Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for Q1 2020

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Introduction

Compliance statement

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

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

Parent company's quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2020.

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

Functional and presentation currency

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

The functional currency of the companies domiciled in Lithuania, Latvia and Sweden is the euro, of those domiciled in Ukraine is the Ukrainian hryvnia and of that domiciled in the United Kingdom is the British pound.

(in millions of PLN)

FX rates

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

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

Currency	1 January – 31 March 2020	1 January – 31 March 2019	31 March 2020	31 December 2019
Euro	4.3963	4.2978	4.5523	4.2585
pound sterling	5.0956	4.9733	5.1052	4.9971
Ukrainian hryvnia	0.1554	0.1388	0.1508	0.1602

Going concern assumption

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

Discontinued operations

In the 3-month period ended 31 March 2020, the PZU Group companies did not discontinue any type of activity.

Seasonal or cyclical business

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Alior Bank Group – Alior Bank with its subsidiaries listed in section 1.2.

Pekao Group – Pekao with its subsidiaries listed in section 1.2.

LD – Lietuvos Draudimas AB

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

PIM – Pekao Investment Management SA.

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

PZU LT GD – UAB PZU Lietuva Gyvybes Draudimas.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BFG – Bank Guarantee Fund

CGU – cash generating unit.

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

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

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

KNF – Polish Financial Supervision Authority.

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

IFRS – International Financial Reporting Standards as endorsed by the Commission of European Communities (“IFRS”), published and in force as at 31 March 2020.

NBP – National Bank of Poland;

OFE PZU – Otwarty Fundusz Emerytalny PZU “Złota Jesień”.

POCI – Purchased or originated credit-impaired financial assets.

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

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

IASB – International Accounting Standards Board.

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

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated text: Journal of Laws of 2020, item 895).

Act on rules for termination of employment – the 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)

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

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 31 March 2020	m PLN 1 January – 31 March 2019	m EUR 1 January – 31 March 2020	m EUR 1 January – 31 March 2019
Gross written premiums	6,097	5,901	1,387	1,373
Net earned premium	5,762	5,592	1,311	1,301
Revenue from commissions and fees	1,019	961	232	224
Net investment result	1,856	3,018	422	702
Net insurance claims and benefits	(3,281)	(3,958)	(746)	(921)
Profit before tax	655	1,487	149	346
Profit attributable to equity holders of the Parent Company	116	747	26	174
Profit attributable to holders of non-controlling interests	173	265	39	62
Basic and diluted weighted average number of common shares	863,331,319	863,315,217	863,331,319	863,315,217
Basic and diluted earnings per common share (in PLN/EUR)	0.13	0.87	0.03	0.20

Data from the consolidated statement of financial position	m PLN 31 March 2020	m PLN 31 December 2019	m EUR 31 March 2020	m EUR 31 December 2019
Assets	357,215	343,340	78,469	80,625
Share capital	86	86	19	20
Equity attributable to equity holders of the Parent	16,199	16,169	3,558	3,797
Non-controlling interest	23,443	23,119	5,150	5,429
Total equity	39,642	39,288	8,708	9,226
Basic and diluted number of common shares	863,299,823	863,323,224	863,299,823	863,323,224
Carrying amount per common share (in PLN/EUR)	18.76	18.73	4.12	4.40

Data from the consolidated cash flow statement	m PLN 1 January – 31 March 2020	m PLN 1 January – 31 March 2019	m EUR 1 January – 31 March 2020	m EUR 1 January – 31 March 2019
Net cash flows from operating activities	8,000	979	1,820	228
Net cash flows from investing activities	(1,007)	(7,289)	(229)	(1,696)
Net cash flows from financing activities	(1,883)	(473)	(428)	(110)
Total net cash flows	5,110	(6,783)	1,162	(1,578)

2. Selected individual financial data of PZU (PAS)

Data from the balance sheet	m PLN 31 March 2020	m PLN 31 December 2019	m EUR 31 March 2020	m EUR 31 December 2019
Assets	42,898	41,596	9,423	9,768
Share capital	86	86	19	20
Total equity	15,157	14,957	3,330	3,512
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Carrying amount per common share (in PLN/EUR)	17.55	17.32	3.86	4.07

(in millions of PLN)

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 31 March 2020	m PLN 1 January – 31 March 2019	m EUR 1 January – 31 March 2020	m EUR 1 January – 31 March 2019
Gross written premiums	3,757	3,729	855	868
Technical result of non-life insurance	370	358	84	83
Net investment result [1)]	(256)	130	(58)	30
Net result	(110)	237	(25)	55
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted result per common share (in PLN/EUR)	(0.13)	0.27	(0.03)	0.06

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

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

Data from the balance sheet	m PLN 31 March 2020	m PLN 31 December 2019	m EUR 31 March 2020	m EUR 31 December 2019
Assets	27,920	28,068	6,133	6,591
Total equity	4,874	4,524	1,071	1,062

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 31 March 2020	m PLN 1 January – 31 March 2019	m EUR 1 January – 31 March 2020	m EUR 1 January – 31 March 2019
Gross written premiums	2,184	2,070	497	482
Technical life insurance result	444	342	101	80
Net investment result	(299)	356	(68)	83
Net profit	315	235	72	55

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 3 months ended 31 March 2020 was PLN 289 million, down by 71.4% from the net result in the same period last year. The net profit attributable to shareholders of the parent company was PLN 116 million, compared to PLN 747 million in 2019 (down 84.5%).

Excluding one-off events[1], the net result fell 20.4% compared to the previous year.

ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2020 was 2.9%, down 16.6 percentage points from the same period last year.

The following factors also affected PZU Group's activity after the 3-month period ended 31 March 2020, as compared to the same period last year:

- increase in gross written premium in the mass client segment, including the upswing in sales of ADD and other insurance. In life insurance the increasing level of premiums in unit-linked insurance products offered jointly with the banks and development of the portfolio of group health products;
- higher profitability of the mass insurance segment driven by the lower loss ratio in non-motor insurance, including a lower level of losses caused by weather events;

[1]Non-recurring events include: impairment loss on the goodwill arising from the acquisition of Alior Bank (PLN 516 million) and the impact exerted by conversion of long-term policies into yearly renewable term agreements in type P group insurance.

- higher underwriting result in the corporate client segment due to improved profitability in the motor insurance portfolio, higher income on investments allocated to the segment, while the sales level was about the same and the loss ratio increased in the property insurance portfolio;
- higher profitability in group and individually continued insurance with a growing health insurance portfolio as a result of a decrease in the loss ratio on certain risks in the group protection portfolio and higher operating expenses;
- slightly higher result on individual insurance due to the expanding insurance portfolio, mainly bancassurance, offset by higher operating expenses;
- lower result on listed equities, in particular due to the deteriorated market conditions on the capital market due to the COVID-19 pandemic;
- lower results in the banking activity associated with the non-recurring effect of recognizing an impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 516 million), recognition in Q1 2020 of an additional provision for projected deterioration of credit portfolio quality in Pekao and a negative effect of the CJEU judgment on consumer loans. The effects are partially offset by lower fees paid to the Bank Guarantee Fund.

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2020	1 January – 31 March 2019 (restated) [2]
Gross written premiums	8.1	6,097	5,901
Reinsurers' share in gross written premium		(156)	(102)
Net written premiums		**5,941**	**5,799**
Movement in net provision for unearned premiums		(179)	(207)
Net earned premium		**5,762**	**5,592**
Revenue from commissions and fees	8.2	1,019	961
Interest income calculated using the effective interest rate	8.3	2,996	2,859
Other net investment income	8.4	-	194
Result on derecognition of financial instruments and investments	8.5	75	53
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.6	(660)	(342)
Net movement in fair value of assets and liabilities measured at fair value	8.7	(555)	254
Other operating income	8.8	320	274
Claims, benefits and movement in technical provisions		(3,491)	(4,111)
Reinsurers' share in claims, benefits and movement in technical provisions		210	153
Net insurance claims and benefits	**8.9**	**(3,281)**	**(3,958)**
Fee and commission expenses	8.10	(235)	(174)
Interest expenses	8.11	(485)	(525)
Acquisition expenses	8.12	(835)	(793)
Administrative expenses	8.12	(1,679)	(1,620)
Other operating expenses	8.13	(1,786) [1]	(1,286)
Operating profit		**656**	**1,489**
Share of the net financial results of entities measured by the equity method		(1)	(2)
Profit before tax		**655**	**1,487**
Income tax	8.14	(366)	(475)
Net profit, including:		**289**	**1,012**
- profit attributable to the equity holders of the Parent Company		116	747
- profit (loss) attributed to holders of non-controlling interest		173	265
Weighted average basic and diluted number of common shares	8.15	863,331,319	863,315,217
Basic and diluted profit (loss) per common share (in PLN)	8.15	0.13	0.87

[1] including impairment loss on goodwill (in the amount of PLN 516 million) arising from the acquisition of Alior Bank. Additional information on this matter is presented in section 8.16.1.

[2] Information on restatement of data for the period from 1 January to 31 March 2019 is presented in section 4.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2020	1 January – 31 March 2019 (restated)[1)]
Net profit		289	1,012
Other comprehensive income	8.14	64	123
Subject to subsequent transfer to profit or loss		112	54
Valuation of debt instruments		(403)	(22)
Measurement of loan receivables from clients		(12)	9
Foreign exchange translation differences		87	2
Cash flow hedging		440	65
Not to be reclassified to profit or loss in the future		(48)	69
Valuation of equity instruments measured at fair value through other comprehensive income		(48)	68
Reclassification of real property from property, plant and equipment to investment property		-	1
Total net comprehensive income		**353**	**1,135**
- comprehensive income attributable to equity holders of the Parent Company		28	869
- comprehensive income attributed to holders of non-controlling interest		325	266

[1)] Information on restatement of data for the period from 1 January to 31 March 2019 is presented in section 4.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	31 March 2020	31 December 2019
Goodwill	8.16	3,572	4,053
Intangible assets	8.17	3,111	3,096
Other assets	8.18	627	734
Deferred acquisition costs		1,599	1,574
Reinsurers' share in technical provisions	8.30	1,886	1,856
Property, plant and equipment	8.19	4,194	4,226
Investment property		2,047	1,981
Entities measured by the equity method		6	11
Loan receivables from clients	8.20	198,849	194,868
Financial derivatives	8.21	6,786	3,107
Investment financial assets	8.22	111,874	111,416
Measured at amortized cost		51,708	45,938
Measured at fair value through other comprehensive income		49,114	55,211
Measured at fair value through profit or loss		11,052	10,267
Deferred tax assets		2,412	2,313
Receivables	8.23	6,666	5,737
Cash and cash equivalents		13,049	7,788
Assets held for sale	8.27	537	580
Total assets		**357,215**	**343,340**

Equity and liabilities	Note	31 March 2020	31 December 2019
Equity			
Equity attributable to equity holders of the Parent		16,199	16,169
Share capital	8.28	86	86
Other capital		12,945	13,036
Retained earnings		3,168	3,047
Retained profit or loss		3,052	(248)
Net profit		116	3,295
Non-controlling interest		23,443	23,119
Total equity		**39,642**	**39,288**
Liabilities			
Technical provisions	8.30	47,180	47,329
Subordinated liabilities	8.31	6,714	6,700
Liabilities on the issue of own debt securities	8.32	7,869	9,273
Liabilities to banks	8.33	7,622	6,604
Liabilities to clients under deposits	8.34	227,734	218,588
Financial derivatives	8.21	7,018	3,018
Other liabilities	8.35	11,237	10,376
Provisions for employee benefits		556	534
Other provisions	8.36	914	867
Deferred tax liability		693	734
Liabilities related directly to assets classified as held for sale	8.27	36	29
Total liabilities		**317,573**	**304,052**
Total equity and liabilities		**357,215**	**343,340**

(in millions of PLN)

4. Interim consolidated statement of changes in equity

Statement of changes in consolidated 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	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit			
Note	8.28										1.4	
As at 1 January 2020	**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**3,047**	**-**	**16,169**	**23,119**	**39,288**
Valuation of equity instruments	-	-	(4)	(52)	-	-	-	-	-	(56)	8	(48)
Valuation of debt instruments	-	-	-	(219)	-	-	-	-	-	(219)	(184)	(403)
Measurement of loan receivables from clients		-	-	(3)	-	-	-	-	-	(3)	(9)	(12)
Cash flow hedging	-	-	-	102	-	-	-	-	-	102	338	440
Foreign exchange translation differences	-	-	-	-	-	-	88	-	-	88	(1)	87
Total net other comprehensive income	**-**	**-**	**(4)**	**(172)**	**-**	**-**	**88**	**-**	**-**	**(88)**	**152**	**64**
Net profit (loss)	-	-	-	-	-	-	-	-	116	116	173	289
Total comprehensive income	**-**	**-**	**(4)**	**(172)**	**-**	**-**	**88**	**-**	**116**	**28**	**325**	**353**
Other changes, including:	**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**5**	**-**	**2**	**(1)**	**1**
Distribution of financial result	-	-	(5)	-	-	-	-	5	-	-	-	-
Transactions with non-controlling shareholders			2							2	(1)	1
As at 31 March 2020	**86**	**(7)**	**13,106**	**122**	**(324)**	**1**	**47**	**3,052**	**116**	**16,199**	**23,443**	**39,642**

(in millions of PLN)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity (restated)	**Equity attributable to equity holders of the parent**										**Non-controlling interest**	**Total equity**
		Other capital						**Retained earnings**				
	Share capital	Treasury shares	Supplemen-tary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	**Total**		
Note	8.28										1.4	
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	(1)	(8)	-	-	-	-	-	(9)	11	2
Valuation of debt instruments	-	-	-	334	-	-	-	-	-	334	41	375
Measurement of loan receivables from clients		-	-	4	-	-	-	-	-	4	14	18
Cash flow hedging	-	-	-	31	-	-	-	-	-	31	69	100
Foreign exchange translation differences	-	-	-	-	-	-	(5)	-	-	(5)	1	(4)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	1	-	-	-	1	(2)	(1)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	6	-	-	-	-	-	6	-	6
Total net other comprehensive income	**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**-**	**362**	**134**	**496**
Net profit (loss)	-	-	-	-	-	-	-	-	3,295	3,295	1,890	5,185
Total comprehensive income	**-**	**-**	**(1)**	**367**	**-**	**1**	**(5)**	**-**	**3,295**	**3,657**	**2,024**	**5,681**
Other changes, including:	**-**	**4**	**454**	**(8)**	**(342)**	**-**	**-**	**(2,521)**	**-**	**(2,413)**	**(1,387)**	**(3,800)**
Distribution of financial result	-	-	444	-	(340)	-	-	(2,522)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	4	-	-	-	-	-	-	-	4	-	4
Transactions with non-controlling shareholders	-	-	2	-	-	-	-	-	-	2	2	4
Sale of revalued real estate and other	-	-	8	(8)	(2)	-	-	1	-	(1)	(4)	(5)
As at 31 December 2019	**86**	**(7)**	**13,113**	**294**	**(324)**	**1**	**(41)**	**(248)**	**3,295**	**16,169**	**23,119**	**39,288**

(in millions of PLN)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity (restated)	**Equity attributable to equity holders of the parent**										**Non-controlling interest**	**Total equity**
		Other capital						**Retained earnings**				
	Share capital	Treasury shares	Supplemen-tary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained profit or loss	Net profit	**Total**		
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments	-	-	-	67	-	-	-	-	-	67	1	68
Valuation of debt instruments	-	-	-	37	-	-	-	-	-	37	(59)	(22)
Measurement of loan receivables from clients			-	2	-	-	-	-	-	2	7	9
Cash flow hedging	-	-	-	13	-	-	-	-	-	13	52	65
Foreign exchange translation differences	-	-	-	-	-	-	2	-	-	2	-	2
Reclassification of real property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total net other comprehensive income	**-**	**-**	**-**	**120**	**-**	**-**	**2**	**-**	**-**	**122**	**1**	**123**
Net profit (loss)	-	-	-	-	-	-	-	-	747	747	265	1,012
Total comprehensive income	**-**	**-**	**-**	**120**	**-**	**-**	**2**	**-**	**747**	**869**	**266**	**1,135**
Other changes, including:	**-**	**3**	**4**	**-**	**-**	**-**	**-**	**(3)**	**-**	**4**	**2**	**6**
Distribution of financial result	-	-	3	-	-	-	-	(3)	-	-	-	-
Transactions on treasury shares	-	3	-	-	-	-	-	-	-	3	-	3
Transactions with non-controlling shareholders	-	-	1	-	-	-	-	-	-	1	2	3
As at 31 March 2019	**86**	**(8)**	**12,664**	**55**	**18**	**-**	**(34)**	**2,270**	**747**	**15,798**	**22,750**	**38,548**

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Profit before tax		655	1,487
Adjustments		7,345	(508)
Movement in loan receivables from clients		(4,552)	(4,963)
Movement in liabilities under deposits		9,917	2,997
Movement in the valuation of assets measured at fair value		555	(254)
Interest income and expenses		(678)	(542)
Realized gains/losses from investing activities and impairment losses		558	249
Net foreign exchange differences		100	(96)
Movement in deferred acquisition expenses		(25)	(31)
Amortization of intangible assets and depreciation of property, plant and equipment		309	278
Movement in the reinsurers' share in technical provisions		(30)	(58)
Movement in technical provisions		(149)	571
Movement in receivables		367	358
Movement in liabilities		510	942
Cash flow on investment contracts		(2)	(4)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		27	60
Income tax paid		(463)	(329)
Other adjustments		901	314
Net cash flows from operating activities		**8,000**	**979**
Cash flow from investing activities			
Proceeds		177,094	225,822
- sale of investment property		-	1
- proceeds from investment property		63	78
- sale of intangible assets and property, plant and equipment		4	13
- sale of ownership interests and shares		649	931
- realization of debt securities		50,180	71,353
- closing of buy-sell-back transactions		75,016	70,937
- closing of term deposits with credit institutions		44,040	72,919
- realization of other investments		6,937	9,402
- interest received		193	174
- dividends received		1	4
- other investment proceeds		11	10

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Expenditures		(178,101)	(233,111)
- purchase of investment property		(13)	(19)
- expenditures for the maintenance of investment property		(46)	(33)
- purchase of intangible assets and property, plant and equipment		(254)	(155)
- purchase of ownership interests and shares		(611)	(720)
- purchase of ownership interests and shares in subsidiaries		-	(4)
- decrease in cash due to the sale of entities and change in the scope of consolidation		-	(32)
- purchase of debt securities		(49,160)	(77,930)
- opening of buy-sell-back transactions		(76,293)	(70,600)
- purchase of term deposits with credit institutions		(44,864)	(74,274)
- purchase of other investments		(6,850)	(9,344)
- other expenditures for investments		(10)	-
Net cash flows from investing activities		**(1,007)**	**(7,289)**
Cash flows from financing activities			
Proceeds		44,633	37,751
- proceeds from loans and borrowings	8.37	3,075	295
- proceeds on the issue of own debt securities	8.37	2,415	1,320
- opening of repurchase transactions	8.37	39,143	36,136
Expenditures		(46,516)	(38,224)
- repayment of loans and borrowings	8.37	(3,308)	(918)
- redemption of own debt securities	8.37	(3,826)	(1,342)
- closing of repurchase transactions	8.37	(39,247)	(35,832)
- interest on loans and borrowings	8.37	(49)	(15)
- interest on outstanding debt securities	8.37	(15)	(55)
- expenditures on leases		(71)	(62)
Net cash flows from financing activities		**(1,883)**	**(473)**
Total net cash flows		**5,110**	**(6,783)**
Cash and cash equivalents at the beginning of the period		7,788	17,055
Movement in cash due to foreign exchange differences		151	22
Cash and cash equivalents at the end of the period, including:		13,049	10,294
- restricted cash		50	19

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

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

(in millions of PLN)

1.2 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 March 2020	31 December 2019	
Consolidated companies						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Leasing services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Management of pension funds.
16	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/
17	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
19	Pekao Direct sp. z o. o.	Krakow	07.06.2017	20.02%	20.02%	Call-center services. https://www.pekaodirect.pl/

(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 March 2020	31 December 2019	
Consolidated companies – Pekao Group – continued						
20	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
21	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
22	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting
23	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
24	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
25	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
26	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
27	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
28	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
29	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
30	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Sales of non-banking products, provision of a purchasing platform
31	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
32	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
33	Corsham sp. z o.o	Warsaw	04.02.2019	31.93%	31.93%	Business consulting
34	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities
35	Harberton sp. z o.o. [3)]	Warsaw	19.02.2020	31.93%	n/a	Business consulting
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. https://www.jaworzno.pzuzdrowie.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2020	31 December 2019	
Consolidated companies – PZU Zdrowie Group – continued						
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. https://www.radom.pzuzdrowie.pl/
43	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. https://www.czestochowa.pzuzdrowie.pl/
44	Alergo-Med Tarnów sp. z o.o.	Tarnów	31.01.2019	100.00%	100.00%	Medical services. https://www.tarnow.pzuzdrowie.pl/
45	FCM Zdrowie sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://fcmzdrowie.pl/
46	Starówka sp. z o.o	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/
47	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
48	Asklepios Diagnostyka sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
49	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
Consolidated companies – other companies						
50	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
51	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
52	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
53	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
54	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
55	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
56	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
57	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
58	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
59	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.

(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 March 2020	31 December 2019	
Consolidated companies – other companies – continued						
60	PZU Corporate Member Limited	London (UK)	28.09.2017	100.00%	100.00%	Investment activity.
61	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
62	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
63	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
64	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
65	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
66	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
67	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
68	Aquaform Badprodukte GmbH in Liquidation	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
69	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
70	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
Consolidated companies – mutual funds						
71	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
72	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
73	PZU FIZ Sektora Nieruchomości [4)]	Warsaw	01.07.2008	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości 2 [4)]	Warsaw	21.11.2011	n/a	n/a	as above
75	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
76	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	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 March 2020	31 December 2019	
Consolidated companies – mutual funds – continued						
77	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
78	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
79	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
80	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
81	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
82	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
83	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
84	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
85	inPZU Goldman Sachs ActiveBeta Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
86	inPZU Goldman Sachs ActiveBeta Akcje Amerykańskich Dużych Spółek	Warsaw	28.10.2019	n/a	n/a	as above
87	inPZU Akcje CEE plus	Warsaw	28.10.2019	n/a	n/a	as above
Associates						
88	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Gliwice	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
89	CPF Management [5)]	Tortola, British Virgin Islands	07.06.2017	8.01%	8.01%	Consulting and business activity – no business conducted.
90	PayPo sp. z o.o. [6)]	Warsaw	15.11.2018	6.39%	6.39%	Financial services. https://paypo.pl/
91	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.

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

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

[3)] Additional information is presented in item 1.3.1.

[4)] The funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conduct their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles whose number in the respective funds was 18 for each fund as at 31 March 2020 and as at 31 December 2019.

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

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

(in millions of PLN)

1.3 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 the consolidated financial statements for 2019.

