial years 2020-2022.

On 4 February 2022, Krzysztof Szypuła tendered his resignation from being a PZU Management Board Member.

From 5 February 2022 to the date of signing the consolidated financial statements, the PZU Management Board consisted of the following persons:

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

4.2 Composition of the parent company's Supervisory Board

From 1 January 2021, 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.

On 7 June 2021, Maciej Łopiński submitted his resignation from serving in the capacity of Chairman of the PZU Supervisory Board, effective as of the time of its submission to the Company.

On 16 June 2021, the Ordinary Shareholder Meeting of PZU appointed Paweł Mucha to serve as a PZU Supervisory Board Member. On the same day, the PZU Supervisory Board appointed Paweł Mucha as the Supervisory Board Chairman.

On 11 October 2021, Mr. Tomasz Kuczur tendered his resignation from serving in the capacity of a PZU SA Supervisory Board Member, effective as of 11 October 2021.

On 12 October 2021, the Extraordinary Shareholder Meeting of PZU appointed Radosław Sierpiński as Member of the PZU Supervisory Board.

From 12 October 2021 to the date of signing the consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

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

4.3 PZU Group Directors

From 1 January 2021, the following persons were PZU Group Directors:

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

On 4 August 2021, the PZU Życie Management Board appointed Krzysztof Kozłowski to the position of PZU Group Director at PZU Życie.

Effective as of 24 August 2021, Ernest Bejda was dismissed from the position of PZU Group Director in PZU Życie.

On 4 February 2022, Krzysztof Szypuła was appointed to the position of PZU Group Director in PZU.

PZU Group Directors from 4 February 2022 to the date of signing the consolidated financial statements:

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

The preparation of consolidated financial statements in compliance with IFRS requires the PZU Management Board to make professional judgments, estimates and assumptions that affect the adopted accounting policies and the presented values of assets, 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.

In making judgments, estimates or assumptions, the PZU Management Board may, in significant matters, rely on the opinions of independent experts.

The actual value may differ from the estimated one. All judgments, estimates and related assumptions are revised on an ongoing basis. Their changes are recognized as described in section 5.1.

The PZU Group assessed the adopted estimates and assumptions taking into account the impact of the COVID-19 pandemic on distinct assets and liabilities of the PZU Group. Given the uncertainty regarding the future economic situation, any estimates are subject to change. The uncertainty pertains predominantly to forecasts of macroeconomic assumptions, in particular those concerning key economic indicators (such as the degree of expected economic recovery, GDP, employment rate, housing prices, potential disruptions in capital markets), potential business disruptions caused by decisions made by state institutions, enterprises and consumers, the degree of effectiveness of aid programs designed to support businesses and consumers and the evolution of the mortality rate.

(in millions of PLN)

The key accounting policies, estimates and judgments used for the preparation of the consolidated financial statements are described below and in the individual notes as specified in the table below.

Item of the profit and loss account	Note	Item of the statement of financial position	Note
Gross written premiums	10	Goodwill	27
Revenue from commissions and fees	11	Intangible assets	28
Interest income calculated using the effective interest rate	12	Deferred acquisition costs	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, benefits and movement in technical provisions	18	Assets securing liabilities	36
Interest expenses	20	Entities measured by the equity method	33
Acquisition expenses	21	Loan receivables from clients	34
Administrative expenses	22	Financial derivatives	35
Income tax	25	Investment financial assets	36
		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 tax	48

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

The accounting policies are changed only if the change:

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

Changes in accounting policies associated with the initial application of an IFRS are accounted for in accordance with the specific transitional provisions contained in that IFRS. If a change in accounting policies is made in connection with initial application of IFRS which do not contain specific transitional provisions pertaining to such a change or the change is made voluntarily, the entity introduces such a change retrospectively. A retrospective introduction of changes in accounting policies is made by adjusting, in the statement of financial position, of the opening balance of each affected component of equity for the earliest prior period presented and by disclosing other comparative data for each period as if the changed accounting policies had always been applied.

Any items of the financial statements presented based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The effect of a change in an accounting estimate is recognized prospectively, which means that the change is applied to transactions, other events and conditions from the date of the change in estimate (the change may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods).

An assumption is made that errors are corrected in the period in which they were committed (rather than discovered), hence any significant prior period errors are corrected retrospectively and the resulting differences are charged to equity.

In 2021 as well as in 2020, no corrections of errors from previous years were made.

(in millions of PLN)

5.2 Amendments to the applied IFRS

5.2.1. Standards, interpretations and amended standards effective from 1 January 2021

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

<table>
<tr><th>Standard/interpretation</th><th>Approving regulation</th><th>Comments</th></tr>
<tr><td>Amendments to IFRS 4 – Extension of the temporary exemption from the application of IFRS 9</td><td>2020/2097</td><td>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 did not apply to the PZU Group due to the implementation of IFRS 9 at the beginning of 2018.</td></tr>
<tr><td>Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (IBOR – phase 2)</td><td>2021/25</td><td>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 impact analysis of changes in standards on the consolidated financial statements is presented in sections 7.5.3.1 and 35.1.</td></tr>
<tr><td>Amendment to IFRS 16 – payment modifications due to the COVID-19 pandemic after 30 June 2021</td><td>2021/1421</td><td>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 has not affected the PZU Group’s consolidated statements to any significant extent.</td></tr>
</table>

(in millions of PLN)

5.2.2. 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
Amendment to IAS 16 – Property, plant and equipment: revenue obtained before putting into use	1 January 2022	2021/1080	The amendment forbids any deduction from the initial value of property, plant and equipment of amounts obtained from the sale of products produced in the course of bringing an asset to a condition where it is fit for use as intended (from test production). Such proceeds from sales and related costs will be recognized in the profit or loss. The 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	1 January 2022	2021/1080	The amendments define what costs should be taken into account when deciding whether or not the contract in question is an onerous contract. The amendments specify that "contract performance costs" are costs directly related to the contract which include: • incremental contract performance costs, such as direct costs of material, direct labor and • allocation of other costs that are directly related to the performance of the contract, e.g. allocation of the depreciation charge on the items of property, plant and equipment taken advantage of to perform the contract. The amendment will not affect the PZU Group's consolidated financial statements to any significant extent.
Amendments to IFRS 3	1 January 2022	2021/1080	The amendments include: • updated references to the framework (from 2018 instead of 1989); • added requirement to apply IAS 37 or IFRIC 21 instead of the framework – for transactions and events falling in the scope of this standard and interpretations for the purpose of identifying liabilities taken over in a business combination; • unambiguous prohibition of the recognition of contingent assets acquired in a business combination. The amendment will not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendments to IFRS 2018-2020	1 January 2022	2021/1080	The amendments pertain to: 1st IFRS 1 – the amendment permits a subsidiary that adopts IFRS for application later than its parent and applies paragraph D16(a) of IFRS 1 to measure cumulative foreign exchange differences using the amounts reported in the parent's consolidated financial statements based on the date of the parent's transition to IFRS; 2nd IFRS 9 – the amendment clarifies that for the purposes of the "10 percent" test, only fees paid or received between the borrower and the lender, including fees paid or received by the borrower or lender on behalf of the other party, should be considered in making a decision on the possible derecognition of a financial liability; 3rd IFRS 16 – the amendment has removed the example concerning the reimbursement of lease improvements by the lessor (due to related uncertainties); 4th IAS 41 – to ensure consistency with IFRS 13, the amendment has removed the requirement from paragraph 22 of IAS 41 according to which reporting entities should exclude cash flows from taxation when measuring the fair value of a biological asset using the present value method. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.
IFRS 17 – Insurance contracts	1 January 2023	2021/2036	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. The introduction of unified valuation rules should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. 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. Among the fundamental rules of the standard is the recognition of the full expected loss on insurance contracts at the time when the entity considers the contract as having become onerous, which may be the date of its initial recognition or the date of any subsequent measurement. 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 for non-financial risk (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

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Comments
			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 net profit and net 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. The PZU Group is conducting 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: • developing details of the valuation methodology for distinct types of contracts and the method of presenting financial information required by IFRS 17 in the consolidated financial statements; • building the target reporting process; • introducing changes necessary to be implemented in IT systems, processes and areas which will be significantly affected by the implementation of IFRS 17; • rolling out an IT system to support the financial reporting process in accordance with the requirements of IFRS 17; • gathering historical data on policies necessary for the calculation of the transition date; • building repositories of input and output data to facilitate the automation of calculations. At the current stage of the IFRS 17 implementation project, test calculations are continued in all insurance units of the PZU Group, and the impact of changes on total income, equity and information presented in the consolidated financial statements is evaluated. Due to the ongoing work within the PZU Group on the final methodology for the practical application of IFRS 17, final decisions on the adopted accounting principles and significant judgments will be made by the PZU Group at a later date. For this reason, it is not yet feasible to reliably estimate the actual impact of the application of IFRS 17 on the consolidated financial statements.
Amendments to IAS 1 – Presentation of Financial Statements	1 January 2023	2022/357	In accordance with the amendments, the entity will be obligated to disclose material accounting policy information rather than significant accounting principles (as previously). The amendment contains examples of identification of material accounting policies and stipulates that an accounting policy may be material due to its nature, even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies may not obscure material accounting policies. The amendment will not affect the PZU Group's consolidated statements to any significant extent.

(in millions of PLN)

Name of standard/ interpretation	Effective date	Approving regulation	Comments
Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023	2022/357	The amendments to IAS 8 comprise: • replacement of the definition of a change in estimates with a definition of estimates. In accordance with the new definition, estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”; • explanation that a change in the estimate resulting from new information or new events is not a correction of error. In addition, the effects of a change in input data or measurement technique applied to determine the estimate are changes in estimates, unless they follow from a correction of errors of previous periods; • clarification that a change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. The amendment will not affect the PZU Group’s consolidated statements to any significant extent.

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
Amendment to IAS 1 – classifying liabilities as current and non-current	23 January 2020	1 January 2023	The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and also that the intentions or expectations of an entity regarding the willingness to use the possibility of deferring a liability are not relevant for the classification. The amendments did not affect the PZU Group’s consolidated financial statements.
Amendment to IAS 12 – Income Taxes	7 May 2021	1 January 2023	According to the amendment, the exemption specified in IAS 12.15(b) for the initial recognition of a deferred tax asset or liability will not apply to transactions in which both taxable and deductible temporary differences arise, resulting in the need to recognize a deferred tax asset and liability at the same time (e.g. in the case of lease transactions). The amendment applies to the transactions occurring on or after the commencement date of the earliest comparative period presented in the financial statements. The amendment will not affect the PZU Group’s consolidated statements to any significant extent.
Amendment to IFRS 17 – Insurance contracts	9 December 2021	1 January 2023	On 9 December 2021, the IASB issued an amendment to IFRS 17 regarding comparative information about financial assets presented at the time of the first application of IFRS 17. The purpose of the amendment is to help avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts resulting from different requirements for the presentation of comparable data between IFRS 9 and IFRS 17. The amendment will not exert a significant impact on the PZU Group’s reporting due to the implementation of IFRS 9 already in 2018.

(in millions of PLN)

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

5.3 Explanation of the difference between the 2020 annual consolidated financial statements and these consolidated financial statements

In order to improve the transparency of the statement of financial position, a separate line item has been created for securities constituting collateral for liabilities in respect of which the recipient has the right to sell or exchange such securities for another collateral.

The amendment triggered the need to transform comparative data, but had no effect on the total balance sheet value.

The impact of this amendment on the comparative data in the consolidated statement of financial position is presented in the following table:

Assets	31 December 2020 (before restatement)	Change	31 December 2020 (restated)	1 January 2020 (before restatement)	Change	1 January 2020 (restated)
Assets securing liabilities	-	1,481	1,481	-	933	933
Investment financial assets	140,922	(1,481)	139,441	111,416	(933)	110,483
Measured at amortized cost	66,864	(584)	66,280	45,938	(335)	45,603
Measured at fair value through other comprehensive income	64,248	(376)	63,872	55,211	(380)	54,831
Measured at fair value through profit or loss	9,810	(521)	9,289	10,267	(218)	10,049
Total assets	**378,974**	**-**	**378,974**	**343,385**	**-**	**343,385**

5.4 Consolidation rules

These consolidated financial statements for the financial year ended on 31 December 2021 include data of the parent company and all its subsidiaries after elimination of intragroup transactions.

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

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

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

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

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

(in millions of PLN)

5.4.1. Judgments in exercising control

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

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

The analysis of prerequisites for exercising control over Pekao and Alior Bank as at 31 December 2021 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 11% 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 a stake of more than 5%, accounting in total for 16% 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.
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 fulfilling key management functions at PZU.	Supervisory Board members include persons 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.

(in millions of PLN)

5.4.2. Rules of consolidation of mutual funds

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

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

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

The mutual funds controlled by the PZU Group are consolidated. Their assets are presented in their full amount in the statement of financial position as financial assets by type and classified to the relevant portfolios, while the liability related to the fund's net assets owned by third-party investors is recognized in "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.

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

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

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

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

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

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

FX rates used for translation of financial data of foreign related parties	1 January – 31 December 2021	1 January – 31 December 2020	31 December 2021	31 December 2020
Euro	4.5775	4.4742	4.5994	4.6148
British pound	5.3308	5.0240	5.4846	5.1327
Ukrainian hryvnia	0.1422	0.1439	0.1487	0.1326

5.6 Purchase method

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

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

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

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

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

Determination of goodwill or a gain from a bargain purchase

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

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

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

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

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

Intangible assets

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

- trademark – using the relief-from-royalty method, based on potential savings on the license fees that the company is not required to pay as the owner of the trademark (i.e. present value of future potential license fees). The market level of license fees is determined by analyzing license fee rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are determined as the product of the assumed license fee rate and the amount of the estimated sales revenues. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. Then the calculated net cash flows are increased by the potential tax relief arising from the tax amortization benefit (TAB) of the trademark. Finally, the calculated cash flows are discounted using the discount rate reflecting, among others, risk typical for a given trademark;
- relations with brokers and relations with clients – using the multiperiod excess earnings method (MEEM), based on the present value of future profits generated by each relation. Fair value is then determined based on discounted future cash flows resulting from the excess income generated by a company in possession of the relevant intangible asset over revenues generated by a company without such an asset. The relations are identified and subsequently their life expectancy is determined (by applying the applicable attrition ratio using the Weibull curve) and revenues and costs associated with

each relation are projected. The identified and calculated CAC (contributory asset charge), including maintenance of capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. If there are any tax structures in place that allow an average market participant to amortize a relation then its measurement should include TAB;

- IT systems – the gross value of purchased systems was assumed to be equal to the financial expenditure made to purchase them. For systems developed internally, their gross value is established at the amount of capitalized expenditures made to develop them. The amounts calculated using this method are then adjusted by the remaining operational life of the system, which is calculated as a percentage of the period of the system's useful life. The fair value of systems under development is adjusted to the amount of expenditures made on the functionalities for which the development work has not been completed or which have not been tested and thus are not ready for production acceptance;
- relations with customers holding savings and checking accounts (CDI, core deposit intangible) – as the present value of the difference between the cost of the CDI and the alternative borrowing costs (including interest and administrative expenses) that the bank would have to incur if it had no core deposit. The value of CDI is measured using the favorable source of funds method derived from the expense and income methods. In this method, the account retention ratio is projected (using the Weibull curve), the average initial balance and the number of accounts to be included in the measurement are estimated and the net balance of deposits is calculated (adjusted by the retention ratio and the unstable part of the deposit base). Then the cost of acquired deposits is calculated as reserve requirements, interest and administration expenses less net commission income from the accounts. Next, interest rate benchmarks are used to estimate the alternative borrowing cost. In the next step, the difference between the alternative borrowing costs and the cost of acquired deposits is calculated, which is discounted using the required rate of return. The measurement of CDI does not include any tax amortization benefit (TAB).

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

The 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.

5.7 Classification of insurance contracts in accordance with IFRS 4

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

The assessment whether a contract transfers considerable insurance risk requires analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. Such an assessment includes an element of subjective judgment, which has significant influence on the accounting 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.

5.7.1. 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.

5.7.2. Classification of life insurance contracts

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

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

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

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

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

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

6. Segment reporting

6.1 Reportable segments

6.1.1. Key classification criterion

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

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

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

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

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 2021.

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

6.4.2. PZU Życie

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

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

The fundamental difference between PAS and IFRS in respect of accounting for insurance contracts and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance 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 5.7.

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;

(in millions of PLN)

- 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.

6.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 December 2021	1 January – 31 December 2020
Gross written premium – external	3,199	2,962
Gross written premium – cross-segment	84	64
Gross written premiums	**3,283**	**3,026**
Movement in provision for unearned premiums and gross provision for unexpired risks	(41)	96
Gross earned premium	**3,242**	**3,122**
Reinsurers' share in gross written premium	(904)	(861)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	27	104
Net earned premiums	**2,365**	**2,365**
Investment income, including:	73	116
external operations	73	116
intersegment operations	–	–
Other net technical income	51	58
Income	**2,489**	**2,539**
Net insurance claims and benefits	(1,510)	(1,593)
Movement in other net technical provisions	(16)	44
Acquisition expenses	(522)	(511)
Administrative expenses	(142)	(144)
Reinsurance commissions and profit participation	56	47
Other	(61)	(69)
Insurance result	**294**	**313**

(in millions of PLN)

Mass insurance (non-life insurance)	1 January – 31 December 2021	1 January – 31 December 2020
Gross written premium – external	10,895	10,200
Gross written premium – cross-segment	15	44
Gross written premiums	**10,910**	**10,244**
Movement in provision for unearned premiums and gross provision for unexpired risks	(663)	54
Gross earned premium	**10,247**	**10,298**
Reinsurers' share in gross written premium	(307)	(78)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	181	(28)
Net earned premiums	**10,121**	**10,192**
Investment income, including:	385	525
external operations	385	525
intersegment operations	–	–
Other net technical income	112	100
Income	**10,618**	**10,817**
Net insurance claims and benefits	(6,198)	(6,221)
Movement in other net technical provisions	(29)	132
Acquisition expenses	(2,166)	(2,010)
Administrative expenses	(678)	(673)
Reinsurance commissions and profit participation	33	–
Other	(329)	(374)
Insurance result	**1,251**	**1,671**

Group and individually continued insurance (life insurance)	1 January – 31 December 2021	1 January – 31 December 2020
Gross written premium – external	7,030	7,007
Gross written premium – cross-segment	–	–
Gross written premiums	**7,030**	**7,007**
Movement in the provision for unearned premiums	26	(50)
Gross earned premium	**7,056**	**6,957**
Reinsurers' share in gross written premium	(1)	(1)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	–	–
Net earned premiums	**7,055**	**6,956**
Investment income, including:	520	675
external operations	520	675
intersegment operations	–	–
Other net technical income	2	3
Income	**7,577**	**7,634**
Net insurance claims and benefits and movement in other net technical provisions	(5,597)	(5,190)
Acquisition expenses	(394)	(381)
Administrative expenses	(669)	(632)
Other	(47)	(40)
Insurance result	**870**	**1,391**

(in millions of PLN)

Individual insurance (life insurance)	1 January – 31 December 2021	1 January – 31 December 2020
Gross written premium – external	1,750	1,712
Gross written premium – cross-segment	–	–
Gross written premiums	**1,750**	**1,712**
Movement in the provision for unearned premiums	(2)	(2)
Gross earned premium	**1,748**	**1,710**
Reinsurers' share in gross written premium	(1)	–
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	–	–
Net earned premiums	**1,747**	**1,710**
Investment income, including:	153	465
external operations	153	465
intersegment operations	–	–
Other net technical income	1	1
Income	**1,901**	**2,176**
Net insurance claims and benefits and movement in other net technical provisions	(1,329)	(1,670)
Acquisition expenses	(224)	(175)
Administrative expenses	(86)	(81)
Other	(7)	(6)
Insurance result	**255**	**244**

Investments	1 January – 31 December 2021	1 January – 31 December 2020
Investment income, including:	715	383
– external operations	662	323
– intersegment operations	53	60
Operating result	**715**	**383**

Banking activity	1 January – 31 December 2021	1 January – 31 December 2020
Revenue from commissions and fees	4,627	4,044
external operations	4,472	3,945
intersegment operations	155	99
Investment income	7,319	6,248
external operations	7,319	6,248
intersegment operations	–	–
Income	**11,946**	**10,292**
Fee and commission expenses	(1,201)	(1,036)
Interest expenses	(376)	(1,074)
Administrative expenses	(5,077)	(4,782)
Other	(1,513)	(3,206)
Operating result	**3,779**	**194**

(in millions of PLN)

Pension insurance	**1 January – 31 December 2021**	**1 January – 31 December 2020**
Investment income, including:	4	4
external operations	4	4
intersegment operations	–	–
Other income	154	130
Income	**158**	**134**
Administrative expenses	(57)	(56)
Other	(5)	(5)
Operating result	**96**	**73**

Insurance – Baltic States	**1 January – 31 December 2021**	**1 January – 31 December 2020**
Gross written premium – external	1,867	1,694
Gross written premium – cross-segment	–	–
Gross written premiums	**1,867**	**1,694**
Movement in provision for unearned premiums and gross provision for unexpired risks	(59)	11
Gross earned premium	**1,808**	**1,705**
Reinsurers' share in gross written premium	(67)	(65)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	1	3
Net earned premiums	**1,742**	**1,643**
Investment income, including:	42	18
external operations	42	18
intersegment operations	–	–
Income	**1,784**	**1,661**
Net insurance claims and benefits	(1,082)	(965)
Acquisition expenses	(366)	(340)
Administrative expenses	(142)	(141)
Other	6	5
Insurance result	**200**	**220**

(in millions of PLN)

Insurance – Ukraine	**1 January – 31 December 2021**	**1 January – 31 December 2020**
Gross written premium – external	339	291
Gross written premium – cross-segment	–	–
Gross written premiums	**339**	**291**
Movement in provision for unearned premiums and gross provision for unexpired risks	(17)	8
Gross earned premium	**322**	**299**
Reinsurers' share in gross written premium	(94)	(99)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(1)	(4)
Net earned premiums	**227**	**196**
Investment income, including:	16	39
external operations	16	39
intersegment operations	–	–
Income	**243**	**235**
Net insurance claims and benefits	(102)	(76)
Acquisition expenses	(112)	(101)
Administrative expenses	(39)	(33)
Other	24	29
Insurance result	**14**	**54**

Investment contracts	**1 January – 31 December 2021**	**1 January – 31 December 2020**
Gross written premium	33	33
Movement in the provision for unearned premiums	–	–
Gross earned premium	**33**	**33**
Reinsurers' share in gross written premium	–	–
Reinsurer's share in the movement in the provision for unearned premiums	–	–
Net earned premiums	**33**	**33**
Investment income, including:	(3)	13
external operations	(3)	13
intersegment operations	–	–
Other income	–	–
Income	**30**	**46**
Net insurance claims and benefits and movement in other net technical provisions	(22)	(37)
Acquisition expenses	–	–
Administrative expenses	(2)	(3)
Other	–	–
Operating result	**6**	**6**

(in millions of PLN)

Other segments	1 January – 31 December 2021	1 January – 31 December 2020
Investment income, including:	5	19
external operations	5	19
intersegment operations	–	–
Other income	1,553	1,234
Income	**1,558**	**1,253**
Expenses	(1,588)	(1,288)
Other	37	28
Operating result	**7**	**(7)**

Reconciliations 1 January – 31 December 2021	Net earned premiums	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	2,365	73	(1,510)	(522)	(142)	294
Mass insurance	10,121	385	(6,198)	(2,166)	(678)	1,251
Group and individually continued insurance	7,055	520	(5,597)	(394)	(669)	870
Individual insurance	1,747	153	(1,329)	(224)	(86)	255
Investments	–	715	–	–	–	715
Banking activity	–	7,319	–	–	(5,077)	3,779
Pension insurance	–	4	–	(7)	(57)	96
Insurance – Baltic States	1,742	42	(1,082)	(366)	(142)	200
Insurance – Ukraine	227	16	(102)	(112)	(39)	14
Investment contracts	33	(3)	(22)	–	(2)	6
Other segments	–	5	–	–	–	7
Total segments	**23,290**	**9,229**	**(15,840)**	**(3,791)**	**(6,892)**	**7,487**
Presentation of investment contracts	(33)	9	22	–	–	–
Presentation of the movement in other net technical provisions	–	–	(4)	–	–	–
Estimated salvage and subrogation	–	–	6	–	–	6
Valuation of equity instruments	–	(1)	–	–	–	(1)
Valuation of properties	–	(6)	–	–	(2)	(8)
Elimination of the equalization provision and prevention fund	–	–	–	–	–	50
Allowances to the Company Social Benefit Fund and actuarial costs	–	–	–	–	–	–
Consolidation adjustments	(25)	324	85	219	68	(65) [1]
Consolidated data	**23,232**	**9,555 [2]**	**(15,731)**	**(3,572)**	**(6,826)**	**7,469**

[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 2020 – 31 December 2020	Net earned premiums	Investment income	Net insurance claims and benefits	Acquisition expenses	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)
Valuation of properties	–	–	–	–	(3)	(3)
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)	(298) [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".