1.3.1. Acquisitions of companies

On 19 February 2020, Alior Bank acquired 100 shares worth PLN 50 each constituting a 100% stake in Harberton sp. z o.o. from Blackstone sp. z o.o. Holdings sp.k.

1.3.2. Transactions under joint control

On 2 January 2020, the merger of Centrum Medyczne Medica sp. z o.o. with Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o. was registered in the Register of Commercial Undertakings. As a result of the merger, Centrum Medyczne Medica sp. z o.o. as the surviving entity assumed all the rights and obligations of Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o.

The combination had no effect on the consolidated financial statements.

1.4 Non-controlling interest

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

Name of the entity	31 March 2020	31 December 2019
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
PZU LT GD	0.66%	0.66%
AAS Balta	0.01%	0.01%

[1)] As a result, PZU also holds non-controlling interests in Pekao's subsidiaries listed in the table in section 1.2.
[2)] As a result, PZU also holds non-controlling interests in Alior Bank's subsidiaries listed in the table in section 1.2.

Carrying amount of non-controlling interests	31 March 2020	31 December 2019
Pekao Group	18,961	18,683
Alior Bank Group	4,476	4,430
Other	6	6
Total	**23,443**	**23,119**

(in millions of PLN)

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

Assets	Pekao Group		Alior Bank Group	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Goodwill	692	692	-	-
Intangible assets	1,711	1,683	638	644
Other assets	102	45	60	35
Property, plant and equipment	2,100	2,112	742	764
Entities measured by the equity method	-	-	5	10
Loan receivables from clients	142,829	139,464	55,954	55,368
Financial derivatives	5,941	2,457	803	508
Investment financial assets	50,121	48,338	14,269	15,996
Measured at amortized cost	21,058	15,743	5,025	5,387
Measured at fair value through other comprehensive income	27,752	31,167	9,123	10,438
Measured at fair value through profit or loss	1,311	1,428	121	171
Deferred tax assets	1,205	1,087	1,156	1,178
Receivables	2,457	1,956	697	667
Cash and cash equivalents	10,138	5,463	1,943	1,319
Assets held for sale	16	16	-	-
Total assets	**217,312**	**203,313**	**76,267**	**76,489**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Equity				
Equity attributable to equity holders of the Parent	23,707	23,360	6,576	6,508
Share capital	262	262	1,306	1,306
Other capital	20,706	20,510	5,628	5,637
Retained earnings	2,739	2,588	(358)	(435)
Non-controlling interest	12	12	-	-
Total equity	**23,719**	**23,372**	**6,576**	**6,508**
Liabilities				
Subordinated liabilities	2,788	2,764	1,804	1,794
Liabilities on the issue of own debt securities	5,054	6,322	2,816	2,951
Liabilities to banks	6,998	6,097	555	437
Liabilities to clients under deposits	166,133	156,688	62,165	62,433
Derivatives	6,118	2,649	477	369
Other liabilities	5,503	4,576	1,596	1,618
Provisions for employee benefits	401	401	29	29
Other provisions	569	414	248	349
Deferred tax liability	29	30	1	1
Total liabilities	**193,593**	**179,941**	**69,691**	**69,981**
Total equity and liabilities	**217,312**	**203,313**	**76,267**	**76,489**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2020	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	6,097	-	-	8	6,105
Reinsurers' share in gross written premium	(156)	-	-	-	(156)
Net written premiums	**5,941**	**-**	**-**	**8**	**5,949**
Movement in net provision for unearned premiums	(179)	-	-	(3)	(182)
Net earned premium	**5,762**	**-**	**-**	**5**	**5,767**
Revenue from commissions and fees	1,019	(710)	(265)	30	74
Interest income calculated using the effective interest rate	2,996	(1,681)	(945)	11	381
Other net investment income	-	(27)	144	2	119
Result on derecognition of financial instruments and investments	75	(48)	(30)	-	(3)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(660)	353	297	-	(10)
Net movement in fair value of assets and liabilities measured at fair value	(555)	(13)	(159)	-	(727)
Other operating income	320	(42)	(50)	14	242
Claims, benefits and movement in technical provisions	(3,491)	-	-	(1)	(3,492)
Reinsurers' share in claims, benefits and movement in technical provisions	210	-	-	-	210
Net insurance claims and benefits	**(3,281)**	**-**	**-**	**(1)**	**(3,282)**
Fee and commission expenses	(235)	108	128	(1)	-
Interest expenses	(485)	287	175	(4)	(27)
Acquisition expenses	(835)	-	-	(23)	(858)
Administrative expenses	(1,679)	840	391	(7)	(455)
Other operating expenses	(1,786)	644	189	490 [1)]	(463)
Operating profit (loss)	**656**	**(289)**	**(125)**	**516**	**758**
Share of the net financial results of entities measured by the equity method	(1)	-	-	-	(1)
Profit (loss) before tax	**655**	**(289)**	**(125)**	**516**	**757**
Income tax	(366)	138	48	-	(180)
Net profit (loss)	**289**	**(151)**	**(77)**	**516**	**577**

[1)] including impairment loss on goodwill (in the amount of PLN 516 million) arising from the acquisition of Alior Bank. More information on this matter is presented in section 8.16.1.

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2019 (restated)	**PZU Group**	**Elimination of Pekao's data**	**Elimination of Alior Bank's data**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	5,901	-	-	2	5,903
Reinsurers' share in gross written premium	(102)	-	-	-	(102)
Net written premiums	**5,799**	**-**	**-**	**2**	**5,801**
Movement in net provision for unearned premiums	(207)	-	-	2	(205)
Net earned premium	**5,592**	**-**	**-**	**4**	**5,596**
Revenue from commissions and fees	961	(668)	(263)	22	52
Interest income calculated using the effective interest rate	2,859	(1,595)	(1,000)	6	270
Other net investment income	194	(53)	(92)	2	51
Result on derecognition of financial instruments and investments	53	(53)	(24)	(2)	(26)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(342)	113	280	-	51
Net movement in fair value of assets and liabilities measured at fair value	254	11	59	2	326
Other operating income	274	(38)	(38)	10	208
Claims, benefits and movement in technical provisions	(4,111)	-	-	-	(4,111)
Reinsurers' share in claims, benefits and movement in technical provisions	153	-	-	-	153
Net insurance claims and benefits	**(3,958)**	**-**	**-**	**-**	**(3,958)**
Fee and commission expenses	(174)	84	90	-	-
Interest expenses	(525)	295	193	(4)	(41)
Acquisition expenses	(793)	-	-	(20)	(813)
Administrative expenses	(1,620)	823	391	(9)	(415)
Other operating expenses	(1,286)	654	211	(11)	(432)
Operating profit (loss)	**1,489**	**(427)**	**(193)**	**-**	**869**
Share of the net financial results of entities measured by the equity method	(2)	-	-	-	(2)
Profit (loss) before tax	**1,487**	**(427)**	**(193)**	**-**	**867**
Income tax	(475)	191	83	-	(201)
Net profit (loss)	**1,012**	**(236)**	**(110)**	**-**	**666**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 31 March 2020	1 January – 31 March 2019 (restated)	1 January – 31 March 2020	1 January – 31 March 2019
Net profit	151	236	77	110
Other comprehensive income	197	41	(10)	(48)
Subject to subsequent transfer to profit or loss	206	40	(33)	(59)
Valuation of debt instruments	(120)	(24)	(131)	(59)
Measurement of loan receivables from clients	(12)	9	-	-
Foreign exchange translation differences	-	-	(1)	-
Cash flow hedging	338	55	99	-
Not to be reclassified to profit or loss in the future	(9)	1	23	11
Valuation of equity instruments	(9)	1	23	11
Total net comprehensive income	**348**	**277**	**67**	**62**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 March 2020	1 January – 31 March 2019	1 January – 31 March 2020	1 January – 31 March 2019
Net cash flows from operating activities	8,606	452	(820)	(390)
Net cash flows from investing activities	(1,792)	(5,118)	1,591	(33)
Net cash flows from financing activities	(2,215)	(499)	(186)	(13)
Total net cash flows	**4,599**	**(5,165)**	**585**	**(436)**

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 31 March 2020 or from 1 January to 31 March 2019.

2. Shareholder structure

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

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

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

2.1 Changes in the ownership structure of significant shareholdings in the issuer's company

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

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

As at the date of conveying this periodic report and as at the date of conveying the annual report for 2019 (i.e. 12 March 2020), Tomasz Kulik, a PZU Management Board Member, held 2,847 PZU shares. Other members of the Management Board, Supervisory Board or the Directors of the PZU Group held no PZU shares or rights to PZU shares as at the date of conveying this periodic report and as at the date of conveying the annual report for 2019.

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

3.1 Composition of the parent company's Management Board

From 1 January 2020, the PZU Management Board consisted of the following persons:

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

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

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

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Beata Kozłowska-Chyła to the PZU SA Management Board and entrust her with discharging the function of the President of the PZU SA Management Board provided that she obtains the consent of the Polish Financial Supervision Authority (KNF). Until the consent of the KNF referred to above is obtained, Beata Kozłowska-Chyła was entrusted with being the acting President of the Management Board to the extent permissible by the pertinent regulations. The resolution came into force on the date of its adoption. This appointment took place on 12 March 2020 for a joint term of office spanning the three full financial years from 2020 to 2022.

On 12 March 2020, the PZU Supervisory Board adopted a resolution to appoint Małgorzata Kot to the PZU Management Board and entrust her with discharging the function of a PZU SA Management Board Member. The resolution came into effect at the moment it was adopted and the appointment was to be for a joint term of office spanning the three full financial years from 2020 to 2022, effective as of 1 June 2020. On 15 April 2020, the PZU Supervisory Board adopted a resolution repealing the resolution of 12 March 2020 on the appointment of Małgorzata Kot to the PZU Management Board.

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

From 4 May 2020 to the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Beata Kozłowska-Chyła – acting President of the PZU Management Board;
- Ernest Bejda – Member of the PZU Management Board;
- Adam Brzozowski – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Elżbieta Häuser-Schöneich – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

3.2 Composition of the parent company's Supervisory Board

From 1 January 2020, the PZU Supervisory Board consisted of the following persons:

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

On 21 April 2020, Alojzy Nowak tendered his resignation from being a PZU Supervisory Board Member as of 21 April 2020.

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

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

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

(in millions of PLN)

3.3 PZU Group Directors

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

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

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

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

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

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

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Adam Brzozowski (PZU Życie);
- Małgorzata Kot (PZU);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU).

4. Key accounting policies, key estimates and judgments

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

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

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

4.1 Amendments to the applied IFRS

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

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

Standard/interpretation	Approving regulation	Commentary
Amendments to the framework	2019/2075	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Moreover, they contain explanations of various significant areas, such as the role of management, prudence and measurement uncertainties in financial statements. The amendments had no significant influence on the PZU Group's consolidated financial statements.

Standard/interpretation	Approving regulation	Commentary
Amendments to IAS 1 and IAS 8 – definition of materiality	2019/2104	According to the new definition, information is material if one may justifiably expect that if it is overlooked, distorted or concealed this may affect the decisions made by the main users of financial statements on the basis of these financial statements. The change will not affect to a material extent the PZU Group's consolidated financial statements.
Amendments to IFRS 9 and IFRS 7 – reform of the interest rate benchmarks	2020/34	This amendment requires the preparation of qualitative and quantitative disclosures to enable users of financial statements to understand how the entity's hedging relationships are affected by uncertainty arising from the benchmark interest rate reform. The amendments introduce temporary derogation from specified hedge accounting requirements so that the reform of interest rate indices does not cause termination of hedging relationships. The key exceptions apply to the requirements that the cash flows are "highly probable", risk components, prospective assessments, retrospective effectiveness assessments and reclassification of the cash flow hedge provision. The change did not have a material effect on the consolidated financial statements.
Amendment to IFRS 3 – Business combinations	2020/551	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments did not affect the PZU Group's consolidated financial statements.

4.1.2. Standards, interpretations and amended standards not yet effective

- Absence of standards and interpretations approved by the regulation of the European Commission
- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Commentary
IFRS 17 – Insurance contracts	18 May 2017	1 January 2023	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account; • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions. IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Commentary
			reinsurance contracts by the modified GMM method or, if possible, by the PAA method. Modifications of the GMM method arise above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. In mid-2018, the PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group works, among others, on: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17; • work related to the selection of a system to support the reporting process in accordance with the requirements of IFRS 17. As at the date of conveying these consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to IAS 1 – classification of liabilities as current or non-current	23 January 2020	1 January 2023	The amendment specifies that, when determining the right to defer settlement of a liability the conditions in place at the end of the reporting period should be taken into account and that the classification is unaffected by intentions or expectations to exercise the right to defer settlement of a liability. The amendments did not affect the PZU Group's consolidated financial statements.

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 principles applied by the PZU Group.

4.2 Explanation of the difference between the 2019 annual consolidated financial statements and these consolidated financial statements

To reflect better the economic nature of transactions, the presentation changes described in subsequent paragraphs have been made.

4.2.1. Change of presentation of interest income calculated using the effective interest rate

The interest income calculated using the effective interest rate, which has so far been presented in "Net investment income", was allocated to a separate item in the consolidated profit and loss account.

4.2.2. Change of presentation of provisions for guarantees and sureties given

Recognition and reversal of a provision for guarantees and sureties given, which were presented separately in other operating expenses and other operating income, respectively, are presented in the net amount in the "Movement in allowances for expected credit losses and impairment losses on financial instruments" item.

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

The valuation of loans measured at fair value through other comprehensive income, which was presented in "Valuation of debt instruments measured at fair value through other comprehensive income" in the 2019 financial statements was transferred to a separate item of other comprehensive income.

4.2.4. Change of presentation of financial liabilities

Subordinated liabilities, liabilities on the issue of own debt securities, liabilities to banks, liabilities to clients under deposits and the negative valuation of derivatives were presented in the "Financial liabilities" item in the 2019 consolidated financial statements. In order to increase the usefulness of the accounts, in the condensed interim consolidated financial statements they are presented as separate items of the statement of financial position.

4.2.5. Change of presentation of expenditures on leases

Expenditures on leases were presented in cash flows from financing activities, in the same way as in the 2019 consolidated financial statements, rather than in investing activities.

(in millions of PLN)

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

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

Consolidated profit and loss account	1 January – 31 March 2019 (historical)	Adjustment	1 January – 31 March 2019 (restated)
Interest income calculated using the effective interest rate	n/a	2,859 [1)]	2,859
Other net investment income	n/a	194 [1)]	194
Net investment income	3,053	(3,053) [1)]	n/a
Movement in allowances for expected credit losses and impairment losses on financial instruments	(339)	(3) [2)]	(342)
Other operating income	369	(95) [2)]	274
Other operating expenses	(1,384)	98 [2)]	(1,286)
Net profit, including:	**1,012**	**-**	**1,012**
- profit attributable to the equity holders of the Parent Company	747	-	747
- profit (loss) attributed to holders of non-controlling interest	265	-	265

[1)] Change described in item 4.2.1.
[2)] Change described in section 4.2.2.

Consolidated statement of comprehensive income	1 January – 31 March 2019 (historical)	Adjustment	1 January – 31 March 2019 (restated)
Other comprehensive income	123	-	123
Subject to subsequent transfer to profit or loss	54	-	54
Valuation of debt instruments	(13)	(9) [3)]	(22)
Measurement of loan receivables from clients	n/a	9 [3)]	9
Total net comprehensive income	**1,135**	**-**	**1,135**

[3)] Change described in section 4.2.3.

Equity and liabilities	31 December 2019 (historical)	Adjustment	31 December 2019 (restated)
Total equity	**39,288**	**-**	**39,288**
Liabilities			
Technical provisions	47,329	-	47,329
Subordinated liabilities	n/a	6,700 [4)]	6,700
Liabilities on the issue of own debt securities	n/a	9,273 [4)]	9,273
Liabilities to banks	n/a	6,604 [4)]	6,604
Liabilities to clients under deposits	n/a	218,588 [4)]	218,588
Derivatives	n/a	3,018 [4)]	3,018
Other liabilities	8,069	2,307 [4)]	10,376
Provisions for employee benefits	534	-	534
Other provisions	867	-	867
Deferred tax liability	734	-	734
Financial liabilities	246,490	(246,490) [4)]	n/a
Liabilities related directly to assets classified as held for sale	29	-	29
Total liabilities	**304,052**	**-**	**304,052**
Total equity and liabilities	**343,340**	**-**	**343,340**

[4)] Change described in section 4.2.4.

(in millions of PLN)

Consolidated cash flow statement	1 January – 31 March 2019 (historical)	Adjustment	1 January – 31 March 2019 (restated)
Cash flow from investing activities	(7,351)	62	(7,289)
Expenditures	(233,173)	62	(233,111)
- expenditures on leases	(62)	62 [5]	n/a
Cash flows from financing activities	(411)	(62)	(473)
Expenditures	(38,162)	(62)	(38,224)
- expenditures on leases	n/a	(62) [5]	(62)
Total net cash flows	**(6,783)**	-	**(6,783)**

[4] Change described in section 4.2.5.

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

In the 3-month period ended 31 March 2020, the following material events caused significant changes in the structure of financial statement items:

- As a result of the performed impairment tests, the PZU Group decided to recognize an impairment loss on goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million (additional information is presented in section 8.16.1);
- worse conditions on the financial market due to the COVID-19 pandemic. More information on this matter is presented in section 16.3.

6. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2020, no corrections of errors from previous years were made.

7. Material events after the end of the reporting period

7.1.1. COVID-19 pandemic

The COVID-19 pandemic is a significant event, which began during the reporting period and which continues to affect the financial standing of the PZU Group after the reporting period. More information on this matter is presented in section 16.3.

7.1.2. Approval of the base prospectus for the Alior Bank bond offering program

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

- the program offering in the territory of Poland unsecured bearer bonds with nominal value of at least PLN 100 each and the total maximum nominal value up to PLN 1,500 million, established by Alior Bank under the long-term Alior Bank bond issue program with the maximum nominal value up to PLN 5,000 million; and
- the intention to apply for admission and introduction of respective bond series into trading on the regulated market for debt securities (main market or parallel market) operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange) or the regulated market for debt securities operated by BondSpot SA.

(in millions of PLN)

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premiums in non-life insurance	3,881	3,809
In direct insurance	3,880	3,803
In indirect insurance	1	6
Gross written premiums in life insurance	2,216	2,092
Individual insurance premiums	457	359
Individually continued insurance premiums	511	505
Group insurance premiums	1,248	1,228
Total gross written premiums	**6,097**	**5,901**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2020	1 January – 31 March 2019
Accident and sickness insurance (group 1 and 2)	237	182
Motor third party liability insurance (group 10)	1,390	1,435
Other motor insurance (group 3)	974	1,005
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	38	20
Insurance against fire and other property damage (groups 8 and 9)	783	740
TPL insurance (groups 11, 12, 13)	240	238
Credit and suretyship insurance (groups 14, 15)	20	20
Assistance (group 18)	151	126
Legal protection (group 17)	3	3
Other (group 16)	44	34
Total	**3,880**	**3,803**

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2020	1 January – 31 March 2019
Banking activity	841	803
Margin on foreign exchange transactions with clients	183	184
Brokerage fees	33	26
Fiduciary activity	14	15
Payment card and credit card services	231	207
Fees on account of insurance intermediacy activities	17	19
Credits and loans	91	94
Bank account-related services	104	101
Transfers	66	75
Cash operations	21	23
Receivables purchased	13	10
Guarantees, letters of credit, collections, commitment letters	19	20
Commissions on leasing activity	16	-
Other commission	33	29
Revenue and payments received from funds and mutual fund companies	130	124
Pension insurance	47	34
Other	1	-
Total revenue from commissions and fees	**1,019**	**961**

(in millions of PLN)

8.3 Interest income calculated using the effective interest rate

Interest income calculated using the effective interest rate	1 January – 31 March 2020	1 January – 31 March 2019
Loan receivables from clients	2,240	2,233
Debt securities measured at fair value through other comprehensive income	269	206
Debt securities measured at amortized cost	321	265
Buy-sell-back transactions	18	15
Term deposits with credit institutions	19	28
Loans	83	66
Receivables purchased	34	34
Receivables	-	1
Cash and cash equivalents	12	11
Total interest income calculated using the effective interest rate	**2,996**	**2,859**

8.4 Other net investment income

Other net investment income	1 January – 31 March 2020	1 January – 31 March 2019
Hedge derivatives	69	59
Dividend income, including:	1	1
Investment financial assets measured at fair value through profit or loss	1	1
Foreign exchange differences	(100)	96
Income on investment property	55	65
Investment property maintenance expenses	(22)	(27)
Investment activity expenses	(7)	(6)
Other	4	6
Total other net investment income	**-**	**194**

8.5 Result on derecognition of financial instruments and investments

Result on derecognition of financial instruments and investments	1 January – 31 March 2020	1 January – 31 March 2019
Investment financial assets	69	90
Debt instruments measured at fair value through other comprehensive income	72	30
Financial instruments measured at fair value through profit or loss	(34)	51
Equity instruments	(22)	4
Participation units and investment certificates	(50)	20
Debt instruments	38	27
Instruments measured at amortized cost	31	9
Loan receivables from clients measured at amortized cost	3	7
Derivatives	45	2
Short sale	1	(2)
Receivables	(43)	(44)
Total result on derecognition of financial instruments and investments	**75**	**53**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Investment financial assets	(34)	41
Debt instruments measured at fair value through other comprehensive income	(20)	7
Instruments measured at amortized cost	(14)	34
- debt instruments	(11)	4
- loans	(3)	30
Loan receivables from clients	(562)	(397)
Measured at amortized cost	(560)	(377)
Measured at fair value through other comprehensive income	(2)	(20)
Guarantees and sureties given	(55)	(3)
Receivables	(9)	17
Total movement in allowances for expected credit losses and impairment losses on financial instruments	**(660)**	**(342)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 March 2020	1 January – 31 March 2019
Investment financial instruments measured at fair value through profit or loss	(275)	373
Equity instruments	(153)	96
Debt securities	249	137
Participation units and investment certificates	(371)	140
Derivatives	(303)	(94)
Measurement of liabilities to members of consolidated mutual funds	10	(3)
Investment contracts for the client's account and risk (unit-linked)	30	(5)
Investment property	(20)	(12)
Loan receivables from clients	3	(5)
Total net movement in fair value of assets and liabilities measured at fair value	**(555)**	**254**

8.8 Other operating income

Other operating income	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	169	145
Revenues from direct claims handling on behalf of other insurance companies	54	51
Reimbursement of the costs of pursuit of claims	11	11
Reinsurance commissions and profit participation	14	15
Indemnity received	2	8
Interest for late payment of amounts due under direct insurance and outward reinsurance	19	7
Other	51	37
Total other operating income	**320**	**274**

(in millions of PLN)

8.9 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 January – 31 March 2020	1 January – 31 March 2019
Claims, benefits and movement in technical provisions	**3,491**	**4,111**
In non-life insurance	2,361	2,323
- claims and benefits	1,951	1,841
- movement in technical provisions	196	282
- claims handling expenses	214	200
In life insurance	1,130	1,788
- claims and benefits	1,640	1,616
- movement in technical provisions	(545)	139
- claims handling expenses	35	33
Reinsurers' share in claims, benefits and movement in technical provisions	**(210)**	**(153)**
In non-life insurance	(210)	(153)
Total net insurance claims and benefits	**3,281**	**3,958**

8.10 Fee and commission expenses

Fee and commission expenses	1 January – 31 March 2020	1 January – 31 March 2019
Costs of card and ATM transactions, including card issue costs	151	100
Commissions on acquisition of banking clients	24	19
Fees for the provision of ATMs	12	10
Costs of awards to banking clients	5	4
Costs of bank transfers and remittances	11	10
Additional services attached to banking products	6	6
Brokerage fees	4	4
Costs of administration of bank accounts	1	1
Costs of banknote operations	4	4
Fiduciary activity expenses	4	5
Other commission	13	11
Total fee and commission expenses	**235**	**174**

8.11 Interest expenses

Interest expenses	1 January – 31 March 2020	1 January – 31 March 2019
Term deposits	200	249
Current deposits	138	133
Own debt securities issued	102	109
Hedge derivatives	2	1
Loans	2	2
Repurchase transactions	11	10
Bank loans contracted by PZU Group companies	12	7
Leasing	10	7
Other	8	7
Total interest expense	**485**	**525**

(in millions of PLN)

8.12 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2020	1 January – 31 March 2019
Consumption of materials and energy	47	45
Third party services	384	384
Taxes and fees	32	28
Employee expenses	1,249	1,174
Depreciation of property, plant and equipment	153	154
Amortization of intangible assets	93	94
Other, including:	821	798
- commissions in insurance activities	641	622
- advertising	48	62
- remuneration of group insurance administrators in work establishments	51	51
- other	81	63
Movement in deferred acquisition expenses	(16)	(31)
Total administrative, acquisition and claims handling expenses	**2,763**	**2,646**

8.13 Other operating expenses

Other operating expenses	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Impairment loss on goodwill arising from the acquisition of Alior Bank [1)]	516	-
Levy on financial institutions	291	285
Expenses of the core business of non-insurance and non-banking companies	215	170
Direct claims handling expenses on behalf of other insurance undertakings	56	53
Compulsory payments to insurance market institutions and banking market institutions	53	47
Bank Guarantee Fund	339	515
Insurance Indemnity Fund	16	17
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	16	18
Expenditures for prevention activity	14	13
Establishment of provisions	148	10
Amortization of intangible assets purchased in company acquisition transactions	44	58
Recognition of impairment losses for non-financial assets	6	2
Donations	26	23
Late interest, penalties, indemnities	5	5
Costs of pursuit of claims	27	19
Other	14	51
Total other operating expenses	**1,786**	**1,286**

[1)] More information on this matter is presented in section 8.16.1.