Geographic breakdown	1 January – 31 December 2021					1 January – 31 December 2020				
	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value
Gross written premium – external	22,874	1,867	339	–	25,080	21,881	1,694	291	–	23,866
Gross written premium – cross-segment	54	–	–	(54)	–	79	–	–	(79)	–
Revenue from commissions and fees	4,737	1	–	–	4,738	4,197	–	–	–	4,197
Investment income [1]	9,497	42	16	–	9,555	8,429	18	39	–	8,486

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

(in millions of PLN)

Geographic breakdown	31 December 2021					31 December 2020 (restated) [1]				
	Poland	Baltic States	Ukraine[1]	Unallo-cated	Consoli-dated value	Poland	Baltic States	Ukraine[1]	Unallo-cated	Consoli-dated value
Non-current assets, other than financial assets [2]	7,261	281	5	–	7,547	7,116	272	6	–	7,394
Deferred tax assets	3,055	–	3	–	3,058	2,509	–	2	–	2,511
Assets	399,262	3,611	554	(1,298)	402,129	376,435	3,406	481	(1,348)	378,974

[1] Assets of companies with their registered office in Ukraine, adjusted for shares mutually held between them.
[2] 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 financial sector are additionally obligated to apply the appropriate standards for a given sector. The adopted internal regulations specify among others:

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

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

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

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

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 and setting the risk appetite, defining the risk profile and tolerance 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 the 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 – entails internal audit that conducts independent audits of the elements of the risk management system as well as 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.

The Supervisory Boards oversee the risk management process and set out a relevant strategy each year. The Management Boards are responsible, among others, for accepting policies and guidelines related to risk management and setting detailed limits for mitigating the banks' risks, as well as providing a proper mechanism to control them.

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 level of risk appetite is defined as the minimum capital requirement 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 introduced for the individual risks types to mitigate potential risk.

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 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. The risk management process in PZU Group consists of:

- 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;
- measurement and assessment of risk – conducted depending on the nature of the 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 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 by the PZU Group 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 types in the PZU Group include:

- credit risk in banking activity – is the credit risk arising from activity conducted in the banking sector, associated mainly with the possibility that a debtor or borrower defaults on its 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 is the risk 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.

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

- risk of a customer's default against PZU Group under contracted loans (in banking activity);
- risk of bankruptcy of an issuer of financial instruments in which PZU Group invests or which it trades, e.g. corporate bonds;
- counterparty default risk, e.g. reinsurance or OTC derivatives and bancassurance activity;
- risk of default of a PZU Group's customer against a third party, e.g. 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 of identifying the areas where concentration risk arises in credit activity;
- taking concentration into account when estimating internal capital;
- process of setting and updating limit levels;
- process of managing the limits and adopting the rules of conduct if the permitted limit level is exceeded;
- concentration risk monitoring process, including reporting;
- oversight over the concentration risk management process.

The process of setting and updating concentration limits takes the following 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 about economic trends, including the projection of the levels of interest rates, exchange rates, political risk analysis, ratings of governments and financial institutions;
- reliable information about economic situation of companies, industries, branches, economic sectors, general economic information including news about 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, in individual and 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 repayment;
- collateral, which entails review of the formal, legal and economic status, including loan to value adequacy.

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

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

- concentration limits are set and tracked;
- early warning signals are monitored;
- credit portfolio is monitored regularly, especially 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 2021 is PLN 2,291 million (as at 31 December 2020: PLN 2,658 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.

As at 31 December 2021, the PZU Group did not register any adverse impact of the COVID-19 pandemic on the quality of its loan portfolio, while taking into account elevated risks for certain industries when accepting new exposures and assigning internal ratings.

Scoring and credit rating

The rating scale differs by bank, customer 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.

Pekao

In 2021, Pekao launched the process of aligning its rating scale for internal rating models with the rating scale model applicable to external ratings – the so-called Masterscale, in accordance with the following table:

Description	Class
Investment classes	
High quality	AA, AA-
Robust repayment capacity	A+, A, A-
Adequate repayment capacity	BBB+, BBB, BBB-
Speculative classes	
Repayment likely, some degree of permanent uncertainty	BB+, BB, BB-
High risk of default	B+, B, B-
Very high risk	CCC
Default likely	CC, C

At the end of 2021, the rating models within the corporate/enterprise customer segment were mapped onto the Masterscale.

(in millions of PLN)

Retail customer portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2021				31 December 2020			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Microentreprises	**3,813**	**964**	**-**	**4,777**	**n/a**	**n/a**	**n/a**	**n/a**
Class 1 (0% <= PD < 0.06%)	19	4	-	23	n/a	n/a	n/a	n/a
Class 2 (0.06% <= PD < 0.14%)	230	22	-	252	n/a	n/a	n/a	n/a
Class 3 (0.14% <= PD < 0.35%)	555	52	-	607	n/a	n/a	n/a	n/a
Class 4 (0.35% <= PD < 0.88%)	634	69	-	703	n/a	n/a	n/a	n/a
Class 5 (0.88% <= PD < 2.10%)	715	94	-	809	n/a	n/a	n/a	n/a
Class 6 (2.10% <= PD < 4.00%)	560	85	-	645	n/a	n/a	n/a	n/a
Class 7 (4.00% <= PD < 7.00%)	653	131	-	784	n/a	n/a	n/a	n/a
Class 8 (7.00% <= PD < 12.00%)	312	91	-	403	n/a	n/a	n/a	n/a
Class 9 (12.00% <= PD < 22.00%)	135	114	-	249	n/a	n/a	n/a	n/a
Class 10 (22.00% <= PD < 100%)	-	302	-	302	n/a	n/a	n/a	n/a
Mortgage-backed residential loans	**55,288**	**8,515**	**-**	**63,803**	**53,574**	**7,715**	**-**	**61,289**
Class 1 (0.00% <= PD < 0.06%)	9,482	359	-	9,841	10,325	378	-	10,703
Class 2 (0.06% <= PD < 0.19%)	4,810	268	-	5,078	5,054	296	-	5,350
Class 3 (0.19% <= PD < 0.35%)	26,605	3,234	-	29,839	25,829	3,438	-	29,267
Class 4 (0.35% <= PD < 0.73%)	13,547	2,635	-	16,182	11,274	1,761	-	13,035
Class 5 (0.73% <= PD < 3.50%)	622	960	-	1,582	787	1,013	-	1,800
Class 6 (3.50% <= PD < 14.00%)	154	474	-	628	188	420	-	608
Class 7 (14.00% <= PD < 100.00%)	68	585	-	653	117	409	-	526
Cash (consumer) loans	**9,409**	**1,429**	**-**	**10,838**	**9,021**	**2,054**	**-**	**11,075**
Class 1 (0.00% <= PD < 0.09%)	913	86	-	999	832	136	-	968
Class 2 (0.09% <= PD < 0.18%)	1,644	64	-	1,708	1,630	141	-	1,771
Class 3 (0.18% <= PD < 0.39%)	2,942	73	-	3,015	2,779	151	-	2,930
Class 4 (0.39% <= PD < 0.90%)	2,313	62	-	2,375	2,252	232	-	2,484
Class 5 (0.90% <= PD < 2.60%)	1,294	240	-	1,534	1,107	464	-	1,571
Class 6 (2.60% <= PD < 9.00%)	250	414	-	664	318	396	-	714
Class 7 (9.00% <= PD < 30.00%)	53	291	-	344	85	292	-	377
Class 8 (30.00% <= PD < 100.00%)	-	199	-	199	18	242	-	260
Renewable limits	**139**	**77**	**-**	**216**	**123**	**74**	**-**	**197**
Class 1 (0.00% <= PD < 0.02%)	6	3	-	9	6	3	-	9
Class 2 (0.02% <= PD < 0.11%)	34	12	-	46	29	11	-	40
Class 3 (0.11% <= PD < 0.35%)	42	21	-	63	41	20	-	61
Class 4 (0.35% <= PD < 0.89%)	40	15	-	55	32	16	-	48
Class 5 (0.89% <= PD < 2.00%)	8	13	-	21	10	9	-	19
Class 6 (2.00% <= PD < 4.80%)	6	8	-	14	5	6	-	11
Class 7 (4.80% <= PD < 100.00%)	3	5	-	8	-	9	-	9
Total retail customer segment	**68,649**	**10,985**	**-**	**79,634**	**62,718**	**9,843**	**-**	**72,561**

(in millions of PLN)

Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount		31 December 2021			
		Basket 1	Basket 2	Basket 3 and POCI	Total
Large enterprises (Masterscale)		**21,976**	**1,629**	**-**	**23,605**
AA	(0% <= PD <= 0.01000%)	59	-	-	59
AA–	(0.01000% < PD <= 0.01700%)	-	-	-	-
A+	(0.01700% < PD <= 0.02890%)	-	-	-	-
A	(0.02890% < PD <= 0.04913%)	3	-	-	3
A-	(0.04193% < PD <= 0.08352%)	6	-	-	6
BBB+	(0.08352% < PD <= 0.14199%)	1,560	1	-	1,561
BBB	(0.14199% < PD <= 0.24138%)	306	5	-	311
BBB-	(0.24138% < PD <= 0.41034%)	1,039	56	-	1,095
BB+	(0.41034% < PD <= 0.69758%)	2,576	22	-	2,598
BB	(0.69758% < PD <= 1.18588%)	4,124	69	-	4,193
BB-	(1.18588% < PD <= 2.01599%)	3,675	83	-	3,758
B+	(2.01599% < PD <= 3.42719%)	4,036	79	-	4,115
B	(3.42719% < PD <= 5.82622%)	1,655	26	-	1,681
B-	(5.82622% < PD <= 9.90458%)	2,411	787	-	3,198
CCC	(9.90458% < PD <= 16.83778%)	480	494	-	974
CC	(16.83778% < PD <= 28.62423%)	38	3	-	41
C	(28.62423% < PD <= 100%)	8	4	-	12
Small and medium-sized enterprises (Masterscale)		**15,368**	**2,175**	**-**	**17,543**
AA	(0% <= PD <= 0.01000%)	-	-	-	-
AA–	(0.01000% < PD <= 0.01700%)	-	-	-	-
A+	(0.01700% < PD <= 0.02890%)	-	-	-	-
A	(0.02890% < PD <= 0.04913%)	25	1	-	26
A-	(0.04193% < PD <= 0.08352%)	69	2	-	71
BBB+	(0.08352% < PD <= 0.14199%)	339	2	-	341
BBB	(0.14199% < PD <= 0.24138%)	1,469	5	-	1,474
BBB-	(0.24138% < PD <= 0.41034%)	1,336	17	-	1,353
BB+	(0.41034% < PD <= 0.69758%)	2,448	79	-	2,527
BB	(0.69758% < PD <= 1.18588%)	2,170	90	-	2,260
BB-	(1.18588% < PD <= 2.01599%)	1,865	203	-	2,068
B+	(2.01599% < PD <= 3.42719%)	2,149	152	-	2,301
B	(3.42719% < PD <= 5.82622%)	1,447	342	-	1,789
B-	(5.82622% < PD <= 9.90458%)	1,776	522	-	2,298
CCC	(9.90458% < PD <= 16.83778%)	223	652	-	875
CC	(16.83778% < PD <= 28.62423%)	52	59	-	111
C	(28.62423% < PD <= 100%)	-	49	-	49
Enterprises covered by the rating model of Pekao Bank Hipoteczny SA		**330**	**178**	**-**	**508**
Class 1		112	5	-	117
Class 2		201	18	-	219
Class 3		16	73	-	89
Class 4		1	8	-	9
Class 5		-	48	-	48
Class 6		-	16	-	16
Class 7		-	10	-	10
Total corporate segment		**37,674**	**3,982**	**-**	**41,656**

(in millions of PLN)

Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2020			
	Basket 1	Basket 2	Basket 3 and POCI	Total
Corporate clients	**22,777**	**3,856**	**-**	**26,633**
Class 1 (0.00% <= PD < 0.14%)	122	-	-	122
Class 2 (0.14% <= PD < 0.25%)	1,010	4	-	1,014
Class 3 (0.25% <= PD < 0.42%)	2,518	5	-	2,523
Class 4 (0.42% <= PD < 0.77%)	5,847	64	-	5,911
Class 5 (0.77% <= PD < 1.42%)	5,556	735	-	6,291
Class 6 (1.42% <= PD < 2.85%)	2,468	578	-	3,046
Class 7 (2.85% <= PD < 6.00%)	3,970	802	-	4,772
Class 8 (6.00% <= PD < 12.00%)	1,264	1,517	-	2,781
Class 9 (12.00% <= PD < 100.00%)	22	151	-	173
Small and medium-sized enterprises (SMEs)	**2,382**	**344**	**-**	**2,726**
Class 1 (0.00% <= PD < 0.06%)	16	-	-	16
Class 2 (0.06% <= PD < 0.14%)	192	2	-	194
Class 3 (0.14% <= PD < 0.35%)	623	37	-	660
Class 4 (0.35% <= PD < 0.88%)	645	59	-	704
Class 5 (0.88% <= PD < 2.10%)	484	80	-	564
Class 6 (2.10% <= PD < 4.00%)	241	56	-	297
Class 7 (4.00% <= PD < 7.00%)	93	45	-	138
Class 8 (7.00% <= PD < 12.00%)	59	26	-	85
Class 9 (12.00% <= PD < 22.00%)	15	16	-	31
Class 10 (22.00% <= PD < 100.00%)	14	23	-	37
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	**409**	**235**	**-**	**644**
Class 1	4	4	-	8
Class 2	12	9	-	21
Class 3	110	22	-	132
Class 4	283	188	-	471
Class 5	-	12	-	12
Total corporate segment	**25,568**	**4,435**	**-**	**30,003**

Local government units (unimpaired) covered by the rating model – gross carrying amount		31 December 2021			
		Basket 1	Basket 2	Basket 3 and POCI	Total
AA	(0% <= PD <= 0.01000%)	-	-	-	-
AA–	(0.01000% < PD <= 0.01700%)	-	-	-	-
A+	(0.01700% < PD <= 0.02890%)	-	-	-	-
A	(0.02890% < PD <= 0.04913%)	1	-	-	1
A-	(0.04193% < PD <= 0.08352%)	139	-	-	139
BBB+	(0.08352% < PD <= 0.14199%)	25	-	-	25
BBB	(0.14199% < PD <= 0.24138%)	218	-	-	218
BBB-	(0.24138% < PD <= 0.41034%)	117	-	-	117
BB+	(0.41034% < PD <= 0.69758%)	533	-	-	533
BB	(0.69758% < PD <= 1.18588%)	26	-	-	26
BB-	(1.18588% < PD <= 2.01599%)	138	-	-	138
B+	(2.01599% < PD <= 3.42719%)	-	-	-	-
B	(3.42719% < PD <= 5.82622%)	-	-	-	-
B-	(5.82622% < PD <= 9.90458%)	-	-	-	-
CCC	(9.90458% < PD <= 16.83778%)	-	-	-	-
CC	(16.83778% < PD <= 28.62423%)	-	-	-	-
C	(28.62423% < PD <= 100%)	-	-	-	-
Total local government units		**1,197**	**-**	**-**	**1,197**

(in millions of PLN)

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

Portfolio of specialized lending exposures within the meaning of the CRR – unimpaired – by supervisory classes – gross carrying amount	31 December 2021				31 December 2020			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
High	497	8	-	505	449	-	-	449
Good	3,111	2,100	-	5,211	2,475	1,911	-	4,386
Satisfactory	98	562	-	660	105	842	-	947
Poor	-	3	-	3	-	-	-	-
Total	**3,706**	**2,673**	**-**	**6,379**	**3,029**	**2,753**	**-**	**5,782**

Portfolio	31 December 2021		
	Gross carrying amount	Impairment allowance	Net carrying amount
Exposures without recognized impairment	157,095	(1,669)	155,426
Portfolio covered by the rating model for the retail customer segment	79,634	(571)	79,063
Microentreprises	4,777	(45)	4,732
Retail clients	74,857	(526)	74,331
Mortgage-backed residential loans	63,803	(205)	63,598
Cash (consumer) loans	10,838	(316)	10,522
Renewable limits	216	(5)	211
Portfolio covered by the rating model for the corporate segment	41,656	(337)	41,319
Large enterprises (Masterscale)	23,605	(154)	23,451
Small and medium-sized enterprises (Masterscale)	17,543	(181)	17,362
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	508	(2)	506
Portfolio covered by the rating model for the local government unit segment (Masterscale)	1,197	(2)	1,195
Specialized lending exposures	6,379	(147)	6,232
Exposures not covered by the internal rating model	28,229	(612)	27,617
Exposures with recognized impairment	9,091	(6,073)	3,018
Total receivables from clients on account of impaired loans [1)]	**166,186**	**(7,742)**	**158,444**

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

(in millions of PLN)

Portfolio	31 December 2020		
	Gross carrying amount	Impairment allowance	Net carrying amount
Exposures without recognized impairment	140,153	(1,529)	138,624
Portfolio covered by the rating model for the individual client segment	72,561	(635)	71,926
Mortgage-backed residential loans	61,289	(253)	61,036
Cash (consumer) loans	11,075	(378)	10,697
Renewable limits	197	(4)	193
Portfolio covered by the rating model for the corporate segment	30,003	(279)	29,724
Corporate clients	26,633	(213)	26,420
Small and medium-sized enterprises (SME)	2,726	(62)	2,664
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	644	(4)	640
Portfolio covered by the rating model for the local government unit segment	1,605	-	1,605
Specialized lending exposures	5,782	(114)	5,668
Exposures not covered by the rating model	30,202	(501)	29,701
Exposures with recognized impairment	8,516	(5,595)	2,921
Total receivables from clients on account of impaired loans [1)]	**148,669**	**(7,124)**	**141,545**

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

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Loan receivables from clients – outstanding	31 December 2021				31 December 2020			
	Basket 1	Basket 2	Basket 3 and POCI	Total	Basket 1	Basket 2	Basket 3 and POCI	Total
Retail segment	**32,676**	**1,179**	**-**	**33,855**	**29,535**	**1,559**	**-**	**31,094**
PD < 0.18%	10,869	150	-	11,019	3,364	22	-	3,386
0.18% <= PD < 0.28%	1,860	20	-	1,880	3,451	25	-	3,476
0.28% <= PD < 0.44%	2,373	43	-	2,416	3,049	24	-	3,073
0.44% <= PD < 0.85%	2,902	22	-	2,924	5,080	62	-	5,142
0.85% <= PD < 1.33%	3,088	36	-	3,124	2,927	71	-	2,998
1.33% <= PD < 2.06%	3,354	53	-	3,407	3,197	151	-	3,348
2.06% <= PD < 3.94%	2,849	78	-	2,927	4,993	391	-	5,384
3.94% <= PD < 9.10%	3,993	344	-	4,337	2,114	277	-	2,391
PD => 9.1%	1,345	433	-	1,778	1,272	536	-	1,808
No scoring	43	-	-	43	88	-	-	88
Business segment	**13,709**	**4,452**	**-**	**18,161**	**13,936**	**3,802**	**-**	**17,738**
PD < 0.28%	77	1	-	78	8	1	-	9
0.28% <= PD < 0.44%	376	-	-	376	40	1	-	41
0.44% <= PD < 0.85%	308	69	-	377	225	65	-	290
0.85% <= PD < 1.33%	1,849	218	-	2,067	2,239	100	-	2,339
1.33% <= PD < 2.06%	1,811	217	-	2,028	2,411	184	-	2,595
2.06% <= PD < 3.94%	4,576	315	-	4,891	2,399	377	-	2,776
3.94% <= PD < 9.1%	3,452	1,320	-	4,772	4,362	1,230	-	5,592
PD => 9.1%	1,098	2,312	-	3,410	2,026	1,844	-	3,870
No scoring	162	-	-	162	226	-	-	226
Total non past due receivables from customers, without impairment	**46,385**	**5,631**	**-**	**52,016**	**43,471**	**5,361**	**-**	**48,832**

(in millions of PLN)

Past due loan receivables from clients	31 December 2021	31 December 2020
Basket 1 and Basket 2	**2,552**	**2,948**
Retail segment	1,438	1,438
Business segment	1,114	1,510
Basket 3	**1,883**	**2,409**
Retail segment	645	754
Business segment	1,238	1,655
POCI	**400**	**520**
Retail segment	125	174
Business segment	275	346
Total past due assets	**4,835**	**5,877**

7.5.1.3. Restructured exposures

A restructured exposure is an exposure whose terms of repayment have been changed during the life of the liability in respect of a debtor experiencing or is likely to experience financial difficulties. The change of contractual terms includes a variety of restructuring activities, such as:

- 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;
- change of terms and conditions of the agreement allowing for lower interest or principal repayments;
- agreement subject to refinancing.

A restructured exposure that is classified as non-performing (either due to restructuring measures taken or prior to the taking of any restructuring measures) or that has been reclassified from performing to non-performing, including as a result of a restructured exposure being overdue by more than 30 days during the contingency period, is considered a non-performing restructured exposure (technically: forborne exposure).

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 2021						31 December 2020					
	Basket 1	Basket 2	Basket 3		POCI	Total	Basket 1	Basket 2	Basket 3		POCI	Total
			Individual analysis	Group analysis					Individual analysis	Group analysis		
Measured at amortized cost												
Gross forborne exposures	1,033	987	2,708	1,125	1,859	7,712	1,153	1,385	1,965	1,031	2,054	7,588
Impairment loss	(6)	(110)	(1,205)	(628)	(1,486)	(3,435)	(12)	(155)	(927)	(524)	(1,509)	(3,127)
Net forborne exposures	1,027	877	1,503	497	373	4,277	1,141	1,230	1,038	507	545	4,461
Measured at fair value through profit or loss	X	X	X	X	X	1	X	X	X	X	X	1
Total	1,027	877	1,503	497	374	4,278	1,141	1,230	1,038	507	545	4,462

(in millions of PLN)

Movement in net carrying amount of forborne exposures	1 January – 31 December 2021	1 January – 31 December 2020
Opening balance	4,462	3,215
Value of exposures recognized in the period	1,704	3,090
Value of exposures excluded in the period	(1,172)	(702)
Movements in impairment losses	(28)	(761)
Other changes	(688)	(380)
Total net receivables	**4,278**	**4,462**

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.

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 following tables present the exposure of credit risk assets to credit risk broken down by ratings granted by external rating agencies. Credit risk exposures arising from conditional transactions are presented as an exposure to the issuer of the underlying securities.

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

(in millions of PLN)

Credit risk assets as at 31 December 2021	Basket 1	Basket 2	Basket 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	73,828	346	-	9	74,183
– gross carrying amount	73,897	354	35	39	74,325
– from AAA to A	60,350	-	-	-	60,350
– from BBB to B	1,242	35	-	-	1,277
– no rating	12,305	319	35	39	12,698
– write-off for expected credit losses	(69)	(8)	(35)	(30)	(142)
Debt securities measured at fair value through other comprehensive income – carrying amount	44,788	251	-	-	45,039
– from AAA to A	35,806	-	-	-	35,806
– from BBB to B	5,117	127	-	-	5,244
– no rating	3,865	124	-	-	3,989
– write-off for expected credit losses [1)]	(54)	(26)	-	-	(80)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	2,466
– from AAA to A	X	X	X	X	1,142
– from BBB to B	X	X	X	X	171
– no rating	X	X	X	X	145
– assets at the client's risk	X	X	X	X	1,008
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	5,501	-	-	-	5,501
– gross carrying amount	5,502	-	-	-	5,502
– from AAA to A	796	-	-	-	796
– from BBB to B	519	-	-	-	519
– no rating	4,167	-	-	-	4,167
– assets at the client's risk	20	-	-	-	20
– write-off for expected credit losses	(1)	-	-	-	(1)
Loans – carrying amount	3,517	69	-	-	3,586
– gross carrying amount	3,522	75	-	-	3,597
– from BBB to B	150	-	-	-	150
– no rating	3,372	75	-	-	3,447
– write-off for expected credit losses	(5)	(6)	-	-	(11)
Derivatives	X	X	X	X	8,328
– from AAA to A	X	X	X	X	6,632
– from BBB to B	X	X	X	X	882
– no rating	X	X	X	X	782
– assets at the client's risk	X	X	X	X	32
Reinsurers' share in claims provisions	X	X	X	X	1,399
– from AAA to A	X	X	X	X	1,192
– from BBB to B	X	X	X	X	8
– no rating	X	X	X	X	199
Reinsurance receivables	X	X	X	X	63
– from AAA to A	X	X	X	X	35
– no rating	X	X	X	X	28
Total	**127,634**	**666**	**-**	**9**	**140,565**

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

(in millions of PLN)

Credit risk assets 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
– write-off 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
– write-off 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
– write-off 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
– write-off for expected credit losses	(7)	(6)	-	-	(13)
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	1,022
– 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**

1) The write-off is recognized in revaluation reserve and it 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.

(in millions of PLN)

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

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2021	Best A.M.'s rating as at 31 December 2021 [1]
Reinsurer 1	268	A+
Reinsurer 2	215	unrated
Reinsurer 3	168	A+
Reinsurer 4	129	A++
Reinsurer 5	126	AA-
Reinsurer 6	117	A+
Reinsurer 7	89	AA-
Reinsurer 8	76	A+
Reinsurer 9	58	A+
Reinsurer 10	50	A+
Others, including: [2]	1,244	
With investment-grade rating	1,110	
With sub-investment grade rating or unrated	134	
Total	**2,540**	

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

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2020	Best A.M.'s rating as at 31 December 2020 [1]
Reinsurer 1	218	A+
Reinsurer 2	170	unrated
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: [2]	1,119	
With investment-grade rating	979	
With sub-investment grade rating or unrated	140	
Total	**2,101**	

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

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;

(in millions of PLN)

- liability limits for insurance of receivables;
- value of loans (gross carrying amount and off-balance sheet exposure).