8.14 Income tax

Total amount of current and deferred tax	1 January – 31 March 2020	1 January – 31 March 2019
1. Recognized in the profit and loss account, including:	**(366)**	**(475)**
- current tax	(485)	(354)
- deferred tax	119	(121)
2. Recognized in other comprehensive income, including:	**6**	**(28)**
- deferred tax	6	(28)
Total	**(360)**	**(503)**

(in millions of PLN)

Income tax on other comprehensive income items	1 January – 31 March 2020	1 January – 31 March 2019
Gross other comprehensive income	58	151
Income tax	6	(28)
Debt instruments	95	5
Loan receivables from clients	3	(2)
Cash flow hedging	(103)	(15)
Equity instruments measured at fair value through other comprehensive income	11	(16)
Net other comprehensive income	**64**	**123**

The PZU Group is comprised of entities 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 laws in effect in the countries where the PZU Group operates contain confusing provisions, which result in differences of opinion concerning their legal interpretation between these authorities and enterprises. Tax and other settlements (e.g. regarding customs or foreign currencies) may be inspected by authorities (in Poland – for a period of five years), which may levy high fines and any additional liabilities assessed during the inspection bear interest. These phenomena generate tax risk, as a result of which the amounts reported in the consolidated financial statements may change at a later date after the final amounts are determined by tax authorities.

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

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

On 3 April 2019, PZU Finance AB (publ.) appealed to the Supreme Court of Administration (Högsta förvaltningsdomstolen) against the individual tax ruling of the Swedish Tax Interpretation Board. On 4 May 2020, the Supreme Court of Administration set aside the individual ruling and dismissed the petition submitted by PZU Finance AB (publ) deciding that insufficient grounds had been provided for issuing an individual tax ruling and therefore the tax interpretation should not have been issued. Since the application was rejected, the Company will be able to petition to a Swedish court of administration of the first instance.

In connection with the uncertainty regarding the outcome of the appeal proceedings, as at 31 March 2020, the PZU Group posted a liability in the amount of PLN 84 million (PLN 79 million as at 31 December 2019).

8.15 Earnings per share

Earnings per share	1 January – 31 March 2020	1 January – 31 March 2019
Net profit attributable to the equity holders of the parent company	116	747
Weighted average basic and diluted number of common shares	863,331,319	863,315,217
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(191,681)	(207,783)
Basic and diluted earnings (losses) per common share (in PLN)	0.13	0.87

In the 3-month periods ended 31 March 2020 and 31 March 2019 there were no transactions or events resulting in the dilution of earnings per share.

(in millions of PLN)

8.16 Goodwill

Goodwill	31 March 2020	31 December 2019
Pekao [1)]	2,269	2,269
LD [2)]	503	471
Medical companies	303	303
Alior Bank [3)]	230	746
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	41	38
Other	5	5
Total goodwill	**3,572**	**4,053**

[1)] Includes goodwill on acquisition of PIM.

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

[3)] As a result of the performed impairment tests, the PZU Group decided to recognize an impairment loss on goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million.

8.16.1. Testing for impairment

Following the identification of signs of possible impairment, Alior Bank's goodwill was tested for impairment. The test showed impairment of the goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million. The impairment loss was recognized in the profit and loss account.

The analysis has not shown impairment of other CGUs. During the preparation of financial statements for the comparative period, i.e. 3 months ended 31 March 2019, no need to recognize impairment losses was found.

Testing Alior Bank's goodwill for impairment

The indication that required impairment testing of Alior Bank's goodwill was the deterioration of the current results and outlook for the operating activity in connection with the COVID-19 pandemic. A tentative analysis showed that the impact of the expected decline in revenue, driven by reduction of the reference rate by the NBP and the decrease of sales volumes, coupled with the possible credit risk charges, may exceed the surplus amount from the test carried out as at 31 December 2019.

The recoverable amount was calculated based on the value in use by the discounted dividend flows method. Due to the uncertainty regarding the length of the pandemic and its severity for the economy, the value in use was estimated for different scenarios with different assumptions as to the level of risk costs and a different levels of commissions refunded in connection with the CJEU judgment of 11 September 2019. Depending on the scenario, the amount, by which the carrying amount exceeded the value in use was from PLN 312 million to PLN 719 million. The amount of the impairment loss recognized in the profit and loss account was calculated as the average value weighed by the probability of each scenario. Because of the considerable uncertainty, the estimates may change in the future as information on the developments is obtained.

To calculate the value in use, a discount rate of 9.2% was assumed (8.8% as at 31 December 2019) and the growth rate of 3.5% after the projection period (3.5% as at 31 December 2019). An increase of the discount rate to 9.5% or a decrease of the growth rate after the projection period to 2.1% would require the entire goodwill arising from the acquisition of Alior Bank to be written off.

(in millions of PLN)

8.17 Intangible assets

Intangible assets by type groups	31 March 2020	31 December 2019
Software, licenses and similar assets	1,351	1,278
Trademarks	619	611
- Pekao	340	340
- Alior Bank	100	100
- other	179	171
Client relations	695	738
- Pekao	589	626
- Alior Bank	65	69
- other	41	43
Intangible assets under development	429	452
Other intangible assets	17	17
Total intangible assets	**3,111**	**3,096**

8.18 Other assets

Other assets	31 March 2020	31 December 2019
Reinsurance settlements	67	279
Estimated salvage and subrogation	161	182
Deferred IT expenses	103	79
Accrued direct claims handling receivables	55	58
Costs settled over time	108	75
Inventories	26	36
Payments for taxes on property, means of transport and land	25	-
Payments for the costs of the allowance to the Company Social Benefit Fund	35	-
Accrued commissions	14	14
Other assets	33	11
Total other assets	**627**	**734**

8.19 Property, plant and equipment

Property, plant and equipment by type groups	31 March 2020	31 December 2019
Plant and machinery	618	541
Means of transport	188	179
Property, plant and equipment under construction	184	257
Real property	2,880	2,921
Other property, plant and equipment	324	328
Total property, plant and equipment	**4,194**	**4,226**

8.20 Loan receivables from clients

Loan receivables from clients	31 March 2020	31 December 2019
Measured at amortized cost	197,066	193,244
Measured at fair value through other comprehensive income	1,551	1,381
Measured at fair value through profit or loss	232	243
Total loan receivables from clients	**198,849**	**194,868**

(in millions of PLN)

Loan receivables from clients	31 March 2020	31 December 2019
Retail segment	**107,516**	**105,912**
Operating loans	233	234
Consumer finance	29,354	29,416
Consumer finance loans	2,935	2,778
Loan to purchase securities	45	65
Overdrafts in credit card accounts	986	1,087
Loans for residential real estate	72,880	71,301
Other mortgage loans	805	807
Other receivables	278	224
Business segment	**91,333**	**88,956**
Operating loans	33,117	32,760
Car financing loans	8	11
Investment loans	28,031	26,820
Receivables purchased (factoring)	6,347	6,524
Overdrafts in credit card accounts	64	71
Loans for residential real estate	232	190
Other mortgage loans	9,711	9,278
Finance leases	11,434	10,985
Other receivables	2,389	2,317
Total loan receivables from clients	**198,849**	**194,868**

8.21 Financial derivatives

Derivatives	31 March 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**5,256**	**5,276**	**2,402**	**2,483**
Fair value hedging instruments – SWAP transactions	-	204	1	161
Cash flow hedging instruments – SWAP transactions	1,016	878	459	479
Instruments held for trading, including:	4,240	4,194	1,942	1,843
- FRA transactions	1	12	-	-
- SWAP transactions	4,231	4,180	1,933	1,841
- call options (purchase)	2	1	2	1
- put options (sale)	6	1	7	1
- cap floor options	-	-	-	-
Foreign exchange derivatives	**1,169**	**1,405**	**540**	**420**
Cash flow hedging instruments – SWAP transactions	122	270	83	25
Instruments held for trading, including:	1,047	1,135	457	395
- forward contracts	429	455	170	169
- SWAP transactions	469	542	192	133
- call options (purchase)	122	100	49	19
- put options (sale)	27	38	46	74
Equity derivatives – held for trading	**64**	**36**	**119**	**72**
- forward contracts	-	-	-	-
- call options (purchase)	63	35	118	4
- put options (sale)	1	1	1	68
Commodity derivatives – held for trading	**297**	**301**	**46**	**43**
- forward contracts	10	18	7	5
- SWAP transactions	48	48	14	14
- call options (purchase)	38	6	21	4
- put options (sale)	201	229	4	20
Total derivatives	**6,786**	**7,018**	**3,107**	**3,018**

(in millions of PLN)

8.22 Investment financial assets

Investment financial assets	31 March 2020				31 December 2019			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	428	710	1,138	n/a	518	845	1,363
Participation units and investment certificates	n/a	n/a	4,360	4,360	n/a	n/a	4,820	4,820
Debt securities	40,138	48,686	5,982	94,806	35,930	54,693	4,602	95,225
Government securities	33,381	35,886	5,646	74,913	29,187	37,476	4,393	71,056
Domestic	33,187	33,658	5,523	72,368	28,985	35,373	4,255	68,613
Fixed rate	29,984	23,046	2,521	55,551	25,785	22,820	3,054	51,659
Floating rate	3,203	10,612	3,002	16,817	3,200	12,553	1,201	16,954
Foreign	194	2,228	123	2,545	202	2,103	138	2,443
Fixed rate	194	2,228	123	2,545	202	2,103	138	2,443
Other	6,757	12,800	336	19,893	6,743	17,217	209	24,169
Fixed rate	867	5,274	80	6,221	892	9,032	40	9,964
Floating rate	5,890	7,526	256	13,672	5,851	8,185	169	14,205
Other, including:	11,570	-	-	11,570	10,008	-	-	10,008
Buy-sell-back transactions	5,353	-	-	5,353	4,064	-	-	4,064
Term deposits with credit institutions	2,062	-	-	2,062	1,454	-	-	1,454
Loans	4,155	-	-	4,155	4,490	-	-	4,490
Total investment financial assets	**51,708**	**49,114**	**11,052**	**111,874**	**45,938**	**55,211**	**10,267**	**111,416**

Equity instruments measured at fair value through other comprehensive income	31 March 2020	31 December 2019
Grupa Azoty SA	149	232
Biuro Informacji Kredytowej SA	177	177
PSP sp. z o.o.	50	50
Polimex-Mostostal SA	18	29
Krajowa Izba Rozliczeniowa SA	14	14
Other	20	16
Total equity instruments measured at fair value through other comprehensive income	**428**	**518**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	31 March 2020	31 December 2019
Lithuania	829	756
Romania	159	134
Latvia	157	149
Croatia	147	132
Ukraine	123	130
Indonesia	86	86
Columbia	83	83
Brazil	80	80
Bulgaria	78	74
Panama	76	74
Russia	72	70
Hungary	57	57
Dominican Republic	54	56
Philippines	52	59
Uruguay	52	50
Other	440 [1)]	453 [2)]
Total	**2,545**	**2,443**

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

[2)] The Other line item states: Australia, Azerbaijan, Bahrain, Belarus, Belgium, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, France, Germany, Ghana, Guatemala, Holland, Honduras, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Mexico, Mongolia, Morocco, Namibia, Nigeria, Oman, Paraguay, Peru, Republic of South Africa, Qatar, Saudi Arabia, Senegal, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, Uzbekistan, United Kingdom, United States, Vietnam.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations and local government units	31 March 2020	31 December 2019
Domestic local governments	5,938	6,199
Foreign banks	4,913	4,717
Companies from the WIG-Energy Index	1,946	2,375
Manufacturing	1,073	1,163
Financial and insurance services	903	761
National Bank of Poland	864	4,815
Energy and fuel sector companies (including: Companies from the WIG-Fuels Index)	654	651
Transportation and storage	605	615
Companies from the WIG-Banks Index	552	558
Construction and real estate market service	547	479
Professional, scientific and technical activity	412	410
Public utility services	407	410
Arts, entertainment and recreation (including: WIG - hotels and restaurants)	345	315
Mining and quarrying (including companies included in the WIG-Mining index)	327	353
Information and communication (including: WIG - Telecommunications)	269	201
Other	138	147
Total	**19,893**	**24,169**

(in millions of PLN)

8.23 Receivables

Receivables – carrying amount	31 March 2020	31 December 2019
Receivables on direct insurance, including:	2 682	2,727
- receivables from policyholders	2 546	2,591
- receivables from insurance intermediaries	81	112
- other receivables	55	24
Reinsurance receivables	68	58
Other receivables	3,916	2,952
- receivables from disposal of securities and security deposits [1)]	2,351	1,065
- receivables on account of payment card settlements	581	937
- trade receivables	230	249
Receivables from the state budget, other than corporate income tax receivables	133	169
- receivables by virtue of commissions concerning off-balance sheet products	179	153
- prevention settlements	42	47
- receivables from direct claims handling on behalf of other insurance undertakings	27	26
- receivables for acting as an emergency adjuster	13	13
- receivables on account of Corporate Income Tax	55	28
- receivables from security and bid deposits	39	39
- interbank and interbranch receivables	30	35
- refund from the KDPW Guarantee Fund	18	-
- other	218	191
Total receivables	**6,666**	**5,737**

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

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

(in millions of PLN)

8.24 Impairment of financial assets

Loan receivables from clients measured at amortized cost	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	170,284	17,609	10,980	6,054	204,927	159,612	16,069	7,855	7,165	190,701
Recognition of instruments at the time of acquisition, creation, granting	18,171	-	-	-	18,171	58,360	-	-	5	58,365
Change attributable to modification of cash flows concerning the given instrument	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Changes attributable to valuation, sale, exclusion or expiration of the instrument	(13,016)	(898)	(113)	(81)	(14,108)	(39,687)	(1,855)	(511)	(1,116)	(43,169)
Assets written down from the balance sheet	-	-	(353)	(5)	(358)	-	(50)	(1,015)	-	(1,065)
Reclassification to basket 1	3,431	(3,402)	(29)	-	-	6,125	(6,064)	(61)	-	-
Reclassification to basket 2	(5,832)	6,128	(296)	-	-	(11,063)	11,380	(317)	-	-
Reclassification to basket 3	(303)	(935)	1,238	-	-	(2,789)	(1,997)	4,786	-	-
Other changes, including foreign exchange differences	418	24	143	9	594	(272)	126	243	-	97
End of the period	**173,151**	**18,526**	**11,570**	**5,977**	**209,224**	**170,284**	**17,609**	**10,980**	**6,054**	**204,927**
Expected credit losses										
Beginning of the period	(800)	(1,321)	(5,247)	(4,315)	(11,683)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Establishment of allowances for newly acquired, created, granted instruments	(144)	-	-	-	(144)	(815)	-	-	(3)	(818)
Changes attributable to valuation, credit risk level, sale, exclusion or expiration of the instrument, excluding reclassification	148	(147)	(420)	3	(416)	1,007	(501)	(2,186)	452	(1,228)
Assets written down from the balance sheet	-	-	353	4	357	-	50	1,015	-	1,065
Reclassification to basket 1	(199)	189	10	-	-	(371)	347	24	-	-
Reclassification to basket 2	55	(131)	76	-	-	134	(238)	104	-	-
Reclassification to basket 3	14	184	(198)	-	-	132	224	(356)	-	-
Other changes, including foreign exchange differences	(3)	(97)	(171)	(1)	(272)	(17)	(14)	(247)	37	(241)
End of the period	**(929)**	**(1,323)**	**(5,597)**	**(4,309)**	**(12,158)**	**(800)**	**(1,321)**	**(5,247)**	**(4,315)**	**(11,683)**
Net carrying amount at the end of the period	**172,222**	**17,203**	**5,973**	**1,668**	**197,066**	**169,484**	**16,288**	**5,733**	**1,739**	**193,244**

(in millions of PLN)

Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	772	609	-	-	1,381	1,511	-	-	-	1,511
Recognition of instruments at the time of acquisition, creation, granting	99	-	-	-	99	571	-	-	-	571
Change in measurement	50	41	-	-	91	-	(6)	-	-	(6)
Changes attributable to sale, exclusion or expiration of the instrument	-	(5)	-	-	(5)	(686)	(16)	-	-	(702)
Reclassification to basket 2	-	-	-	-	-	(624)	624	-	-	-
Other changes	(5)	(10)	-	-	(15)	-	7	-	-	7
End of the period	**916**	**635**	**-**	**-**	**1,551**	**772**	**609**	**-**	**-**	**1,381**
Expected credit losses										
Beginning of the period	(4)	(17)	-	-	(21)	(14)	-	-	-	(14)
Establishment of allowances for newly acquired, created, granted instruments	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(2)	1	-	-	(1)	2	(9)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	-	-	-	-	-	3	-	-	-	3
Reclassification to basket 2	-	-	-	-	-	8	(8)	-	-	-
Other changes	1	(1)	-	-	-	(1)	-	-	-	(1)
End of the period	**(6)**	**(17)**	**-**	**-**	**(23)**	**(4)**	**(17)**	**-**	**-**	**(21)**

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

Debt investment financial assets measured at amortized cost	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	35,614	368	34	-	36,016	34,657	35	33	2	34,727
Recognition of instruments at the time of acquisition, creation, granting	7,167	-	-	-	7,167	9,538	-	-	-	9,538
Change in measurement	278	-	-	-	278	683	-	-	-	683
Changes attributable to sale, exclusion or expiration of the instrument	(3,290)	(7)	-	-	(3,297)	(9,112)	-	-	(2)	(9,114)
Reclassification to basket 2	-	-	-	-	-	(332)	332	-	-	-
Other changes, including foreign exchange differences	73	(1)	-	-	72	180	1	1	-	182
End of the period	**39,842**	**360**	**34**	**-**	**40,236**	**35,614**	**368**	**34**	**-**	**36,016**
Expected credit losses										
Beginning of the period	(33)	(19)	(34)	-	(86)	(35)	(7)	(33)	-	(75)
Establishment of allowances for newly acquired, created, granted instruments	(3)	-	-	-	(3)	(6)	-	-	-	(6)
Changes attributable to valuation or credit risk level (excluding reclassification)	(11)	-	-	-	(11)	(4)	(3)	-	-	(7)
Changes attributable to sale, exclusion or expiration of the instrument	3	-	-	-	3	5	-	-	-	5
Reclassification to basket 2	-	-	-	-	-	9	(9)	-	-	-
Other changes, including foreign exchange differences	(1)	-	-	-	(1)	(2)	-	(1)	-	(3)
End of the period	**(45)**	**(19)**	**(34)**	**-**	**(98)**	**(33)**	**(19)**	**(34)**	**-**	**(86)**
Net carrying amount at the end of the period	**39,797**	**341**	**-**	**-**	**40,138**	**35,581**	**349**	**-**	**-**	**35,930**

(in millions of PLN)

Value of allowances for expected credit losses concerning buy-sell-back transactions is zero.

Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount										
Beginning of the period	54,537	156	-	-	54,693	38,142	73	-	-	38,215
Recognition of instruments at the time of acquisition, creation, granting	38,923	-	-	-	38,923	203,057	-	-	-	203,057
Change in measurement	392	(16)	-	-	376	725	(5)	-	-	720
Change attributable to modification of cash flows concerning the given instrument	(5)	-	-	-	(5)	(8)	-	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	(45,567)	-	-	-	(45,567)	(187,893)	-	-	-	(187,893)
Reclassification to basket 1	10	(10)	-	-	-					
Reclassification to basket 2	(27)	27	-	-	-	(87)	87	-	-	-
Other changes, including foreign exchange differences	268	(2)	-	-	266	601	1	-	-	602
End of the period	**48,531**	**155**	**-**	**-**	**48,686**	**54,537**	**156**	**-**	**-**	**54,693**
Expected credit losses										
Beginning of the period	(41)	(2)	-	-	(43)	(37)	(3)	-	-	(40)
Establishment of allowances for newly acquired, created, granted instruments	(3)	-	-	-	(3)	(18)	-	-	-	(18)
Changes attributable to valuation or credit risk level (excluding reclassification)	(19)	(2)	-	-	(21)	(1)	2	-	-	1
Changes attributable to sale, exclusion or expiration of the instrument	4	-	-	-	4	14	-	-	-	14
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
End of the period	**(59)**	**(4)**	**-**	**-**	**(63)**	**(41)**	**(2)**	**-**	**-**	**(43)**

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

(in millions of PLN)

Term deposits with credit institutions	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	1,455	1	-	-	1,456	2,770	1	9	-	2,780
Recognition of instruments at the time of acquisition, creation, granting	34,546	-	-	-	34,546	228,598	-	-	-	228,598
Change in measurement	9	-	-	-	9	4	-	-	-	4
Changes attributable to sale, exclusion or expiration of the instrument	(33,921)	-	-	-	(33,921)	(229,902)	-	-	-	(229,902)
Other changes, including foreign exchange differences	(27)	(1)	-	-	(28)	(15)	-	(9)		(24)
End of the period	**2,062**	**-**	**-**	**-**	**2,062**	**1,455**	**1**	**-**	**-**	**1,456**
Expected credit losses										
Beginning of the period	(2)	-	-	-	(2)	(2)	-	(9)	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(4)	-	-	-	(4)	(6)	-	-	-	(6)
Changes attributable to variations in measurement of instruments or credit risk level (excluding reclassification)	2	-	-	-	2	-	-	-	-	-
Changes attributable to valuation or credit risk level (excluding reclassification)	2	-	-	-	2	2	-	-	-	2
Other changes, including foreign exchange differences	2	-	-	-	2	4	-	9	-	13
End of the period	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
Net carrying amount at the end of the period	**2,062**	**-**	**-**	**-**	**2,062**	**1,453**	**1**	**-**	**-**	**1,454**

(in millions of PLN)

Loans	1 January – 31 March 2020					1 January - 31 December 2019				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,517	-	-	-	4,517	4,595	-	-	-	4,595
Recognition of instruments at the time of acquisition, creation, granting	293	-	-	-	293	547	-	-	-	547
Change in measurement	66	-	-	-	66	14	-	-	-	14
Changes attributable to sale, exclusion or expiration of the instrument	(691)	-	-	-	(691)	(577)	(61)	-	-	(638)
Reclassification to basket 2	-	-	-	-	-	**(61)**	**61**	**-**	**-**	**-**
Other changes	-	-	-	-	-	**(1)**	**-**	**-**	**-**	**(1)**
End of the period	**4,185**	**-**	**-**	**-**	**4,185**	**4,517**	**-**	**-**	**-**	**4,517**
Expected credit losses										
Beginning of the period	(27)	-	-	-	(27)	(60)	-	-	-	(60)
Establishment of allowances for newly acquired, created, granted instruments	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Changes attributable to valuation or credit risk level (excluding reclassification)	(6)	-	-	-	(6)	33	(2)	-	-	31
Changes attributable to sale, exclusion or expiration of the instrument	5	-	-	-	5	1	3	-	-	4
Reclassification to basket 2	-	-	-	-	-	1	(1)	-	-	-
End of the period	(30)	-	-	-	(30)	**(27)**	**-**	**-**	**-**	**(27)**
Net carrying amount at the end of the period	**4,155**	**-**	**-**	**-**	**4,155**	**4,490**	**-**	**-**	**-**	**4,490**

Receivables	1 January – 31 March 2020	1 January – 31 December 2019
Gross carrying amount		
Beginning of the period	6,825	7,282
Changes in the period	946	(457)
End of the period	**7,771**	**6,825**
Expected credit losses		
Beginning of the period	(1,088)	(939)
Changes in the period	(17)	(149)
End of the period	**(1,105)**	**(1,088)**
Net carrying amount at the end of the period	**6,666**	**5,737**

8.25 Fair value

8.25.1. Description of valuation techniques

8.25.1.1. Debt securities and loans

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

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

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

8.25.1.2. Equity-based financial assets

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

8.25.1.3. Participation units and investment certificates of mutual funds

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

8.25.1.4. Derivatives

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

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

8.25.1.5. Loan receivables from clients

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

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

8.25.1.6. 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.

Property measured at fair value is valuated by licensed appraisers. The acceptance of each such measurement is additionally preceded by a review conducted by PZU Group 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.

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

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

8.25.1.8. Liabilities under deposits

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

8.25.1.9. Other liabilities

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

8.25.2. Fair value hierarchy

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

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

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

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

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

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Equity instruments not quoted on an active market		Quotations of financial services, current value of future forecast profit or loss of the company or measurement models based on available market data.	

8.25.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	29,930	11,936	7,248	49,114	32,595	15,555	7,061	55,211
Equity instruments	177	-	251	428	271	1	246	518
Debt securities	29,753	11,936	6,997	48,686	32,324	15,554	6,815	54,693
Investment financial assets measured at fair value through profit or loss	6,104	4,644	304	11,052	4,985	4,996	286	10,267
Equity instruments	488	3	219	710	613	6	226	845
Participation units and investment certificates	113	4,228	19	4,360	111	4,690	19	4,820
Debt securities	5,503	413	66	5,982	4,261	300	41	4,602
Loan receivables from clients	-	-	1,783	1,783	-	-	1,624	1,624
Measured at fair value through other comprehensive income	-	-	1,551	1,551	-	-	1,381	1,381
Measured at fair value through profit or loss	-	-	232	232	-	-	243	243
Financial derivatives	8	6,714	64	6,786	4	2,985	118	3,107
Investment property	-	154	1,893	2,047	-	153	1,828	1,981
Liabilities								
Derivatives	11	6,973	34	7,018	3	2,947	68	3,018
Liabilities to members of consolidated mutual funds	-	106	-	106	-	90	-	90
Investment contracts for the client's account and risk *(unit-linked)*	-	226	-	226	-	259	-	259
Liabilities on borrowed securities (short sale)	417	-	-	417	293	-	-	293

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 31 March 2020	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehen-sive income	through profit or loss	
Beginning of the period	**246**	**6,815**	**226**	**19**	**41**	**118**	**68**	**1,381**	**243**	**1,828**
Purchase/opening of the position/granting	5	128	-	-	254	1	1	100	-	16
Reclassification from Level II [1)]	-	411	-	-	15	-	-	-	-	-
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	296
Gains or losses through profit or loss	-	43	(22)	-	(1)	(42)	(29)	6	2	(5)
- interest income calculated using the effective interest rate	-	42	-	-	-	-	-	6	2	-
- other net investment income	-	-	-	-	-	(1)	-	-	-	-
- result on derecognition of financial instruments and investments	-	1	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(22)	-	(1)	(41)	(29)	-	-	(5)
Profit or loss recognized in other comprehensive income	-	(227)	-	-	-	-	-	(17)	-	-
Sales/settlements/repayments	-	(159)	-	-	(243)	(13)	(6)	81	(13)	
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(256)
Reclassification to Level II	-	(14)	-	-	-	-	-	-	-	-
Amendments to lease agreements	-	-	-	-	-	-	-	-	-	14
Foreign exchange differences	-	-	15	-	-	-	-	-	-	-
End of the period	**251**	**6,997**	**219**	**19**	**66**	**64**	**34**	**1,551**	**232**	**1,893**

[1)] Information on restatements is presented in item 8.25.6.

(in millions of PLN)

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

[1] Information on restatements is presented in item 8.25.6.

(in millions of PLN)

8.25.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2020				31 December 2019			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured by the equity method					-	-	-	-
Loan receivables from clients measured at amortized cost	-	-	195,703	195,703	-	-	193,964	193,964
Investment financial assets measured at amortized cost	29,525	4,274	22,036	55,835	26,032	2,149	21,742	49,923
Debt securities	29,525	1,540	13,148	44,213	26,032	1,123	12,674	39,829
Buy-sell-back transactions	-	1,771	3,582	5,353	-	738	3,326	4,064
Term deposits with credit institutions	-	963	1,104	2,067	-	288	1,168	1,456
Loans	-	-	4,202	4,202	-	-	4,574	4,574
Liabilities								
Liabilities to banks	-	1,258	6,393	7,651	-	897	5,728	6,625
Liabilities to clients under deposits	-	-	228,475	228,475	-	-	219,233	219,233
Liabilities on the issue of own debt securities [1)]	-	5,424	2,517	7,941	-	6,700	2,667	9,367
Subordinated liabilities [1)]	-	2,792	3,871	6,663	-	2,766	4,014	6,780
Liabilities on account of repurchase transactions	-	492	3	495	-	599	-	599

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

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

In the 3-month period ended 31 March 2020 and in 2019, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the consolidated financial statements.

8.25.6. Reclassification between fair value hierarchy levels

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

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

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

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

The COVID-19 pandemic indirectly contributed to increased volatility on financial markets and reduced liquidity in some market segments, in particular corporate and municipal securities. This resulted in reclassification of some assets to lower fair value levels.

(in millions of PLN)

In the 3-month period ended 31 March 2020, the following reclassifications of assets between fair value levels was made:

- reclassification from Level III to Level II was effected with respect to municipal bonds, for which the impact exerted by estimated credit parameters on the measurement was immaterial.
- reclassification from Level II to Level III was effected with respect to corporate and municipal bonds, for which the estimated credit parameters exerted material impact on the measurement, treasury bonds, for which the estimated spread exerted 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 about prices of comparable financial instruments.

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

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

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

In the 3-month period ended 31 March 2020, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.27 Assets held for sale

Assets held for sale by classification before transfer	31 March 2020	31 December 2019
Groups held for sale	**425**	**475**
Assets	461	504
Investment property	413	454
Receivables	8	9
Deferred tax assets	5	6
Cash and cash equivalents	30	34
Other assets	5	1
Liabilities related directly to assets classified as held for sale	36	29
Deferred tax liability	12	6
Other liabilities	13	11
Liabilities for borrowings	4	5
Other financial liabilities	6	6
Other provisions	1	1
Other assets held for sale	**76**	**76**
Property, plant and equipment	33	33
Investment property	43	43
Assets and groups of assets held for sale	**537**	**580**
Liabilities related directly to assets classified as held for sale	**36**	**29**

The “Investment property” line item and the “Groups held for sale” section presented mainly the properties held by real estate sector mutual funds as held for sale, since the expected investment horizon has been reached.

(in millions of PLN)

8.28 Share capital

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

All the Shares have been fully paid for.

As at 31 March 2020 and 31 December 2019

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

The structure of PZU's shareholders and information on transactions with material blocks of PZU shares are presented in section 2.

8.29 Distribution of the parent company's profit

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

8.30 Technical provisions

Technical provisions	31 March 2020 gross	31 March 2020 reinsurers' share	31 March 2020 net	31 December 2019 gross	31 December 2019 reinsurers' share	31 December 2019 net
Technical provisions in non-life insurance	**24,846**	**(1,886)**	**22,960**	**24,457**	**(1,856)**	**22,601**
Provision for unearned premiums	8,937	(797)	8,140	8,765	(856)	7,909
Provision for unexpired risk	16	-	16	14	-	14
Provisions for outstanding claims and benefits	9,871	(869)	9,002	9,676	(785)	8,891
- for reported claims	3,498	(755)	2,743	3,414	(670)	2,744
- for claims not reported (IBNR)	4,244	(88)	4,156	4,210	(90)	4,120
- for claims handling expenses	2,129	(26)	2,103	2,052	(25)	2,027
Provision for the capitalized value of annuities	6,019	(220)	5,799	5,999	(215)	5,784
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Technical provisions in life insurance	**22,334**	**-**	**22,334**	**22,872**	**-**	**22,872**
Provision for unearned premiums	105	-	105	106	-	106
Life insurance provision	16,344	-	16,344	16,346	-	16,346
Provisions for outstanding claims and benefits	608	-	608	622	-	622
- for reported claims	161	-	161	167	-	167
- for claims not reported (IBNR)	441	-	441	449	-	449
- for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	7	-	7	6	-	6
Other technical provisions	206	-	206	214	-	214
Unit-linked provision	5,064	-	5,064	5,578	-	5,578
Total technical provisions	**47,180**	**(1,886)**	**45,294**	**47,329**	**(1,856)**	**45,473**

8.31 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 31 March 2020 (PLN million)	Carrying amount 31 December 2019 (PLN million)
Liabilities classified as PZU's equity						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,259	2,279
Liabilities classified as Pekao's equity						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,267	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	559	554
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	203	201
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	354	351
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 4 June 2031	405	401
Liabilities classified as Alior Bank's equity						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	222	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	193	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	149	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	612	605
Meritum Bank B series bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	46	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	153	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	152	150
Subordinated liabilities					**6,714**	**6,700**

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

8.32 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 March 2020	31 December 2019
Bonds	2,942	3,976
Certificates of deposit	3,564	3,940
Covered bonds	1,363	1,357
Total liabilities on the issue of own debt securities	**7,869**	**9,273**

(in millions of PLN)

8.33 Liabilities to banks

Liabilities to banks	31 March 2020	31 December 2019
Current deposits	935	412
One-day deposits	681	419
Term deposits	42	41
Loans received	5,525	5,427
Other liabilities	439	305
Total liabilities to banks	**7,622**	**6,604**

8.34 Liabilities to clients under deposits

Liabilities to clients under deposits	31 March 2020	31 December 2019
Current deposits	164,816	151,417
Term deposits	62,146	66,414
Other liabilities	772	757
Total liabilities to clients under deposits	**227,734**	**218,588**

(in millions of PLN)

8.35 Other liabilities

Other liabilities	31 March 2020	31 December 2019
Liabilities measured at fair value	**749**	**642**
Liabilities on borrowed securities (short sale)	417	293
Investment contracts for the client's account and risk (unit-linked)	226	259
Liabilities to members of consolidated mutual funds	106	90
Financial liabilities measured at amortized cost	**10,488**	**9,734**
Accrued expenses	1,514	1,979
Accrued expenses of agency commissions	381	390
Accrued payroll expenses	214	217
Accrued reinsurance expenses	219	706
Accrued employee bonuses	376	367
Other	324	299
Deferred revenue	346	322
Other liabilities	8,628	7,433
Liabilities on account of repurchase transactions	495	599
Lease liabilities	1,129	1,066
Liabilities due under transactions on financial instruments	1,177	905
Liabilities to banks for payment documents cleared in interbank clearing systems	1,116	1,096
Liabilities on direct insurance	956	892
Liabilities on account of payment card settlements	304	408
Regulatory settlements	371	289
Liabilities for contributions to the Bank Guarantee Fund	647	356
Reinsurance liabilities	604	197
Estimated non-insurance liabilities	84	161
Liabilities to employees	62	47
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	65	69
Trade liabilities	483	258
Current income tax liabilities	401	352
Liabilities to the state budget other than for income tax	129	182
Liabilities on account of donations	20	23
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	14	12
Insurance Indemnity Fund	14	15
Liabilities for reimbursement of loan costs	106	106
Liabilities to the State Fire Service and Voluntary Fire Service	16	6
Liabilities for direct claims handling	28	29
Other	407	365
Total other liabilities	**11,237**	**10,376**

(in millions of PLN)

8.36 Other provisions

Movement in other provisions in the period ended 31 March 2020	Beginning of the period	Increase	Utilization	Dissolution	Other changes	End of the period
Provisions for guarantees and sureties given	358	115	-	(60)	3	416
Provision for disputed claims and potential liabilities	80	2	(11)	-	-	71
Provision of potential refunds of borrowing costs	254	-	(120)	-	-	134
Provision for legal risk pertaining to mortgage loans in Swiss francs	22	-	-	(1)	-	21
Provision for the Office of Competition and Consumer Protection penalties	85	-	-	-	-	85
Provision for restructuring expenses	34	144	(22)	-	-	156
Other	34	2	(5)	-	-	31
Total other provisions	**867**	**263**	**(158)**	**(61)**	**3**	**914**

Movement in other provisions in the period ended 31 December 2019	Beginning of the period	Increase	Utilization	Dissolution	Other changes	End of the period
Provisions for guarantees and sureties given	316	331	-	(289)	-	358
Provision for disputed claims and potential liabilities	67	48	(26)	(12)	3	80
Provision of potential refunds of borrowing costs	-	272	(18)	-	-	254
Provision for legal risk pertaining to mortgage loans in Swiss francs	-	22	-	-	-	22
Provision for the Office of Competition and Consumer Protection penalties	85	-	-	-	-	85
Provision for restructuring expenses	20	85	(78)		7	34
Other	31	16	(8)	(5)	-	34
Total other provisions	**519**	**774**	**(130)**	**(306)**	**10**	**867**

Provision of potential refunds of borrowing costs

On 11 September 2019, the CJEU judgment in case C-383/18 was published. In its ruling, the CJEU stated that Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC should be interpreted as meaning that the consumer's right to reduce the total cost of credit in the event of an early repayment includes all costs that have been imposed on the consumer.

The Court ruled unambiguously that a credit prepayment entitles the consumer to a reduction in all costs included in the total cost of credit. However, the judgment did not specify the method of calculation of such a reduction in respect of non-recurring costs, such as commissions and preparation fees.

The formula approved by the President of UOKiK and the Financial Ombudsman for the settlement of credit costs with borrowers is the so-called linear formula whereby a pro rata approach is adopted based on the period between the actual loan repayment date and the repayment date specified in the loan agreement and requires that any non-recurring cost be broken down on a pro rata basis across all payment periods. However, due to the absence of legal regulations in this respect, the practice in such situations may vary.

In connection with the CJEU judgment, the PZU Group has estimated the effects of the legal risk resulting from early repayment of consumer loans made before the date of the CJEU judgment and recognized a provision in the amount of PLN 134 million as at 31 March 2020. Its amount corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. The estimation of the provision has required adoption of a number of expert assumptions and entails a significant uncertainty following from, among others, the short observation period and the difficult to estimate volatility of the observed trends pertaining to the number and amounts of lodged complaints. For this reason the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

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

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

The CJEU ruling provides general guidance for Polish common 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 this point, there is no established line of rulings in cases pertaining to CHF mortgage loans, which is confirmed by frequently contradictory rulings of common courts and legal queries asked to CJEU and Supreme Court aimed at dispelling the courts’ doubts.

Considering the increasing numbers of lawsuits pertaining to CHF mortgage loans observed in the banking sector and the lack of consistency in the line of rulings pertaining to such loans, the PZU Group has estimated a provision for the legal risk associated with CHF mortgage loan agreements in the total amount of PLN 59 million as at 31 March 2020, out of which PLN 21 million for exposures that have already been repaid as at the balance sheet date (which is posted to “Other provisions”) and PLN 38 million of exposures outstanding as at the balance sheet date, recognized as an element of allowances for expected credit losses and impairment losses in financial instruments.

The amount of the provision for pending disputable cases is determined on the basis of legal opinions pertaining to assessment of the CHF mortgage loan agreement templates and on a case-by-case assessment (for each statement of claim) of the risk of losing the given case in court, taking into account the nature of the claims and the possible financial effects.

In addition, as at 31 March 2020, the PZU Group estimated the portfolio provision for future possible statements of claim, whose value is based on an assessment of the legal risk. Calculating the provision amount, the PZU Group estimates the value of the portfolio for which future statements of claim may be filed challenging the loan agreement, the probability of losing future court cases, and the possible financial effects of losing court cases, taking into account the possibility of:

- invalidating the entire CHF mortgage loan agreement as a result of recognizing the indexation clause as abusive,
- recognizing the clauses contained in the loan agreement as abusive clauses resulting in determining the loan balance in PLN and leaving the loan interest rate based on the LIBOR rate (the so-called currency conversion of a CHF loan agreement),
- recognizing the indexation clause as abusive and replacing it with the average NBP exchange rate,
- dismissing the statement of claim.

Considering the inconsistent line of rulings pertaining to CHF mortgage loans and the relatively short, for court proceedings, period for which historical data is available for court cases associated with such loans, the estimation of the provision required making expert assumptions by the PZU Group and entailed a significant uncertainty. The PZU Group will monitor the impact of the CJEU ruling on the directions of decisions made by Polish courts, the market practice and the behaviors of borrowers, and will update all assumptions made in the provisioning process.

Provisions for guarantees and sureties given

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

(in millions of PLN)

Provision for the Office of Competition and Consumer Protection penalties

The amount of PLN 57 million pertains to the penalty imposed on PZU in the proceedings of the President of the Office of Competition and Consumer Protection. Additional information on this matter is presented in section 22.2.

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case the PZU Group has not recognized the revenue on account of the refunded resources but recognized a provision.

Provision for restructuring expenses

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

The Pekao Management Board intends to terminate employment contracts with a maximum of 1,200 employees and modify employment conditions for a maximum of 1,350 employees in the period from 13 March 2020 to 31 October 2020, while Pekao can take a unilateral decision to extend the process by no more than 5 months.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs and the restructuring of the branch network has been estimated at PLN 144 million and the restructuring provision in this amount has been recognized for this purpose.

The remaining balance is made up of:

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

8.37 Notes to the consolidated statement of cash flows

Movement in liabilities attributable to financial activities in the period ended 31 March 2020	Beginning of the period	Changes resulting from cash flows	Accruals and interest payments as well as settlements of discount and premium	Foreign exchange differences	Other changes	End of the period
Loans received	5,427	(242)	2	338	-	5,525
Liabilities on the issue of debt securities	9,273	(1,437)	12	21	-	7,869
Bonds	3,976	(1,041)	7	-	-	2,942
Certificates of deposit	3,940	(384)	5	3	-	3,564
Covered bonds	1,357	(12)	-	18	-	1,363
Subordinated liabilities	6,700	(29)	40	3	-	6,714
Liabilities on account of repurchase transactions	599	(104)	-	-	-	495
Lease liabilities	1,066	(71)	19	-	115	1,129
Total financial liabilities	**23,065**	**(1,883)**	**73**	**362**	**115**	**21,732**

(in millions of PLN)

Movement in liabilities attributable to financial activities in the period ended 31 December 2019	Beginning of the period	Recogni-tion of lease liabilities (IFRS 16)	Changes resulting from cash flows	Accruals and interest payments as well as settlements of discount and premium	Foreign exchange differences	Change in the composi-tion of the Group	Other changes	End of the period
Loans received	4,386	-	938	6	33	53	11	5,427
Liabilities on the issue of debt securities	12,009	-	(2,828)	103	(1)	-	(10)	9,273
Bonds	5,922	-	(2,022)	74	2	-	-	3,976
Certificates of deposit	4,542	-	(631)	29	-	-	-	3,940
Covered bonds	1,545	-	(175)	-	(3)	-	(10)	1,357
Subordinated liabilities	6,061	-	453	176	-	10	-	6,700
Liabilities on account of repurchase transactions	540	-	55	4	-	-	-	599
Liabilities for borrowings	-	-	(5)	-	-	5	-	-
Lease liabilities	10	1,301	(297)	(24)	(1)	23	54	1,066
Total financial liabilities	**23,006**	**1,301**	**(1,684)**	**265**	**31**	**91**	**55**	**23,065**

9. Assets securing receivables, liabilities and contingent liabilities

Assets securing liabilities and contingent liabilities include primarily mortgage-backed bonds and receivables (in the case of mortgage bond issues) and cash deposits (in the case of coverage of the Settlement Guarantee Fund for the National Depository for Securities). The table presents the carrying amount of the collateral, by type of secured liability.