Industry segment	31 December 2021	31 December 2020
O. Public administration and defense, compulsory social security	16.08%	14.54%
K. Financial and insurance activities	11.94%	12.83%
C. Manufacturing	16.27%	16.09%
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	13.51%	12.70%
L. Real estate activities	8.12%	8.78%
F. Construction	5.65%	5.89%
H. Transportation and storage	5.51%	5.47%
D. Electricity, gas, steam, hot water and air conditioning supply	4.63%	4.79%
J. Information and communication	2.74%	2.59%
M. Professional, scientific and technical activity	5.24%	6.79%
B. Mining and quarrying	1.08%	1.19%
Other sectors	9.23%	8.34%
Total	**100.00%**	**100.00%**

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

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

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

PZU Group manages its actuarial risk among others through:

- calculation and monitoring of adequacy of technical provisions;
- tariff strategy 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 statistical institutions and analysis of historical insurance portfolio data. Periodic statistical analysis of claim incidence are made at the level of product groups, individual insurance portfolios and properly defined homogeneous risk groups. These analyses form the basis for measuring relative incidence of events compared to publicly available statistical data. The use of appropriate statistical methodologies allows the Group to determine the significance of the statistics and where required – define and apply appropriate safety margins in the determination of technical provisions and risk measurement.

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

Tariff strategy 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 financial year. The frequency and level of detail 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.

(in millions of PLN)

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;
- non-proportional excess of loss treaty, which protects the agricultural crops portfolio;
- 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 2021	1 January – 31 December 2020
Expense ratio	27.33%	26.27%
Net loss ratio	61.15%	61.31%
Reinsurer’s retention ratio	8.06%	6.78%
Combined ratio	88.48%	87.58%

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

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

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

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

(in millions of PLN)

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

Claims development in direct non-life insurance, gross (by reporting year)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Provision at the end of the reporting period	10,989	11,783	13,312	13,163	13,181	13,990	14,975	15,627	16,540	17,303
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	11,286	12,241	13,032	12,908	13,353	14,251	14,929	15,833	16,048	
– calculated 2 years later	11,958	12,180	12,719	12,922	13,500	14,281	15,008	15,542		
– calculated 3 years later	11,973	12,080	12,822	13,135	13,518	14,438	14,839			
– calculated 4 years later	11,910	12,172	13,089	13,183	13,686	14,366				
– calculated 5 years later	12,067	12,439	13,172	13,353	13,677					
– calculated 6 years later	12,340	12,536	13,356	13,398						
– calculated 7 years later	12,421	12,713	13,308							
– calculated 8 years later	12,598	12,785								
– calculated 9 years later	12,691									
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)	12,691	12,785	13,308	13,398	13,677	14,366	14,839	15,542	16,048	
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)	7,796	7,553	7,524	6,972	6,524	6,132	5,344	4,217	2,544	
Provision recognized in the statement of financial position	4,895	5,232	5,784	6,426	7,153	8,234	9,495	11,325	13,504	
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)*	(1,702)	(1,002)	4	(235)	(496)	(376)	136	85	492	
The above difference as % of provision at the end of the first year	-15%	-9%	0%	-2%	-4%	-3%	1%	1%	3%	

(in millions of PLN)

Claims development in direct non-life insurance, net of reinsurance (by reporting year)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Provision at the end of the reporting period	10,413	11,453	12,814	12,653	12,559	12,880	13,484	13,933	14,545	15,053
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	10,722	11,787	12,525	12,355	12,576	13,066	13,362	13,952	14,089	
– calculated 2 years later	11,282	11,704	12,201	12,278	12,664	13,005	13,393	13,646		
– calculated 3 years later	11,278	11,599	12,224	12,473	12,615	13,112	13,227			
– calculated 4 years later	11,215	11,642	12,481	12,463	12,758	13,048				
– calculated 5 years later	11,326	11,891	12,515	12,623	12,781					
– calculated 6 years later	11,581	11,938	12,689	12,679						
– calculated 7 years later	11,624	12,109	12,750							
– calculated 8 years later	11,794	12,198								
– calculated 9 years later	11,884									
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)	11,884	12,198	12,750	12,679	12,781	13,048	13,227	13,646	14,089	
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)	7,253	7,255	7,232	6,663	6,119	5,543	4,664	3,665	2,202	
Provision recognized in the statement of financial position	4,631	4,943	5,518	6,016	6,662	7,505	8,563	9,981	11,887	
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)*	(1,471)	(745)	64	(26)	(222)	(168)	257	287	456	
The above difference as % of provision at the end of the first year	-14%	-7%	0%	0%	-2%	-1%	2%	2%	3%	

(in millions of PLN)

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

Risk concentration in non-life insurance

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

Exposure to catastrophic losses in property insurance	Sum insured (PLN million) 31 December 2021							Sum insured (PLN million) 31 December 2020						
	0-0.2	0.2 - 0.5	0.5 - 2	2 – 10	10 - 50	over 50	Sum	0-0.2	0.2 - 0.5	0.5 - 2	2 – 10	10 - 50	over 50	Sum
Dolnośląskie	0.8%	1.4%	1.4%	0.5%	0.4%	2.0%	**6.5%**	0.9%	1.3%	1.2%	0.5%	0.4%	1.7%	**6.0%**
Kujawsko-Pomorskie	0.5%	0.7%	0.6%	0.3%	0.2%	1.1%	**3.4%**	0.5%	0.6%	0.5%	0.3%	0.3%	1.1%	**3.3%**
Lubelskie	0.5%	0.7%	0.3%	0.1%	0.1%	1.6%	**3.3%**	0.5%	0.6%	0.2%	0.1%	0.1%	1.6%	**3.1%**
Lubuskie	0.2%	0.3%	0.2%	0.1%	0.1%	0.5%	**1.4%**	0.2%	0.3%	0.2%	0.1%	0.1%	0.5%	**1.4%**
Łódzkie	0.6%	1.0%	0.7%	0.3%	0.2%	3.9%	**6.7%**	0.6%	0.9%	0.6%	0.3%	0.2%	5.3%	**7.9%**
Małopolskie	0.7%	1.5%	1.0%	0.4%	0.4%	1.4%	**5.4%**	0.7%	1.4%	0.8%	0.4%	0.4%	1.4%	**5.1%**
Mazowieckie	1.6%	3.1%	2.6%	0.9%	1.0%	9.1%	**18.3%**	1.5%	2.4%	2.0%	0.8%	0.9%	9.4%	**17.0%**
Opolskie	0.2%	0.4%	0.3%	0.1%	0.1%	1.6%	**2.7%**	0.2%	0.4%	0.3%	0.1%	0.1%	1.4%	**2.5%**
Podkarpackie	0.8%	1.1%	0.4%	0.2%	0.1%	1.4%	**4.0%**	0.5%	0.8%	0.3%	0.2%	0.2%	1.3%	**3.3%**
Podlaskie	0.3%	0.4%	0.3%	0.2%	0.2%	0.4%	**1.8%**	0.3%	0.4%	0.3%	0.1%	0.2%	0.5%	**1.8%**
Pomorskie	0.5%	1.0%	0.9%	0.5%	0.5%	4.8%	**8.2%**	0.5%	0.9%	0.8%	0.4%	0.5%	6.0%	**9.1%**
Śląskie	1.0%	1.5%	1.2%	0.5%	1.2%	3.9%	**9.3%**	1.0%	1.4%	0.9%	0.5%	0.3%	4.3%	**8.4%**
Świętokrzyskie	0.3%	0.5%	0.2%	0.1%	0.1%	0.6%	**1.8%**	0.3%	0.4%	0.2%	0.1%	0.1%	1.1%	**2.2%**
Warmińsko-Mazurskie	0.3%	0.5%	0.3%	0.2%	0.1%	1.2%	**2.6%**	0.3%	0.4%	0.3%	0.2%	0.1%	1.2%	**2.5%**
Wielkopolskie	1.0%	1.8%	1.4%	0.6%	0.5%	2.4%	**7.7%**	1.0%	1.6%	1.2%	0.6%	0.5%	2.0%	**6.9%**
Zachodniopomorskie	0.3%	0.5%	0.5%	0.4%	0.3%	2.2%	**4.2%**	0.3%	0.4%	0.4%	0.3%	0.3%	5.2%	**6.9%**
Lithuania and Estonia	0.6%	1.8%	2.5%	0.8%	1.0%	2.1%	**8.8%**	0.6%	1.7%	2.5%	0.8%	1.0%	2.1%	**8.7%**
Latvia	0.1%	0.6%	0.8%	0.4%	0.4%	0.6%	**2.9%**	0.1%	0.6%	0.8%	0.4%	0.4%	0.5%	**2.8%**
Ukraine	0.0%	0.0%	0.0%	0.1%	0.1%	0.6%	**0.8%**	0.0%	0.0%	0.0%	0.1%	0.1%	0.5%	**0.7%**
Norway	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**0.2%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	**0.4%**
Total	**10.3%**	**18.8%**	**15.6%**	**6.7%**	**7.0%**	**41.6%**	**100.0%**	**10.0%**	**16.5%**	**13.5%**	**6.3%**	**6.2%**	**47.5%**	**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 2021**		**31 December 2020**	
	gross	**net**	**gross**	**net**
Technical rate – increase by 0.5 p.p.	457	425	457	427
Technical rate – decrease by 1.0 p.p.	(1,173)	(1,090)	(1,180)	(1,104)
Mortality at 110% of currently assumed rate	139	134	134	129
Mortality at 90% of currently assumed rate	(157)	(149)	(151)	(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 2021**	**31 December 2020**
Technical rate – decrease by 1.0 p.p.	(18)	(20)
Mortality at 90% of currently assumed rate	(9)	(9)

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 2021**	**31 December 2020**
Technical rate – decrease by 1.0 p.p.	(2,512)	(2,491)
Mortality at 110% of currently assumed rate	(886)	(896)
Morbidity and accident rate at 110% of currently assumed rate	(194)	(205)

(in millions of PLN)

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 2021	31 December 2020
Movement in technical provisions	2,207	2,213
Claims and benefits paid	(859)	(860)
Movement in deferred acquisition expenses	(7)	(11)
Profit/loss before tax	1,341	1,342
Net financial result and equity	1,086	1,087

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 obligations 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.

(in millions of PLN)

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

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

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

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 risk is restricted by the system of periodically updated limits introduced by the resolution of the supervisory board or the Capital, Asset and Liability Management Committee, covering all risk measures the level of which is monitored and reported by Alior Bank's organizational units that are independent of the business division. 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.

Exposure to market risk

Carrying amount	Note	31 December 2021				31 December 2020			
		Assets at Group's risk	including banks' assets	Assets at client's risk	Total	Assets at Group's risk	including banks' assets	Assets at client's risk	Total
Financial assets and cash exposed to interest rate risk		**360,904**	**316,355**	**1,032**	**361,936**	**343,532**	**298,283**	**1,221**	**344,753**
Fixed-income debt securities	36	95,855	60,477	965	96,820	99,459	64,231	1,142	100,601
Variable-income debt securities	36	24,825	22,798	43	24,868	24,436	22,633	43	24,479
Loan receivables from clients	34	215,008	215,008	-	215,008	197,288	197,288	-	197,288
Term deposits with credit institutions	36	1,364	1,031	20	1,384	919	516	33	952
Loans	36	3,586	-	-	3,586	3,384	-	-	3,384
Cash	39	9,443	8,684	4	9,447	7,936	7,040	3	7,939
Buy-sell-back transactions	36	4,117	1,651	-	4,117	4,657	1,127	-	4,657
Derivatives	35	6,706	6,706	-	6,706	5,453	5,448	-	5,453
Financial assets exposed to other price risk		**3,896**	**2,339**	**5,241**	**9,137**	**2,676**	**1,486**	**5,059**	**7,735**
Equity instruments	36	2,306	770	5,209	7,515	1,818	636	5,031	6,849
Derivatives	35	1,590	1,569	32	1,622	858	850	28	886
Total		**364,800**	**318,694**	**6,273**	**371,073**	**346,208**	**299,769**	**6,280**	**352,488**

(in millions of PLN)

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 2021		31 December 2020	
		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**	**215,008**	**-**	**197,288**	**-**
Financial derivatives		**8,275**	**32**	**6,298**	**28**
Investment financial assets		**86,727**	**6,237**	**89,143**	**6,249**
Measured at amortized cost		53,432	20	37,321	33
Debt securities		50,750	-	35,678	-
Government securities		43,770	-	29,806	-
Domestic		43,770	-	29,806	-
Fixed rate		38,644	-	26,965	-
Floating rate		5,126	-	2,841	-
Other		6,980	-	5,872	-
Fixed rate		2,224	-	2,128	-
Floating rate		4,756	-	3,744	-
Buy-sell-back transactions		1,651	-	1,127	-
Term deposits with credit institutions		1,031	20	516	33
Measured at fair value through other comprehensive income		32,425	-	50,131	-
Equity instruments		513	-	396	-
Debt securities		31,912	-	49,735	-
Government securities		22,171	-	37,248	-
Domestic		22,171	-	37,248	-
Fixed rate		14,868	-	29,254	-
Floating rate		7,303	-	7,994	-
Other		9,740	-	12,487	-
Fixed rate		4,445	-	4,764	-
Floating rate		5,295	-	7,723	-
Measured at fair value through profit or loss		870	6,217	1,691	6,216
Equity instruments		249	377	232	376
Participation units and investment certificates		8	4,832	8	4,655
Debt securities		613	1,008	1,451	1,185
Government securities		403	965	1,415	1,145
Domestic		403	959	1,415	1,139
Fixed rate		291	956	1,117	1,136
Floating rate		112	3	298	3
Foreign		-	6	-	6
Fixed rate		-	6	-	6
Other		210	43	36	40
Fixed rate		4	3	3	-
Floating rate		206	40	33	40
Cash		**8,684**	**4**	**7,040**	**3**
Total financial assets of banks and financial assets at client's risk		**318,694**	**6,273**	**299,769**	**6,280**

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 2021	31 December 2020
Lithuania	845	910
Romania	227	221
Ukraine	163	132
Latvia	155	169
Croatia	154	173
Hungary	134	144
Indonesia	132	129
Italy	118	2
Russia	90 [1)]	100
Mexico	88	68
Bulgaria	87	90
Panama	76	78
Columbia	76	104
Peru	74	58
Brazil	70	83
Kazakhstan	60	62
Saudi Arabia	59	57
South Africa	58	55
Philippines	56	48
Uruguay	55	55
Dominican Republic	53	53
Other	368 [2)]	278 [3)]
Total	**3,198**	**3,069**

[1)] All exposure to debt securities issued by the Russian government was sold by 25 February 2022.

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

[3)] The line item “Other” includes bonds issued by 39 countries.

(in millions of PLN)

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 2021	31 December 2020
K. Financial and insurance activities, of which:	8,375	10,699
Foreign banks	4,777	7,069
National Bank of Poland	1,870	2,275
Companies from the WIG-Banks Index	553	555
O. Public administration and defense, compulsory social security, of which:	5,354	5,872
Domestic local governments	5,345	5,859
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	2,329	2,409
Companies from the WIG-Energy Index	1,614	1,732
C. Manufacturing, of which:	1,818	1,144
Production and processing of crude oil refining products	766	647
N. Administrative and support service activities	1,006	-
H. Transportation and storage	801	603
E. Water supply; sewerage, waste management and remediation activities	413	382
J. Information and communication	377	307
I. R. Accommodation and food service activities (including: WIG – hotels and restaurants), and arts, entertainment and recreation activities	335	365
F. Construction	305	246
L. Real estate activities	285	235
M. Professional, scientific and technical activity	196	184
B. Mining and quarrying	185	252
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	47	57
Total	**21,826**	**22,755**

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 2021		31 December 2020	
	decrease	increase	decrease	increase
Polish zloty	1,180	(1,143)	1,781	(1,713)
Euro	60	(56)	33	(29)
US dollar	141	(122)	183	(163)
other	(8)	8	(9)	8
Total	**1,373**	**(1,313)**	**1,988**	**(1,897)**

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

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

(in millions of PLN)

Entity	Measure	31 December 2021		31 December 2020	
		decrease	increase	decrease	increase
Pekao Group	NII	-7.51%	-1.15%	-6.31%	1.99%
	EVE	3.36%	-6.31%	2.76%	-7.10%
Alior Bank Group	NII	-7.52%	0.89%	-13.09%	1.84%
	EVE	0.50%	-2.49%	-0.14%	-1.03%

Reform of interest rate indicators

On 1 January 2018, a new standard took effect in the European Union for the development of benchmarks, based on the BMR, defining the principles of operation and duties of benchmark administrators and entities making use of these benchmarks. The purpose of the new rules is to increase the credibility, transparency and reliability of benchmarks. As a result of the reform, the benchmarks were adjusted to the new rules (including WIBOR and EURIBOR) or ceased to exist (such as LIBOR) having been replaced with alternative indicators. The largest impact of the reform on the PZU Group stems from loans and advances to customers. The principal risks associated with the reform pertain to the need to update contractual terms and systems and review various control mechanisms related to the reform and regulatory risk. The impact of this development on the overall risk is limited largely to the interest rate risk.

As at 31 December 2021, the IBOR reform affecting the currencies covered by the PZU Group's exposure was largely completed. The table below presents the status of the transition to new benchmarks under the IBOR reform.

Currency	Benchmark before the reform	Benchmark status as at 1 January 2022	Benchmark after the reform	As at 31 December 2021
PLN	WIBOR (Warsaw Inter Bank Offered Rate)	consistent with the BMR	Reformed WIBOR	currently in effect
EUR	EURIBOR	consistent with the BMR	Reformed EURIBOR	currently in effect
EUR	EUR LIBOR	phased out	Reformed EURIBOR	currently in effect
CHF	CHF LIBOR	phased out	SARON, SARON Compound	currently in effect
USD	USD LIBOR	In effect until June 2023	SOFR, Term SOFR	currently in effect
GBP	GBP LIBOR	Phased out	SONIA, Term SONIA	currently in effect

In March 2021, the UK Financial Conduct Authority (hereinafter: "FCA"), as the supervisor of the authorized administrator of the LIBOR benchmarks, announced that after 31 December 2021 the CHF LIBOR, GBP LIBOR, EUR LIBOR benchmarks for all tenors and the USD LIBOR for 1W and 2M tenors will cease to exist or cease to be representative. The USD LIBOR for the remaining tenors will cease to exist or cease to be representative after 30 June 2023.

In accordance with Commission Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, since 1 January 2022, the benchmarks of the SARON Compound family, along with the pertinent adjustment, will be used by operation of law in all contracts and financial instruments that, as at the date of entry into force of the Regulation, did not have appropriate fallback clauses and applied the CHF LIBOR benchmark previously. The introduction of substitute benchmarks by operation of law means in practice that it is unnecessary to modify the wording of the financial contracts affected by the change.

Under UK law, the FCA has been granted the right to amend the LIBOR determination methodology and extend its development for a limited period in order to continue the existing contracts that apply these benchmarks, which, for various reasons, the PZU Group is unable to reform either by directly changing the benchmark or by introducing and applying tough legacy contracts (hereinafter: "TLCs"). The LIBOR benchmark modified in this manner will be applied by the PZU Group for the existing contracts (TLCs) based on the GBP LIBOR.

The European Commission has published an initiative that will define statutory substitutes for certain LIBOR benchmarks for the British pound. The PZU Group will monitor the progress of work under this initiative and at the same time considers proposing to its customers the signing of an annex removing any reference to the GBP LIBOR.

In 2021, the PZU Group took steps to amend all contracts based on the EUR LIBOR benchmark (a shift to the appropriate EURIBOR benchmark was proposed). With respect to loan agreements not amended with an annex, new interest calculation rules were introduced as of 1 January 2022 by applying in those loan agreements the last available value of the EUR LIBOR benchmark in 2021 and the margin specified in the contractual terms, without changing the existing rules or dates applicable to changes in the interest rate.

(in millions of PLN)

The PZU Group has a portfolio of loan agreements and derivative transactions based on the USD LIBOR benchmark with maturities extending beyond June 2023. In respect of these loan agreements, the PZU Group is considering reaching out to the borrowers with a proposed annex in which any reference to the USD LIBOR benchmark will be removed. Some derivatives are registered with the Central Counterparty Clearing House, while the rest contain effective fallback clauses.

7.5.3.2. Foreign exchange risk

Exposure to FX risk

Assets by currency	31 December 2021					31 December 2020				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Loan receivables from clients	180,434	29,637	1,254	3,683 [1)]	215,008	163,264	28,498	1,617	3,909 [2)]	197,288
Financial derivatives	7,293	918	116	1	8,328	5,796	374	165	4	6,339
Investment financial assets	118,622	7,891	10,547	1,230	138,290	123,250	7,243	9,374	1,055	140,922
Measured at amortized cost	79,040	1,946	1,829	455	83,270	65,120	1,271	205	268	66,864
Debt securities	71,142	1,122	1,774	145	74,183	57,056	695	5	115	57,871
Government securities	63,178	262	1,774	145	65,359	50,374	138	5	115	50,632
Other	7,964	860	-	-	8,824	6,682	557	-	-	7,239
Buy-sell-back transactions	4,117	-	-	-	4,117	4,657	-	-	-	4,657
Term deposits with credit institutions	704	332	38	310	1,384	576	183	40	153	952
Loans	3,077	492	17	-	3,586	2,831	393	160	-	3,384
Measured at fair value through other comprehensive income	32,654	4,897	7,553	703	45,807	49,915	5,189	8,417	727	64,248
Equity instruments	719	49	-	-	768	569	36	-	-	605
Debt securities	31,935	4,848	7,553	703	45,039	49,346	5,153	8,417	727	63,643
Government securities	23,599	3,348	5,373	-	32,320	38,884	3,749	5,617	-	48,250
Other	8,336	1,500	2,180	703	12,719	10,462	1,404	2,800	727	15,393
Measured at fair value through profit or loss	6,928	1,048	1,165	72	9,213	8,215	783	752	60	9,810
Equity instruments	532	17	349	33	931	701	15	207	23	946
Participation units and investment certificates	4,200	968	620	28	5,816	4,200	730	341	27	5,298
Debt securities	2,196	63	196	11	2,466	3,314	38	204	10	3,566
Government securities	1,958	47	167	11	2,183	3,240	25	168	10	3,443
Other	238	16	29	-	283	74	13	36	-	123
Receivables	7,836	1,167	341	74	9,418	5,044	1,006	102	94	6,246
Cash and cash equivalents	5,063	2,310	1,041	1,033 [3)]	9,447	3,654	1,810	1,290	1,185 [4)]	7,939
Total assets	**319,248**	**41,923**	**13,299**	**6,021**	**380,491**	**301,008**	**38,931**	**12,548**	**6,247**	**358,734**

[1)] Of which PLN 2,332 million in Swiss francs and PLN 628 million in British pounds.

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

[3)] Of which PLN 377 million in British pounds, PLN 228 million in Swiss francs, PLN 80 million in Norwegian kroner and PLN 69 million in Swedish kronor.

[4)] 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.

(in millions of PLN)

Liabilities by currency	31 December 2021					31 December 2020				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Subordinated liabilities	6,227	47	-	-	6,274	6,632	47	-	-	6,679
Liabilities on the issue of own debt securities	5,143	791	6	-	5,940	7,084	429	19	-	7,532
Liabilities to banks	4,624	2,652	77	117 [1)]	7,470	5,392	4,171	18	170 [2)]	9,751
Liabilities to clients under deposits	222,397	26,529	12,565	3,664 [3)]	265,155	203,273	22,631	12,802	3,269 [4)]	241,975
Financial derivatives	10,810	896	168	6	11,880	5,528	501	244	8	6,281
Other liabilities	10,702	1,950	400	151	13,203	10,661	1,266	418	89	12,434
Total liabilities by currency	**259,903**	**32,865**	**13,216**	**3,938**	**309,922**	**238,570**	**29,045**	**13,501**	**3,536**	**284,652**

[1)] Of which PLN 107 million in Swiss francs.

[2)] Of which PLN 153 million in Swiss francs.

[3)] Of which PLN 1,826 million in British pounds, PLN 854 million in Swiss francs, PLN 254 million in Norwegian kroner, PLN 202 million in Canadian dollars, PLN 172 million in Swedish kronor and PLN 61 million in Australian dollars.

[4)] Of which PLN 1,740 million in British pounds, PLN 760 million in Swiss francs, PLN 236 million in Norwegian kroner, PLN 108 million in Canadian dollars, PLN 134 million in Swedish kronor and PLN 64 million in Australian dollars.

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 2021		31 December 2020	
	decrease	increase	decrease	increase
EUR	(764)	779	(700)	724
USD	(40)	60	(74)	68
GBP	1	-	4	(4)
Other	(71)	73	(49)	50
Total	**(874)**	**912**	**(819)**	**838**

7.5.3.3. Equity risk

Level of risk exposure

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

Sensitivity analysis

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

Impact of a change in the measurement of quoted equity instruments on equity	31 December 2021	31 December 2020
increase in measurement of quoted equity instruments by 20%	136	122
decrease in measurement of quoted equity instruments by 20%	(136)	(122)

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 involve 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 in Poland, including the banks from the PZU Group, experienced overliquidity in 2021. This was caused by the restrictions in lending policies imposed in 2020 and maintained in 2021 as well as by reduced demand resulting from greater risk aversion among customers. 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. With the degree of the inflow of deposits maintained, these factors translated into a greater volume of debt securities on the banks' balance sheets along with a significant increase in liquidity.

However, in Q4 2021, the volume of new loans came close to the level observed before the pandemic, which, if the trend continues, should contribute to gradual reduction of excess liquidity.

The impact of the COVID-19 pandemic on the liquidity of the PZU Group's insurance segment in 2021 should be classified as low. The situation of an increased mortality level continues, however this did not significantly impact PZU Group's liquidity risk. In 2021 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 2021, 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 2021							31 December 2020						
	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	57,099	23,423	22,287	15,964	14,715	81,520	215,008	51,145	23,135	18,113	16,480	13,230	75,185	197,288
Investment (deposit) debt instruments	27,775	12,735	19,666	14,508	14,113	41,978	130,775	25,253	21,159	12,116	17,928	13,143	44,474	134,073
Measured at amortized cost	17,075	7,471	12,266	10,264	6,055	30,139	83,270	11,138	9,702	6,493	7,446	6,418	25,667	66,864
Debt securities	11,702	7,382	10,707	9,623	4,999	29,770	74,183	5,558	9,515	6,289	5,563	5,996	24,950	57,871
Government securities	10,954	6,646	9,880	8,863	3,257	25,759	65,359	4,555	9,124	5,764	4,736	5,234	21,219	50,632
Other	748	736	827	760	1,742	4,011	8,824	1,003	391	525	827	762	3,731	7,239
Buy-sell-back transactions	4,117	-	-	-	-	-	4,117	4,657	-	-	-	-	-	4,657
Term deposits with credit institutions	1,253	78	32	17	4	-	1,384	923	15	5	9	-	-	952
Loans	3	11	1,527	624	1,052	369	3,586	-	172	199	1,874	422	717	3,384
Measured at fair value through other comprehensive income	10,304	4,997	6,948	3,886	7,775	11,129	45,039	13,777	10,798	4,937	9,930	6,190	18,011	63,643
Government securities	6,915	3,378	5,061	2,715	6,333	7,918	32,320	7,471	9,817	3,559	8,757	4,762	13,884	48,250
Other	3,389	1,619	1,887	1,171	1,442	3,211	12,719	6,306	981	1,378	1,173	1,428	4,127	15,393
Measured at fair value through profit or loss	396	267	452	358	283	710	2,466	338	659	686	552	535	796	3,566
Government securities	257	255	375	344	266	686	2,183	323	653	679	523	520	745	3,443
Other	139	12	77	14	17	24	283	15	6	7	29	15	51	123
Total	**84,874**	**36,158**	**41,953**	**30,472**	**28,828**	**123,498**	**345,783**	**76,398**	**44,294**	**30,229**	**34,408**	**26,373**	**119,659**	**331,361**

(in millions of PLN)

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

Liquidity risk	31 December 2021								31 December 2020							
	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	**133,769**	**41,893**	**38,749**	**29,351**	**24,195**	**66,431**	**63,082**	**397,470**	**130,075**	**41,146**	**32,990**	**30,064**	**19,290**	**60,340**	**58,889**	**372,794**
Cash and cash equivalents	6,437	220	156	123	104	363	2,044	9,447	7,232	50	35	28	24	84	486	7,939
Receivables	4,362	2,446	113	286	289	1,698	220	9,414	3,291	1,600	92	111	337	495	319	6,245
Loan receivables from clients	54,652	29,503	28,480	20,340	14,182	41,260	45,621	234,038	46,442	26,786	23,673	19,902	12,874	38,208	44,113	211,998
Debt securities	62,441	9,304	8,335	7,846	8,591	22,784	15,142	134,443	67,012	12,224	8,631	8,266	5,559	21,097	13,788	136,577
Loans	214	242	1,519	717	1,029	326	55	4,102	228	414	449	1,633	474	456	179	3,833
Buy-sell-back transactions	4,117	-	-	-	-	-	-	4,117	4,657	-	-	-	-	-	-	4,657
Term deposits with credit institutions	1,546	178	146	39	-	-	-	1,909	1,213	72	110	124	22	-	4	1,545
Liabilities	**(150,158)**	**(16,389)**	**(11,552)**	**(9,319)**	**(6,853)**	**(26,640)**	**(118,559)**	**(339,470)**	**(139,157)**	**(20,423)**	**(9,840)**	**(7,835)**	**(6,890)**	**(24,387)**	**(114,314)**	**(322,846)**
Technical provisions	(9,568)	(3,239)	(2,446)	(1,858)	(1,496)	(5,411)	(22,803)	(46,821)	(13,861)	(2,318)	(1,493)	(1,184)	(914)	(3,928)	(20,920)	(44,618)
Lease liabilities	(199)	(136)	(91)	(145)	(84)	(207)	(658)	(1,520)	(116)	(57)	(18)	(22)	(36)	(98)	(681)	(1,028)
Other liabilities	(140,391)	(13,014)	(9,015)	(7,316)	(5,273)	(21,022)	(95,098)	(291,129)	(125,180)	(18,048)	(8,329)	(6,629)	(5,940)	(20,361)	(92,713)	(277,200)
Gap	**(16,389)**	**25,504**	**27,197**	**20,032**	**17,342**	**39,791**	**(55,477)**	**58,000**	**(9,082)**	**20,723**	**23,150**	**22,229**	**12,400**	**35,953**	**(55,425)**	**49,948**

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

Off-balance sheet liabilities granted	31 December 2021						31 December 2020					
	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	50,499	-	-	-	-	50,499	49,733	-	-	-	-	49,733
Guarantees	14,269	-	-	-	-	14,269	14,411	-	-	-	-	14,411
Total	**64,768**	**-**	**-**	**-**	**-**	**64,768**	**64,144**	**-**	**-**	**-**	**-**	**64,144**

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.

Business continuity plans were implemented by PZU. Actions securing correct operation of the processes included in the Plan in the event of emergency have been tested.

The activities undertaken by the PZU Group in response to the COVID-19 pandemic are coordinated by the Crisis Management Team comprised of representatives of the Management Boards of PZU and PZU Życie since 25 February 2020. Its main assignment is to ensure business continuity while applying the strictest security measures and regulatory restrictions. Some of the decisions made by the Crisis Management Team are communicated in the form of recommendations to the PZU Group subsidiaries. As a result, despite the challenging situation, there were no disruptions in any PZU Group companies associated with the continuity of operations or the provision of services.

The Crisis Management Team has decision-making powers in two key aspects: organizational/legal and technical. In the exercise of its powers in the former area, procedures were adopted to enable remote work, necessary amendments were also made to the business continuity procedures. In parallel, new regulations were devised to manage the risk of infection. The sales, contract administration and claims handling processes were adapted to ensure business continuity and, at the same time, safe customer service. Actions taken in the technological area involved the expansion of IT devices to increase the capacity of VPN connections and the purchase of tools enabling remote work and ensure the taking of proper disinfecting and protective measures.

In 2021, the Crisis Management Team continued the adopted strategy, adapting it to the changing circumstances of the pandemic while delegating some of the processes forming part of ongoing operations.

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 - which is based on the results of independent model validations and 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).

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

8. Equity management

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

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

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

The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU;

- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- PZU will not issue any new shares for the duration of this Policy.

It is assumed that certain temporary deviations in the actual solvency ratio above or below the target level may occasionally occur.

The PZU and PZU Group's dividend policy rests on the following principles:

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

subject to the items below:

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

External capital requirements

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

Pursuant to Article 412 sec. 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2020 report published on 12 May 2021 is available online at https://www.pzu.pl/relacje-inwestorskie/raporty. For the 2021 report, the publication deadline is no later than 20 weeks after the year end, that is until 20 May 2022. Pursuant to Article 290 sec. 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2020 published in the PZU Group's 2020 solvency and financial condition report was 236%. In 2021 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 2021 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. For debt instruments based on a variable interest rate, the reference curve reflecting the level of risk-free rates for the discounting of future flows is developed on the basis of an appropriate swap curve for the respective currency. In turn, for instruments based on a fixed interest rate, it is based on treasury bond quotations in the respective currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of the respective debt instrument, a market-based sectoral spread published in news services is added, reflecting the risk valuation for the issuer's sector and its rating.

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 security deposit provided for the instrument, are used to discount cash flows.

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

9.1.5. Loan receivables from clients

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

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

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 individual credit spread for the issue. The individual spread is initially calibrated to the issue price and periodically recalibrated when trading data are available.

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, for which there is a sufficient number of similar property transactions in the market under analysis, 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, the residual method or the comparative method (if there is an insufficient number of transactions on similar properties);
  - loan receivables from clients and liabilities to clients under deposits;

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

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

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

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

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecasted profit or loss of the company or measurement models based on available market data.	

9.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 December 2021				31 December 2020			
	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	22,733	17,002	6,072	45,807	27,673	24,797	11,778	64,248
Equity instruments	297	-	471	768	257	1	347	605
Debt securities	22,436	17,002	5,601	45,039	27,416	24,796	11,431	63,643
Investment financial assets measured at fair value through profit or loss	2,625	6,142	446	9,213	3,616	5,709	485	9,810
Equity instruments	615	57	259	931	575	1	370	946
Participation units and investment certificates	164	5,631	21	5,816	134	5,143	21	5,298
Debt securities	1,846	454	166	2,466	2,907	565	94	3,566
Loan receivables from clients	-	-	406	406	-	-	1,662	1,662
Measured at fair value through other comprehensive income	-	-	246	246	-	-	1,475	1,475
Measured at fair value through profit or loss	-	-	160	160	-	-	187	187
Financial derivatives	1	8,273	54	8,328	-	6,246	93	6,339
Investment property	-	166	2,607	2,773	-	186	2,307	2,493
Liabilities								
Derivatives	-	11,860	20	11,880	-	6,221	60	6,281
Liabilities to members of consolidated mutual funds	-	380	-	380	-	265	-	265
Investment contracts for the client's account and risk *(unit-linked)*	-	267	-	267	-	268	-	268
Liabilities on borrowed securities (short sale)	686	-	-	686	851	-	-	851

(in millions of PLN)

Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 2021	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Beginning of the period	**347**	**11,431**	**370**	**21**	**94**	**93**	**60**	**1,475**	**187**	**2,307**
Purchase/opening of the position/granting	-	3,376	-	-	5,938	2	2	53	1	310
Reclassification from Level I [1)]		7	-	-	-	-	-	-	-	-
Reclassification from Level II [1)]	-	788	-	-	36	-	-	-	-	142
Reclassifications from assets held for sale to investment property	-		-	-	-	-	-	-	-	157
Profit or loss recognized in the profit and loss account:	-	68	604	(2)	(17)	19	10	44	(4)	160
– interest income calculated using the effective interest rate	-	113	-	-	2	7	-	44	(4)	-
– result on derecognition of financial instruments and investments	-	2	586	-	1	-	-	-	-	-
– net movement in fair value of assets and liabilities measured at fair value	-	(47)	18	(2)	(20)	12	10	-	-	160
Profits or losses recognized in other comprehensive income	39	(161)	-	-	-	-	-	(24)	-	-
Sales/settlements/repayments/conversions	-	(9,034)	(720)	-	(5,880)	(64)	(52)	(1,302)	(24)	-
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(469)
Reclassification to Level II	-	(874)	-	-	(5)	-	(4)	-	-	-
Change in the composition of the Group	85	-	-	-	-	4	4	-	-	-
Foreign exchange differences	-	-	5	2	-	-	-	-	-	-
End of the period	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**

[1)] Information on the restatements is presented in 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 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 comprehensive 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/conversions	-	(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)	-	-	-	-	-	-	-
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)

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

Both in 2021 and in 2020, 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. This valuation uses non-observable inputs such as:

- capitalization rate – determined through analysis of rates of return obtained in transactions for similar 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 2021			31 December 2020		
		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 lot	962	12.50 – 14.50 EUR 40.00 – 75.00 EUR	6.00% – 7.25%	740	12.50 – 14.50 EUR 40.00 – 75.00 EUR	6.25% – 7.25%
warehouse	Office Warehouse	1,421	8.50 – 9.50 EUR 3.30 – 4.00 EUR	5.00% – 6.50%	1,507	8.50 – 9.00 EUR 3.30 – 3.50 EUR	5.75% – 7.00%
commercial	Commercial	159	depending on size of leased space	7.75% – 10.00%	-	-	-
other		65			60		
Total		**2,607**			**2,307**		
Investment property held for sale							
commercial	Commercial	-	-	-	162	depending on size of leased space	7.75% – 10.00%
warehouse	Office Warehouse	557	8.50 – 9.00 EUR 3.30 – 3.50 EUR	5.50% – 6.50%	273	9.00 EUR 3.50 EUR	5.75% – 6.75%
other		41			67		
Total		**598**			**502**		

Properties classified as level III	Fair value	Estimate variable	Assumed fluctuation of the estimate variable	Impact on measurement
Investment property	2,607	Capitalization rate	+ 0.25 p.p.	(112)
			– 0.25 p.p.	123
		Monthly rent rate	+ 5%	107
			– 5%	(107)
Investment property held for sale	598	Capitalization rate	+ 0.25 p.p.	(26)
			– 0.25 p.p.	28
		Monthly rent rate	+ 5%	26
			– 5%	(26)

(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 2021					31 December 2020				
	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	-	-	214,781	214,781	214,602	-	-	193,609	193,609	195,637
Investment financial assets measured at amortized cost	39,455	8,663	32,383	80,501	83,270	42,591	7,450	22,845	72,886	66,864
Debt securities	39,455	6,436	25,489	71,380	74,183	42,591	6,168	15,045	63,804	57,871
Buy-sell-back transactions	-	1,590	2,527	4,117	4,117	-	1,000	3,657	4,657	4,657
Term deposits with credit institutions	-	637	754	1,391	1,384	-	282	670	952	952
Loans	-	-	3,613	3,613	3,586	-	-	3,473	3,473	3,384
Liabilities										
Liabilities to banks	-	2,726	4,762	7,488	7,470	-	2,504	7,140	9,644	9,751
Liabilities to clients under deposits	-	-	264,818	264,818	265,155	-	-	241,171	241,171	241,975
Liabilities on the issue of own debt securities [1)]	-	5,418	539	5,957	5,940	-	6,423	1,130	7,553	7,532
Subordinated liabilities [1)]	-	2,748	3,520	6,268	6,274	-	2,761	4,038	6,799	6,679
Liabilities on account of repurchase transactions	-	846	359	1,205	1,207	-	744	410	1,154	1,154

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

9.3 Reclassification between fair value hierarchy levels

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

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

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

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

In 2021, the following transfers of assets between fair value levels were made:

- reclassification from level III to level II was applied to corporate and municipal bonds measured using market information about the prices of comparable financial instruments, corporate and municipal bonds for which the estimated credit parameters had no significant impact on their measurement and capital market derivatives for which the estimated correlation had no significant impact on their measurement;
- reclassification from level II to level III was effected with respect to corporate to municipal bonds, for which the estimated credit parameters exerted material impact on the measurement, and capital market derivatives for which the estimated volatility exerted a material impact on the measurement;

- reclassification from level I to level II was effected with respect to government bonds for which measurement was made 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 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 effected with respect to government bonds for which measurement was made 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.

10. Gross written premiums

10.1 Accounting policy

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

10.1.1. Non-life insurance

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

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

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

10.1.2. Life insurance

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

(in millions of PLN)

10.2 Quantitative data

Gross written premiums	1 January – 31 December 2021	1 January – 31 December 2020
Gross written premiums in non-life insurance	16,120	14,989
In direct insurance	16,109	14,763
In indirect insurance	11	226
Gross written premiums in life insurance	8,960	8,877
Individual insurance premiums	1,929	1,868
Individually continued insurance premiums	2,055	2,048
Group insurance premiums	4,976	4,961
Total gross written premiums	**25,080**	**23,866**

In 2021 and in 2020, 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 2021	1 January – 31 December 2020
Accident and sickness insurance (group 1 and 2)	1,101	893
Motor third party liability insurance (group 10)	5,354	5,387
Other motor insurance (group 3)	3,970	3,699
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	149	148
Insurance against fire and other property damage (groups 8 and 9)	3,593	3,067
TPL insurance (groups 11, 12, 13)	963	873
Credit and suretyship (groups 14, 15)	67	89
Assistance (group 18)	578	515
Legal protection (group 17)	13	12
Other (group 16)	332	306
Total	**16,120**	**14,989**

11. Revenue from commissions and fees

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.

(in millions of PLN)

11.2 Quantitative data

Revenue from commissions and fees	1 January – 31 December 2021	1 January – 31 December 2020
Banking activity	4,105	3,553
Margin on foreign exchange transactions with clients	858	756
Brokerage fees	203	172
Fiduciary activity	77	65
Payment card and credit card services	1,109	959
Fees on account of insurance intermediacy activities	32	65
Credits and loans	472	413
Bank account-related services	543	442
Transfers	287	265
Cash operations	106	85
Receivables purchased	66	55
Guarantees, letters of credit, collections, promises	94	78
Commissions on leasing activity	87	65
Other commission	171	133
Revenue and payments received from funds and mutual fund management companies	474	509
Pension insurance	154	130
Other	5	5
Total revenue from commissions and fees	**4,738**	**4,197**

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.

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 2021	1 January – 31 December 2020
Loan receivables from clients	7,272	7,571
Debt securities measured at fair value through other comprehensive income	740	980
Debt securities measured at amortized cost	1,481	1,296
Buy-sell-back transactions	15	25
Term deposits with credit institutions	20	37
Loans	121	223
Receivables purchased	105	100
Receivables	13	12
Cash and cash equivalents	15	18
Interest income calculated using the effective interest rate, total	**9,782**	**10,262**

(in millions of PLN)

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 2021	1 January – 31 December 2020
Hedge derivatives	460	348
Dividend income, including:	70	59
Investment financial assets measured at fair value through profit or loss	44	33
Investment financial assets measured at fair value through other comprehensive income	26	26
Foreign exchange differences	(240)	55
Income on investment property	244	224
Investment property maintenance expenses	(108)	(96)
Investment activity expenses	(33)	(26)
Other	25	22
Other net investment income, total	**418**	**586**

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.

14.2 Quantitative data

Result on derecognition of financial instruments and investments	1 January – 31 December 2021	1 January – 31 December 2020
Investment financial assets	605	265
Debt instruments measured at fair value through other comprehensive income	25	171
Financial instruments measured at fair value through profit or loss	565	45
Equity instruments	530	(41)
Participation units and investment certificates	37	(1)
Debt instruments	(2)	87
Instruments measured at amortized cost	15	49
Loan receivables from clients measured at amortized cost	15	(3)
Derivatives	(106)	23
Short sale	23	10
Receivables	(140)	(182)
Investment property	7	3
Result on the loss of control over RUCH SA	-	(5)
Other	3	-
Result on derecognition of financial instruments and investments, total	**407**	**111**

(in millions of PLN)

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 2021	1 January – 31 December 2020
Investment financial assets	(28)	(22)
Debt instruments measured at fair value through other comprehensive income	1	(38)
Instruments measured at amortized cost	(29)	16
– debt instruments	(25)	1
– term deposits with credit institutions	(6)	1
– loans	2	14
Loan receivables from clients	(1,867)	(3,117)
Measured at amortized cost	(1,890)	(3,113)
Measured at fair value through other comprehensive income	23	(4)
Guarantees and sureties given	61	(194)
Receivables	(15)	(10)
Cash and cash equivalents	-	1
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(1,849)**	**(3,342)**

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 2021	1 January – 31 December 2020
Investment financial instruments measured at fair value through profit or loss	226	723
Equity instruments	55	215
Debt securities	70	191
Participation units and investment certificates	101	317
Derivatives	338	(85)
Measurement of liabilities to members of consolidated mutual funds	(6)	(15)
Investment contracts for the client’s account and risk (unit-linked)	8	(8)
Investment property	234	252
Loan receivables from clients	(3)	2
Net movement in fair value of assets and liabilities measured at fair value, total	**797**	**869**

(in millions of PLN)

17. Other operating income

Other operating income	1 January – 31 December 2021	1 January – 31 December 2020
Revenues on the sales of products, merchandise and services by non-insurance companies	894	672
Revenues from direct claims handling on behalf of other insurance undertakings	165	179
Reversal of provisions	78	169
Reimbursement of the costs of pursuit of claims	36	39
Reinsurance commissions and profit participation	107	67
Interest for late payment of amounts due under direct insurance and outward reinsurance	47	55
Gain from sale of property, plant and equipment	37	1
Other	238	213
Other operating income, total	**1,602**	**1,395**

18. Claims, benefits 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.

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.

(in millions of PLN)

18.2 Quantitative data

Claims, benefits and movement in technical provisions	1 January – 31 December 2021	1 January – 31 December 2020
Claims, benefits and movement in technical provisions	**16,130**	**16,105**
In non-life insurance	9,127	9,205
– claims and benefits	7,442	7,480
– movement in technical provisions	795	874
– claims handling expenses	890	851
In life insurance	7,003	6,900
– claims and benefits	6,776	6,493
– movement in technical provisions	102	273
– claims handling expenses	125	134
Reinsurers' share in claims, benefits and movement in technical provisions	**(399)**	**(525)**
In non-life insurance	(399)	(525)
Total net insurance claims and benefits	**15,731**	**15,580**

Claims and benefits handling expenses by type	1 January – 31 December 2021	1 January – 31 December 2020
Consumption of materials and energy	15	14
Third party services	288	296
Taxes and charges	33	31
Employee expenses	470	454
Depreciation of property, plant and equipment	17	14
Amortization of intangible assets	25	27
Other, including:	167	149
– awarded costs, interest and fines in indemnity cases	157	136
– other	10	13
Total claims and benefits handling expenses	**1,015**	**985**

19. Fee and commission expenses

Fee and commission expense	1 January – 31 December 2021	1 January – 31 December 2020
Costs of card and ATM transactions, including card issue costs	817	672
Commissions on acquisition of banking clients	115	107
Fees for the provision of ATMs	44	45
Costs of awards to banking clients	16	17
Costs of bank transfers and remittances	42	39
Additional services attached to banking products	21	23
Brokerage fees	28	25
Costs of administration of bank accounts	5	5
Costs of banknote operations	22	21
Fiduciary activity expenses	29	20
Other commission	55	57
Total fee and commission expenses	**1,194**	**1,031**

(in millions of PLN)

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 expense	1 January – 31 December 2021	1 January – 31 December 2020
Term deposits	41	436
Current deposits	70	267
Own debt securities issued	208	316
Hedge derivatives	28	16
Loans	4	3
Repurchase transactions	7	13
Bank loans contracted by PZU Group companies	21	36
Leases	23	28
Other	16	19
Total interest expenses	**418**	**1,134**

21. Acquisition expenses

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 expenses include costs of advertising and promoting insurance products and costs associated with the examination of applications and issuing policies.

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

21.2 Quantitative data

Acquisition expenses by type	1 January – 31 December 2021	1 January – 31 December 2020
Consumption of materials and energy	30	25
Third party services	106	85
Taxes and charges	6	4
Employee expenses	727	635
Depreciation of property, plant and equipment	40	28
Amortization of intangible assets	33	25
Other, including:	2,716	2,483
– commissions in insurance activities	2,629	2,416
– advertising	80	61
– other	7	6
Movement in deferred acquisition expenses	(86)	32
Total acquisition expenses	**3,572**	**3,317**

(in millions of PLN)

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 fees.

22.2 Quantitative data

Administrative expenses by type	1 January – 31 December 2021	1 January – 31 December 2020
Consumption of materials and energy	122	128
Third party services	1,260	1,243
Taxes and charges	108	102
Employee expenses	3,808	3,659
Depreciation of property, plant and equipment	578	580
Amortization of intangible assets	436	397
Compensation of group insurance administrators in work establishments	203	205
Other, including:	311	283
– advertising	202	155
– other	109	128
Total administrative expenses	**6,826**	**6,597**

23. Employee expenses

Employee expenses	1 January – 31 December 2021	1 January – 31 December 2020
Payroll	4,600	4,299
Defined contribution plans, including:	832	794
– charges on salary	735	701
– 3rd pillar pension insurance, including costs of EPS or ECS contributions incurred in the period	97	93
Other	210	273
Total employee expenses	**5,642**	**5,366**

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

(in millions of PLN)

24. Other operating expenses

Other operating expenses	1 January – 31 December 2021	1 January – 31 December 2020
Impairment of goodwill created as a result of the acquisition of Alior Bank	-	746
Impairment of goodwill created as a result of the acquisition of Pekao	-	555
Levy on financial institutions	1,290	1,203
Expenses of the core business of non-insurance and non-banking companies	1,003	801
Direct claims handling expenses on behalf of other insurance undertakings	175	194
Compulsory payments to insurance market institutions and banking market institutions	143	128
Bank Guarantee Fund	396	541
Insurance Guarantee Fund	62	63
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	24	26
Expenditures for prevention activity	53	56
Establishment of provisions	295	428
Amortization of intangible assets purchased in company acquisition transactions	128	173
Recognition of impairment losses for non-financial assets	57	208 [1)]
Donations	23	30
Late interest, penalties, indemnities	5	5
Costs of pursuit of claims	92	82
Loss from the sale of property, plant and equipment and property, plant and equipment under construction	23	2
Other	148	144
Other operating expenses, total	**3,917**	**5,385**

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

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 with a reservation 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 2021	1 January – 31 December 2020
Profit before tax (consolidated)	7,454	4,058
CIT rate (or range of CIT rates) for the country of the parent company's seat (%)	19%	19%
Income tax which would be calculated as the product of gross accounting profit of the entities and the CIT rate in the country of the parent company's seat	1,416	771
Differences between the income tax calculated above and the income tax shown in the profit and loss account:	604	757
– levy on financial institutions	238	223
– provisions for credit receivables in the part not covered by deferred tax	36	50
– measurement of financial assets	9	30
– recognition/reversal of impairment losses for receivables, not classified as tax-deductible expenses	45	34
– recognition/reversal of other provisions and impairment losses for assets, not classified as tax-deductible expenses	25	319
– fee payable to BFG	76	103
– tax on foreign exchange differences levied in Sweden in connection with the case described in section 46.2	72	-
– differences due to different tax rates	(11)	(17)
– taxation of insurance activities in Ukraine	15	7
– dividends	38	(9)
– tax losses	38	10
– other tax increases, waivers, exemptions, deductions and reductions	23	7
Income tax shown in the profit and loss account	**2,020**	**1,528**

Total amount of current and deferred tax	1 January – 31 December 2021	1 January – 31 December 2020
1. Recognized in the profit and loss account, including:	**2,020**	**1,528**
– current tax	1,492	1,841
– deferred tax	528	(313)
2. Recognized in other comprehensive income, including:	**(1,209)**	**356**
– deferred tax	(1,209)	356

Income tax on other comprehensive income items	1 January – 31 December 2021	1 January – 31 December 2020
Gross other comprehensive income	(6,357)	1,958
Income tax	1,209	(356)
Valuation of debt instruments	522	(213)
Measurement of loan receivables from clients	9	(4)
Cash flow hedging	702	(123)
Valuation of equity instruments	(17)	(17)
Actuarial gains and losses related to provisions for employee benefits	(7)	1
Net other comprehensive income	**(5,148)**	**1,602**

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 2021	1 January – 31 December 2020
Net profit attributable to the equity holders of the parent company	3,336	1,912
Weighted average basic and diluted number of common shares	863,344,936	863,332,499
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	178,064	190,501
Basic and diluted earnings (losses) per common share (in PLN)	3.86	2.21

In the 2021 and in 2020, 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 5.6 is not amortized, but at the end of each financial year and any time there are any indications of impairment, it is tested for impairment. The goodwill impairment test involves assessing the recoverable amount of the individual cash-generating units to which goodwill has been allocated and comparing it with their carrying amount (including the allocated goodwill). If the recoverable amount is lower than the impairment loss applies first to the goodwill allocated to the cash-generating unit. The cash-generating unit, for which the test is performed may not be larger than an operating segment.