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2020	31 December 2019
Carrying amount of financial assets pledged as collateral for liabilities	8,622	10,522
Repurchase transactions	495	598
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	933	938
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	147	122
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	307	302
Lombard and technical credit	3,779	5,758
Other loans	704	709
Issue of covered mortgage bonds	1,924	1,872
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	48	33
Derivative transactions	285	190
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Total financial assets pledged as collateral for liabilities and contingent liabilities	**8,622**	**10,522**

(in millions of PLN)

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2020	31 December 2019
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	58,298	59,437
- for renewable limits in settlement accounts and credit cards	10,346	10,603
- for loans in tranches	29,228	29,867
- guarantees and sureties given	9,764	9,782
- disputed insurance claims	649	773
- other disputed claims	212	212
- other, including:	8,099	8,200
- guaranteeing securities issues	3,616	3,636
- factoring	3,317	3,300
- intra-day limit	364	339
- letters of credit and commitment letters	621	732
- other	181	193

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

In the 3-month period ended 31 March 2020 and 2019, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

11. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2020, gross written premium was PLN 6,097 million compared to PLN 5,901 million in the same period last year (+3.3%). The increase in sales applied above all to the following:

- growth of sales of unit-linked insurance products offered jointly with the banks;
- ADD and other insurance, driven by growth of the insurance portfolio offered in strategic partnership in TUW PZUW, and by growth of insurance sales offered in cooperation with the PZU Group's banks as an addition to mortgage loans and cash loans and provision of an insurance cover for physicians and medical personnel against COVID-19 infection;
- growth of the group health product portfolio;
- active upsales of insurance riders in individually continued products.

The increases were partially offset by lower premiums in motor insurance resulting among others from persistently strong price pressure and lower sales of insurance offered by leasing companies.

Investment income including interest expenses in Q1 2020 and Q1 2019 was: PLN 1,371 million and PLN 2,493 million, respectively. A decline in investment income generated in banking activity and net of banking activity. In banking activity, the lower result was caused in particular by the recognition in Q1 2020 of an additional provision for the anticipated deterioration of credit portfolio quality in Pekao and a negative effect of the CJEU judgment in the matter of consumer loans. The effect was partially offset by the increase in the volume of loans to clients.

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

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

Net claims and benefits (including the movement in technical provisions) were PLN 3,281 million, or 17.1% less than in the same period last year. The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, the lower investment result on most unit-linked product portfolios compared to the results generated last year and lower payments of benefits in protection products;
- lower loss ratio in the portfolio of insurance against fire and other damage to property – in the corresponding period of 2019 there were several high value claims, including claims on inward reinsurance of TUW PZUW, which reduced the result by nearly PLN 28 million, as well as claims due to gusty wind.

On the other hand, net claims and benefits increased in the non-motor insurance portfolio, in particular in general liability insurance – in the corresponding period of 2019 claims and benefits were lower in the medical center insurance portfolio.

In Q1 2020 acquisition expenses rose by PLN 42 million relative to the same period last year. The increase was driven mainly by a change in the structure of products and sales channels in PZU.

PZU Group's administrative expenses in Q1 2020 totaled PLN 1,679 million compared to PLN 1,620 million in the corresponding period of 2019, or they were PLN 59 million higher than in the previous year.

Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) increased by PLN 14 million (+1.2%). The key contributor were Pekao's personnel costs. At the same time, the administrative expenses of the insurance segments in Poland were PLN 30 million higher compared to the previous year. This change largely resulted from higher personnel costs in connection with the wage pressure on the market.

In Q1 2020, the balance of other operating income and expenses was negative and amounted to PLN 1,466 million compared with the also negative balance for 2019 of PLN 1,012 million. The following factors had an impact on this result:

- non-recurring effect of an impairment loss on the goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million;
- lower fees paid to the Bank Guarantee Fund falling from PLN 515 million in Q1 2019 to PLN 339 million in 2020 due to the lower fee for forced reorganization;
- recognition of a restructuring provision in Pekao;
- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in Q1 2020 was PLN 291 million compared to PLN 285 million in the previous year.

Operating profit in Q1 2020 was PLN 656 million, down by PLN 833 million (-55.9%) compared to the result in the same period last year. This movement resulted in particular from:

- lower investment income as a result of a decrease in the result on listed equities, in connection with worse economic conditions caused by the COVID-19 pandemic;
- higher profitability of the mass insurance segment (+PLN 31 million) driven by the lower loss ratio in non-motor insurance, including a lower level of losses caused by weather events;
- higher underwriting result in the corporate insurance segment (+PLN 21 million) due to improved profitability in the motor insurance portfolio, higher income on investments allocated to the segment, while the sales level was about the same and the loss ratio increased in the property insurance portfolio;
- higher profitability in group and individually continued insurance (+PLN 102 million) with a growing health insurance portfolio as a result of a decrease in the loss ratio on certain risks in the group protection portfolio and higher operating expenses;
- slightly higher result on individual insurance (+PLN 3 million) due to the expanding insurance portfolio, mainly bancassurance, with higher operating expenses;
- lower results in the banking activity segment (-PLN 682 million), among others in connection with the impairment loss on the goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million, recognition in Q1 2020 of an additional provision for projected deterioration of credit portfolio quality in Pekao in the amount of approximately PLN 200 million and a negative effect of the CJEU judgment on consumer loans. These effects were partially offset by lower payments to the Bank Guarantee Fund in Q1 2020.

Net profit fell relative to Q1 2019 by PLN 723 million (-71.4%) to PLN 289 million. The net profit attributable to shareholders of the parent company was PLN 116 million, compared to PLN 747 million in 2019 (down 84.5%).

As at 31 March 2020, consolidated equity according to IFRS was PLN 39,642 million compared to PLN 38,548 million as at 31 March 2019. Growth pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity attributable to the parent company (ROE[3]) for the period from 1 January 2020 to 31 March 2020 was 2.9%, down 16.6 p.p. from the same period last year. In comparison with consolidated equity as at 31 December 2019, equity climbed PLN 354 million. The value of non-controlling interests increased compared to the end of the previous year by PLN 324 million to reach PLN 23,443 million, its movement driven by the result attributable to non-controlling shareholders of PLN 173 million (generated by Alior Bank and Pekao), a decrease in the valuation of debt and an increase in hedging derivatives measured at fair value through other comprehensive income. Equity attributable to the parent company's shareholders rose by PLN 30 million compared to the end of the previous year, as an effect of the net result attributable to the parent company earned in Q1 2020 in the amount of PLN 116 million, lower valuation of debt instruments and an increase in hedging derivatives measured at fair value through other comprehensive income.

Total equity and liabilities as at 31 March 2020 increased compared to 31 December 2019 by PLN 13,875 to PLN 357,215 million. The increase pertained mainly to the liabilities to clients under deposits item (+PLN 9,146 million).

The investment portfolio[4] as at 31 March 2020, excluding the impact of the banking business, was PLN 49,558 million compared to PLN 49,689 million as at and 31 December 2019. The change in the value of the investment portfolio was due to the lower valuation of mainly equity instruments constituting coverage of investment products, which was partially offset by the increased premium receipts in the beginning of the year and the investment result. Loan receivables as at 31 March 2020 were PLN 198,849 million compared to PLN 194,868 million as at 31 December 2019.

The largest component of equity and liabilities at the end of Q1 2020 were liabilities to clients under deposits accounting for 63.8%. They increased by PLN 9,146 million to PLN 227,734 million driven by current deposits from clients. At the same time, liabilities to banks, including current deposits, also went up.

The value of technical provisions at the end of Q1 2020 was PLN 47,180 million and accounted for 13.2% of total equity and liabilities. Compared to 31 December 2019, provisions fell by PLN 149 million. This change resulted primarily from the following:

- lower provisions in unit-linked life insurance products due to the negative result on investment activity;
- an increase in the provision for unearned premiums in non-life insurance resulting from expanding insurance sales;

12. Capital management

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

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

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

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

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;

[3] Annualized ratio

[4] The investment portfolio contains investment financial assets (including investment products), investment properties (including the part presented in the category of assets held for sale) financial derivatives along with the negative valuation derivatives and liabilities arising from repurchase transactions.

- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below:

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

External capital requirements

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

Pursuant to Article 412 section 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2019 report published on 28 May 2020 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to Article 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2019 published in the PZU Group's 2019 solvency and financial condition report was 245%.

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

13. Segment reporting

13.1 Reportable segments

13.1.1. 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 corporate 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 insurance, investment insurance (which are not investment contracts) and health insurance products.	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 insurance, investment insurance (which are not investment contracts) and health insurance products.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues

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

13.1.2. 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.

13.2 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.

13.3 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 less the result allocated to insurance segments and adjusted for dividends received from subsidiaries and valuation of subsidiaries by the equity method (conducted 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.

13.4 Accounting policies applied according to PAS

13.4.1. PZU

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

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

13.4.2. PZU Życie

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

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

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

13.5 Simplifications in the segmental note

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

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

(in millions of PLN)

13.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	666	670
Gross written premium – cross-segment	7	1
Gross written premiums	**673**	**671**
Movement in provision for unearned premiums and gross provision for unexpired risks	101	55
Gross earned premium	**774**	**726**
Reinsurers' share in gross written premium	(124)	(49)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(49)	(76)
Net earned premium	**601**	**601**
Investment income, including:	43	25
external operations	43	25
intersegment operations	-	-
Other net technical income	23	9
Income	**667**	**635**
Net insurance claims and benefits	(386)	(382)
Movement in other net technical provisions	-	-
Acquisition expenses	(129)	(125)
Administrative expenses	(36)	(30)
Reinsurance commissions and profit participation	10	10
Other	(20)	(23)
Insurance result	**106**	**85**

Mass insurance (non-life insurance)	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	2,755	2,683
Gross written premium – cross-segment	7	4
Gross written premiums	**2,762**	**2,687**
Movement in provision for unearned premiums and gross provision for unexpired risks	(220)	(161)
Gross earned premium	**2,542**	**2,526**
Reinsurers' share in gross written premium	(9)	(35)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(13)	13
Net earned premium	**2,520**	**2,504**
Investment income, including:	170	120
external operations	170	120
intersegment operations	-	-
Other net technical income	34	48
Income	**2,724**	**2,672**
Net insurance claims and benefits	(1,529)	(1,548)
Movement in other net technical provisions	-	-
Acquisition expenses	(492)	(475)
Administrative expenses	(166)	(152)
Reinsurance commissions and profit participation	(1)	-
Other	(115)	(107)
Insurance result	**421**	**390**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	1,759	1,733
Gross written premium – cross-segment	-	-
Gross written premiums	**1,759**	**1,733**
Movement in the provision for unearned premiums	(1)	(1)
Gross earned premium	**1,758**	**1,732**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**1,758**	**1,732**
Investment income, including:	25	176
external operations	25	176
intersegment operations	-	-
Other net technical income	1	1
Income	**1,784**	**1,909**
Net insurance claims and benefits and movement in other net technical provisions	(1,121)	(1,364)
Acquisition expenses	(97)	(90)
Administrative expenses	(158)	(151)
Other	(10)	(8)
Insurance result	**398**	**296**

Individual insurance (life insurance)	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	416	327
Gross written premium – cross-segment	-	-
Gross written premiums	**416**	**327**
Movement in the provision for unearned premiums	2	3
Gross earned premium	**418**	**330**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**418**	**330**
Investment income, including:	(267)	192
external operations	(267)	192
intersegment operations	-	-
Other net technical income	1	-
Income	**152**	**522**
Net insurance claims and benefits and movement in other net technical provisions	(22)	(406)
Acquisition expenses	(39)	(31)
Administrative expenses	(20)	(17)
Other	(1)	(1)
Insurance result	**70**	**67**

(in millions of PLN)

Investments	1 January – 31 March 2020	1 January – 31 March 2019
Investment income, including:	(142)	157
- external operations	(161)	140
- intersegment operations	19	17
Operating result	**(142)**	**157**

Banking activity	1 January – 31 March 2020	1 January – 31 March 2019 (restated)
Revenue from commissions and fees	975	932
- external operations	946	910
- intersegment operations	29	22
Investment income	2,111	2,297
- external operations	2,111	2,297
- intersegment operations	-	-
Income	**3,086**	**3,229**
Fee and commission expenses	(235)	(175)
Interest expenses	(463)	(490)
Administrative expenses	(1,227)	(1,213)
Other	(1,222) [1)]	(730)
Operating result	**(61)**	**621**

[1)] including impairment loss on goodwill (in the amount of PLN 516 million) arising from the acquisition of Alior Bank. Additional information on this matter is presented in section 8.16.1.

Pension insurance	1 January – 31 March 2020	1 January – 31 March 2019
Investment income, including:	1	1
external operations	1	1
intersegment operations	-	-
Other income	47	32
Income	**48**	**33**
Administrative expenses	(9)	(12)
Other	(1)	(1)
Operating result	**38**	**20**

(in millions of PLN)

Insurance - Baltic States	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	423	416
Gross written premium – cross-segment	-	-
Gross written premiums	**423**	**416**
Movement in provision for unearned premiums and gross provision for unexpired risks	9	(16)
Gross earned premium	**432**	**400**
Reinsurers' share in gross written premium	(33)	(28)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	19	14
Net earned premium	**418**	**386**
Investment income, including:	(27)	14
external operations	(27)	14
intersegment operations	-	-
Income	**391**	**400**
Net insurance claims and benefits	(234)	(247)
Acquisition expenses	(86)	(81)
Administrative expenses	(35)	(31)
Other	1	1
Insurance result	**37**	**42**

Insurance - Ukraine	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium – external	79	71
Gross written premium – cross-segment	-	-
Gross written premiums	**79**	**71**
Movement in provision for unearned premiums and gross provision for unexpired risks	6	(7)
Gross earned premium	**85**	**64**
Reinsurers' share in gross written premium	(27)	(20)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	(2)
Net earned premium	**58**	**42**
Investment income, including:	16	8
external operations	16	8
intersegment operations	-	-
Income	**74**	**50**
Net insurance claims and benefits	(26)	(19)
Acquisition expenses	(31)	(25)
Administrative expenses	(8)	(7)
Other	9	6
Insurance result	**18**	**5**

(in millions of PLN)

Investment contracts	1 January – 31 March 2020	1 January – 31 March 2019
Gross written premium	9	10
Movement in the provision for unearned premiums	-	-
Gross earned premium	**9**	**10**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**9**	**10**
Investment income, including:	(29)	8
external operations	(29)	8
intersegment operations	-	-
Other income	-	-
Income	**(20)**	**18**
Net insurance claims and benefits and movement in other net technical provisions	22	(16)
Acquisition expenses	-	-
Administrative expenses	(1)	(1)
Other	-	-
Operating result	**1**	**1**

Other segments	1 January – 31 March 2020	1 January – 31 March 2019
Investment income, including:	1	-
- external operations	1	-
- intersegment operations	-	-
Other income	312	264
Income	**313**	**264**
Costs	(331)	(276)
Other	5	3
Operating result	**(13)**	**(9)**

(in millions of PLN)

Reconciliations 1 January 2020 - 31 March 2020	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	601	43	(386)	(129)	(36)	106
Mass insurance	2,520	170	(1,529)	(492)	(166)	421
Group and individually continued insurance	1,758	25	(1,121)	(97)	(158)	398
Individual insurance	418	(267)	(22)	(39)	(20)	70
Investments	-	(142)	-	-	-	(142)
Banking activity	-	2,111	-	-	(1,227)	(61) [1]
Pension insurance	-	1	-	(1)	(9)	38
Insurance - Baltic States	418	(27)	(234)	(86)	(35)	37
Insurance - Ukraine	58	16	(26)	(31)	(8)	18
Investment contracts	9	(29)	22	-	(1)	1
Other segments	-	1	-	-	-	(13)
Total segments	**5,782**	**1,902**	**(3,296)**	**(875)**	**(1,660)**	**873**
Presentation of investment contracts	(9)	30	(22)	-	-	-
Estimated salvage and subrogation	-	-	(2)	-	-	(2)
Valuation of equity instruments	-	(4)	-	-	-	(4)
Measurement of properties	-	-	-	-	-	2
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(5)
Charges for the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [2]	(11)	(72)	39	40	(9)	(198)
Consolidated data	**5,762**	**1,856** [3]	**(3,281)**	**(835)**	**(1,679)**	**656**

[1] including impairment loss on goodwill (in the amount of PLN 516 million) arising from the acquisition of Alior Bank. Additional information on this matter is presented in section 8.16.1.

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

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

(in millions of PLN)

Reconciliations 1 January 2019 - 31 March 2019 (restated)	**Net earned premium**	**Investment income**	**Net insurance claims and benefits paid**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	601	25	(382)	(125)	(30)	85
Mass insurance	2,504	120	(1,548)	(475)	(152)	390
Group and individually continued insurance	1,732	176	(1,364)	(90)	(151)	296
Individual insurance	330	192	(406)	(31)	(17)	67
Investments	-	157	-	-	-	157
Banking activity	-	2,297	-	-	(1,213)	621
Pension insurance	-	1	-	(1)	(12)	20
Insurance - Baltic States	386	14	(247)	(81)	(31)	42
Insurance - Ukraine	42	8	(19)	(25)	(7)	5
Investment contracts	10	8	(16)	-	(1)	1
Other segments	-	-	-	-	-	(9)
Total segments	**5,605**	**2,998**	**(3,982)**	**(828)**	**(1,614)**	**1,675**
Presentation of investment contracts	(11)	(5)	16	-	-	-
Estimated salvage and subrogation	-	-	(1)	-	-	(1)
Valuation of equity instruments	-	4	-	-	-	4
Measurement of properties	-	-	-	-	(1)	-
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(13)
Consolidation adjustments [1]	(2)	21	9	35	(5)	(176)
Consolidated data	**5,592**	**3 018**[2]	**(3,958)**	**(793)**	**(1,620)**	**1,489**

[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".

	1 January – 31 March 2020					**1 January – 31 March 2019**				
	Poland	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Un-allocated**	**Consolidated value**
Gross written premium – external	5,595	423	79	-	6,097	5,414	416	71	-	5,901
Gross written premium – cross-segment	6	-	-	(6)	-	3	-	-	(3)	-
Revenue from commissions and fees	1,019	-	-	-	1,019	961	-	-	-	961
Investment income [1]	1,867	(27)	16	-	1,856	2,996	14	8	-	3,018

[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)

	31 March 2020					31 December 2019				
	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value	Poland	Baltic States	Ukraine	Un-allocated	Consoli-dated value
Non-current assets, other than financial assets [1]	7,033	266	6	-	7,305	7,069	247	6	-	7,322
Deferred tax assets	2,409	-	3	-	2,412	2,310	-	3	-	2,313
Assets	354,912	3,101	600	(1,398)	357,215	341,327	2,877	596	(1,460)	343,340

13.7 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).

14. Commentary to segment reporting and investing activity

14.1 Corporate insurance – non-life insurance

In Q1 2020, in the corporate insurance segment, gross written premium increased by PLN 2 million (+0.3% y/y) as compared to Q1 2019. The following factors were recorded concerning premiums:

- upswing in the premium for ADD and other insurance (+84.4% y/y), mainly as a result of developing the portfolio of insurance products offered as part of the strategic partnership in TUW and higher premiums in cargo insurance;
- increase in sales of insurance against fire and other damage to property (+4.0% y/y) and general liability insurance as a result of acquiring more high-value agreements;
- drop in premium on motor insurance (-14.3% y/y) driven by continuing strong price pressure and lower sales of insurance offered by leasing companies (due to slower sales of new vehicles and worse financial condition of companies in the transport sector).

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	673	671	0.3%
Net earned premium	601	601	0.0%
Investment income	43	25	72.0%
Net insurance claims and benefits	(386)	(382)	1.0%
Acquisition expenses	(129)	(125)	3.2%
Administrative expenses	(36)	(30)	20.0%
Reinsurance commissions and profit-sharing	10	10	0.0%
Other	3	(14)	X
Insurance result	**106**	**85**	**24.7%**
acquisition expenses ratio (including reinsurance commission)[1]	19.8%	19.1%	0.7 p.p.
administrative expense ratio [1]	6.0%	5.0%	1.0 p.p.
loss ratio [1]	64.2%	63.6%	0.6 p.p.
combined ratio (COR) [1]	90.0%	87.7%	2.3 p.p.

[1] Ratios calculated using net earned premium

Net insurance claims and benefits increased by 1.0% while net earned premium was retained, translating into deterioration in the loss ratio by 0.6 percentage points. A higher loss ratio in the segment was driven by the following factors:

- higher loss ratio in the portfolio of non-motor insurance products, including general liability insurance – in the corresponding period of 2019 claims and benefits were lower in the medical center insurance portfolio.

(in millions of PLN)

- decline of the loss ratio in the motor insurance group, both motor TPL and Motor Own Damage (MOD), mainly as a result of a lower frequency of reported losses (impact of restrictions in domestic and international traffic introduced due to the pandemic). This effect was partially offset by the observed growth in the average claim value, occurrence of a high unit value event and the impact of PLN depreciation against EUR on losses in foreign currencies.

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

Acquisition expenses (net of reinsurance commissions) in the corporate insurance segment increased by PLN 4 million, or 3.2% as compared to Q1 2019, mainly due to a change in the product mix (high percentage of insurance of large and medium-sized property with a simultaneous slower growth of motor TPL sales, which command lower commission rates).

The increase in administrative expenses by 20% (PLN 6 million) y/y resulted primarily from higher personnel costs (driven mainly by salary pressures from the market) and IT costs (costs of license fees).

After Q1 2020, the corporate insurance segment generated an underwriting result of PLN 106 million, signifying a 24.7% increase compared to the same period last year. The increase was due to improved profitability in the motor insurance portfolio and higher income on investments allocated to the segment, while the sales level was about the same and the loss ratio increased slightly in the property insurance portfolio.

14.2 Mass insurance – non-life insurance

In Q1 2020, gross written premium in the mass insurance segment rose PLN 75 million (+2.8% y/y) compared to the corresponding period of 2019. This growth resulted primarily from:

- upswing in premium from ADD and other insurance products (+24.9% y/y), driven by growth of insurance sales offered in cooperation with the Group's banks as an addition to mortgage loans and cash loans and provision of an insurance cover for physicians and medical personnel against COVID-19 infection;
- lower gross written premium in motor TPL insurance (1.4% y/y) as a result of the higher average premium coupled with a decrease in the number of insurance products;
- higher sales of insurance against fire and other damage to property, including insurance of apartments and crops.

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	2,762	2,687	2.8%
Net earned premium	2,520	2,504	0.6%
Investment income	170	120	41.7%
Net insurance claims and benefits	(1,529)	(1,548)	(1.2%)
Acquisition expenses	(492)	(475)	3.6%
Administrative expenses	(166)	(152)	9.2%
Reinsurance commissions and profit-sharing	(1)	-	X
Other	(81)	(59)	37.3%
Insurance result	**421**	**390**	**7.9%**
acquisition expenses ratio (including reinsurance commission)[1)]	19.6%	19.0%	0.6 p.p.
administrative expense ratio [1)]	6.6%	6.1%	0.5 p.p.
loss ratio [1)]	60.7%	61.8%	(1.1) p.p.
combined ratio (COR) [1)]	86.8%	86.9%	(0.1) p.p.

[1)] Ratios calculated using net earned premium

Net insurance claims and benefits fell 1.2%, which when coupled with net earned premium being up 0.6%, translates into the loss ratio improving by 1.1 percentage points.