27.2 Quantitative data

Goodwill	31 December 2021	31 December 2020
Pekao [1)]	1,715	1,714
LD [2)]	508	511
Medical companies	288	284
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	41	41
Other	5	5
Total goodwill	**2,778**	**2,776**

[1)] Includes goodwill on acquisition of PIM and Idea Bank (as at 31 December 2021).

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

(in millions of PLN)

Movement in goodwill	1 January – 31 December 2021	1 January – 31 December 2020
Gross goodwill at the beginning of the period	4,092	4,049
– acquisition of medical companies	4	-
– acquisition of Idea Bank's enterprise	1	-
– foreign exchange differences	(3)	43
Gross goodwill at the end of the period	4,094	4,092
Impairment losses at the beginning of the period	(1,316)	(15)
– impairment charges – Alior Bank	-	(746)
– impairment charges – Pekao	-	(555)
Impairment loss – at the end of the period	(1,316)	(1,316)
Net goodwill at the end of the period	**2,778**	**2,776**

27.3 Testing for impairment

Impairment tests for goodwill were performed as at 31 December 2021 for all the CGUs, to which goodwill was allocated. As a result of the tests, no need has been found to recognize impairment losses.

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

Cash-generating units (CGUs)

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

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 is the higher of the fair value less costs of disposal or the value in use. As at 31 December 2021, the recoverable amount was estimated on the basis of value in use.

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.

(in millions of PLN)

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 5.0% (6.0% in 2020).

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 2021			31 December 2020		
	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	9.7%	3.5%	3 years	8.7%	3.5%	6 years
LD	5.5%	3.0%	3 years	6.1%	3.0%	5 years
Mass insurance segment	8.8%	2.5%	3 years	7.5%	2.5%	3 years
Balta	6.1%	3.0%	3 years	6.1%	3.0%	5 years
Medical companies	6.0%-6.7%	2.0%-3.0%	3 years	5.7%-6.3%	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 2021			31 December 2020		
	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Pekao	1,376	11.2%	(4.3%)	170	8.8%	2.7%
LD	833	7.2%	1.1%	320	6.9%	2.1%
Balta	163	7.5%	1.5%	253	8.4%	0.3%
Mass insurance segment	4,848 [1)]	20.2%	n/a [2)]	8,864	23.4%	n/a [2)]
Medical companies	956	10.6%-28.1%	(54.4%)-(3.8%)	720	6.2%-28.1%	(41.0%)-2.3%

[1)] Surplus of the recoverable amount of the mass insurance segment over its carrying amount, including the Link4 acquisition goodwill allocation allocated to that segment. The decline in the surplus resulted primarily from the drop in profitability forecasts for the mass segment taken into account in the PZU Group's financial plans.
[2)] 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.

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 5.6.

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

Intangible assets are amortized over their estimated economic life:

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

Impairment

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

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.

(in millions of PLN)

Where necessary, an impairment loss is recognized reducing the portfolio value to its 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".

Impairment tests for trademarks were performed as at 31 December 2021. As a result of the tests, no need has been found to recognize impairment losses. The value in use of trademarks was determined on the basis of the value of discounted cash flows from potential license fees. The value of license fees was set at 0.4–0.8% of the Pekao Group retail and corporate segment's revenue and 1% of gross written premium of insurance companies. The discount rates were established based on the cost of capital plus specific premiums: 2 p.p. for Pekao and 1 p.p. for insurance companies. The growth rates after the forecast period of the respective CGUs were assumed at the same level as in goodwill impairment tests, as described in section 27.3.

In the case of CDIs, a significant indication of the absence of impairment is the growing net interest margin.

28.2 Quantitative data

Movement in intangible assets (by type groups) in the year ended 31 December 2021	**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	3,442	622	1,999	565	99	6,727
Changes:	431	-	-	138	2	571
– purchases and in-house production	23	-	-	782	2	807
– transfers	625 [1)]	-	-	(632)	3	(4)
– sale and liquidation	(262)	-	-	(6)	(3)	(271)
– foreign exchange differences and other	45	-	-	(6)	-	39
Gross value at the end of the period	**3,873**	**622**	**1,999**	**703**	**101**	**7,298**
Accumulated amortization at the beginning of the period	(1,871)	-	(1,373)	-	(76)	(3,320)
Changes:	(249)	-	(128)	-	(5)	(382)
– amortization for the period	(498)	-	(128)	-	(8)	(634)
– sale and liquidation	246	-	-	-	3	249
– transfers	3	-	-	-	-	3
Accumulated amortization at the end of the period	**(2,120)**	**-**	**(1,501)**	**-**	**(81)**	**(3,702)**
Impairment losses at the beginning of the period	(23)	(100)	(61)	(17)	-	(201)
Changes charged to other operating expenses	(7)	-	-	(2)	-	(9)
Claims handling	15	-	-	2	-	17
Impairment losses – at the end of the period	**(15)**	**(100)**	**(61)**	**(17)**	**-**	**(193)**
Net value of intangible assets at the end of the period	**1,738**	**522**	**437**	**686**	**20**	**3,403**

1) Including PLN (4) million on account of transfers to the held-for-sale category under IFRS 5.

(in millions of PLN)

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
– 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 amortization at the beginning of the period	(1,662)	-	(1,177)	-	(68)	(2,907)
Changes:	(209)	-	(196)	-	(8)	(413)
– amortization for the period	(450)	-	(173)	-	(7)	(630)
– sale and liquidation	242	-	-	-	2	244
– 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 losses 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**

Amortization of intangible assets, by their presentation in consolidated profit and loss account	1 January – 31 December 2021	1 January – 31 December 2020
Claims, benefits and movement in technical provisions	25	27
Acquisition expenses	33	25
Administrative expenses	436	397
Other operating expenses [1)]	140	181
Total amortization	**634**	**630**

[1)] Including the amortization of intangible assets purchased in company acquisition transactions in the amount of PLN 128 million (PLN 173 million in 2020).

29. Other assets

Other assets	31 December 2021	31 December 2020
Reinsurance settlements	90	282
Estimated salvage and subrogation	198	189
Deferred IT expenses	110	91
Accrued direct claims handling receivables	53	51
Costs settled over time	74	67
Inventories	57	40
Accrued commissions	18	14
Other assets	33	19
Total other assets	**633**	**753**

(in millions of PLN)

Other assets	31 December 2021	31 December 2020
Short-term	521	648
Long-term	112	105
Total other assets	**633**	**753**

30. Deferred acquisition costs

30.1 Accounting policy

Deferred acquisition expenses 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 expenses	31 December 2021	31 December 2020
Short-term	1,414	1,409
Long-term	159	141
Total deferred acquisition expenses	**1,573**	**1,550**

Movement in deferred acquisition expenses	1 January – 31 December 2021	1 January – 31 December 2020
Net value at the beginning of the period	1,550	1,574
Non-life insurance	1,423	1,459
Life insurance	127	115
Acquisition expenses pertaining to future periods	1,898	1,745
Amortization for the period recognized in financial result	(1,854)	(1,769)
Impairment losses in the period	(21)	-
Net value at the end of the period	**1,573**	**1,550**
Non-life insurance	1,438	1,423
Life insurance	135	127

(in millions of PLN)

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 hardware	14.3% – 40%
Other non-current assets	7% – 20%

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

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

(in millions of PLN)

31.2 Quantitative data

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2021	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	1,459	287	229	4,271	657	6,903
Changes:	147	76	54	138	40	455
– purchases and in-house production	20	10	414	16	14	474
– increase in right-of-use assets	-	95	-	162	1	258
– change in composition of the group	23	3	-	1	4	31
– sale and liquidation	(72)	(69)	-	(31)	(88)	(260)
– decrease in right-of-use assets (termination of agreements, sales)	-	(9)	-	(39)	(2)	(50)
– transfers to categories held for sale under IFRS 5	(1)	-	-	(9)	-	(10)
– transfers	171	45	(348)	25	107	-
– foreign exchange differences and other	6	1	(12)	13	4	12
Gross value at the end of the period	**1,606**	**363**	**283**	**4,409**	**697**	**7,358**
Accumulated amortization at the beginning of the period	(809)	(114)	-	(1,356)	(306)	(2,585)
Changes:	(136)	-	-	(346)	6	(476)
– amortization for the period	(208)	(23)	-	(124)	(75)	(430)
– amortization of right-of-use assets	-	(16)	-	(276)	(1)	(293)
– sale and liquidation	69	46	-	39	77	231
– sale, liquidation and other movement in right-of-use assets	-	-	-	1	2	3
– transfers to categories held for sale under IFRS 5	1	-	-	5	-	6
– foreign exchange differences and other	2	(7)	-	9	3	7
Accumulated amortization at the end of the period	**(945)**	**(114)**	**-**	**(1,702)**	**(300)**	**(3,061)**
Impairment losses at the beginning of the period	(13)	(1)	-	(106)	(10)	(130)
Changes charged to other operating expenses	(1)	(2)	-	(17)	(6)	(26)
Other changes	-	-	-	3	-	3
Impairment losses – at the end of the period	**(14)**	**(3)**	**-**	**(120)**	**(16)**	**(153)**
Net value of property, plant and equipment – at the end of the period	**647**	**246**	**283**	**2,587**	**381**	**4,144**
– including net value of right-of-use assets	-	91	-	821	4	916

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 2020	**Plant and machinery**	**Means of transport**	**Property, plant and equipment under construc-tion**	**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	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 amortization at the beginning of the period	(677)	(88)	-	(968)	(260)	(1,993)
Changes:	(132)	(26)	-	(388)	(46)	(592)
– amortization 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
– foreign exchange differences and other	-	-	-	-	(3)	(3)
Accumulated amortization at the end of the period	**(809)**	**(114)**	**-**	**(1,356)**	**(306)**	**(2,585)**
Impairment losses 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

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.

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

(in millions of PLN)

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 impact of the COVID-19 pandemic on the real estate market, in particular on the commercial real estate segment, is included in the capitalization rates used for 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 2021	1 January – 31 December 2020
Net carrying amount at the beginning of the period	2,493	1,981
Additions	592	538
– purchase	430	228
– increase in right-of-use assets	-	14
– transfers from held for sale categories under IFRS 5	162	296
Reductions	(470)	(260)
– sale and liquidation	(1)	(2)
– transfers to held for sale categories under IFRS 5	(469)	(257)
– decrease of right-of-use assets	-	(1)
Gain (loss) on remeasurement to fair value	158	234
– through profit or loss	158	233
– through other comprehensive income	-	1
Net carrying amount at the end of the period, including	**2,773**	**2,493**
– buildings and structures	2,514	2,262
– own land	196	170
– perpetual usufruct right to land and cooperative ownership right to premises	63	61

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

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2021.

33. Entities measured 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 an associate or joint venture reduce the carrying amount of the investment.

(in millions of PLN)

33.2 Quantitative data

Associates	31 December 2021	31 December 2020
RUCH	48	65
Krajowy Integrator Płatności SA	44	-
GSU Pomoc Górniczy Klub Ubezpieczonych SA	1	1
Sigma BIS SA	-	1
PayPo sp. z o.o.	n/a	5
Associates, total	**93**	**72**

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.

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

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

Modification of financial assets

If terms and conditions of a financial asset agreement change, the modified and original cash flows are compared. If the identified difference is material then the original financial asset is removed from the 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, and only 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.

(in millions of PLN)

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;
- quantitative – among others % thresholds of margin change, increase of the financing amount and changes in the residual financing period (for revolving products).

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

34.2 Quantitative data

Loan receivables from clients	31 December 2021	31 December 2020
Measured at amortized cost	214,602	195,626
Measured at fair value through other comprehensive income	246	1,475
Measured at fair value through profit or loss	160	187
Total loan receivables from clients	**215,008**	**197,288**

Loan receivables from clients	31 December 2021	31 December 2020
Retail segment	**116,523**	**110,230**
Operating loans	214	244
Consumer finance	27,013	27,286
Consumer finance loans	4,284	3,852
Loan to purchase securities	32	26
Overdrafts in credit card accounts	1,106	993
Loans for residential real estate	82,923	76,782
Other mortgage loans	717	772
Other receivables	234	275
Business segment	**98,485**	**87,058**
Operating loans	31,859	26,722
Car financing loans	3	4
Investment loans	27,992	27,295
Receivables purchased (factoring)	7,393	7,049
Overdrafts in credit card accounts	157	56
Loans for residential real estate	76	233
Other mortgage loans	9,522	10,641
Finance lease	13,694	12,330
Other receivables	7,789	2,728
Total loan receivables from clients	**215,008**	**197,288**

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 at fair value".

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

Despite the uncertainty, the PZU Group intends to continue its current hedge accounting policy in terms of the amount and timing of the cash flows as a result of the IBOR reform in cash flow hedge accounting, which also applies to the reformed benchmarks.

As part of the established hedging relationships, the PZU Group identifies the following interest rate reference rates: WIBOR, EURIBOR, LIBOR CHF, LIBOR USD.

The PZU 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 benchmarks have been adjusted to the requirements of the BMR and are calculated by administrators authorized by regulatory authorities. 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. As of 1 January 2022, the CHF LIBOR benchmark has been replaced by the SARON (Swiss Averaged Rate Overnight) and SARON Compound benchmarks, administered by the SIX Swiss Exchange, thus removing any uncertainty about the timing or amounts of cash flows in the context of the new benchmarks. The PZU Group intends to continue the existing arrangements after switching to the SARON benchmarks, observing the procedure and principles set forth in the amendments to IAS 39 and IFRS 9 pertaining to the IBOR reform. In the PZU Group's opinion, it is reasonable to expect that the hedge will be highly effective and efficient in all reporting periods for which it has been established.

The PZU Group expects the USD LIBOR to be replaced with the 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 benchmark. 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.

(in millions of PLN)

As at 31 December 2021, the discontinuation of the calculation of the LIBOR interest rate benchmarks affected the hedging of the fair value of debt securities (USD 133 million of USD LIBOR-based transactions maturing after 30 June 2023).

As regards hedging instruments, the PZU Group companies joined the ISDA Fallbacks Protocol and actively cooperate with their counterparties to implement the rules of conduct consistent with the ISDA 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.

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

		31 December 2021 Maturity					31 December 2020 Maturity				
	Currency	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	-	-	200	-	200	280	-	-	200	480
Average interest rate of the fixed-rate part	PLN	-	-	2.6	-	2.6	0.3	-	-	0.3	0.3
Par value	EUR	-	-	699	287	986	-	346	309	681	1,336
Average interest rate of the fixed-rate part	EUR	-	-	0.0	(0.1)	0.0	-	(0.1)	0.8	(0.2)	0.1
Par value	USD	102	-	701	-	803	-	-	631	112	743
Average interest rate of the fixed-rate part	USD	3.7	-	1.4	-	1.7	-	-	2.0	0.2	1.8
Total		**102**	**-**	**1,600**	**287**	**1,989**	**280**	**346**	**940**	**993**	**2,559**

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021			31 December 2020		
	Hedges of securities measured at		Total	Hedges of securities measured at		Total
	amortized cost	fair value		amortized cost	fair value	
Hedging instruments						
Par value	200	1,789	1,989	200	2,359	2,559
Carrying amount – assets	6	-	6	-	-	-
Carrying amount – liabilities	-	91	91	27	171	198
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	33	68	101	(11)	(34)	(45)
Hedge inefficiency amount recognized in the profit and loss account	1	3	4	-	(1)	(1)
Hedged items						
Carrying amount – assets	193	1,933	2,126	225	2,596	2,821
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet – assets	(7)	111	104	25	188	213
Change in value of the hedged item used as the basis for estimating hedge inefficiency	(32)	(65)	(97)	11	34	45
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:

	Curren-cy	31 December 2021 Maturity					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	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	250	-	250	-	430	250	-	680
Average interest rate of the fixed-rate part	PLN	-	-	0.2	-	0.2	-	2.4	0.2	-	1.6
Par value	EUR	-	-	154	-	154	-	-	46	108	154
Average interest rate of the fixed-rate part	EUR	-	-	0.7	-	0.7	-	-	0.7	0.7	0.7
Total		**-**	**-**	**404**	**-**	**404**	**-**	**430**	**296**	**108**	**834**

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021			31 December 2020		
	Hedging of investment financial assets measured at		Total	Hedging of investment financial assets measured at		Total
	amortized cost	fair value		amortized cost	fair value	
Hedging instruments						
Par value	154	250	404	680	154	834
Carrying amount – assets	15	3	18	-	-	-
Carrying amount – liabilities	-	-	-	6	2	8
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	17	4	21	(2)	(1)	(3)
Hedge inefficiency amount recognized in the profit and loss account	(3)	1	(2)	3	2	5
Hedged items						
Carrying amount – assets	182	158	340	674	153	827
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	(14)	-	(14)	2	-	2
Change in value of the hedged item used as the basis for estimating hedge inefficiency	(20)	(3)	(23)	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 variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction and could affect profit or loss.

The result of measurement of the effective part of cash flow hedges is recognized in other comprehensive income. 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.

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).

(in millions of PLN)

	Currency	31 December 2021 Maturity					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	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	1,000	16,703	6,120	23,823	-	-	12,337	3,355	15,692
Average interest rate of the fixed-rate part	PLN	-	1.7	1.6	2.0	1.7	-	-	1.9	0.8	1.7

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	23,823	15,692
Carrying amount – assets	-	767
Carrying amount – liabilities	1,403	2
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(2,191)	475
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	(14)	8
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	2,196	(467)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(1,508)	669
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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 2021 Maturity					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	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	90	113	231	434	-	85	168	266	519
Average interest rate of the fixed-rate part	PLN	-	1.4	1.2	1.4	1.3	-	0.3	0.3	0.7	0.5
Par value	EUR	-	-	-	-	-	-	636	-	-	636
Average interest rate of the fixed-rate part	EUR	-	-	-	-	-	-	(0.5)	-	-	(0.5)

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	434	1,155
Carrying amount – assets	9	7
Carrying amount – liabilities	6	48
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	43	(15)
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	(43)	15
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	6	(37)
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 the variable interest rate loan portfolio in Swiss francs, the portfolio of loans and lease receivables with variable interest rates in EUR and the portfolio of deposits in Polish zloty

Pekao hedges its exposure to interest rate risk associated with the volatility of market reference rates (WIBOR, EURIBOR, CHF LIBOR – since 1 January 2022 replaced with SARON) and its exposure to currency risk generated by portfolios of variable interest rate loans denominated in Swiss francs, loan portfolios and lease receivables with a variable interest rate denominated in EUR (since 2021) and deposits in Polish zloty, which economically constitute a long-term liability with a variable interest rate (the connection extended by future flows arising from loans and lease receivables with a variable interest rate in EUR) using currency interest rate swaps (basis swaps). CIRS transactions are decomposed into a component hedging the asset portfolio and a component hedging the liability portfolio.

	Curren-cy	31 December 2021 Maturity					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	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	-	222	1,748	445	2,415	-	299	1,279	1,036	2,614
Par value	EUR/ PLN	285	345	1,223	-	1,853	-	-	-	-	-

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	4,268	2,614
Carrying amount – assets	-	-
Carrying amount – liabilities	690	561
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	5	14
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	-	-
Hedge inefficiency amount recognized in the profit and loss account	1	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(11)	(17)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(35)	(39)
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, USD LIBOR) 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.

	Curren-cy	31 December 2021 Maturity					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	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	6,569	2,690	-	-	9,259	6,494	3,115	461	-	10,070
Average rate		4.6	4.7	-	-	4.6	4.5	4.6	4.6		4.5
Par value	EUR/ USD	235	207	-	-	442	2,323	1,361	-	-	3,684
Average rate		1.1	1.1	-	-	1.1	1.2	1.2	-	-	1.2
Par value	USD/ PLN	-	102	-	-	102	324	132	-	-	456
Average rate		-	3.7	-	-	3.7	3.7	3.8	-	-	3.7

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	9,803	14,210
Carrying amount – assets	63	5
Carrying amount – liabilities	31	264
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(13)	(1)
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	13	1
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(12)	1
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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).

	Curren-cy	31 December 2021 Maturity					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	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	600	4,375	17,172	-	22,147	1,091	1,366	15,167	-	17,624
Average interest rate of the fixed-rate part	PLN	2.2	0.5	1.3	-	1.2	2.2	2.1	1.0	-	1.2
Par value	EUR	-	-	543	-	543	-	-	46	-	46
Average interest rate of the fixed-rate part	EUR	-	-	(0.3)	-	(0.3)	-	-	(0.1)	-	(0.1)

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	22,690	17,670
Carrying amount – assets	21	335
Carrying amount – liabilities	1,082	78
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(891)	188
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	(1,200)	223
Hedge inefficiency amount recognized in the profit and loss account	(3)	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	(110)	(80)
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	939	(185)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(1,117)	192
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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.

	Curren-cy	31 December 2021 Maturity					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	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	-	-	734	373	1,107	-	-	443	663	1,106
Average rate		-	-	4.3	4.3	4.3	-	-	4.3	4.3	4.3
Par value	USD / PLN	-	-	445	-	445	-	-	285	160	445
Average rate		-	-	3.8	-	3.8	-	-	3.8	3.9	3.8
Par value	GBP / PLN	-	-	350	211	561	-	-	77	508	585
Average rate		-	-	5.0	5.0	5.0	-	-	4.8	5.0	5.0

(in millions of PLN)

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2021	31 December 2020
Hedging instruments		
Par value	2,113	2,136
Carrying amount – assets	-	4
Carrying amount – liabilities	332	40
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(296)	(57)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	(226)	43
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	(70)	(100)
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	296	58
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(169)	57
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 2021	31 December 2020
Beginning of the period	843	190
Profits or losses resulting from hedging – recognized in other comprehensive income	(3,678)	653
Interest rate risk	(3,443)	596
Interest rate risk and currency risk	(235)	57
End of the period	**(2,835)**	**843**

(in millions of PLN)

35.3 Quantitative data

Derivatives as at 31 December 2021	Base amount by maturities: Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Assets	Liabilities
Related to interest rates	**24,408**	**48,118**	**211,279**	**60,467**	**344,272**	**6,706**	**10,372**
Fair value hedging instruments – swap transactions	102	-	2,004	287	2,393	24	91
Cash flow hedging instruments – swap transactions	885	6,032	39,031	7,380	53,328	30	3,513
Instruments carried as held for trading, including:	23,421	42,086	170,244	52,800	288,551	6,652	6,768
– forward contracts	4,397	2,035	-	-	6,432	7	13
– swap transactions	18,576	38,383	167,628	50,103	274,690	6,621	6,729
– call options (purchase)	268	999	1,638	413	3,318	16	20
– put options (sale)	-	325	896	2,284	3,505	6	4
– cap floor options	180	344	82	-	606	2	2
Related to exchange rates	**46,466**	**17,073**	**9,470**	**-**	**73,009**	**797**	**727**
Cash flow hedging instruments – swap transactions	6,804	2,999	-	-	9,803	63	31
Instruments carried as held for trading, including:	39,662	14,074	9,470	-	63,206	734	696
– forward contracts	11,844	7,588	6,343	-	25,775	361	393
– swap transactions	24,376	3,961	1,228	-	29,565	287	254
– call options (purchase)	1,797	1,296	953	-	4,046	83	24
– put options (sale)	1,645	1,229	946	-	3,820	3	25
Related to prices of securities	**386**	**456**	**1,629**	**-**	**2,471**	**69**	**41**
– call options (purchase)	366	456	1,629	-	2,451	69	41
– forward contracts	20	-	-	-	20	-	-
Related to commodity prices	**1,975**	**347**	**871**	**-**	**3,193**	**756**	**740**
– forward contracts	182	179	-	-	361	12	7
– swap transactions	1,583	168	871	-	2,622	729	717
– call options (purchase)	137	-	-	-	137	15	14
– put options (sale)	73	-	-	-	73	-	2
Total	**73,235**	**65,994**	**223,249**	**60,467**	**422,945**	**8,328**	**11,880**

(in millions of PLN)

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
– forward contracts	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**

36. Investment financial assets, including assets securing liabilities

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.

Assets securing liabilities in respect of which the recipient has the right to sell these assets or exchange them for another security are presented in a separate line item in the statement of financial position.

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. Principles of measurement

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 transferred for debt securities purchased under a contract under which the seller retained substantially all the risks and rewards of ownership of the 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.

The rules of measurement to fair value 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 carried at fair value through other comprehensive income includes assets considered material from the perspective of the PZU Group. 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.

The rules of measurement to fair value are described in section 9.1. The effect of the change in measurement of financial instruments at fair value, including related interest income and changes in liabilities under investment contracts for the client's account and risk are recognized under "Net movement in fair value of assets and liabilities measured at fair value" in the period to which they relate.

36.1.3. Derecognition from statement of financial position

Financial assets are derecognized from the consolidated statement of financial position when the contractual rights to receive cash flows of the asset expire or are transferred to another entity. The transfer also occurs if the contractual rights to receive the cash flows of the financial asset are retained, but a contractual obligation to transfer such cash flows to a non-PZU Group entity is accepted.

When a financial asset is transferred, the extent to which it retains the risks and rewards of ownership of the asset is evaluated.

- if substantially all the risks and rewards of ownership of the financial asset are transferred, the financial asset should be derecognized from the consolidated statement of financial position;
- if substantially all the risks and rewards of ownership of the financial asset are retained, the financial assets should continue to be recognized in the consolidated statement of financial position;
- if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, the entity determines whether it has retained control of the financial asset.

If control is retained then the financial asset is recognized in the consolidated statement of financial position up to the amount arising from permanent exposure; if there is no control then the financial asset is derecognized from the consolidated statement of financial position.

(in millions of PLN)

36.2 Quantitative data

Investment financial assets and assets securing liabilities	31 December 2021				31 December 2020			
	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	768	931	1,699	n/a	605	946	1,551
Participation units and investment certificates	n/a	n/a	5,816	5,816	n/a	n/a	5,298	5,298
Debt securities	74,183	45,039	2,466	121,688	57,871	63,643	3,566	125,080
Government securities	65,359	32,320	2,183	99,862	50,632	48,250	3,443	102,325
Domestic	65,089	29,575	2,000	96,664	50,417	45,577	3,262	99,256
Fixed rate	59,663	22,144	1,513	83,320	47,227	37,420	2,695	87,342
– including assets securing liabilities	*131*	*911*	*2*	*1,044*	*429*	*288*	*521*	*1,238*
Floating rate	5,426	7,431	487	13,344	3,190	8,157	567	11,914
– including assets securing liabilities	-	-	*46*	*46*	*19*	*88*	-	*107*
Foreign	270	2,745	183	3,198	215	2,673	181	3,069
Fixed rate	270	2,745	180	3,195	215	2,673	181	3,069
Floating rate	-	-	3	3	-	-	-	-
Other	8,824	12,719	283	21,826	7,239	15,393	123	22,755
Fixed rate	2,844	7,424	37	10,305	2,466	7,671	53	10,190
Floating rate	5,980	5,295	246	11,521	4,773	7,722	70	12,565
Other, including:	9,087	-	-	9,087	8,993	-	-	8,993
Buy-sell-back transactions	4,117	-	-	4,117	4,657	-	-	4,657
– including assets securing liabilities	*246*	-	-	*246*	*136*	-	-	*136*
Term deposits with credit institutions	1,384	-	-	1,384	952	-	-	952
Loans	3,586	-	-	3,586	3,384	-	-	3,384
Investment financial assets and assets securing liabilities, total	**83,270**	**45,807**	**9,213**	**138,290**	**66,864**	**64,248**	**9,810**	**140,922**
– including assets securing liabilities	*377*	*911*	*48*	*1,336*	*584*	*376*	*521*	*1,481*

Equity instruments measured at fair value through other comprehensive income	31 December 2021		31 December 2020	
	Fair value	Dividends recognized in the period	Fair value	Dividends recognized in the period
Biuro Informacji Kredytowej SA	323 [1)]	24	240	24
Grupa Azoty SA	243	-	198	-
PSP sp. z o.o.	94	-	59	-
Polimex-Mostostal SA	42	-	51	-
Krajowa Izba Rozliczeniowa SA	16	1	19	1
Webuild SpA (formerly: Astaldi SpA)	15	-	15	-
Astaldi SFP	14	-	-	-
Other	21	1	23	1
Equity instruments measured at fair value through other comprehensive income, total	**768**	**26**	**605**	**26**

[1)] Including an increase by PLN 85 million resulting from the acquisition of Idea Bank by Pekao.

(in millions of PLN)

37. Receivables

Receivables – carrying amount	31 December 2021	31 December 2020
Receivables on direct insurance, including:	2,694	2,399
– receivables from policyholders	2,604	2,288
– receivables from insurance intermediaries	89	98
– other receivables	1	13
Reinsurance receivables	63	55
Other receivables	6,661	3,792
– receivables from disposal of securities and margins [1)]	4,516	1,861
– receivables on account of payment card settlements	931	807
– trade receivables	310	303
– receivables from the state budget, other than corporate income tax receivables	98	144
– receivables by virtue of commissions concerning off-balance sheet products	170	175
– prevention settlements	33	38
– receivables from direct claims handling on behalf of other insurance undertakings	12	18
– receivables for acting as an emergency adjuster	8	10
– receivables on account of Corporate Income Tax	223	76
– receivables from security and bid deposits	54	38
– interbank and interbranch receivables	16	4
– other	290	318
Total receivables	**9,418**	**6,246**

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

As at 31 December 2021 and 31 December 2020, 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 by contractual maturity	31 December 2021	31 December 2020
Up to 1 year [1)]	9,191	5,978
1 to 5 years	150	177
Over 5 years	77	91
Total receivables by contractual maturity	**9,418**	**6,246**

[1)] Including past due receivables.

38. Impairment of financial assets

38.1 Accounting policies and material estimates

An assessment is performed at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence of impairment arising from loss events that occurred 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 about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (forbearance);
- it becoming probable that the borrower will enter liquidation, bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of the issuer’s financial difficulties;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or
  - adverse changes in the economic condition in a specific industry, region, etc. contributing to the deterioration of the debtors' capacity for repayment;
- adverse changes in the technology, market, economic, legal or other environment in which the issuer of an equity instrument operates indicating that costs of investment in that equity instrument may not be recovered.

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

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

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

- Lifetime ECL – 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 that have 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.

The ECL classification and estimation effected by the PZU Group in terms of loan receivables from clients is in compliance with the requirements of:

- IFRS 9 Financial Instruments and IAS 37 Provisions, contingent liabilities and contingent assets;
- Recommendation R of the Polish Financial Supervision Authority on the principles of credit exposure classification, estimation and recognition of expected credit losses and credit risk management, issued in April 2021;

(in millions of PLN)

- Article 178 of the CRR, guidelines EBA/GL/2016/07 on the application of the definition of default and the Regulation of the Minister of Finance, Investments and Development of 3 October 2019 on the materiality level of overdue credit obligations and EU Regulation No. 2021/451, Annex V – in accordance with which the definition of default is used at the level of:
  - distinct credit instruments – in the case of retail exposures (except in the case of arrears material for the whole relationship);
  - debtor – for commercial exposures.

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 2021, the PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and that the level of the expected credit loss, as defined in IFRS 9.

Accordingly, the credit risk of the Swiss franc mortgage portfolio is evaluated in compliance with the legal risk associated with this portfolio. The PZU Group recognizes that with regard to the CHF mortgage loan portfolio there was a significant increase in credit risk from the date of initial recognition and classifies these loans into Basket 2. Because of the currently unfavorable case-law resulting in a significant probability of losses in litigation, whenever a customer files a statement of claim, the loans covered by such claims are classified into Basket 3. Consequently, the PZU Group recognizes the amount of the provision pertaining to credit exposures outstanding as at 31 December 2021 (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.

Principles governing the treatment of the expected economic situation

Determination of impairment losses in compliance with IFRS 9 requires the formulation of forecasts of the evolution of the key credit risk parameters. For the calculation of allowances, the PZU Group takes into account various scenarios for the assessment of the portfolio quality, reflecting the current and expected changes in the economic situation and the uncertainty factors.

The PZU Group calculates its expected credit losses in accordance with various scenarios for the future macroeconomic situation. Assuming a 100% probability of the baseline scenario, the value of expected credit losses for loans granted to customers would be lower than the one currently assumed by PLN 160 million.

Estimated movement in the impairment of loan receivables from customers due to a change in PD or LGD affecting the portfolio by +/– 10%	31 December 2021		31 December 2020	
	-10%	+10%	-10%	+10%
Basket 1	279	(300)	276	(280)
Basket 2	418	(386)	406	(396)

Moratoria and portfolio guarantees applied due to COVID-19

In 2021, the PZU Group continued to apply the following loan repayment programs implemented in 2020:

- moratoria prepared by the PZU Group in accordance with EBA Guidelines – 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 PZU 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 PZU 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 PZU 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.

The program ended on 31 March 2021.

- 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, 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 (no more than 3 months) 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.

As at 31 December 2021, the program was still in effect.

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 2021, the balance of active statutory moratoria was PLN 76 million.

In 2021, the PZU Group banks continued to apply a number of portfolio guarantee agreements with Bank Gospodarstwa Krajowego, thereby reducing the consequences of COVID-19. Moreover, on 14 December 2021, Pekao signed a portfolio guarantee agreement with the European Investment Fund under the Pan-European Guarantee Fund established by 22 EU Member States in order to counteract the effects of the COVID-19 pandemic.

In the PZU Group insurance segment, in the credit risk area, the impact of the COVID-19 pandemic was low; just like in 2020, no indications of impairment were identified in the portfolio, hence no exposure was classified to basket 3 (instruments for which impairment has been recognized).

38.1.1. 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.

38.1.2. Change in credit risk since initial recognition

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

If a financial instrument is determined to have low credit risk (i.e. has an external investment-grade rating) both at initial recognition and as at the reporting date, it is assumed that the credit risk associated with this instrument has not increased significantly. 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.

38.1.3. Identified impaired financial assets (basket 3)

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

38.1.4. 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.

38.1.5. 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.

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.

(in millions of PLN)

38.2 Quantitative data

Loan receivables from clients measured at amortized cost	1 January – 31 December 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	163,118	28,238	12,329	5,291	208,976	170,284	17,609	10,980	6,054	204,927
Recognition of instruments at the time of acquisition, creation, granting	58,460	-	-	6	58,466	47,445	-	-	1	47,446
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(40,618)	(4,955)	(2,559)	(1,132)	(49,264)	(39,726)	(694)	(816)	(734)	(41,970)
Change attributable to modification of cash flows concerning the given instrument	(2)	(1)	-	-	(3)	(7)	(1)	(3)	-	(11)
Assets from the statement of financial position	-	-	(1,678)	(57)	(1,735)	-	-	(1,822)	(39)	(1,861)
Reclassification to basket 1	7,958	(7,665)	(293)	-	-	4,833	(4,765)	(68)	-	-
Reclassification to basket 2	(15,055)	15,127	(72)	-	-	(17,442)	17,887	(445)	-	-
Reclassification to basket 3	(1,374)	(2,167)	3,541	-	-	(2,463)	(1,784)	4,247	-	-
Change in the composition of the Group	11,131	-	-	1,058	12,189	-	-	-	-	-
Other changes, including foreign exchange differences	(1,040)	(107)	249	(25)	(923)	194	(14)	256	9	445
End of the period	**182,578**	**28,470**	**11,517**	**5,141**	**227,706**	**163,118**	**28,238**	**12,329**	**5,291**	**208,976**
Expected credit losses										
Beginning of the period	(909)	(1,876)	(6,517)	(4,048)	(13,350)	(800)	(1,321)	(5,247)	(4,315)	(11,683)
Establishment of allowances for newly acquired, created, granted instruments	(839)	-	-	(3)	(842)	(657)	-	-	(1)	(658)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	927	(395)	(1,210)	306	(372)	610	(853)	(2,478)	243	(2,478)
Assets from the statement of financial position	-	-	1,678	57	1,735	-	-	1,805	39	1,844
Reclassification to basket 1	(495)	360	135	-	-	(303)	280	23	-	-
Reclassification to basket 2	157	(161)	4	-	-	113	(239)	126	-	-
Reclassification to basket 3	111	372	(483)	-	-	151	323	(474)	-	-
Other changes, including foreign exchange differences	(19)	(98)	(78)	(80)	(275)	(23)	(66)	(272)	(14)	(375)
End of the period	**(1,067)**	**(1,798)**	**(6,471)**	**(3,768)**	**(13,104)**	**(909)**	**(1,876)**	**(6,517)**	**(4,048)**	**(13,350)**
Net carrying amount at the end of the period	**181,511**	**26,672**	**5,046**	**1,373**	**214,602**	**162,209**	**26,362**	**5,812**	**1,243**	**195,626**

At yearend 2021, the PZU Group classified into Basket 3 mortgage loans in Swiss francs with a gross carrying amount of PLN 233 million covered by litigation. This is due to the significant risk of defeat in these cases.

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 December 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	720	755	-	-	1,475	772	609	-	-	1,381
Recognition of instruments at the time of acquisition, creation, granting	-	-	-	-	-	100	-	-	-	100
Change in measurement	-	-	-	-	-	43	57	-	-	100
Changes attributable to sale, exclusion or expiration of the instrument	(601)	(622)	-	-	(1,223)	(76)	(51)	-	-	(127)
Reclassification to basket 2	-	-	-	-	-	(132)	132	-	-	-
Other changes	(4)	(2)	-	-	(6)	13	8	-	-	21
End of the period	**115**	**131**	**-**	**-**	**246**	**720**	**755**	**-**	**-**	**1,475**
Expected credit losses										
Beginning of the period	(4)	(22)	-	-	(26)	(4)	(17)	-	-	(21)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	2	-	-	-	(2)	(2)	-	-	(4)
Changes attributable to sale, exclusion or expiration of the instrument	4	19	-	-	23	-	-	-	-	-
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
Other changes	-	(1)	-	-	(1)	1	(2)	-	-	(1)
End of the period	**(2)**	**(2)**	**-**	**-**	**(4)**	**(4)**	**(22)**	**-**	**-**	**(26)**

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 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	57,850	73	34	-	57,957	35,614	368	34	-	36,016
Recognition of instruments at the time of acquisition, creation, granting	26,513	-	-	-	26,513	31,790	-	-	-	31,790
Change in measurement	802	-	1	-	803	820	-	-	-	820
Changes attributable to sale, exclusion or expiration of the instrument	(11,476)	(8)	-	-	(11,484)	(10,834)	(33)	-	-	(10,867)
Assets from the statement of financial position	-	-	(1)	-	(1)	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	299	(299)	-	-	-
Reclassification to basket 2	(288)	288	-	-	-	(38)	38	-	-	-
Change in the composition of the Group	15	-	-	40	55	-	-	-	-	-
Other changes, including foreign exchange differences	481	1	1	(1)	482	199	(1)	-	-	198
End of the period	**73,897**	**354**	**35**	**39**	**74,325**	**57,850**	**73**	**34**	**-**	**57,957**
Expected credit losses										
Beginning of the period	(50)	(2)	(34)	-	(86)	(33)	(19)	(34)	-	(86)
Establishment of allowances for newly acquired, created, granted instruments	(39)	-	-	-	(39)	(20)	-	-	-	(20)
Changes attributable to valuation or credit risk level (excluding reclassification)	9	1	-	-	10	9	-	-	-	9
Changes attributable to sale, exclusion or expiration of the instrument	4	-	-	-	4	11	1	-	-	12
Assets from the statement of financial position	-	-	1	-	1	-	-	-	-	-
Reclassification to basket 1	-	-	-	-	-	(16)	16	-	-	-
Reclassification to basket 2	7	(7)	-	-	-	-	-	-	-	-
Other changes, including foreign exchange differences	-	-	(2)	(30)	(32)	(1)	-	-	-	(1)
End of the period	**(69)**	**(8)**	**(35)**	**(30)**	**(142)**	**(50)**	**(2)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**73,828**	**346**	**-**	**9**	**74,183**	**57,800**	**71**	**-**	**-**	**57,871**

(in millions of PLN)

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 December 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	63,387	256	-	-	63,643	54,537	156	-	-	54,693
Recognition of instruments at the time of acquisition, creation, granting	297,955	4	-	-	297,959	405,843	-	-	-	405,843
Change in measurement	(445)	(10)	-	-	(455)	1,054	(1)	-	-	1,053
Change attributable to modification of cash flows concerning the given instrument	-	-	-	-	-	(12)	-	-	-	(12)
Changes attributable to sale, exclusion or expiration of the instrument	(315,883)	(93)	-	-	(315,976)	(398,632)	(49)	-	-	(398,681)
Reclassification to basket 1	-	-	-	-	-	13	(13)	-	-	-
Reclassification to basket 2	(94)	94	-	-	-	(163)	163	-	-	-
Change in the composition of the Group	313	-	-	-	313	-	-	-	-	-
Other changes, including foreign exchange differences	(445)	-	-	-	(445)	747	-	-	-	747
End of the period	**44,788**	**251**	**-**	**-**	**45,039**	**63,387**	**256**	**-**	**-**	**63,643**
Expected credit losses										
Beginning of the period	(68)	(13)	-	-	(81)	(41)	(2)	-	-	(43)
Establishment of allowances for newly acquired, created, granted instruments	(19)	-	-	-	(19)	(35)	-	-	-	(35)
Changes attributable to valuation or credit risk level (excluding reclassification)	12	(12)	-	-	-	(5)	(10)	-	-	(15)
Changes attributable to sale, exclusion or expiration of the instrument	20	-	-	-	20	11	1	-	-	12
Reclassification to basket 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to basket 2	1	(1)	-	-	-	3	(3)	-	-	-
End of the period	**(54)**	**(26)**	**-**	**-**	**(80)**	**(68)**	**(13)**	**-**	**-**	**(81)**

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 with credit institutions	1 January – 31 December 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	953	-	-	-	953	1,455	1	-	-	1,456
Recognition of instruments at the time of acquisition, creation, granting	33,091	-	-	-	33,091	110,971	-	-	-	110,971
Change in measurement	2	-	-	-	2	26	-	-	-	26
Change attributable to modification of cash flows concerning the given instrument	(399)	-	-	-	(399)	-	-	-	-	-
Changes attributable to sale, exclusion or expiration of the instrument	(32,411)	-	-	-	(32,411)	(111,481)	-	-	-	(111,481)
Change in the composition of the Group	161	-	-	-	161					
Other changes, including foreign exchange differences	(12)	-	-	-	(12)	(18)	(1)	-	-	(19)
End of the period	**1,385**	**-**	**-**	**-**	**1,385**	**953**	**-**	**-**	**-**	**953**
Expected credit losses										
Beginning of the period	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	-	-	-	-	-
Changes attributable to valuation or credit risk level (excluding reclassification)	(4)	-	-	-	(4)	-	-	-	-	-
Other changes	6	-	-	-	6	1	-	-	-	1
End of the period	**(1)**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(1)**
Net carrying amount at the end of the period	**1,384**	**-**	**-**	**-**	**1,384**	**952**	**-**	**-**	**-**	**952**

(in millions of PLN)

Loans	1 January – 31 December 2021					1 January – 31 December 2020				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	3,318	79	-	-	3,397	4,517	-	-	-	4,517
Recognition of instruments at the time of acquisition, creation, granting	1,418	-	-	-	1,418	1,173	-	-	-	1,173
Change in measurement	(10)	2	-	-	(8)	56	-	-	-	56
Changes attributable to sale, exclusion or expiration of the instrument	(1,204)	(6)	-	-	(1,210)	(2,349)	-	-	-	(2,349)
Reclassification to basket 2	-	-	-	-	-	(79)	79	-	-	-
End of the period	**3,522**	**75**	**-**	**-**	**3,597**	**3,318**	**79**	**-**	**-**	**3,397**
Expected credit losses										
Beginning of the period	(7)	(6)	-	-	(13)	(27)	-	-	-	(27)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(5)	-	-	-	(5)
Changes attributable to valuation or credit risk level (excluding reclassification)	1	-	-	-	1	3	-	-	-	3
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	16	-	-	-	16
Reclassification to basket 2	-	-	-	-	-	6	(6)	-	-	-
End of the period	**(5)**	**(6)**	**-**	**-**	**(11)**	**(7)**	**(6)**	**-**	**-**	**(13)**
Net carrying amount at the end of the period	**3,517**	**69**	**-**	**-**	**3,586**	**3,311**	**73**	**-**	**-**	**3,384**

Receivables	1 January – 31 December 2021	1 January – 31 December 2020
Gross carrying amount		
Beginning of the period	7,333	6,825
Changes in the period	3,242	508
End of the period	**10,575**	**7,333**
Expected credit losses		
Beginning of the period	(1,087)	(1,088)
Changes in the period	(70)	1
End of the period	**(1,157)**	**(1,087)**
Net carrying amount at the end of the period	**9,418**	**6,246**

39. Cash and cash equivalents

39.1 Accounting policy

Cash and cash equivalents include, among others cash at hand and cash in current accounts in banks, including on the NBP account.

Cash is recognized at 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 in the statement of financial position and cash flow statement	31 December 2021	31 December 2020
Balances with the central bank [1]	2,480	1,098
Cash at bank and in hand	6,967	6,841
Total cash and cash equivalents in the statement of financial position and cash flow statement	**9,447**	**7,939**

[1] This amount pertains to the required reserve that Pekao and Alior Bank maintain on their current accounts with the National Bank of Poland, at levels consistent with 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 the Shares have been fully paid for.

As at 31 December 2021 and 31 December 2020

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 Jan 1997	27 Dec 1991
B	bearer	none	none	259,059,800	25,905,980	in-kind contribution	31 Mar 1999	1 Jan 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 2021 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 2020 profit

On 16 June 2021, the PZU Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2020 in the amount of PLN 1,919 million, increased by PLN 2,064 million moved from supplementary capital created from the net profit for the year ended 31 December 2019, i.e. in total PLN 3,983 million, as follows:

- designate PLN 3,022 million (i.e. PLN 3.50 per share) as a dividend payout;
- designate PLN 954 million for supplementary capital;
- designate PLN 7 million for the Company Social Benefit Fund.

The dividend record date was 15 September 2021 and the dividend payout date was 6 October 2021.

The accepted profit distribution was consistent with the PZU Group's Capital and Dividend Policy for 2021-2024, as adopted on 24 March 2021, and takes into account the recommendations contained in the Polish Financial Supervision Authority's (KNF) stance on the dividend policy in 2021 issued on 16 December 2020.

40.2.1.2. Distribution of the 2021 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 2021 profit.

40.3 Other capital

40.3.1. Accounting policy

Treasury shares purchased and retained by consolidated PZU Group entities 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 5.5.

(in millions of PLN)

40.3.2. Quantitative data

Other capital	31 December 2021	31 December 2020
Treasury shares	(5)	(9)
Supplementary capital	14,816	15,848
Share premium account	538	538
Distribution of results of PZU Group companies	14,220	15,264
Other	58	46
Revaluation reserve	(1,140)	891
Valuation of debt instruments measured at fair value through other comprehensive income	(305)	888
Valuation of equity instruments measured at fair value through other comprehensive income	(223)	(262)
Reclassification of real property from property, plant and equipment to investment property	66	71
Cash flow hedging	(678)	194
Other reserve capital	600	295
Actuarial gains and losses related to provisions for employee benefits	3	3
Foreign exchange translation differences	69	65
LD	90	94
Balta	29	31
PZU Ukraine	(45)	(54)
PZU Ukraine Life	(12)	(12)
Other	7	6
Total other capital	**14,343**	**17,093**

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 and cost ratio is greater than 100%, as a difference between the product of the provision for unearned premiums and the loss and cost 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 reserves* method; they are equal to the difference between:

- expected present value of guaranteed benefits that may arise out of the insurance cover provided;
- present value of premiums expected to be paid until the end of the term of these contracts.

In unit-linked insurance, a life insurance provision is created to cover current claims arising out of the insurance cover over and above the amount of the unit-linked fund; it corresponds to the part of the payments collected for the insurance cover that is attributable to future reporting periods.

The calculation of a life insurance provision also includes a mark-up on costs, while the provisions themselves are not reduced by the value of deferred acquisition expenses.

Unit-linked life insurance provision

Unit-linked life insurance provisions are recognized in the amount of the investment made under the terms of the contract.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits is created separately for:

- claims reported but not paid – using the individual method or, if the loss amount cannot be assessed (if the occurrence of losses is a mass phenomenon), using the average claim from the quarter immediately preceding the reporting quarter;
- claims incurred but not reported – using the flat-rate method, as a percentage of claims paid for the last twelve months.

The provision for outstanding claims and benefits also includes the provision for claims handling expenses.

Provisions for bonuses and discounts for insureds

The provision is recognized in an amount taking into account the expected amounts by which future claims will be increased or future premiums will be decreased, in accordance with the current bonuses and discounts granting method.

Other technical provisions

Other technical provisions in life insurance include:

- revaluation provision for claims under individual life insurance and annuities taken over from Państwowy Zakład Ubezpieczeń;
- provision for pending court proceedings and benefits arising out of court rulings (pursuant to Article 358 § 3 of the Civil Code Act of 23 April 1964 (consolidated text: Journal of Laws of 2019, item 1145 as amended) changing the amount or performance of a cash benefit;

  the amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements. The value of these benefits has been determined by extrapolating the historical trend of benefits estimated based on the number of completed court proceedings and settlements and the value of the awarded amounts;

- low interest rate provision – related to the expected decrease in return on assets covering life insurance provisions for traditional individual life insurance and provisioning of children and disability pensions. The amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements.
  - the amount of the mathematical provisions calculated by using appropriate mathematical formulas and by applying modified technical rates, considering their expected reduction in the future, and
  - the amount of the mathematical provisions calculated in line with the applicable provisioning regulations, at the original technical rate that was used to price the products.

Provision adequacy tests

At the end of each year, for each product in the life insurance portfolio, the amount of technical provisions recognized in the consolidated financial statements is compared with the present value of expected future cash flows, i.e. the economic value of liabilities. These cash flows projections include: premium income, expenditures on benefits, expenses, fees and commissions and are based on several assumptions regarding: mortality, loss ratio, lapse rates, servicing expenses, yields curves and other product-specific assumptions (e.g. indexation).