This change resulted mainly from the following:

- lower loss ratio in the group of insurance against fire and other damage to property – in the corresponding period of 2019 there were numerous losses caused by fires and gusty wind;

- deterioration of the loss ratio in motor insurance, driven by a higher loss ratio in the TPL portfolio and a lower loss ratio in Motor Own Damage after earned premium fell faster than claims and benefits paid, despite the much lower frequency of claims reported in March 2020 (as a result of restrictions in domestic and international traffic introduced due to COVID-19).

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

In Q1 2020, acquisition expenses in the mass insurance segment were PLN 492, up PLN 17 million (+3.6%) from the corresponding period last year, which considering the increase in net earned premium by 0.6%, represented a 0.6 p.p. deterioration in the acquisition expense ratio. The driver of this change in the level of acquisition expenses was the higher level of direct acquisition expenses due to the shift in the mix of products and sales channels (lower growth of sales of motor TPL insurance characterized by lower commission rates).

The increase in administrative expenses by 9.2% (PLN 14 million) y/y resulted primarily from higher personnel costs (driven mainly by salary pressures from the market) and IT costs (costs of license fees).

The increase in the insurance result in the mass insurance segment by PLN 31 million (+7.9%) relative to Q1 2019 was driven primarily by the lower loss ratio in non-motor insurance (lower level of losses caused by weather events) and higher investment income.

14.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 26 million (1.5%) higher than in the corresponding period last, which resulted primarily from:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of March 2020, PZU Życie had more than 2.1 million in force contracts of this type. In the current quarter, the continued insurance rider called “PZU orthopedic injury” continued its successful run. In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland. The insurance posted a record gross written premium in the current period; moreover seven out of ten insureds enrolling in individual continuation also selected this rider;
- active up-selling of insurance riders in other individually continued products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements. Besides the rider stated above, in Q4 2018 PZU Życie rolled out a rider covering a myocardial infarction or stroke to provide financial support when these types of events occur, while in Q3 2019 insurance to safeguard the policyholder in the event of permanent bodily injury or broken bones in the form of a cash benefit and access to medical services, These agreements enjoyed increasing interest of clients, contributing to premium growth.

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

(in millions of PLN)

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	1,759	1,733	1.5%
Group insurance (periodic premium)	1,248	1,228	1.6%
Individually continued insurance (periodic premium)	511	505	1.2%
Net earned premium	1,758	1,732	1.5%
Investment income	25	176	(85.8)%
Net insurance claims and benefits and movement in other net technical provisions	(1,121)	(1,364)	(17.8)%
Acquisition expenses	(97)	(90)	7.8%
Administrative expenses	(158)	(151)	4.6%
Other	(9)	(7)	28.6%
Insurance result	**398**	**296**	**34.5%**
Insurance result net of the conversion effect	**394**	**291**	**35.4%**
acquisition expense ratio [1)]	5.5%	5.2%	0.3 p.p.
administrative expense ratio [1)]	9.0%	8.7%	0.3 p.p.
insurance margin net of the conversion effect [1)]	22.4%	16.8%	5.6 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated according to transfer prices and income on investment products. In the group and individually continued insurance segment, investment income fell, mainly due to the lower results on unit-linked products, especially Employee Pension Schemes, as a result of a decline in market conditions due to the COVID-19 pandemic. Income allocated according to transfer prices increased slightly as a result of a higher level of technical provisions in protection insurance products, partially offset by lower interest rates.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 1,121 million, which signifies a y/y decline of PLN 243 million, or 17.8%. This change was driven in particular by the following:

- a decrease in technical provisions in Employee Pension Plans (PPE, a third pillar retirement security product) compared to an increase in the previous year, due to lower investment results this year, coupled with a stable level of client withdrawals from and higher level of client contributions to accounts of unit-linked insurance funds;
- lower benefits paid in group protection insurance products mainly under hospitalization and surgical operation, permanent disability and dismemberment riders, which could result partly from the lower activity associated with the pandemic and changes in client behavior with respect to the channels used to report claims;
- lower value of benefits related to deaths of insureds and co-insureds in continued insurance, which is correlated with the frequency of these events in the overall population in accordance with the data published by the Central Statistical Office (GUS);
- lower than last year increase in mathematical provisions in continued products as a result of the change in the percentage of "old" and "new" continuation among the persons joining and remaining in the insured portfolio – in "new" continuation the unit cost of setting up mathematical provisions for future benefit payments is lower; additionally, the level of new insureds in the portfolio is lower than last year.

The foregoing effects were partially offset by the following:

- rising value of medical benefits in health products in proportion to the dynamic growth in this portfolio of contracts;
- this year's higher disbursements of benefits in the portfolio of bank protection products, which was linked to higher unit benefits;
- the lower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, in Q1 2020, provisions were released for PLN 4 million, PLN 1 million less than in the corresponding period of 2019.

Acquisition expenses in the group and individually continued insurance segment in Q1 2020 were PLN 97 million, increasing by PLN 7 million (7.8%) relative to last year. The main contributor to the growth of this item was the reorganization and development costs of the sales network and modification of the remuneration system in the agency network.

(in millions of PLN)

The increase in administrative expenses by 4.6% (PLN 7 million) y/y resulted primarily from higher personnel costs (driven mainly by salary pressures from the market), IT costs (higher amortization of computer software related to implementation of projects and license fees) and higher costs of servicing life products.

Operating profit in the group and individually continued insurance segment in Q1 2020 climbed compared to the corresponding period of 2019 by PLN 102 million (34.5%) to PLN 398 million. Operating profit, net of the conversion effect on long-term contracts into renewable term contracts in type P group insurance increased PLN 103 million y/y (35.4%). The results were positively impacted mainly by the falling loss ratio for certain risks in the group protection portfolio and the increasing investment income allocated by transfer prices, and were partially offset by growing operating costs.

14.4 Individual insurance - life insurance

The growth in gross written premium of PLN 89 million (27.2%) to PLN 416 million compared to Q1 2019 was the result of the following positive factors:

- higher payments to the accounts of unit-linked insurance funds in unit-linked products offered jointly with the banks;
- higher payments to other unit-linked insurance products, including under individual retirement accounts;
- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation on contracts remaining in the portfolio have outpaced the level of lapses;
- growth of the insured portfolio in protection products in the bancassurance channel, including in particular launch of sales of a new product together with Bank Pekao.

At the same time, the portfolio was adversely affected by the discontinuation in early 2020 of sales of a structured product offered in the own network.

Data from the profit and loss account – individual insurance	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	416	327	27.2%
Net earned premium	418	330	26.7%
Investment income	(267)	192	X
Net insurance claims and benefits and movement in other net technical provisions	(22)	(406)	(94.6)%
Acquisition expenses	(39)	(31)	25.8%
Administrative expenses	(20)	(17)	17.6%
Other	-	(1)	X
Insurance result	**70**	**67**	**4.5%**
acquisition expense ratio [1)]	9.4%	9.5%	(0.1) p.p.
administrative expense ratio [1)]	4.8%	5.2%	(0.4) p.p.
insurance margin [1)]	16.8%	20.5%	(3.7) p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it fell mainly due to the lower income on investment products as a result of worse conditions on financial markets in connection with the COVID-19 pandemic. Income allocated according to transfer prices were slightly lower as a result of the lower level of market prices in insurance products.

The amount of insurance claims and benefits together with the movement in other net technical provisions was PLN 22 million, reflecting an decrease in this item by PLN 384 million compared to the corresponding period of 2019. The change in the result generated on funds in investment products made a major contribution to this decrease. From the operational point of view, this factor was rather insignificant as it was offset by other relevant items of the profit and loss account. Negative developments also emerged in the unit-linked portfolio in cooperation with banks, where significantly more requests for surrender amount payments were recorded in the current period.

(in millions of PLN)

In Q1 2020, acquisition expenses in the individual insurance segment increased 25.8% to PLN 39 million. The higher costs resulted mainly from higher sales of protection insurance in the banking channel and the related increase in fees paid to intermediaries and the additional costs of sales support in the own network.

The increase in administrative expenses by 17.6% (PLN 3 million) y/y resulted primarily from higher personnel costs (driven mainly by salary pressures from the market). Cost discipline was maintained in other non-staff related areas of activity.

The segment's operating result increased compared to the previous year by PLN 3 million to PLN 70 million. The growth was driven mainly by the growing insurance portfolio, mainly in banking channels, which was partially offset by higher operating expenses and lower allocated investment income. The lower margin recorded by the segment was additionally affected by a change in the revenue mix towards a higher share of bancassurance products, which command lower margins than products sold through own channels.

14.5 Bank segment

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

In Q1 2020, the banking activity segment generated PLN 61 million in operating loss (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies a decrease of PLN 682 million compared to Q1 2019. The lower result is caused primarily by the non-recurring effect of an impairment loss on the goodwill arising from the acquisition of Alior Bank in the amount of PLN 516 million. The segment's result was additionally encumbered by additional loan provisions in Pekao and a significant impact of the CJEU judgment on the refund of costs upon early repayment of consumer loans.

Banking activity (m PLN)	1 January – 31 March 2020	1 January – 31 March 2019	% change
Revenues and expenses on account of fees and commissions	740	757	(2.2)%
Investment income	2,111	2,297	(8.1)%
Interest expenses	(463)	(490)	(5.5)%
Administrative expenses	(1,227)	(1,213)	1.2%
Other	(1,222)	(730)	67.4%
Total	**(61)**	**621**	**x**

In 2020, Pekao contributed PLN 334 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao S.A. acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 121 million.

Investment income, which amounted to PLN 2,111 million in Q1 2020 (down 8.1% y/y), is the key component of the segment's revenue. Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges. In Q1 2020, growth was posted in the level of sales of credit products y/y in Pekao and Alior Bank, among others, as a result of good business conditions continuing for the most part of the quarter and the low interest rate levels, which increased the level of credit receivables. At the same time, net interest income (interest income less interest expenses) posted by the banks decreased mainly in connection with the CJEU judgment in the matter of consumer loans; this decrease was partially offset by an increase in the volume of loans to their customers. At the end of Q1 2020, the credit portfolios of both banks rose by 6.2% as compared to Q1 2019, while the decline y/y in investment income was also affected by an additional provision of about PLN 200 million for projected deterioration of credit portfolio quality recognized in Q1 2020 in Pekao.

The profitability of the banks in the PZU Group in Q1 2019 measured by the net interest margin was 2.9% in Pekao and 4.3% in Alior Bank. The difference between them stems in particular from the mix of the loan receivables portfolio.

The net fee and commission income in the banking activity segment decreased 2.2% y/y to PLN 740 million. Administrative expenses in the segment totaled PLN 1,227 million, with Pekao's costs accounting for PLN 836 million and Alior Bank's costs accounting for PLN 391 million. The 1.2% y/y increase in costs was driven mainly by an increase in personnel costs in Pekao.

Moreover, the operating result was affected by other operating income and expenses, where the main item was the impairment loss on the goodwill arising from the acquisition of Alior Bank (PLN 516 million). Items contributing to expenses included fees to the Bank Guarantee Fund (PLN 339 million) and the levy on other financial institutions (PLN 211 million). The lower fees to the Bank Guarantee Fund (down by PLN 176 million y/y) was partially offset by the higher levy on financial institutions and recognition of the restructuring provision in Pekao.

(in millions of PLN)

As a result, the Cost/Income[5] ratio was 43% for the two banks. On a separate basis, the ratio is 44% for Pekao and 41% for Alior Bank.

14.6 Investments

Net investment result and interest expenses

The net investment result after factoring in interest expenses, excluding the Pekao and Alior Bank data and with consolidation adjustments, was lower than in the corresponding period last year by PLN 903 million, which was primarily due to the following drivers:

- lower investment income in the portfolio of assets to cover investment products by PLN 647 million, even though it does not affect the PZU Group's overall net result because it is offset by the change in net insurance claims and benefits.
- the temporary impact of the non-recognition of the increased value of investment properties due to the appreciation of EUR to PLN exchange rate, due to the 6-month procedure of preparation of expert appraisals, while the reduced value of FX derivatives hedging the value of properties has been recognized;
- lower result on listed equities, in particular due to worse market conditions as a result of the COVID-19 pandemic.

The above decreases were partially offset by the recognition of additional foreign exchange differences on portfolios measured in EUR and covering insurance liabilities, whose measurement is recognized by changes in net insurance claims and benefits.

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

The value of the investment portfolio[6] continues at the level similar to the end of last year, in connection with the deterioration of market conditions, partially offset by increased receipts from premiums at the beginning of the year.

Structure of the investment portfolio

Investment portfolio	31 March 2020	31 December 2019
Equity instruments, including:	5,047	5,697
Equity instruments - quoted	753	970
Equity instruments - unquoted	4,294	4,727
Debt instruments, including:	42,438	41,384
Debt market instruments - treasury	29,985	28,927
Debt market instruments - non-treasury	3,964	3,945
Reverse repo transactions and term deposits with credit institutions	4,334	4,022
Loans	4,155	4,490
Investment property	2,492	2,467
Derivatives (net value)	(383)	141
Liabilities on account of repurchase transactions	(36)	-
Total investment portfolio	**49,558**	**49,689**

[5] Cost/Income ratio (C/I; banking segment) – ratio of administrative expenses and sum of operating income, excluding: the impairment loss on the goodwill arising form the acquisition of Alior Bank, the BFG charge, the levy on other financial institutions and the movement in allowances for expected credit losses and impairment losses on financial instruments.

[6] The investment portfolio contains investment financial assets (including investment products), investment properties (including the part presented in the category of assets held for sale) financial derivatives along with the negative valuation derivatives and liabilities arising from repurchase transactions.

(in millions of PLN)

14.7 Pension insurance

Pension insurance	1 January – 31 March 2020	1 January – 31 March 2019	% change
Investment income	1	1	0.0%
Other income	47	32	46.9%
Income	**48**	**33**	**45.5%**
Administrative expenses	(9)	(12)	(25.0)%
Other	(1)	(1)	0.0%
Operating result	**38**	**20**	**90.0%**

Revenue on core business in the pension insurance segment in Q1 2020 and Q1 2019 was PLN 48 million and PLN 33 million, respectively. The increase in revenue by PLN 15 million resulted from settlement of the overpayment to the KDPW Guarantee Fund for Q1 2020.

PTE PZU's administrative expenses dropped by PLN 3 million y/y (-25.0%). The key driver was a change in mandatory payments to the KDPW Guarantee Fund, with costs of an additional payment to the Guarantee Fund posted in Q1 2019.

At the end of Q1 2020 the total net asset value of all open-end pension funds (OFEs) on the market was PLN 116.2 billion, down 28.2% from the end of March 2019. In the same period OFE PZU's assets fell by 31.5% to PLN 15.7 billion. In the period from January to March 2020 OFE PZU's rate of return was -27.0% as a result of worse market condition on capital markets in Poland and globally.

14.8 Baltic States

Data from the profit and loss account – Baltic States segment	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	423	416	1.7%
Net earned premium	418	386	8.3%
Investment income	(27)	14	(292.9)%
Net insurance claims and benefits	(234)	(247)	(5.3)%
Acquisition expenses	(86)	(81)	6.2%
Administrative expenses	(35)	(31)	12.9%
Other	1	1	0.0%
Insurance result	**37**	**42**	**(11.9)%**
EUR exchange rate in PLN	4.3963	4.2978	2.3%
acquisition expense ratio [1)]	20.6%	21.0%	(0.4) p.p.
administrative expense ratio [1)]	8.4%	8.0%	0.4 p.p.

[1)] Ratios calculated using net earned premium

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

The Lithuanian non-life insurance market share at the end of Q1 2020 was 27.5%; the life insurance market share was 6.3%. At the end of March, the market share in the Estonian market was 15.2%. As at the end of 2019, the market share in the Latvian market reached 28.4%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q1 2020 an insurance result of PLN 37 million compared to PLN 42 million at the end of March last year.

This result was driven by the following factors:

- an increase in gross written premium. It totaled PLN 423 million, up PLN 7 million (1.7%) compared to the corresponding period last year. In the functional currency, the premium was EUR 0.6 million lower – the EUR 1 million decrease in non-life insurance, mainly due to lower sales of TPL and MOD motor insurance and agricultural insurance was partially offset by higher sales of health insurance. In life insurance gross written premium rose EUR 0.4 million;

(in millions of PLN)

- lower investment income. After Q1 2020, as a result of lower valuation of investment assets, the investment result was negative (PLN -27 million), down PLN 41 million versus the corresponding period of the past year;
- lower value of net claims and benefits. They amounted to PLN 234 million and were 5.3% lower than in the first quarter of the previous year. The loss ratio in non-life insurance stood at 60.4%, down 1.4 p.p. from the end of March 2019. In life insurance, the decrease in provisions for client risk exceeded the amount of benefits paid.
- higher acquisition expenses. The segment's expenditures for this purpose were at PLN 86 million, up 6.2% from the corresponding period of the previous year. In turn, the acquisition expense ratio calculated based on net earned premium declined 0.4 p.p. compared to the end of Q1 of the previous year;
- increase in administrative expenses. They were PLN 35 million, increasing by 12.9% from the corresponding period last year. The administrative expense ratio increased; it was 8.4%, up 0.4 p.p. relative to the same period last year.

14.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	79	71	11.3%
Net earned premium	58	42	38.1%
Investment income	16	8	100.0%
Net insurance claims and benefits	(26)	(19)	36.8%
Acquisition expenses	(31)	(25)	24.0%
Administrative expenses	(8)	(7)	14.3%
Other	9	6	50.0%
Insurance result	**18**	**5**	**260.0%**
exchange rate UAH/PLN	0.1554	0.1388	12.0%
acquisition expense ratio [1)]	53.4%	59.5%	(6.1) p.p.
administrative expense ratio [1)]	13.8%	16.7%	(2.9) p.p.

[1)] Ratios calculated using net earned premium

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

The Ukrainian non-life insurance market share at the end of 2019 was 3.5%, while the life insurance market share was 11.3%.

The Ukraine segment closed Q1 2020 with an operating profit of PLN 18 million, compared to PLN 5 million after Q1 last year

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

- an increase in gross written premium. It totaled PLN 79 million, up PLN 8 million (11.3%) compared to the corresponding period last year. In the functional currency, gross written premium fell by UAH 5 million – non-life insurance sales decreased UAH 40 million compared to Q1 last year mainly due to lower premiums in tourist insurance required to applying for a Polish visa and in green card insurance products as a result of restrictions imposed on cross-border traffic. Life insurance sales increased by UAH 35 million, earned in cooperation with banks;
- higher investment income. It was PLN 16 million, up 8% from the corresponding period last year;
- increase in net costs of claims and benefits. They amounted to PLN 26 million and were 36.8% higher than in Q1 2019. The value of claims paid in non-life insurance increased PLN 2 million and in life insurance benefits rose PLN 5 million;
- higher acquisition expenses. They stood at PLN 31 million compared to PLN 25 million in Q1 last year. The growth in non-life insurance was equal to PLN 2 million, while in life insurance it was PLN 4 million.
- An increase in administrative expenses. They amounted to PLN 8 million. For comparison: they were PLN 7 million in the same period last year. The segment's administrative expense ratio went down 2.9 p.p. to 13.8%.

(in millions of PLN)

14.10 Investment contracts

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

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

Gross written premium generated on investment contracts after Q1 2020 decreased by PLN 1 million (-10.0%) to PLN 9 million, compared to the corresponding period in 2019. These changes stemmed chiefly from the drop-off of contributions to IKZE accounts after this product was withdrawn from the offer.

Data from the profit and loss account – investment contracts	1 January – 31 March 2020	1 January – 31 March 2019	% change
Gross written premiums	9	10	(10.0)%
Group insurance	-	-	x
Individual insurance	9	10	(10.0)%
Net earned premium	9	10	(10.0)%
Investment income	(29)	8	x
Net insurance claims and benefits and movement in other net technical provisions	22	(16)	x
Acquisition expenses	-	-	x
Administrative expenses	(1)	(1)	-
Other	-	-	x
Operating result	**1**	**1**	**-**
operating profit margin	11.1%	10.0%	1.1 p.p.

Income on investing activity in the investment contracts segment fell relative to the previous year, mainly as a result of a lower rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel.

The cost of insurance claims and benefits coupled with the movement in other net technical provisions fell y/y by PLN 38 million to PLN 22 million, mainly due to the difference in investment income in the unit-linked products as described above.

In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses were PLN 1 million and did not decrease year on year. The segment's operating result was PLN 1 million, remaining flat because of small changes in the contract portfolio in this segment.

15. Impact of non-recurring events on operating results

In Q1 2020, as a result of the performed impairment tests, the PZU Group decided to recognize an impairment loss on Alior Bank's goodwill in the amount of PLN 516 million.

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was lower in Q1 2020 by PLN 1 million in comparison with the comparable period of the previous year.

16. Changes in the economic situation and business conditions with material effect on the fair value of financial assets and liabilities

16.1 Macroeconomic environment

Gross domestic product

In the last quarter of 2019, GDP growth in Poland, as measured in constant prices, decelerated to 3.2% y/y compared to 4.0% y/y in the third quarter. [7]Even though the growth of household consumption slowed down, it still contributed most to GDP growth during this period, adding 1.6 p.p. on an annual basis. Thanks to a slight increase in investments in fixed assets, their contribution to GDP growth in Q4 was only slightly lower than that of individual consumption (they contributed 1.2 p.p.). On the other hand, the contribution of the change in material current assets was clearly negative, subtracting as much as 1.3 p.p. from GDP growth. Economic growth was visibly supported by net exports (which contributed 1.1 p.p.)[8].

The COVID-19 pandemic dramatically changed the economic situation globally. The economic activity data for the first two months of this year were better than expected in Poland, opening the possibility of a slight acceleration of GDP growth. However, as of 14 March, it became necessary to “freeze” the activity of a significant portion of trade and services in order to limit the upward trend in infections. Additionally, supply disruptions had an adverse effect on industrial production. As a result of this supply-demand shock, business activity decelerated rapidly on a scale never before seen in the Polish economy after the market transformation period.

In March this year, retail sales at constant prices were as much as 9% lower than one year earlier, with the greatest decreases recorded in entities trading in textiles, clothing, footwear, motor vehicles and fuels. As a result, over the entire first quarter of this year, retail sales increased by only 0.7% relative to the corresponding period last year. Seasonally-adjusted annual production sold by industry decreased in March (by 4.8%) for the first time in seven years, and in the entire first quarter it was only 1% higher than one year before in seasonally unadjusted terms (vs. 6.1% y/y growth in Q1 2019). Construction output was the least severely impacted by the pandemic-related disruption. In January-March of this year, it was 5.8% higher than last year.

According to quick estimates of the Central Statistical Office, the GDP growth rate in Q1 this year fell to 1.9% y/y. When adjusted for seasonality, the GDP growth decrease in Poland in Q1 (-0.5% vs. Q4 2019) was still lower than in the entire European Union, where GDP went down 3.3% as compared to Q4 2019).

Labor market and consumption

In the entire first quarter of this year, employment growth in the corporate sector decreased to 0.8% y/y compared to 2.3% y/y in Q4 2019. Companies reacted relatively quickly to the disruption caused by the pandemic. In March, despite favorable seasonal effects, the average headcount in the corporate sector decreased by 34 thousand FTEs. Nevertheless, the decrease in employment was not caused by redundancies only, but also by retirements, unpaid leaves, non-renewal of completed fixed-term contracts. Sickness and care benefits were collected more often than usual, which could also cause a decrease in employment recorded in statistical terms.

However, the registered unemployment rate fell already in March 2020 in line with the seasonal pattern to 5.4% compared to 5.6% in February and was 0.2 p.p. higher relative to the end of 2019. On both a monthly and annual basis, the number of job offers submitted to labor offices fell significantly in March.

The growth rate of average monthly salary in companies increased slightly in the first quarter (to 7% y/y in nominal terms vs. 5.8% y/y in Q4 2019) due to the high increase in minimum wages. In March, however, it was already lower than in January and

[7] data from the Central Statistical Office updated on 11 May this year

[8] data from the Statistical Bulletin of the Central Statistical Office of 24 April this year.

February. The increase in inflation adversely affected the purchasing power of salaries. In the first quarter of the year, salary growth in the corporate sector decreased in real terms to 2.5% y/y, compared to 3.0% y/y in the previous quarter.

Retail sales and consumption were strongly adversely affected by pandemic-related restrictions introduced in March. Consumer confidence indicators clearly deteriorated as well. In Q4 2019, household consumption climbed 3.3% y/y in real terms. Data on retail sales in Q1 indicate that the household consumption growth rate was much lower in that period.

Inflation, monetary policy, interest rates

Inflation measured by the Consumer Price Index (CPI) increased to 4.5% y/y in Q1, compared to 2.8% y/y in the previous quarter. This was driven by both increases in food prices (by 8.3% y/y in Q1 2020) and increases in regulated prices of electricity, excise tax on alcohol and tobacco products, and increases in waste disposal prices.

In 2020, the National Bank of Poland has already slashed the reference rate twice (in March and April 2020), each time by 50bps (100bps in total), and it currently stands at 0.50%. The Monetary Policy Council also decided to reduce the mandatory loan loss reserve rate for banks from 3.5% to 0.5%. The NBP also carried out operations supplying liquidity to banks through repo transactions, implemented large-scale purchases of treasury bonds and treasury-guaranteed bonds on the secondary market (including PFR and BGK bonds) supporting liquidity on that market. It also implemented bill of exchange loans for banks for the refinancing of new loans granted to business entities. These measures are designed to counteract the negative economic impact of the COVID-19 epidemic. The Council also believes that, in the long term, they will encourage recovery of domestic economic activity and in the medium term they will allow inflation to move towards the NBP inflation target.

Public finance

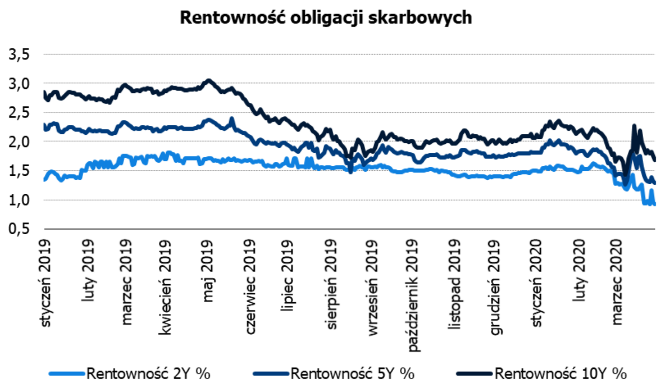
The deficit in the general government sector in 2019 was 0.7% of GDP versus 0.2% of GDP in 2018. The debt of this sector decreased to 46.0% of GDP in 2019 from 48.8% of GDP in 2018. According to the updated Convergence Program adopted in April 2020, the deficit of the general government sector will increase to 8.4% of GDP in 2020 and the sector's debt will rise to 55.2% of GDP in 2020. The increase in the deficit is associated with additional government spending on aid measures aimed at counteracting the negative effects of the epidemic.

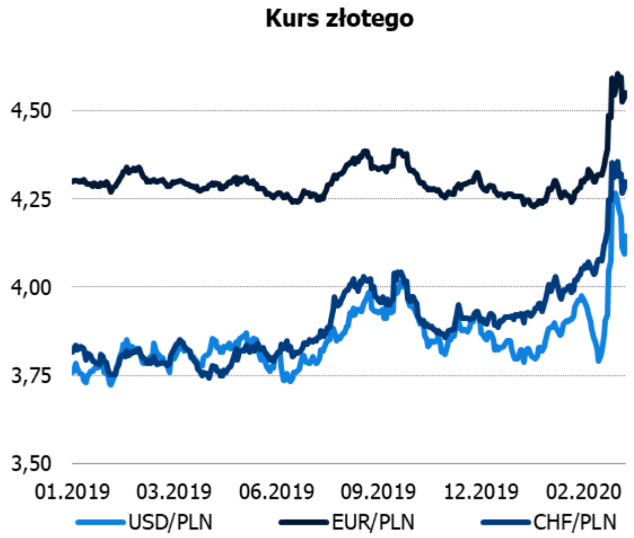
The state budget deficit in March of this year amounted to PLN 9.4 billion. This result is worse than one year ago when in the corresponding period the budget had a deficit of PLN 4.5 billion. The increase of this deficit is the outcome of the slower pace of growth in income and the faster pace of incremental growth in expenditures. The major categories of direct taxes, i.e. PIT and CIT demonstrated lower growth rates among the sources of income. The higher rate of spending was driven by, among other factors, the implementation of state social policy programs, such as the 500+ for the first child. The financing of the borrowing needs after the first quarter of 2020 (according to the State Budget Act) is approximately 87%. However, due to the COVID-19 epidemic outbreak, the borrowing needs for 2020 will increase significantly.

Situation on financial markets

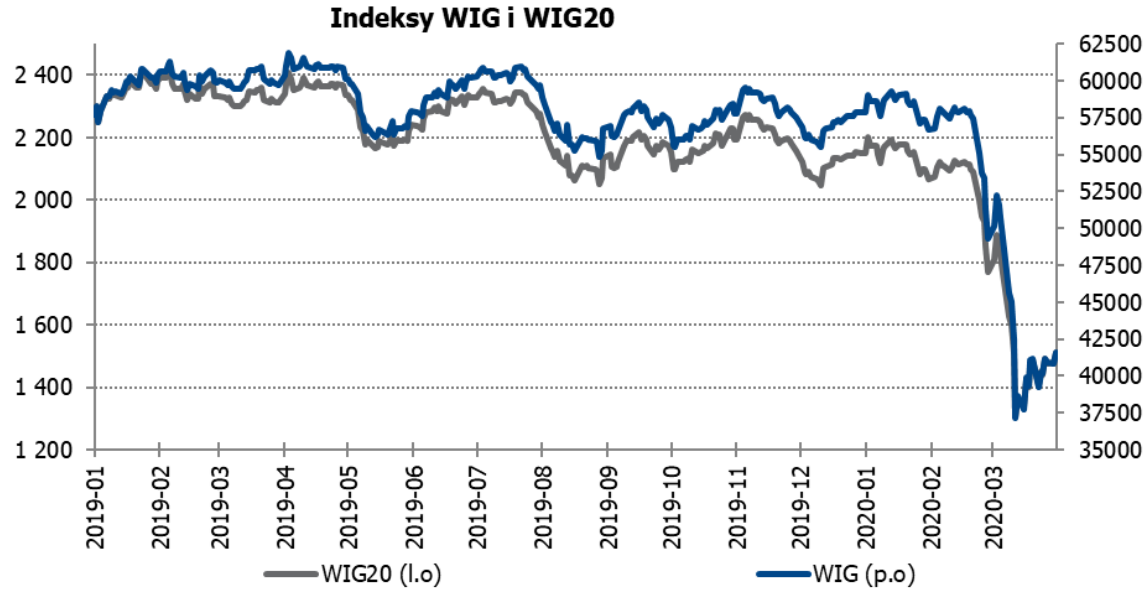
In Q1 2020, we observed a decrease in the yields of 10-year treasury bonds in the US and Germany. In the US yields fell from 1.91% at the end of 2019 to 0.70% at the end of the first quarter, setting the historical minimum (0.50%) on March 9th. In Germany, they fell from -0.19% at the year-end to -0.46% at the end of the quarter, setting their historical minimum at -0.84%, also on March 9th. In the US, the yield curve steepened in this period, and in Germany it flattened. The decline in long-term bond yields is due to concerns of a protracted recession due to the disruption caused by the COVID-19 pandemic. Reacting to the risk of a strong economic slowdown, the US central bank (Fed) slashed the base rate twice in Q1, by 50 and 100 bps respectively, to 0%. It also implemented a wide range of non-standard monetary policy instruments, which included, among others, the resumption of purchases of U.S. treasury bonds, but also corporate bonds. The ECB also adopted a considerable package of measures loosening the monetary policy, aimed at supporting the transmission of monetary policy and counteracting further deterioration of economic growth prospects. The ECB has not decided to cut interest rates, but it has extended significantly the scope of its asset purchase program.

In Q1 2020, the yield on 10-year Polish treasury bonds decreased from 2.07% at the end of 2019 to 1.69% at the end of the first quarter. The yield on one-year treasury bonds slid from 0.98% to 0.87%. The yield curve flattened. The spread versus 10-year German bonds that was 225 basis points at the beginning of the previous quarter, fell to 214 basis points at the end of the first quarter. The drop in yields was caused mainly by the reduction of the NBP interest rates and a decision to begin the purchase of bonds on the secondary market.





The euro to US dollar exchange rate decreased from 1.12 at the end of 2019 to 1.10 at the end of the first quarter. During the first quarter, the Polish zloty weakened in relation to other major currencies, in the context of widespread capital outflow from emerging markets and weakening of their currencies. The Euro to PLN exchange rate at the end of Q1 was 4.55 vis-à-vis 4.26 at the end of the previous quarter. The US dollar to PLN exchange rate at the end of March 2020 was 4.15, compared to 3.80 at the end of the previous quarter. In the same period, the Swiss franc exchange rate increased from 3.92 to 4.30.



In Q1 2020 global stock markets suffered steep declines, mainly in late February and March. In Q1 the American S&P500 stock index fell 20% while the German DAX index decreased 25%. In the first quarter, equity indices fell also on the Polish stock exchange. The WIG index dropped 28.0%, the WIG20 index fell 29.6%, the mWIG40 plunged 27.0% and the sWIG80 declined 14.8%. All sector indices were also adversely affected. In relative terms, the telecommunications and construction sectors performed the best and the clothing sector performed the worst.

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

The main risk factors are linked to the potential course of the COVID-19 pandemic, including a significant likelihood of its intensification in the northern hemisphere in Autumn, and the scale of the decline in economic activity in connection with the maintenance of the necessary restrictions in Poland and its trading partners. The effect of the pandemic was the most severe on the service sector; transport, commerce, restaurant and hotel services and the broadly defined culture and entertainment sector. Global supply chains have also been disrupted. It seems inevitable for Poland's GDP to fall by several percent in 2020 along with household consumption and for the situation on the labor market to deteriorate significantly. The additional risk factor is the extent the crisis will affect Poland's surrounding economies.

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

- GDP decrease in Poland, and consequently:
  - cuts in household and corporate spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for other life insurance products, in particular as a result of a reduction of benefits offered by companies;
  - a poorer financial standing of companies would result in an elevated credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
  - a slump in the rate of growth in new mortgage loans and a slower pace of growth in consumer loans;
- higher unemployment, lower employment and lower household income, despite the increase in the minimum wage in 2020;
- greater difficulty with maintaining the portfolio of insureds in group life insurance due to the expected increase in unemployment and suspensions/liquidation of companies in endangered industries; temporary decrease in sales, especially in unit-linked insurance due to financial risk and lower accessibility of bank branches;
- significant uncertainty about the future paramedical benefits in connection with the COVID-19 pandemic;

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

16.3 Impact of the COVID-19 pandemic

Operations of the PZU Group have been affected by the COVID-19 coronavirus disease pandemic, which reached Poland in March 2020.

In light of these new circumstances, the Polish government made a number of decisions, including:

- since 12 March 2020, all institutions of higher education, schools, preschools and nurseries have been closed as a preventive measure;
- since 15 March 2020, the Polish borders have been closed for air and rail traffic, passport controls have been imposed and only Polish citizens have been allowed to enter the country from abroad, provided that after crossing the border they go under a 14-day quarantine (these regulations have subsequently been extended until 13 April 2020), all stores except for grocery stores, drugstores and pharmacies have been closed;

- since 25 March 2020, new safety rules have been in place, including a ban on the movement of people, except for the performance of professional activities or business tasks and the fulfillment of necessary needs related to matters of everyday life, gatherings of more than 2 people have been banned, restrictions on the use of public transport and movement on foot have been imposed;
- since 1 April 2020, further restrictions have been introduced, including: limiting the number of customers in shops and service points to no more than three times the number of cash registers (twice the number of windows in the case of post offices), introducing an obligation for shoppers to wear protective gloves, suspension of activity of hairdresser, beauty and tattoo salons, mandatory closure of parks, boulevards and forests, allowing people under 18 years of age to be in public space with an adult carer only;
- since 16 April 2020 the obligation to cover mouth and nose with a mask, clothing or parts of it in public space was introduced for nearly all persons over 4 years of age.

On 16 April 2020, the Polish government announced that the restrictions will begin to be lifted gradually, in four stages of a specific scope. By the date of approval of this report, the liberalization defined in Stage I (16 April 2020), Stage II (4 May 2020) and Stage III (18 May 2020) have been introduced. Under these regulations, some restrictions affecting retail commerce were eased (maximum number of people per shop), parks, boulevards and forests were opened and people over 13 years of age were allowed to move without an adult; subsequently, shopping malls, hotels, museums, libraries were opened under a new sanitary regime; then catering, hairdressing and cosmetic facilities were opened under a strictly defined sanitary regime.

The situation has no precedent and its impact on the economy is enormous. The first sectors of the economy that have been affected the most are those that depend on the mobility of the population, such as the transport, hotel, tourist and retail trade sectors. As a result of this supply-demand shock, business activity decelerated rapidly on a scale never before seen in the Polish economy after the market transformation period.

Colossal economic uncertainty has emerged, manifesting itself in massive slumps in the prices of equities, increases in the yields of corporate debt instruments and depreciation of emerging economy currencies (including the Polish zloty), followed by persistently high volatility levels.

On 2 March 2020, the Sejm of the Republic of Poland adopted the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them (Journal of Laws of 2020, Item 374, as amended), forming an element of the so-called special statutes (legislation governing in a particular manner a specific field, usually due to the ineffectiveness of general regulations or administrative processes in the relevant area), which was subsequently amended on several occasions.

The Polish government, much like the governments of many other countries across the world, has announced the introduction of a government assistance plan („Anti-crisis Shield") the objectives of which include protection of jobs and provision of assistance to commercial undertakings.

Information on reduction of the NBP reference rate is presented in item 16.1 of the section entitled "Inflation, monetary policy, interest rates".

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

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

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

Activities associated with ensuring the safety of employees and clients of the PZU Group aimed at preventing new infections have resulted in additional costs.

Macroeconomic factors exert a strong impact on the PZU Group's growth and performance in the medium term – the most significant factors affecting the PZU Group are: the GDP growth rate, the level and rate of change in interest rates and the exchange rates.

The economic slowdown will have a delayed impact on the insurance area. The weaker GDP growth, the declines in consumption and industrial production will translate into lower demand for individual and corporate insurance.

As regards the non-life insurance portfolio, the following are some of the specific risks that have been identified:

- risk of the loss of liquidity and bankruptcies among clients, which may translate into defaults in the payment of insurance premiums;
- payment backlogs and a deteriorated ability to make payments may translate into a higher volume of claims paid under contract guarantees and all forms of payment insurance as well as materialization of risks related to business continuity insurance;
- medical TPL insurance, where client claims may appear;
- increase in claims handling expenses related to motor insurance, partly due to higher prices of imported spare parts as a result of the weaker Polish zloty.

At the same time, in motor insurance, the decrease in traffic caused by officially imposed restrictions on the movement of people translates into a lower risk, and in travel insurance the risk of payouts is limited by the provisions of the GTCI regarding the occurrence of a pandemic.

As regards the life insurance portfolio, the following are some of the specific risks that have been identified:

- increase in benefits due to the higher morbidity and mortality rates, the risk of lapses and an increase in surrenders of unit-linked insurance.
- risk of laps and increase of redemptions in unit-linked products.

In the investment area:

- lower interest rates will translate into the portfolio performance, because the return on a significant portion of debt assets directly depends on the level of interest rates (corporate bonds and loans, certain treasury bonds);
- in the longer term, as debt exposures acquired in the past with higher interest rates mature, the risk of reinvestment will increase;
- volatility in financial markets will have a limited impact on the PZU Group's results, because the Group, in anticipation of a deterioration in the financial markets, has prepared its portfolio for a slowdown ahead of time by significantly reducing its exposure to the most volatile assets;
- in the short term, the weaker Polish zloty should not significantly affect the results of those PZU Group companies that actively balance and hedge their currency positions (for the currency in question, liabilities correspond to assets).

In the banking area:

- the expected economic slowdown, the lower rate of growth of GDP, consumption, industrial output and investments, and the likely increase in unemployment will translate into weaker demand for bank loans;
- the challenging situation of households and enterprises will result in higher costs of credit risk (loan losses);
- the low interest rate environment will translate directly into lower net interest income generated by banks (their revenues will be reduced due to the lower NBP reference rate, because most loans are based on a variable interest rate; on the other hand, banks have limited options when it comes to reducing the costs of deposits, especially current ones, because their cost even before the rate cuts was already close to zero).
- the deterioration of the situation in the whole Polish banking sector may cause the need to launch sectoral initiatives (e.g. in respect of bad loan banks, forced restructuring of other banks, additional charges for the Bank Guarantee Fund), the costs of which will directly burden the whole sector.

The situation surrounding the spread of COVID-19 has been developing rapidly and its impact on PZU Group's financial standing is currently difficult to estimate. The PZU Group keeps monitoring on an ongoing basis how the changing environment affects all identified risks.

This notwithstanding, the PZU Management Board has evaluated the capacity of PZU Group companies to continue as a going concern, taking into account a number of factors, including: high solvency, potential impact of COVID-19 on the operating activity of PZU Group companies, including additional costs to be incurred, the planning of business continuity of PZU Group companies and their business partners, the structure of offered products and related risks, assessment of the liquidity and stability of funding, potential impairment of financial and non-financial assets, etc.

Based on its analysis, the PZU Management Board confirms its finding that there are no known material uncertainties arising from events or circumstances that might call into question the capacity of PZU Group companies to continue as a going concern during a period of at least 12 months following 31 December 2019.

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

PZU did not publish any standalone or consolidated result forecasts.

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

In the 3-month period ended 31 March 2020, neither PZU nor its subsidiaries made any significant issues, redemptions or repayments of debt securities or equity securities.

19. Default or breach of material provisions of loan agreements

During the 3-month period ended 31 March 2020, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 3-month period ended 31 March 2020, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

21. Dividends

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

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

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

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

On 28 April 2020, the PZU Supervisory Board endorsed the PZU Management Board's motion.

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

22. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance 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 of a typical and repetitive nature and usually no particular case is of material importance to the PZU Group.

The majority of disputes involving the PZU Group companies concerned four companies: PZU, PZU Życie, Pekao and Alior Bank. Additionally, PZU and PZU Życie are parties to proceedings conducted before the President of the Office of Competition and Consumer Protection.

Estimates of the provision amounts for individual cases take into account all information available on the date of publishing this periodic report; however, this figure may change in the future. Insurance companies take disputed claims into account in the process of recognizing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the amount likely to be awarded.

As at 31 March 2020, the total value of dispute in all 277,800 cases (as at 31 December 2019: 294,687 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,509 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,309 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,200 million (as at 31 December 2018: PLN 4,070 million) of receivables of PZU Group companies.

During the 3-month period ended 31 March 2020 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described below.

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2020, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

22.2 Proceedings conducted by the President of the Office of Competition and Consumer Protection against PZU

On 30 December 2011, the President of the Office of Competition and Consumer Protection ("UOKiK") issued a decision to impose a fine of PLN 57 million on PZU for its use of a practice restricting competition and violating the prohibition prescribed in Article 6 Section 1 Item 3 of the Act on Competition and Consumer Protection by the execution, by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker"), of an agreement restricting competition in the domestic market for sales of group ADD insurance for children, youths and staff of educational institutions consisting of dividing the sales market by entity and transferring PZU's clients from the Kujawsko-Pomorskie voivodship to Maximus Broker for the provision of services in exchange for their recommending PZU as the insurer of choice and at the same time prohibited PZU from the use of this alleged practice.

The PZU Management Board does not agree with the determination of facts and the legal argumentation in the decision, because not all the evidence was taken into account when making the decision and an erroneous legal qualification was made.

On 18 January 2012 PZU submitted an appeal against the aforementioned decision (as a result of which it did not become final). In its appeal, PZU indicated the following, among other issues:

- no agreement (other than a brokerage agreement) was entered into between PZU and Maximus Broker;
- the President of the Office of Competition and Consumer Protection misunderstands the principles of execution of insurance agreements involving a broker;
- the majority of insurance agreements involving Maximus Broker were entered into with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not in the past conduct competitive activity in the markets in which they operate.

On 27 March 2015, the Regional Court in Warsaw issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. By judgment of 6 December 2016, following an appeal of the UOKiK President, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. On 31 July 2017, the Regional Court in Warsaw issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. On 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. The Appellate Court in Warsaw, by its judgment of 23 January 2019, dismissed the appeal put forward by the UOKiK President. The verdict is final. The UOKiK President has filed a cassation appeal with the Supreme Court against the final judgment, to which PZU has given its reply. The Supreme Court accepted the cassation appeal filed by the President of UOKiK for examination.

PZU established a provision for this penalty in the amount of PLN 57 million as at 31 March 2020 and as at 31 December 2019.

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported receivables, PZU received 206,139 PBG bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 March 2020 was PLN 0.5 million (PLN 0.3 million as at 31 December 2019). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 31 March 2020 and 31 December 2019.

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

22.4 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. The plaintiffs believe that Alior Bank failed to provide clients with information on the actual risk of investing in investment products, by which it exposed the clients to a loss resulting from the loss of value of investment certificates and loss of guaranteed profits. The PZU Group believes that the class action has no justified factual or legal grounds and therefore it should not be resolved favorably to the clients. With the decision of 27 September 2019 the court resolved to examine the case in a group procedure. The decision is final. 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 March 2020, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

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

On 6 August 2019, KNF issued a decision pursuant to Article 167(2)(1) in conjunction with Article 167(1)(1) of the Financial Instruments Trading Act imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and the Alior Bank's Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (on Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw.

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

Issuer rating

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency S&P Global Ratings (S&P). The rating awarded to PZU and PZU Życie results from an analysis of financial data, competitive position, management and corporate strategy as well as the country's credit rating. It also includes outlook, which is an assessment of the future position of the Company if certain circumstances arise.