The assumptions used to project future cash flows, regarding expected future mortality, loss ratio, lapse rates and other product-specific assumptions, are reviewed and updated on an annual basis based on current experience and observed trends. Taken together with the assessment of their further development, they constitute the best estimate assumption for further developments in mortality, loss, lapses, etc.

Future indexations of sum insured and premium amounts resulting from the profit participating rights, defined as the excess of rates of return on investments over the technical rate, are based on a projection of future rates of return on the current portfolio of assets to cover provisions for these products, together with their expected future reinvestments at the present term structure of interest rates, i.e. in line with current market expectations.

Future costs are projected based on the expected number of contracts remaining in the portfolio in successive periods and the average unit service cost per contract. The assumptions for unit costs are adopted on the basis of expected future portfolio maintenance and servicing expenses, asset management and claims handling expenses. It is assumed that unit service costs will rise in successive years of the projection period by the cost increase ratio. The amount of future commissions is determined based on the agreed commission rates for individual contracts in their successive years.

The present value of future cash flows is calculated using the discount factors based on the unadjusted yield of Polish government bonds according to their current market quotations.

The test compares the present value of projected cash flows with the amount of provisions shown at the end of each year. If provisions are found to be insufficient in relation to the value of discounted cash flows, changes are introduced to the existing provisioning rules and consequently their value is adjusted.

The purpose of the provision adequacy test is to assess whether the technical provision amounts captured in the consolidated financial statements are sufficient, rather than to assess adequacy of the individual assumptions. Accordingly, the provision adequacy test does not directly identify the degree of adequacy or inadequacy of the individual assumptions adopted in technical provision estimation process.

41.1.3. Reinsurers' share

Reinsurers' share in the provision for unearned premiums, in the provision for unexpired risk and in the provision for outstanding claims and benefits is determined at the amount stated in the terms and conditions of the relevant reinsurance treaties.

Reinsurers' share in claims and benefits is determined for those insurance groups, for which there is reinsurance coverage, to the extent to which reinsurers participate in the claims and benefits according to the terms and conditions of the pertinent reinsurance treaties in effect in a given period.

41.2 Estimates and assumptions

The PZU Group continuously monitors insurable events, in particular those related to the COVID-19 pandemic. Based on the ongoing analyses, the PZU Group established a provision for unexpired risks in group life insurance and adjusted the value of the IBNR provision to the increase in deaths observed at the end of 2021, resulting from the next wave of the COVID-19 pandemic.

41.2.1. Non-life insurance

In the calculation of provisions for outstanding claims and benefits, the uncertainty related to bodily injury claims is taken into account. For such claims, changes in the legal environment and uncertain jurisprudence may affect the ultimate amount of benefits paid.

When calculating the provision for the capitalized value of annuities, the future increase in average annuity is estimated based on historical data and taking into account other information that may contribute to an increase in annuities in the future (for example, growing insurance awareness, legislative changes, etc.).

Both as at 31 December 2021 and 31 December 2020, 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.

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 the calculation of its technical provisions, the PZU Group applies the Polish Life Expectancy Tables or other publicly available statistics, among other sources. For the group and continued insurance portfolio, the calculation of provisions also makes use of assumptions regarding the probability of the insured having co-insureds (spouse, parents and in-laws). These assumptions, due to their long-term nature, are subject to natural uncertainty as to the actual evolution of the portfolio.

For 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 PZU Group applies an individual method to calculate provisions for its group insurance portfolio.

A provision for unexpired risk was established for the group insurance portfolio being annual renewable insurance products. 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.

(in millions of PLN)

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 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**26,881**	**(2,539)**	**24,342**	**25,276**	**(2,100)**	**23,176**
Provision for unearned premiums	9,423	(1,139)	8,284	8,645	(924)	7,721
Provision for unexpired risk	42	-	42	32	-	32
Provision for outstanding claims and benefits	11,039	(1,119)	9,920	10,371	(903)	9,468
– for reported claims	4,024	(966)	3,058	3,590	(738)	2,852
– for claims not reported (IBNR)	4,748	(129)	4,619	4,573	(146)	4,427
– for claims handling expenses	2,267	(24)	2,243	2,208	(19)	2,189
Provision for the capitalized value of annuities	6,371	(280)	6,091	6,226	(273)	5,953
Provisions for bonuses and discounts for insureds	6	(1)	5	2	-	2
Technical provisions in life insurance	**23,292**	**(1)**	**23,291**	**23,195**	**(1)**	**23,194**
Provision for unearned premiums	113	(1)	112	106	(1)	105
Provision for unexpired risk	25	-	25	51	-	51
Life insurance provision	16,345	-	16,345	16,309	-	16,309
Provision for outstanding claims and benefits	676	-	676	613	-	613
– for reported claims	163	-	163	175	-	175
– for claims not reported (IBNR)	508	-	508	433	-	433
– for claims handling expenses	5	-	5	5	-	5
Provisions for bonuses and discounts for insureds	6	-	6	6	-	6
Other technical provisions	164	-	164	190	-	190
Unit-linked provision	5,963	-	5,963	5,920	-	5,920
Total technical provisions	**50,173**	**(2,540)**	**47,633**	**48,471**	**(2,101)**	**46,370**

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 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Accident and sickness insurance (group 1 and 2)	1,014	(125)	889	708	(23)	685
Motor third party liability insurance (group 10)	15,314	(670)	14,644	15,030	(643)	14,387
Other motor insurance (group 3)	3,248	(35)	3,213	3,006	(30)	2,976
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	177	(78)	99	169	(82)	87
Insurance against fire and other property damage (groups 8 and 9)	3,308	(1,020)	2,288	2,797	(794)	2,003
TPL insurance (groups 11, 12, 13)	2,721	(259)	2,462	2,519	(187)	2,332
Credit and suretyship (groups 14, 15)	251	(131)	120	237	(105)	132
Assistance (group 18)	430	(1)	429	375	(2)	373
Legal protection (group 17)	23	-	23	20	-	20
Other (group 16)	395	(220)	175	415	(234)	181
Total technical provisions	**26,881**	**(2,539)**	**24,342**	**25,276**	**(2,100)**	**23,176**

(in millions of PLN)

Technical provisions in non-life insurance	31 December 2021			31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Short-term	5,669	(646)	5,023	5,216	(550)	4,666
Long-term	21,212	(1,893)	19,319	20,060	(1,550)	18,510
Total technical provisions	**26,881**	**(2,539)**	**24,342**	**25,276**	**(2,100)**	**23,176**

Long-term provisions are those under which projected cash flows will occur more than 12 months after the end of the reporting period, or after 31 December 2021.

Movement in provisions

Movement in the provision for unearned premiums in non-life insurance	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	8,645	(924)	7,721	8,765	(856)	7,909
Increase (reduction) of provisions relating to policies concluded in the current year	8,466	(785)	7,681	7,684	(732)	6,952
Increase (reduction) of provisions relating to policies concluded in previous years	(7,696)	572	(7,124)	(7,851)	659	(7,192)
Foreign exchange differences in the period	8	(2)	6	47	5	52
Total technical provisions	**9,423**	**(1,139)**	**8,284**	**8,645**	**(924)**	**7,721**

Movement in provision for unexpired risk	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	32	-	32	14	-	14
Increase (reduction) of provisions relating to policies concluded in the current year	31	-	31	26	-	26
Increase (reduction) of provisions relating to policies concluded in previous years	(21)	-	(21)	(10)	-	(10)
Foreign exchange differences in the period	-	-	-	2	-	2
End of the period	**42**	**-**	**42**	**32**	**-**	**32**

Movement in the provision for outstanding claims and benefits in non-life insurance	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	10,371	(903)	9,468	9,676	(785)	8,891
Benefits paid related to losses incurred in previous years, including:	(2,546)	89	(2,457)	(2,964)	282	(2,682)
– claims paid	(2,138)	87	(2,051)	(2,559)	278	(2,281)
– claims handling expenses	(408)	2	(406)	(405)	4	(401)
Increase (reduction) of provisions, including:	3,204	(298)	2,906	3,635	(406)	3,229
– relating to losses incurred in the current year	3,923	(280)	3,643	3,595	(217)	3,378
– relating to losses incurred in previous years	(719)	(18)	(737)	40	(189)	(149)
Other changes	-	(1)	(1)	-	(4)	(4)
Foreign exchange differences in the period	10	(6)	4	24	10	34
End of the period	**11,039**	**(1,119)**	**9,920**	**10,371**	**(903)**	**9,468**

(in millions of PLN)

Movement in provision for the capitalized value of annuities in non-life insurance	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	6,226	(273)	5,953	5,999	(215)	5,784
Claims paid related to losses incurred in previous years	(280)	11	(269)	(272)	7	(265)
Increase (reduction) of provisions relating to losses incurred in previous years	104	(33)	71	196	(76)	120
Changes in assumptions resulting from movements in technical rates	(9)	-	(9)	(10)	-	(10)
Increase in provisions relating to losses incurred in the current year	330	15	345	305	12	317
Other changes	-	-	-	8	(1)	7
End of the period	**6,371**	**(280)**	**6,091**	**6,226**	**(273)**	**5,953**

41.3.2. Technical provisions in life insurance

Movement in the life insurance provision, provision for bonuses and discounts and other technical provisions – insurance contracts	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	16,505	–	16,505	16,566	–	16,566
Increase (reduction) of provisions relating to policies concluded in the current year	1,384	–	1,384	357	–	357
Increase (reduction) of provisions relating to policies concluded in previous years	(1,388)	–	(1,388)	(409)	–	(409)
Foreign exchange differences	14	–	14	(9)	–	(9)
End of the period	**16,515**	**–**	**16,515**	**16,505**	**–**	**16,505**

Movement in unit-linked life insurance provision	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	5,920	–	5,920	5,578	–	5,578
Fund increases due to premiums	1,193	–	1,193	1,273	–	1,273
Fees charged	(104)	–	(104)	(105)	–	(105)
Income on fund's investments	(75)	–	(75)	354	–	354
Fund reductions due to claims, surrenders etc.	(921)	–	(921)	(1,143)	–	(1,143)
Other changes	(50)	-	(50)	(37)	-	(37)
End of the period	**5,963**	**–**	**5,963**	**5,920**	**–**	**5,920**

Movement in provisions for outstanding claims and benefits	1 January – 31 December 2021			1 January – 31 December 2020		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	613	–	613	622	–	622
Claims provisions used during the year	(613)	–	(613)	(620)	–	(620)
Claims provisions recognized during the year	676	–	676	611	–	611
End of the period	**676**	**–**	**676**	**613**	**-**	**613**

(in millions of PLN)

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	Currency	Interest rate	Issue date/ Maturity date	Carrying amount 31 December 2021	Carrying amount 31 December 2020
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,266	2,265
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,255	1,254
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	553	552
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	351	350
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	225	224
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 / 31 March 2021	-	195
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 / 6 December 2021	-	147
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	604	604
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 / 29 April 2021	-	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 / 4 February 2022	47	47
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					**6,274**	**6,679**

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

(in millions of PLN)

Subordinated liabilities by maturity	31 December 2021	31 December 2020
Up to 1 year	198	410
1 to 5 years	1,049	1,246
Over 5 years	5,027	5,023
Total subordinated liabilities by maturity	**6,274**	**6,679**

43. Liabilities on the issue of own debt securities

43.1 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 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 2021	31 December 2020
Bonds	4,154	4,597
Certificates of deposit	695	1,611
Covered bonds	1,091	1,324
Liabilities on the issue of own debt securities, total	**5,940**	**7,532**

Liabilities on the issue of own debt securities by maturity	31 December 2021	31 December 2020
Up to 1 year	4,433	6,189
1 to 5 years	1,042	1,051
Over 5 years	465	292
Liabilities on the issue of own debt securities by maturity, total	**5,940**	**7,532**

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.

(in millions of PLN)

44.2 Quantitative data

Liabilities to banks	31 December 2021	31 December 2020
Current deposits	821	914
One-day deposits	3	1,826
Term deposits	1,893	123
Loans received	4,658	6,439
Other liabilities	95	449
Liabilities to banks, total	**7,470**	**9,751**

Liabilities to banks by maturity	31 December 2021	31 December 2020
Up to 1 year	4,192	5,014
1 to 5 years	2,417	3,744
Over 5 years	861	993
Liabilities to banks by maturity, total	**7,470**	**9,751**

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 2021	31 December 2020
Current deposits	241,112	210,212
Term deposits	23,067	30,849
Other liabilities	976	914
Liabilities to clients under deposits, total	**265,155**	**241,975**

Liabilities to clients under deposits by maturity	31 December 2021	31 December 2020
Up to 1 year	264,563	241,238
1 to 5 years	537	720
Over 5 years	55	17
Liabilities to clients under deposits by maturity, total	**265,155**	**241,975**

46. Other liabilities

46.1 Accounting policy

Financial liabilities are recognized in the statement of financial position of financial position at the moment when a PZU Group company becomes a party to a binding contract, under which it assumes the risks 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.

Trade liabilities are recognized at the required payment amount due to their short-term nature.

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 costs of holiday leaves is recognized on the 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.

(in millions of PLN)

46.2 Quantitative data

Other liabilities	31 December 2021	31 December 2020
Liabilities measured at fair value	**1,333**	**1,389**
Liabilities on borrowed securities (short sale)	686	851
Investment contracts for the client's account and risk (unit-linked)	267	268
Liabilities to members of consolidated mutual funds	380	265
Liability on the settlement of the acquisition of shares of Tomma Diagnostyka Obrazowa SA	-	5
Accrued expenses	**2,230**	**1,963**
Accrued expenses of agency commissions	381	359
Accrued payroll expenses	750	609
Accrued reinsurance expenses	725	731
Other	374	264
Deferred revenue	**502**	**395**
Other liabilities	**9,138**	**8,687**
Liabilities on account of repurchase transactions	1,207	1,154
Lease liabilities	992	1,064
Liabilities due under transactions on financial instruments	1,338	1,044
Liabilities to banks for payment documents cleared in interbank clearing systems	1,251	1,140
Liabilities on direct insurance	955	915
Liabilities on account of payment card settlements	404	354
Regulatory settlements	275	223
Liabilities for contributions to the Bank Guarantee Fund	629	514
Reinsurance liabilities	228	223
Estimated non-insurance liabilities	159	143
Liabilities to employees	101	42
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	18	30
Trade liabilities	652	611
Current income tax liabilities	147 [1)]	355
Liabilities on account of employee leaves	165	156
Liabilities to the state budget other than for income tax	68	116
Liabilities on account of donations	17	21
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	28	21
Insurance Guarantee Fund	13	14
Liability for the refund of loan costs	96	88
Liabilities for direct claims handling	36	31
Other	359	428
Other liabilities, total	**13,203**	**12,434**

[1)] Including PLN 72 million of a tax liability in Sweden.

Tax liability in Sweden

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

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019, PZU Finance AB received a ruling under which the 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.

(in millions of PLN)

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, having found that sufficient grounds for the issue of an individual tax ruling had not been demonstrated and thus the ruling should not be issued.

At the same time, on 27 August 2020, PZU Finance AB submitted a tax return as part of the disclosure procedure for 2019, according to which it presented the above situation and assumed in the calculation of the tax liability that the foreign exchange differences on account of repayment of the bond constitute tax-deductible expenses. On 22 December 2020, PZU Finance AB received the tax decision from the tax office confirming that the tax was calculated correctly. The decision was not final. Due to the pursuit of the goals for which the company was established, on 4 May 2021, the Shareholder Meeting decided to commence the liquidation procedure of PZU Finance AB. On 23 June 2021 and 21 December 2021, PZU Finance AB received a preliminary and enforceable, respectively, negative decision from the tax office regarding the adjustment of its tax settlement for 2019. Accordingly, as at 31 December 2021, the PZU Group posted a current income tax liability of PLN 72 million (SEK 159 million). On 21 January 2022, PZU transferred directly to the Swedish tax office SEK 159 million (SEK 155 million of the principal amount and SEK 4 million in interest). As at 31 December 2020, the PZU Group posted a contingent liability on this account in the amount of PLN 92 million.

PZU Finance AB may now initiate court proceedings in Sweden in an administrative court of first instance.

As at 31 December 2021 and 31 December 2020, the fair value of other liabilities did not differ significantly from their carrying amount, primarily due to the fact that more than 90% were short-term liabilities.

Other liabilities by maturity	31 December 2021	31 December 2020
Up to 1 year	11,858	11,246
1 to 5 years	795	759
Over 5 years	550	429
Total other liabilities by maturity	**13,203**	**12,434**

47. Provisions

47.1 Accounting policy

A provision is a liability of uncertain timing or amount. A provision is recognized on the basis of a current obligation arising from past events, the settlement of which will result in an outflow of resources embodying economic benefits. A provision amount is determined based on a reliable estimation of this outflow at the balance sheet date.

Provisions for guarantees and sureties are determined as a difference between the expected value of a balance sheet exposure arising from an off-balance sheet liability and the present value of expected future cash flows obtained from the balance sheet exposure resulting from the liability granted.

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 accepted accounting and the fact that PZU Group companies have not separated assets of defined benefit plans, the carrying amount of provisions for defined benefit plans is equal to the carrying amount of their corresponding liabilities.

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.

(in millions of PLN)

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 line item “Actuarial gains and losses related to provisions for employee benefits” in other comprehensive income. More information is presented in section 40.3.1.

47.2 Estimates and assumptions

Provisions for disputes are determined on a case-by-case basis, taking into account the probability of an outflow of resources embodying economic benefits to meet the obligation. An outflow of resources is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

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.

47.3 Quantitative data

Provisions	31 December 2021	31 December 2020
Short-term	406	543
Long-term	800	835
Total provisions	**1,206**	**1,378**

Movement in provisions in the period ended 31 December 2021	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	555	340	-	(401)	2	496
Provision for retirement severance pays	323	32	(38)	(4)	(46)	267
Provision for disputed claims and potential liabilities	80	34	(35)	(11)	1	69
Provision for potential refunds of borrowing costs	128	75	(83)	-	-	120
Provision for legal risk pertaining to mortgage loans in Swiss francs	91	43	-	(2)	-	132
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	93	120	(137)	(48)	-	28
Provision for post-mortem benefits	32	1	(3)	(4)	(1)	25
Other	37	12	(10)	(9)	-	30
Total provisions	**1,378**	**657**	**(306)**	**(479)**	**(44)**	**1,206**

(in millions of PLN)

Movement in provisions in the period ended 31 December 2020	Beginning of the period	Increase	Utilization	Reversal	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 for 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**

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 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 2021, PLN 83 million of the provision was utilized and its amount as at 31 December 2021 was PLN 120 million (PLN 128 million as at 31 December 2020). Its value is the best possible estimate based on the historically observed trend of the amount of loan cost refunds arising from reported complaints and takes into account the scenario of a possible evolution of market practice or the regulator's views. The estimates required the adoption of expert assumptions and are affected by uncertainty. 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.

Significant assumptions applied for the estimation of the provision include the change in the rate of decline in the refunded amounts.

Impact of the change in the rate of decline in the amounts of refunds on the value of the provision	31 December 2021	31 December 2020
+10%	(5)	(15)
-10%	6	18

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

(in millions of PLN)

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

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

As at 31 December 2021, 1,623 individual court cases were pending against the PZU Group over foreign currency mortgage loans in Swiss francs, which were granted in previous years with the total disputed amount of PLN 470 million (as at 31 December 2020 there were 592 cases pending with the value of PLN 160 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

In 2021, the PZU Group received 125 unfavorable court judgments in cases filed by borrowers, including 20 final judgments, and 11 favorable judgments, including 4 final judgments (in 2020: 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).

The following tables present the amounts of provisions for individual court cases in which the PZU Group is a party and a portfolio provision for the remaining FX mortgage loans in Swiss francs which are exposed to legal risk associated with the nature of these agreements.

Consolidated statement of financial position line items	31 December 2021	31 December 2020
Impairment losses for loan receivables from clients	516	345
individual provision	220	65
portfolio provision	296	280
Other provisions	132	91
individual provision	52	11
portfolio provision	80	80
Total	**648**	**436**

(in millions of PLN)

Consolidated profit and loss account line items	1 January – 31 December 2021	1 January – 31 December 2020
Movement in allowances for expected credit losses and impairment losses on financial instruments	(172)	(309)
Other operating expenses	(42)	(68)
Total	**(214)**	**(377)**

As regards the portfolio provision, as at 31 December 2021, 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 may occur, given the current situation in the banking sector.

The calculation of the provision carried out as at 31 December 2021 was based on the following scenarios:

- baseline scenario – considered the most likely, assumes that approx. 12% of FX borrowers (with both active and repaid loans) will file 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);
  - recognizing the indexation clause as abusive and replacing the bank's exchange rate table in it with the average NBP exchange rate;
  - dismissing the statement of claim.

  Under the baseline scenario, as at 31 December 2021, the current situation in the macroeconomic environment is taken into account, including the current trends in judicial decisions regarding FX mortgage loans and the existing own and market history of lawsuits. Moreover, the probability of legal defeats and the probabilities of possible solutions in the event of a dispute were estimated based on an updated opinion of an external law firm.

  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 – 80% (70% as at 31 December 2020) was assigned to invalidating the loan agreement. No out-of-court settlements with customers are assumed in this scenario;
- out-of-court settlement scenario – possible in the current market conditions, in which most customers (approx. 80% of the portfolio value) will qualify for the bank settlement option, based on solutions being rolled out in the banking sector, as proposed by the Chairman of the Polish Financial Supervision Authority. Under the out-of-court 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. As a result, under the current market parameters, the cost of out-of-court settlements would total approx. PLN 511 million. For contracts currently in dispute, an assessment is underway of the possible tendency of customers to withdraw the lawsuit and enter into a settlement, taking into account in this assessment the relation of the benefit that may be obtained by the customer from the settlement to the potential benefit from the lawsuit (including the legal representation costs) and the expected outcome of the litigation;
- negative scenario – possible in the event of a significant deterioration of the macroeconomic environment, in particular in terms of a significant intensification and deepening of the adverse trend regarding the unfavorable judgments issued by ordinary courts in respect of foreign currency mortgage loans, the number of possible lawsuits will be twice as high as the one assumed in the baseline scenario with a simultaneous greater likelihood of unfavorable court judgments. In terms of the probability distribution of possible outcomes of the litigation, in this scenario, a higher probability of the whole foreign currency mortgage agreement being declared invalid (at a level of 95% of decisions – percentage levels unchanged compared to those assumed in 2020). No out-of-court settlements with customers are assumed in this scenario.

Although the subject matter of legal risk related to the portfolio of foreign currency mortgage loans has been one of the key topics in the banking sector in recent years, there is still no stabilized history of data on the scale of lawsuits (in particular with regard to final non-appealable judgments) or regarding the line of judicial decisions in this area. All of the foregoing means that the process of determining the amount of the provision each time requires the adoption of a number of expert assumptions based on professional judgment.

(in millions of PLN)

New rulings and 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 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 31 December 2021	Impact on the amount of the provision 31 December 2020
Number of cases brought to court	+20%	97	34
	-20%	(73)	(34)
Probability of losing the case	+10 p.p. (in 2021: no more than 100%)	61	26
	-10 p.p.	(47)	(26)
Probability of the agreement invalidation scenario	+10 p.p. (in 2021: no more than 100%)	53	10
	-10 p.p.	(37)	(10)

Provisions for guarantees and sureties given

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

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

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case, the PZU Group maintains a provision to cover this risk.

The amount of PLN 11 million pertains to the penalty imposed by the President of the Office of Competition and Consumer Protection as a result of the decision in which he deemed that 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 restructuring costs

The Pekao Management Board reported that on 3 March 2021, in accordance with the provisions of the Act on the Rules for Terminating Employment Relationships it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs has been estimated at PLN 120 million and the restructuring provision in this amount has been established for this purpose. As at 31 December 2021, the value of the provision was PLN 17 million and pertained to disbursements to be made in 2022.

The remaining balance is made up of:

- PLN 9 million – pertaining to the restructuring process conducted in PZU and PZU Życie (PLN 9 million as at 31 December 2020);
- PLN 2 million – pertaining to the restructuring processes in Alior Bank (as at 31 December 2020: PLN 3 million).

(in millions of PLN)

48. Deferred 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 domicile of the individual PZU Group companies issued by the end of the reporting period.

For all of the consolidated companies participating in the Tax Group, deferred tax assets and liabilities are offset on the assumption that the Tax Group contract will be prolonged for subsequent periods, and therefore the period in which the reversal of temporary differences is expected is not analyzed for the purposes of this offsetting.

48.2 Estimates and assumptions

PZU Group companies have estimated their future taxable income in terms of the possibility to realize deductible temporary differences arising from tax losses incurred by these companies. As a result of these estimates, no deferred tax assets relating to unused tax loss were recognized.