Current rating

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

(in millions of PLN)

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

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

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

Poland's credit rating

On 10 April 2020, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

The agency's analysts have assessed that the negative effects of the COVID-19 pandemic will push the Polish economy to a 2% recession in 2020, however they expect a strong recovery in 2021 when they believe Poland's GDP may increase by 4.8%.

24. Related party transactions

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

In the 3-month period ended 31 March 2020, neither PZU nor its subsidiaries executed any transaction with their related parties that were of material significance individually or collectively and were executed on non-arm's length conditions.

24.2 Other related party transactions

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

[1)] Associates measured by the equity method

25. Other information

25.1 KNF Office inspections in PZU and PZU Życie

In the period from 7 to 25 January 2019 KNF conducted an inspection into PZU Życie's adherence to the obligations stemming from the act on counteracting money laundering and financing of terrorism. On 8 April 2019 KNF issued 5 post-inspection recommendations with execution deadlines of 30 June 2019, 31 December 2019 and 31 January 2020. On 12 July 2019, PZU Życie informed the regulatory authority that it has carried out the recommendations for which the implementation deadline expired on 30 June 2019, and on 10 January 2020 the company reported that it has carried out the recommendation for which the implementation deadline expired on 31 December 2019. By letter of 15 October 2019, at the request of PZU Życie, KNF agreed to postpone the time limit for the implementation of its two recommendations, from 31 December 2019 and 31 January 2020 to 30 April 2020 and 31 May 2020, respectively. On 20 April 2020, PZU Życie informed the regulatory authority that it has carried out the recommendation for which the time limit was to expire on 30 April 2020, and on the extent of implementation of a recommendation carrying a 31 May 2020 time limit.

In the period from 9 January to 8 February 2019 KNF conducted a supervisory visit to PZU Życie with respect to the fulfillment of the requirements concerning the risk management system in terms of underwriting insurance risk. On 2 May 2019 PZU Życie received a written summary of the supervisory visit in which the regulatory authority identified an infringement of Article 21 of the Insurance Activity Act. On 16 May, 19 June and 5 July 2019, PZU Życie conveyed to KNF its position and information regarding the actions taken to ensure that the insurance undertaking's business is conducted in accordance with the law. On 25 July 2019, KNF provided recommendations to be implemented by 30 September and 30 November 2019 and 31 March 2020. On 7 October 2019 and 9 December 2019, PZU Życie informed the regulatory authority of its implementation of the recommendations for which the execution deadline expired on 30 September 2019 and 30 November 2019, respectively. On 7 April 2020, PZU Życie informed the regulatory authority of its implementation of the recommendations.

In the period from 1 October to 30 November 2019, KNF carried out an inspection of PZU Życie's asset standing in the context of the company's investment policy. On 31 December 2019, PZU Życie received an inspection report and on 14 January 2020 it submitted additional clarifications. On 29 January 2020, KNF presented its stance on PZU Życie's comments and reservations regarding the contents of the report. On 27 February 2020, PZU Życie received a recommendation to adjust its operations to the provisions of Article 267(1) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended, with the time limit for such adjustment set for 5 May 2020. On 23 April 2020, PZU Życie put forward a motion to extend the time limit for performing the recommendation until 31 December 2020. On 28 April 2020, KNF asked PZU Życie to provide additional information related to implementation of the recommendation. On 4 May 2020, PZU Życie responded, providing the relevant explanations and asked KNF to give its consent to change the time limit for the recommendation to 30 September 2020. On 5 May 2020, KNF set the time limit for the implementation of the recommendation at 30 September 2020, while obligating PZU Życie to provide, on the last day of each month, information on the performance of respective items in the schedule and the possible explanations if the performance is delayed.

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

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

Since the beginning of 2019, Alior Leasing sp. z o.o. has received several letters from dismissed members of the company's management board containing a proposal for Alior Leasing sp. z o.o. to reach an amicable settlement of the dispute over the reasons for an early termination of the management contracts and payment of a portion of the benefits under the management option plan. The management option plan covered the dismissed members of the management board of Alior Leasing sp. z o.o. and certain employees of the company. Additionally, in a letter of 28 January 2020, the dismissed members of the Alior Leasing sp. z o.o. management board extended the severance payment claim by adding the payment of benefits under the management program mentioned above (the extension of the statement of claim specified that the extended claim amount did not exhaust all the claims under the management option plan). In the opinion of the PZU Group, the likelihood that the court awards the dismissed members of the management board of Alior Leasing sp. z o.o. the contested benefits under the management option plan is low. Accordingly, no relevant provision was recognized in the consolidated financial statements.

Alior Leasing sp. z o.o. has identified the risk of possible claims against the company filed by third parties, which may result from actions of some employees and associates of Alior Leasing sp. z o.o. As at the date or preparing the consolidated financial statements, no claims have been filed on this account. The PZU Group believes that there are no circumstances justifying recognition of a provision on this account.

The PZU Group will not disclose any further information regarding the possible third party claims mentioned above, to avoid the weakening of its status and position in the potential proceedings.

25.3 Lease agreement for the building of PZU's new Head Office

On 4 February 2020 the PZU Management Board adopted a resolution to select an offer in the proceeding to lease headquarters for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a company belonging to the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU Head Office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office. PZU and PZU Życie signed a letter of intent with the Lessor on 4 February 2020 to specify the preliminary terms and conditions of the agreement to lease office space, office and commercial space, storage space and parking spaces. The letter of intent contemplates that the future lease agreement will contain contractual penalties regarding the Lessor's liability for delays in handing over the leased facility, hindrances and impediments to usage of the leased area and violations of the non-compete clause and right of first refusal to purchase the Building. The letter of intent contains a declaration on how to proceed and sign the lease agreement by 29 May 2020 provided that the parties reach an agreement on all of the other terms and conditions of lease and agree upon the wording of the lease agreement.

On 27 May 2020, PZU made a decision to continue negotiations to define the final terms and conditions of the lease agreement. The extension of negotiations is related to the epidemiological situation in Poland.

The total estimated gross value of the prospective agreement to lease the Building over the 10 years of its duration is approximately PLN 805 million, while the gross incremental costs related to relocation are approximately PLN 86 million. These amounts may vary as a result of specific arrangements concerning the final arrangement, amount of space leased, the final scope of adaptation work, the commencement date of the lease agreement and the date of translating some of the costs and financial incentives between EUR and PLN.

The selection of this Building and the signing of the letter of intent do not imply that this transaction will be executed.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2020	31 December 2019	31 March 2019
I. Intangible assets, including:	304,872	316,213	323,428
- goodwill	-	-	-
II. Investments	37,303,574	36,659,625	38,633,760
1. Real property	330,775	332,768	343,978
2. Investments in subordinated entities, of which:	16,581,832	16,480,547	16,440,170
- investments in subordinated entities measured by the equity method	16,063,268	15,966,388	16,039,545
3. Other financial investments	20,390,967	19,846,310	21,849,612
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,455,500	2,084,819	3,037,979
1. Receivables on direct insurance	1,724,106	1,740,713	1,717,704
1.1. From subordinated entities	2,391	2,581	1,318
1.2. From other entities	1,721,715	1,738,132	1,716,386
2. Reinsurance receivables	281,088	114,501	301,816
2.1. From subordinated entities	236,845	84,424	242,490
2.2. From other entities	44,243	30,077	59,326
3. Other receivables	450,306	229,605	1,018,459
3.1. Receivables from the state budget	32,574	2,001	8,500
3.2. Other receivables	417,732	227,604	1,009,959
a) from subordinated entities	133,603	101,075	38,023
b) from other entities	284,129	126,529	971,936
V. Other assets	316,790	251,987	1,518,776
1. Property, plant and equipment	116,992	125,846	114,885
2. Cash	199,798	126,141	1,403,891
3. Other assets	-	-	-
VI. Prepayments and accruals	2,517,259	2,283,770	2,516,937
1. Deferred tax assets	-	-	-
2. Deferred acquisition costs	1,504,236	1,344,569	1,483,779
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	1,013,023	939,201	1,033,158
VII. Unpaid share capital	-	-	-
VIII. Treasury shares	-	-	-
Total assets	**42,897,995**	**41,596,414**	**46,030,880**

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	31 March 2020	31 December 2019	31 March 2019
I. Equity	15,157,272	14,956,862	14,668,437
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	5,814,253	5,814,241	5,507,577
3. Revaluation reserve	6,715,828	6,405,257	6,106,116
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	2,651,012	-	2,731,561
6. Net profit (loss)	(110,173)	2,651,012	236,831
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,258,706	2,279,173	2,257,909
III. Technical provisions	23,818,017	23,114,021	23,331,909
IV. Reinsurers' share in technical provisions (negative figure)	(1,573,882)	(1,541,000)	(1,413,502)
V. Estimated salvage and subrogation (negative figure)	(92,828)	(107,764)	(97,572)
1. Gross estimated salvage and subrogation	(95,755)	(110,822)	(99,700)
2. Reinsurers' share in estimated salvage and subrogation	2,927	3,058	2,128
VI. Other provisions	602,815	562,642	589,521
1. Provisions for pension benefits and other compulsory employee benefits	57,083	45,681	52,726
2. Deferred tax liability	468,621	439,661	447,125
3. Other provisions	77,111	77,300	89,670
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	1,790,276	1,028,124	5,718,661
1. Liabilities on direct insurance	459,794	420,799	361,992
1.1. - to subordinated entities	5,599	13,937	2,684
1.2. To other entities	454,195	406,862	359,308
2. Reinsurance liabilities	502,945	78,341	282,708
2.1. - to subordinated entities	19,021	10,724	43,736
2.2. To other entities	483,924	67,617	238,972
3. Liabilities on the issue of own debt securities and drawn loans	-	-	3,693,526
4. Liabilities to credit institutions	12	12	213
5. Other liabilities	710,750	429,031	1,275,857
5.1. Liabilities to the state budget	115,999	74,570	32,717
5.2. Other liabilities	594,751	354,461	1,243,140
a) to subordinated entities	144,715	122,608	17,092
b) to other entities	450,036	231,853	1,226,048
6. Special-purpose funds	116,775	99,941	104,365
IX. Prepayments and accruals	937,619	1,304,356	975,517
1. Accrued expenses	856,802	1,241,848	915,722
2. Negative goodwill	-	-	-
3. Deferred income	80,817	62,508	59,795
Total equity and liabilities	**42,897,995**	**41,596,414**	**46,030,880**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2020	31 December 2019	31 March 2019
Book value	15,157,272	14,956,862	14,668,437
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	17.55	17.32	16.99
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	17.55	17.32	16.99

2. Interim statement of off-balance sheet line items

Off-balance sheet items	31 March 2020	31 December 2019	31 March 2019
1. Contingent receivables, including:	4,164,407	4,256,977	3,956,832
1.1. Guarantees and sureties received	2,766	2,957	3,040
1.2. Other [1]	4,161,641	4,254,020	3,953,792
2. Contingent liabilities, including:	936,862	1,149,099	4,637,150
2.1. Guarantees and sureties given	5,343	6,052	3,698,447
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party assets not recognized in assets	121,842	122,054	109,557
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**5,223,111**	**5,528,130**	**8,703,539**

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

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	1 January – 31 March 2020	1 January – 31 March 2019
I. Premium income (1-2-3+4)	3,007,807	2,990,025
1. Gross written premium	3,757,285	3,728,963
2. Reinsurers' share in gross written premium	113,880	64,101
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	591,900	613,746
4. Reinsurers' share in the movement in provision for unearned premiums	(43,698)	(61,091)
II. Net investment income (including costs) transferred from the general profit and loss account	65,441	61,926
III. Other net technical income	53,193	55,718
IV. Claims and benefits (1+2)	1,848,098	1,871,713
1. Net claims and benefits paid	1,797,756	1,723,564
1.1. Gross claims and benefits paid	1,901,214	1,743,750
1.2. Reinsurers' share in claims and benefits paid	103,458	20,186
2. Movement in provision for outstanding claims and benefits, net of reinsurance	50,342	148,149
2.1. Movement in provision for outstanding claims and benefits, gross	127,053	282,881
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	76,711	134,732
V. Movement in other technical provisions, net of reinsurance	-	-
1. Movement in other technical provisions, gross	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts with the movement in provisions	216	63
VII. Insurance activity expenses	784,694	755,619
1. Acquisition expenses, including:	609,137	601,030
- movement in deferred acquisition costs	(159,666)	(157,189)
2. Administrative expenses	181,841	165,159
3. Reinsurance commissions and profit participation	6,284	10,570
VIII. Other net technical charges	123,672	122,280
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**369,761**	**357,994**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2020	1 January – 31 March 2019
I. Technical result of non-life insurance or life insurance	369,761	357,994
II. Investment income	166,968	161,086
1. Investment income on real estate	1,473	1,478
2. Investment income from related parties	4,346	4,505
2.1. on ownership interests or shares	-	1,215
2.2. on borrowings and debt securities	3,993	3,183
2.3. on other investments	353	107
3. Other financial investment income	152,992	82,352
3.1. on ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	3,948	2,742
3.2. on debt securities and other fixed income securities	105,946	68,256
3.3. on term deposits with credit institutions	3,556	1,759
3.4. on other investments	39,542	9,595
4. Gain on revaluation of investments	-	-
5. Gain on realization of investments	8,157	72,751
III. Unrealized investment gains	249,121	126,218
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	442,399	61,398
1. Real estate maintenance expenses	937	976
2. Other investment activity expenses	12,069	10,959
3. Loss on revaluation of investments	420,158 [1]	-
4. Loss on realization of investments	9,235	49,463
VI. Unrealized investment losses	258,173	96,828
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	65,441	61,926
VIII. Other operating income	67,990	63,558
IX. Other operating expenses	146,512	165,533
X. Operating profit (loss)	(58,685)	323,171
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of subordinated entities measured by the equity method	28,530	870
XIV. Profit (loss) before tax	(30,155)	324,041
XV. Income tax	80,018	87,210
a) current part	4,978	(7,765)
b) deferred part	75,040	94,975
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	(110,173)	236,831

[1] including impairment loss on goodwill (in the amount of PLN 420,158 thousand) arising from the acquisition of Alior Bank. Additional information on this matter is presented in section 10.

	1 January – 31 March 2020	1 January – 31 March 2019
Net profit (loss) (annualized) [1]	(443,113)	960,481
Weighted average number of common shares	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [1]	(0.13)	0.27
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [1]	(0.13)	0.27

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

(in thousands of PLN)

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2020	1 January – 31 December 2019	1 January – 31 March 2019
I. Equity at the beginning of the period (Opening Balance)	14,956,862	13,924,661	13,924,661
a) changes in the accepted accounting policies	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	14,956,862	13,924,661	13,924,661
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	5,814,241	5,507,572	5,507,572
2.1. Change in supplementary capital	12	306,669	5
a) additions (by virtue of):	12	306,669	5
- distribution of profit (above the statutorily required amount)	-	306,374	-
- from revaluation reserve – by sale and liquidation of fixed assets	12	295	5
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	5,814,253	5,814,241	5,507,577
3. Revaluation reserve at the beginning of the period	6,405,257	5,599,176	5,599,176
- changes in the accepted accounting principles (policy)	-	-	-
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	6,405,257	5,599,176	5,599,176
3.1. Change in the revaluation reserve	310,571	806,081	506,940
a) additions (by virtue of):	674,962	968,880	583,312
- valuation of financial investments	643,323	940,809	583,312
- additions by virtue of disposal of available for sale instruments	6,702	3,486	-
- additions by virtue of hedge accounting	24,937	24,585	-
b) reductions (by virtue of)	364,391	162,799	76,372
- valuation of financial investments	335,327 [1)]	101,479	76,367
- reductions by virtue of the disposal of instruments available for sale	7,719	32,311	-
- sale of fixed assets	12	295	5
- reductions by virtue of hedge accounting	21,333	28,714	-
3.2. Revaluation reserve at the end of the period	6,715,828	6,405,257	6,106,116

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2020	1 January – 31 December 2019	1 January – 31 March 2019
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	2,651,012	2,731,561	2,731,561
5.1. Retained earnings at the beginning of the period	2,651,012	2,731,561	2,731,561
a) changes in the accepted accounting policies	-	-	-
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,651,012	2,731,561	2,731,561
a) increases	-	-	-
b) decreases	-	2,731,561	-
- transfers to supplementary capital	-	306,374	-
- disbursement of dividends	-	2,417,864	-
- transfers/charges to the Company Social Benefit Fund	-	7,323	-
5.3. Retained earnings at the end of the period	2,651,012	-	2,731,561
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	2,651,012	-	2,731,561
6. Net result	(110,173)	2,651,012	236,831
a) net profit	-	2,651,012	236,831
b) net loss	110,173	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	15,157,272	14,956,862	14,668,437

[1] including impairment loss on goodwill (in the amount of PLN 34,842 thousand) arising from the acquisition of Alior Bank. Additional information on this matter is presented in section 10.

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2020	1 January – 31 December 2019	1 January – 31 March 2019
A. Cash flows from operating activities			
I. Proceeds	4,094,899	14,438,482	3,650,232
1. Proceeds on direct activity and inward reinsurance	3,751,617	13,233,994	3,438,855
1.1. Proceeds on gross premiums	3,624,429	13,070,733	3,398,459
1.2. Proceeds on recoveries, recourses and claim refunds	117,865	136,701	31,428
1.3. Other proceeds on direct activity	9,323	26,560	8,968
2. Proceeds from outward reinsurance	132,417	382,164	64,397
2.1. Payments received from reinsurers for their share of claims paid	114,021	282,277	38,445
2.2. Proceeds on reinsurance commissions and profit participation	17,945	83,247	23,656
2.3. Other proceeds from outward reinsurance	451	16,640	2,296
3. Proceeds from other operating activity	210,865	822,324	146,980
3.1. Proceeds for acting as an emergency adjuster	92,629	360,547	74,112
3.2. Sale of intangible assets and non-investment property, plant and equipment	1,145	7,425	1,554
3.3. Other proceeds	117,091	454,352	71,314
II. Expenditures	3,388,005	13,317,836	3,100,597
1. Expenditures on direct activity and inward reinsurance	2,845,954	11,141,626	2,648,626
1.1. Gross premium refunds	77,367	272,824	75,807
1.2. Gross claims and benefits paid	1,692,308	6,971,858	1,594,058
1.3. Acquisition expenditures	495,066	1,705,833	444,742
1.4. Administrative expenditures	386,786	1,450,393	340,402
1.5. Expenditures for claims handling and pursuit of subrogation	81,310	322,824	76,273
1.6. Commissions paid and profit-sharing on inward reinsurance	78,325	272,868	81,509
1.7. Other expenditures on direct activity and inward reinsurance	34,792	145,026	35,835
2. Expenditures on outward reinsurance	142,737	576,286	157,421
2.1. Premiums paid for reinsurance	142,659	576,003	157,345
2.2. Other expenditures on outward reinsurance	78	283	76
3. Expenditures on other operating activity	399,314	1,599,924	294,550
3.1. Expenditures for acting as an emergency adjuster	43,759	175,692	39,017
3.2. Purchase of intangible assets and non-investment property, plant and equipment	21,431	107,156	30,518
3.3. Other operating expenditures	334,124	1,317,076	225,015
III. Net cash flows from operating activities (I-II)	**706,894**	**1,120,646**	**549,635**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2020	1 January – 31 December 2019	1 January – 31 March 2019
B. Cash flow on investing activity			
I. Proceeds	30,317,317	213,107,377	59,563,267
1. Sale of real estate	154	16,806	-
2. Sale of ownership interests and shares in subordinated entities	-	7,739	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	-	239,999	49,839
4. Realization of debt securities issued by subordinated entities and amortization of the loans granted to these entities	-	10,000	-
5. Realization of debt securities issued by other entities	157,810	8,661,781	4,267,470
6. Liquidation of term deposits with credit institutions	10,944,011	144,819,006	37,896,282
7. Realization of other investments	19,144,951	57,088,308	17,290,860
8. Proceeds from real estate	1,990	7,025	1,798
9. Interest received	65,428	484,673	50,990
10. Dividends received	188	1,759,995	165
11. Other investment proceeds	2,785	12,045	5,863
II. Expenditures	30,920,303	209,011,004	59,763,030
1. Purchase of real estate	536	3,079	290
2. Purchase of ownership interests and shares in subordinated entities	4,200	1,046	26
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	12,250	126,089	68,567
4. Purchase of debt securities issued by subordinated entities and extension of loans to these entities	-	109,018	-
5. Purchase of debt securities issued by other entities	423,264	8,141,405	4,490,915
6. Purchase of term deposits with credit institutions	10,980,702	144,084,939	38,809,338
7. Purchase of other investments	19,476,499	56,460,378	16,365,290
8. Expenditures to maintain real estate	13,495	54,837	17,559
9. Other expenditures for investments	9,357	30,213	11,045
III. Net cash flows from investing activities (I-II)	**(602,986)**	**4,096,373**	**(199,763)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2020	1 January – 31 December 2019	1 January – 31 March 2019
C. Cash flows from financing activities			
I. Proceeds	146,665	24,964,616	17,415,158
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	146,665	24,964,616	17,415,158
3. Other financial proceeds	-	-	-
II. Expenditures	187,543	31,261,040	17,582,733
1. Dividends	153	2,417,864	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury shares	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	146,671	28,710,674	17,542,127
5. Interest on loans and borrowings and issued debt securities	40,719	132,502	40,606
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(40,878)**	**(6,296,424)**	**(167,575)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**63,030**	**(1,079,405)**	**182,297**
E. Balance sheet change in cash, including:	73,657	(1,095,394)	182,356
- movement in cash due to foreign exchange differences	10,627	(15,989)	59
F. Cash at the beginning of the period	126,141	1,221,535	1,221,535
G. Cash at the end of the period (F+/-E), including:	199,798	126,141	1,403,891
- restricted cash	52,643	28,512	43,004

7. Introduction

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

8. Key accounting principles (accounting policy)

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

9. Changes in accounting policies

In the 3-month period ended 31 March 2020, no changes were made to the accounting principles (policy).

10. Impairment loss on the goodwill arising from the acquisition of Alior Bank

Following the identification of signs of possible impairment, Alior Bank's goodwill was tested for impairment. The test showed impairment of the goodwill arising from the acquisition of Alior Bank in the amount of PLN 455000 million, out of which PLN 420,158 thousand was recognized in the general profit and loss account in the "Loss on revaluation of investments" item and PLN 34,842 thousand was charged to the revaluation reserve. Additional information on the impairment test is presented in item 8.16.1.

The difference between the impairment loss amounts recognized in standalone PZU data and the consolidated data of the PZU Group is due to the different accounting principles used to prepare the two financial statements. Detailed accounting principles governing the measurement of goodwill are presented respectively in the standalone and consolidated financial statements for 2019.

Signatures of the PZU Management Board Members:

Name	Position	
Beata Kozłowska-Chyła	Acting 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)
Adam Brzozowski	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Elżbieta Häuser-Schöneich	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 28 May 2020