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 2021	31 December 2020
up to 1 year	13	6
1 to 5 years	18	21
over 5 years	6	3
term unlimited by law	2	2
Total	**39**	**32**

Movement in deferred tax assets in the year ended 31 December 2021	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehen-sive income	Other changes	End of the period
Loan receivables from clients	1,301	(48)	9	-	1,262
Bank commissions collected in advance	598	(67)	-	-	531
Liabilities to clients under deposits	26	(15)	-	-	11
Intangible assets – trademarks and client relations	(199)	3	-	-	(196)
Financial instruments	100	(316)	970	-	754
Real property	(47)	9	-	(2)	(40)
Accrued reinsurance income and expenses	15	7	-	-	22
Provisions for employee benefits	79	(15)	(8)	-	56
Provisions for bonuses	55	22	-	-	77
Other provisions and liabilities	530	33	-	-	563
Tax losses to be used in subsequent years	37	(32)	-	-	5
Tax allowance for activities conducted in a special economic zone	-	-	-	9	9
Provision for restructuring costs	16	(12)	-	-	4
Total deferred tax assets	**2,511**	**(431)**	**971**	**7**	**3,058**

(in millions of PLN)

Movement in deferred tax assets in the year ended 31 December 2020	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehend-sive income	Other changes	End of the period
Loan receivables from clients	1,143	162	(4)	-	1,301
Bank commissions collected in advance	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 to be used in subsequent years	36	-	-	1	37
Provision for restructuring costs	4	12	-	-	16
Total deferred tax assets	**2,313**	**441**	**(269)**	**26**	**2,511**

48.3.2. Deferred tax liability

Movement in deferred tax liabilities in the year ended 31 December 2021	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehen-sive income	Other changes	End of the period
Financial instruments	528	55	(237)		346
Subrogation receivables	13	1	-	-	14
Real property	121	37	-	(2)	156
Deferred acquisition costs	292	46	-	-	338
Accrued reinsurance income and expenses	(22)	(68)	-	-	(90)
Intangible assets – trademarks and customer relations	68	(5)	-	-	63
Provisions for employee benefits	(17)	(2)	(1)	-	(20)
Provision for bonuses	(52)	(10)	-	-	(62)
Liabilities due but not paid to natural persons (under mandate, agency contracts, etc.)	(72)	(5)	-	-	(77)
Other provisions and liabilities	(106)	14	-	-	(92)
Prevention fund	11	1	-	-	12
Equalization provision	111	9	-	-	120
Tax losses to be used in subsequent years	(19)	(5)	-	-	(24)
Other differences	93	29	-	-	122
Total deferred tax liabilities	**949**	**97**	**(238)**	**(2)**	**806**

(in millions of PLN)

Movement in deferred tax liabilities in the year ended 31 December 2020	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehen-sive income	Other changes	End of the period
Financial instruments	350	93	86	(1)	528
Subrogation receivables	8	5	-	-	13
Real property	75	56	-	(10)	121
Deferred acquisition costs	282	10	-	-	292
Accrued reinsurance income and expenses	(6)	(16)	-	-	(22)
Intangible assets – trademarks and customer relations	71	(4)	-	1	68
Provisions for employee benefits	(18)	-	1	-	(17)
Provision for bonuses	(52)	-	-	-	(52)
Liabilities due but not paid to natural persons (under mandate, 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 to be used in subsequent years	(17)	(1)	-	(1)	(19)
Other differences	77	19	-	(3)	93
Total deferred tax liabilities	**746**	**128**	**87**	**(12)**	**949**

49. Assets and liabilities held for sale

49.1 Accounting policy

Assets and liabilities or disposal groups are classified as held for sale if there is a plan to sell them and an active program of finding a buyer is in place.

Assets and liabilities held for sale or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

(in millions of PLN)

49.2 Quantitative data

Assets held for sale by classification before transfer	31 December 2021	31 December 2020
Groups held for sale	**297**	**396**
Assets	325	517
Investment property	298	439
Investment financial assets measured at fair value through other comprehensive income	-	28
Intangible assets	-	2
Property, plant and equipment	-	4
Receivables	7	5
Cash and cash equivalents	20	33
Other assets	-	6
Liabilities related directly to assets classified as held for sale	28	121
Liabilities to clients under deposits	-	76
Other liabilities	14	30
Deferred tax liability	14	14
Provisions	-	1
Other assets held for sale	**318**	**73**
Property, plant and equipment	18	10
Investment property	300	63
Assets and groups of assets held for sale	**643**	**590**
Liabilities related directly to assets classified as held for sale	**28**	**121**

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. Leases

50.1 Accounting policy

PZU Group companies are parties to lease contracts 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 a value 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 contracts apply mainly to properties.

Operating lease payments are recognized in the profit and loss account as revenue on a straight-line basis over 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 2021	31 December 2020
Undiscounted lease payments	15,029	13,306
Up to 1 year	5,179	4,726
From 1 year to 2 years	3,865	3,405
From 2 to 3 years	2,772	2,399
From 3 to 4 years	1,623	1,361
From 4 to 5 years	784	683
Over 5 years	806	732
Unrealized financial income	(1,158)	(837)
Discounted unguaranteed residual values	-	-
Net lease investments	**13,871**	**12,469**

(in millions of PLN)

50.2.1.2. Operating leases

Operating leases generally include investment property lease contracts. The following table presents future minimum lease payments under non-cancellable operating leases (undiscounted amounts).

Future minimum receivables under lease payments	31 December 2021	31 December 2020
Up to 1 year	217	235
From 1 year to 2 years	196	186
From 2 to 3 years	160	168
From 3 to 4 years	88	133
From 4 to 5 years	58	72
Over 5 years	192	158
Total future minimum receivables under lease payments	**911**	**952**

50.2.2. PZU Group as the lessee

Right-of-use assets carried as property, plant and equipment	31 December 2021	31 December 2020
Means of transport	91	21
Other property, plant and equipment	4	4
Real property	821	973
Total right-of-use assets	**916**	**998**

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 2021	1 January – 31 December 2020
Depreciation of right-of-use assets	293	285
Means of transport	16	14
Other property, plant and equipment	1	2
Real property	276	269
Interest on lease liabilities	23	28
Short-term lease-related costs	97	95
Low-value asset lease-related costs	1	1
Costs of variable lease payments not carried in valuation of lease liabilities	-	-

51. Assets securing receivables, liabilities and contingent liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 December 2021	31 December 2020
Carrying amount of financial assets pledged as collateral for liabilities	12,133	11,671
Repurchase transactions	1,205	1,154
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,027	980
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	275	216
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	489	391
Lombard and technical credit	5,481	5,852
Other loans	431	699
Issue of covered bonds	1,402	1,838
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	28	43
Derivative transactions	1,756	456
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House – Derivative transactions	39	42
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**12,133**	**11,671**

(in millions of PLN)

52. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2021	31 December 2020
Contingent assets, including:	6	7
– guarantees and sureties received	6	7
Contingent liabilities	68,948	65,785
– for renewable limits in settlement accounts and credit cards	4,813	4,830
– for loans in tranches	41,017	39,733
– guarantees and sureties given	9,531	9,826
– disputed insurance claims	785	771
– other disputed claims	190	222
– other, including:	12,612	10,403
– guaranteeing securities issues	5,240	4,339
– factoring	5,863	4,136
– intra-day limit	424	425
– letters of credit and commitment letters	947	1,231
– other	138	272

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 2021	31 December 2020
Financial assets		
Financial derivatives		
Carrying amount of the items from the statement of financial position	8,328	6,339
Carrying amount of the items not subject to offset, if any	291	375
Net carrying amount – subject to offset, if any	8,037	5,964
Potential offset amounts	7,560	5,236
– financial instruments (includes received collateral on securities)	6,788	4,700
– received cash collateral	772	536
Net value	477	728
Financial liabilities		
Financial derivatives		
Carrying amount of the items from the statement of financial position	11,880	6,281
Carrying amount of the items not subject to offset, if any	519	199
Net carrying amount – subject to offset, if any	11,361	6,082
Potential offset amounts	9,996	5,647
– financial instruments (includes received collateral on securities)	6,969	4,724
– received cash collateral	3,027	923
Net value	1,365	435

54. Notes to the consolidated cash flow statement

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

(in millions of PLN)

Movement in liabilities attributable to financial activities in the period ended 31 December 2020	**Beginning of the period**	**Changes resulting from cash flows**	**Interest accruals and payments as well as settlements of discount and premium**	**Foreign exchange differences**	**Other changes**	**End of the period**
Loans received	5,427	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**

The table below presents an explanation of the differences between movements in line items of the statement of financial position and movements in these items disclosed in the operating activity part of the cash flow statement.

Item in the consolidated cash flow statement	**Movement arising from balance sheet changes [1)]**	**Movement arising from business combinations**	**Total**
Movement in loan receivables from clients	(19,637)	12,061	(7,576)
Movement in liabilities under deposits	22,972	(13,701)	9,271
Movement in receivables	(612)	228	(384)
Movement in liabilities	1,471	(344)	1,073

[1)] Including changes arising from movement in allowances for expected credit losses, impairment losses and foreign exchange differences.

55. Disputes

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

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

Estimates of the provision amounts for individual cases take into account all information available on the date of signing the consolidated financial statements, however their value may change in the future. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 31 December 2021, the total value of dispute in all 284,223 cases (as at 31 December 2020: 282,352) pending before courts, arbitration bodies or public administration authorities in PZU Group entities, was PLN 8,516 million (as at 31 December 2020: PLN 8,825 million). This amount included PLN 4,723 million (as at 31 December 2020: PLN 4,408 million) of liabilities and PLN 3,793 million (as at 31 December 2020: PLN 4,417 million) of accounts receivable of PZU Group companies.

In 2021 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.

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 December 2021, 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 Notification of PZU's claim to the bankruptcy estate of companies of the PBG Group

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 December 2021 was PLN 1 million (PLN 1 million as at 31 December 2020). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 31 December 2021 and 31 December 2020.

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million. Accordingly, the total value of claims pursued by PZU on this account was PLN 32 million. In respect of claims for the amount of over PLN 66 million, on 24 October 2018 PZU filed an objection to the judge commissioner against the refusal to accept the submitted claim. With the decision of 23 January 2020, the Court accepted PZU's objection and increased PZU's claim on the fourth supplementary list of claims to PLN 83 million. The final list of claims submitted against the bankruptcy estate of Hydrobudowa has not been determined yet. Bankruptcy proceedings against Hydrobudowa are pending and the determination of the final list of claims is merely an initial step in these proceedings that precedes the drafting of the distribution plan (after the liquidation of the bankruptcy estate).

55.3 Class action against Alior Bank

Alior Bank is being sued in a class action (the statement of claim was filed on 5 March 2018) brought by a natural person representing a group of 84 natural and legal persons and 3 individual cases seeking to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland (Funds). With the decision of 27 September 2019, the court resolved to examine the case in a group procedure. By letter of 15 July 2021, the statement of claim was extended by a group of another 283 people. At the same time, 14 individuals submitted statements of withdrawal from the group. The court has not yet issued a decision on the composition of the group. The lawsuits were filed to establish liability (rather than award payment, i.e. compensation for damage), therefore the PZU Group does not expect any cash outflow from these proceedings other than legal fees estimated at PLN 600 thousand.

Moreover, Alior Bank is being sued for payment (compensation for damage) in 59 cases brought by buyers of the Funds' investment certificates. The total value under dispute in these cases is PLN 23 million.

Due to the pending fund liquidation process, the PZU Group is of the opinion that until the liquidation process is completed and the final value of the investment certificates is determined, all (existing and future) claims for payment are unfounded. 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 2021, no provision was established in relation to these actions.

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

On 6 August 2019, KNF issued a decision pursuant to Article 167 sec. 2 item 1 in conjunction with Article 167(1)(1) of the Act on Trading in Financial Instruments imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and its Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (at Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw. On 17 June 2020, the Voivodship Administrative Court in Warsaw issued a judgment repealing the 3 December 2019 decision of the Polish Financial Supervision Authority, which upheld the earlier 6 August 2019 decision of the Polish Financial Supervision Authority, and discontinued the proceedings conducted by the KNF in the case. KNF lodged a cassation appeal to the Supreme Court of Administration. As at the date of signing the consolidated financial statements, the Supreme Court of Administration did not review the appeal.

56. Related party transactions

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 2021 and in 2020, 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 following tables present the compensation of PZU's key management (members of the PZU Management Board, senior management) and Supervisory Board members. The figures are presented in thousands of PLN.

(in millions of PLN)

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2021		1 January – 31 December 2020	
		including part of variable compensation for 2017-2020		including part of variable compensation for 2017-2019
Management Board	**14,332**	**5,849**	**13,210**	**4,227**
Beata Kozłowska-Chyła	1,479	465	776	-
Ernest Bejda	1,350	370	617	-
Małgorzata Kot	1,153	173	297	-
Krzysztof Kozłowski	405	-	n/a	n/a
Tomasz Kulik	1,788	808	1,567	637
Maciej Rapkiewicz	1,788	808	1,567	637
Małgorzata Sadurska	1,801	822	1,581	651
Krzysztof Szypuła	1,153	173	415 [1)]	-
Marcin Eckert	1,316 [2)]	645	1,321	391
Aleksandra Agatowska	94	94	356	282
Adam Brzozowski	711 [3)]	454	1,395 [4)]	310
Elżbieta Häuser-Schöneich	711 [5)]	454	1,395 [6)]	310
Roger Hodgkiss	179	179	318	318
Paweł Surówka	404	404	1,605 [7)]	691
High-level managers (PZU Group Directors)	**2,370**	**1,180**	**2,480**	**847**
Aleksandra Agatowska	673	267	384	-
Bartłomiej Litwińczuk	705	313	616	244
Dorota Macieja	705	313	616	244
Małgorzata Kot	90	90	140	-
Roman Pałac	138	138	618 [8)]	253
Tomasz Karusewicz	59	59	106	106
Supervisory Board	**2,134**	**-**	**2,007**	**-**
Paweł Mucha	112	-	n/a	n/a
Paweł Górecki	203	-	193	-
Robert Śnitko	203	-	188	-
Marcin Chludziński	187	-	177	-
Agata Górnicka	187	-	177	-
Robert Jastrzębski	203	-	193	-
Elżbieta Mączyńska-Ziemacka	187	-	177	-
Krzysztof Opolski	203	-	188	-
Radosław Sierpiński	41	-	n/a	n/a
Józef Wierzbowski	187	-	106	-
Maciej Zaborowski	187	-	177	-
Maciej Łopiński	89	-	195	-
Tomasz Kuczur	145	-	177	-
Alojzy Nowak	n/a	n/a	59	-

[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 a severance pay of PLN 246 thousand.
[3)] Including a non-competition fee of PLN 257 thousand.
[4)] Including a non-competition fee of PLN 210 thousand and a severance pay of PLN 233 thousand.
[5)] Including a non-competition fee of PLN 257 thousand.
[6)] Including a non-competition fee of PLN 210 thousand and a severance pay of PLN 233 thousand.
[7)] Including a non-competition fee of PLN 483 thousand and a severance pay of PLN 242 thousand.
[8)] Including a non-competition fee of PLN 193 thousand and a severance pay of PLN 97 thousand.

In 2021, PZU Management Board Members were paid part of the benefits for 2017-2020 under the variable compensation system. The payout of the remaining part of the bonus for 2017-2021 may be made in subsequent periods. A provision has been recognized for these benefits with the total amount of PLN 17,897 thousand as at 31 December 2021 (including the employer's burdens; PLN 15,688 thousand as at 31 December 2020).

Compensation and other short-term employee benefits paid by other PZU Group entities	1 January – 31 December 2021 (PLN 000s)		1 January – 31 December 2020 (PLN 000s)	
		including part of variable compensation for 2017-2020		including part of variable compensation for 2017-2019
Management Board, of which:	**119**	**119**	**892**	**-**
Małgorzata Kot	119	119	224	-
Krzysztof Szypuła	-	-	668 [1]	-
High-level managers (PZU Group Directors), including:	**3,325**	**1,540**	**3,736**	**1,592**
Aleksandra Agatowska	980	370	784	285
Bartłomiej Litwińczuk	1,024	437	934	377
Dorota Macieja	1,024	437	934	377
Roman Pałac	205	204	921 [2]	390
Tomasz Karusewicz	92	92	163	163

[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 a non-competition fee of PLN 280 thousand and a severance pay of PLN 140 thousand.

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2021 (PLN 000s)	1 January – 31 December 2020 (PLN 000s)
Management Board, of which:	**1,482**	**2,626**
Beata Kozłowska-Chyła	218	118
Ernest Bejda	155	58
Małgorzata Kot	189	90
Krzysztof Kozłowski	44	n/a
Tomasz Kulik	178	156
Maciej Rapkiewicz	185	160
Małgorzata Sadurska	217	241
Krzysztof Szypuła	136	101
Adam Brzozowski	n/a	214
Marcin Eckert	160	657 [1]
Elżbieta Häuser-Schöneich	n/a	170
Paweł Surówka	n/a	661 [2]
High-level managers (PZU Group Directors), including:	**587**	**699**
Aleksandra Agatowska	214	214
Bartłomiej Litwińczuk	185	235
Dorota Macieja	173	209
Roman Pałac	-	39
Tomasz Karusewicz	15 [3]	2

[1] Including PLN 445 thousand for the Advanced Management Program at Harvard Business School.
[2] Including PLN 515 thousand for the Advanced Management Program at Harvard Business School.
[3] Benefits brought forward from PZU and PZU Życie.

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

In 2021, 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 2021 and as at 31 December 2021		1 January – 31 December 2020 and as at 31 December 2020	
	Key management	Other related parties [1]	Key management	Other related parties [1]
Gross written premium				
in non-life insurance	-	3	-	3
in life insurance (including volumes in investment contracts)	-	-	-	-
Other income	-	2	-	-
Expenses	-	22	-	7
Investment financial assets	-	3	-	3
Loan receivables from clients	1	-	-	
Receivables	-	-	-	-
Liabilities under deposits	2	14	1	-
Other liabilities	-	6	-	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.

57. Headcount

The following table presents average headcount (in FTEs) in PZU Group companies.

Item	1 January – 31 December 2021	1 January – 31 December 2020
Management Boards (number of persons at the end of the reporting period)	143	149
Management	3,705	3,856
Other employees	35,903	36,800
Total	**39,751**	**40,805**

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 2021 (PLN 000s)	1 January – 31 December 2020 (PLN 000s)
Audit of financial statements	9,345	8,698
Other assurance services	5,718	4,901
Total	**15,063**	**13,599**

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. On 7 April 2021, the PZU Supervisory Board agreed to exercise the option and extend the order.

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 2021, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant, 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.

58.3 Inspections by the KNF Office at PZU

During the period from 27 July to 25 September 2020 KNF conducted an inspection of PZU's operations and assets in the claims handling area. On 7 January 2021, PZU received a recommendation to refrain from breaching the interests of parties entitled to indemnification under motor TPL insurance, consisting in applying in the calculation of the indemnification using the cost estimate method out-of-date, unreliable data on the man-hour rates in the car repair market that do not match the actual repair costs from the place of residence, seat or the injured party or the place of repair of the vehicle. On 19 February 2021, PZU informed KNF about implementing the recommendations and, on 19 March 2021 provided KNF, on its request, with additional documents and explanations pertaining to the implementation of the recommendation. On 19 April 2021, KNF summoned PZU to present additional documents and explanations, deciding that the evidence presented earlier had not allowed it to consider the recommendation satisfied. On 30 April 2021, PZU provided additional explanations and documents. KNF set the requirements and dates for providing the evidence of implementation. On 7 December 2021, PZU submitted the final implementation report regarding the recommendation. On 28 January 2022, KNF requested additional explanations and documents, which were provided by PZU on 14 February 2022. Until the date of signing the consolidated financial statements, the Polish Financial Supervision Authority did not raise any objections to the manner in which the recommendation was implemented.

During the period from 11 January 2022 to 10 March 2022, KNF conducted an inspection of PZU's operations and assets in terms of the solvency capital requirement. Until the date of signing the consolidated financial statements, the Polish Financial Supervision Authority did not present an inspection report.

58.4 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. On 30 June 2021, the arbitration court handed down a ruling to discontinue the ad hoc arbitration proceedings regarding this claim. The discontinuation ruling is final.

In December 2021, Alior Bank and Alior Leasing sp. z o.o. received new summons to an ad hoc arbitration court by the National Chamber of Commerce in Warsaw. The grounds for the summons are the same factual and legal circumstances as for the previous ones.

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.

58.5 Subsequent events

58.5.1. Intended bond issue by PZU

On 15 February 2022, the PZU Management Board adopted a resolution to submit a motion to the PZU Shareholder Meeting in the matter of issuing subordinated bonds on the domestic market. The contemplated issue is closely related to PZU's planned early redemption of the series A subordinated bonds issued on 30 June 2017 with a total par value of PLN 2,250 million and a maturity date of 29 July 2027 (Series A Bonds). The terms and conditions for the issue of Series A Bonds contemplate PZU SA's early redemption option on 29 July 2022.

In connection with the planned redemption of the Series A Bonds, PZU SA intends to issue a new issue of subordinated bonds to replace them and their parameters will be similar to the Series A Bonds. The contemplated issue would be for subordinated bonds on the domestic market with a total nominal value of no more than PLN 3,000 million thousand whose proceeds would be treated as tier 2 own funds according to the Insurance Activity Act and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

On 25 February 2022, the PZU Supervisory Board endorsed the PZU Management Board's motion regarding the issue of bonds. The PZU Shareholder Meeting which is expected to consider the Management Board's motion has been scheduled for 25 March 2022.

58.5.2. Commencement of the bookbuilding process in connection with the preparation of the bond issue by Alior Bank

On 23 February 2022, the Alior Bank Management Board adopted a resolution granting consent to commence the bookbuilding process in connection with the preparation by Alior Bank of a bond issue which, after obtaining the consent of the Polish Financial Supervision Authority, would constitute Tier II instruments in Alior Bank's capital.

On 16 March 2022, having analyzed the current market situation, the Alior Bank Management Board adopted a resolution to withdraw from the issue. The decision is related to the extraordinary situation caused by the armed conflict in Ukraine, which is exerting an adverse impact on the financial markets and which might significantly and adversely affect the bookbuilding process. Alior Bank's intention is to return to the planned bond issue when the situation on the financial markets becomes more favorable.

58.5.3. Acquisition of TFI Energia SA

On 17 March 2022, PZU signed a preliminary agreement to purchase a 100% equity stake in Towarzystwo Funduszy Inwestycyjnych Energia Spółka Akcyjna ("TFI Energia") from Polska Grupa Energetyczna Spółka Akcyjna. The deal is expected to be consummated in the middle of the year after obtaining approvals from the Polish Financial Supervision Authority and the Office of Competition and Consumer Protection. Following the completion of the transaction, TFI Energia will become a subsidiary of PZU and will be subject to consolidation.

58.5.4. Armed conflict in Ukraine

Due to the invasion of Ukraine by the Russian Federation on 24 February 2022, the PZU Management Board evaluated the impact of this event on the PZU Group's operations, business continuity, financial standing and future operations.

As at 31 December 2021, the net total assets (assets net of liabilities and adjusted for shares held mutually between PZU Ukraine and PZU Ukraine Life) of the three companies operating in Ukraine (PZU Ukraine, PZU Ukraine Life and LLC SOS Services Ukraine) stood at PLN 70 million.

The assets (net of the shares held mutually between PZU Ukraine and PZU Ukraine Life) of these companies subject to consolidation totaled PLN 554 million, including:

- investment financial assets of PLN 322 million, of which PLN 159 million in instruments issued by the government of Ukraine and PLN 163 million in term deposits;
- reinsurers' share in technical provisions of PLN 134 million (with PZU's share accounting for PLN 47 million).

The companies' liabilities totaled PLN 484 million, including:

- technical provisions of PLN 414 million;
- other liabilities of PLN 70 million.

In addition to the assets of companies operating in Ukraine, as at 31 December 2021, the PZU Group had the following significant debt exposure to markets affected by military actions or sanctions (according to the valuation as at that date):

- bonds issued by the governments of Russia (PLN 90 million), Belarus (PLN 1.6 million) and Ukraine (PLN 4 million);
- PLN 335 million in banking credit exposures and PLN 317 million in off-balance sheet banking exposures (0.16% loan receivables from clients and 0.47% contingent liabilities, respectively).

Due to the escalating political situation, by 3 March 2022, all bonds issued by the Russian, Belarusian and Ukrainian governments were sold (the realized loss of PLN 13 million will burden the 2022 performance).

The war that has covered the whole territory of Ukraine since 24 February 2022, resulting from the invasion of the Russian Federation's troops, has caused the PZU Group' Ukrainian companies to operate in emergency mode:

- they operate on a minimum scale wherever possible, while ensuring continuity and maintaining critical processes, with IT systems available;
- since 24 February 2022, PZU Ukraine's sales processes have been conducted to a limited extent – branches have been closed in cities and towns affected by hostilities, sales have been limited to compulsory third-party liability insurance, travel (accident) insurance and the Green Card;
- PZU Ukraine Life has ceased the sales of new policies;
- claims handling processes in PZU Ukraine Life have been suspended; in PZU Ukraine the functionality of the full claims handling cycle is ensured, while the declaration of martial law across the nation excludes the insurer's liability for losses incurred due to acts of war;
- the contact center and hotline are operating normally (LLC SOS Services Ukraine);
- the companies keep incurring administrative expenses, including payroll costs (obligation to pay salaries to mobilized employees, recommendation of local authorities to refrain from layoffs, difficulty in determining the number of employees actually working);

- the companies' financial liquidity is ensured, and payroll liabilities and other obligations, including administrative and fiscal ones, to the extent technically possible, are handled on an ongoing basis.

Moreover, the National Bank of Ukraine (NBU) has introduced, since 24 February 2022, restrictions affecting the conduct of business in Ukraine, including:

- temporary ban on the purchase of foreign currencies;
- suspension of trading in bonds issued by the Ukrainian government;
- ban on international transfers from Ukraine.

Due to the restrictions described above, the PZU Group's Ukrainian companies will be unable to meet their financial plans for 2022. As at the date of signing the consolidated financial statements, the assessment of the possibility of maintaining business continuity (materialization of the risk of the full loss of operational capabilities) of the PZU Group's Ukrainian companies is subject to uncertainty due to the following potential threats, among others:

- long-term persistence and escalation of hostilities;
- devastation of energy infrastructure, communication and internet access;
- lack of access to key systems, including due to the destruction of the companies' physical infrastructure;
- suspension of all internal transfers of funds within Ukraine's banking system;
- unavailability of staff.

The PZU Group continuously monitors the situation and analyzes potential future scenarios of how the events may unfold. It is currently impossible to reliably estimate future potential impairment losses on assets or present a reliable valuation of technical provisions and other liabilities.

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 23 March 2022