Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Consolidated financial statements for the year ended 31 December 2023 prepared in accordance with International Financial Reporting Standards

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Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 December 2023	1 January – 31 December 2022 (restated) [1]
Insurance service result before reinsurance		4,122	3,600
Insurance revenue		26,868	24,745
Insurance service expenses		(22,746)	(21,145)
Net income or expenses from reinsurance contracts held		(103)	63
Reinsurance premium allocation		(1,514)	(1,126)
Amounts recoverable from reinsurers		1,411	1,189
Insurance service result	11	4,019	3,663
Insurance finance income or expenses		(1,786)	(408)
Reinsurance finance income or expenses		38	30
Interest income calculated using the effective interest rate	13	27,579	18,265
Other net investment income	14	406	(57)
Result on derecognition of financial instruments and investments	15	592	(366)
Movement in allowances for expected credit losses and impairment losses on financial instruments	16	(1,225)	(3,193)
Net movement in fair value of assets and liabilities measured at fair value	17	863	704
Revenue from commissions and fees	18	5,528	5,136
Fee and commission expenses	19	(1,742)	(1,449)
Operating costs of banks	20	(6,332)	(5,450)
Interest expenses	21	(8,890)	(4,767)
Other operating income	23	1,859	1,662
Other operating expenses	24	(4,842)	(5,608)
Operating profit		**16,067**	**8,162**
Share of the net financial results of entities measured by the equity method		10	(25)
Profit before tax		**16,077**	**8,137**
Income tax	25	(3,625)	(2,471)
Net profit, including:		**12,452**	**5,666**
- profit attributable to the equity holders of the Parent Company		5,766	3,781
- profit (loss) attributable to holders of non-controlling interests		6,686	1,885
Weighted average basic and diluted number of common shares	26	863,378,107	863,390,384
Basic and diluted profit (loss) per common share (in PLN)	26	6.68	4.38

[1] The restatement of the comparative data resulting from the first application of IFRS 17 is described in section 6.2.1, while the restatement of data resulting from the change of presentation of interest income from hedge derivatives – in section 6.3.1.

Warsaw, 20 March 2024

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated statement of other comprehensive income

Consolidated statement of other comprehensive income	Note	1 January – 31 December 2023	1 January – 31 December 2022 (restated) [1)]
Net profit		12,452	5,666
Net other comprehensive income		2,812	350
Subject to subsequent transfer to profit or loss		2,807	238
Valuation of debt instruments		2,064	(2,228)
Reclassification of debt instruments valuation for the profit and loss account		39	29
Measurement of loan receivables from clients		5	(5)
Insurance finance income or expenses		(1,678)	4,144
Reinsurance finance income or expenses		38	(120)
Foreign exchange translation differences		(137)	22
Cash flow hedging		3,160	(1,551)
Income tax	25	(684)	(53)
Not to be transferred to profit or loss in the future		5	112
Valuation of equity instruments		-	155
Reclassification of real property from property, plant and equipment to investment property		27	2
Actuarial gains and losses related to provisions for employee benefits		(27)	(20)
Income tax	25	5	(25)
Total comprehensive income		**15,264**	**6,016**
- comprehensive income attributable to equity holders of the Parent Company		5,932	5,764
- comprehensive income attributable to holders of non-controlling interests		9,332	252

[1)] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.2.1.

Warsaw, 20 March 2024

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated statement of financial position

Assets	Note	31 December 2023	31 December 2022 (restated) [1)]	1 January 2022 (restated) [1)]
Goodwill	27	2,801	2,808	2,778
Intangible assets	28	3,404	3,282	3,403
Deferred tax assets	47	2,207	3,103	3,078
Other assets	29	483	462	331
Property, plant and equipment	30	4,445	4,304	4,144
Investment property	31	3,098	3,021	2,773
Entities accounted for using the equity method	32	62	52	93
Insurance contract assets	11	111	68	64
Reinsurance contract assets	11	3,469	2,336	1,509
Assets pledged as collateral for liabilities	35	1,708	972	1,336
Assets held for sale	48	621	654	643
Loan receivables from clients	33	218,808	212,693	215,008
Financial derivatives	34	11,396	16,197	8,328
Investment financial assets	36	192,332	153,861	136,954
Measured at amortized cost		135,875	106,013	82,893
Measured at fair value through other comprehensive income		44,366	39,725	44,896
Measured at fair value through profit or loss		12,091	8,123	9,165
Current income tax receivables		19	305	223
Other receivables	37	5,227	9,108	6,556
Cash and cash equivalents	39	17,702	15,960	9,447
Total assets		**467,893**	**429,186**	**396,668**

[1)] The restatement of the comparative data resulting from the first application of IFRS 17 is described in section 6.2.1, while the restatement of data resulting from the change of presentation of current income tax receivables – in section 6.3.2.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated statement of financial position (continued)

Equity and liabilities	Note	31 December 2023	31 December 2022 (restated) 1)	1 January 2022 (restated) 1)
Equity				
Equity attributable to the equity holders of the parent company		30,022	26,162	22,072
Share capital	40.1	86	86	86
Other capital	40.3	18,225	17,205	13,611
Retained earnings		11,711	8,871	8,375
Retained profit		5,945	5,090	8,375
Net profit		5,766	3,781	-
Non-controlling interest	2.5	30,457	22,263	22,914
Total equity		**60,479**	**48,425**	**44,986**
Liabilities				
Insurance contract liabilities	11	42,328	37,518	40,610
Reinsurance contract liabilities	11	35	31	28
Subordinated liabilities	41	6,166	6,184	6,274
Liabilities on the issue of own debt securities	42	12,003	11,090	5,940
Liabilities to banks	43	7,047	7,720	7,470
Liabilities to clients under deposits	44	303,781	278,058	265,155
Financial derivatives	34	11,656	20,956	11,880
Current income tax liabilities		1,991	328	147
Other liabilities	45	16,980	14,301	11,011
Provisions	46	2,307	1,711	1,206
Deferred tax liability	47	3,088	2,831	1,933
Liabilities related directly to assets classified as held for sale	48	32	33	28
Total liabilities		**407,414**	**380,761**	**351,682**
Total equity and liabilities		**467,893**	**429,186**	**396,668**

1) The restatement of the comparative data resulting from the first application of IFRS 17 is described in section 6.2.1, while the restatement of data resulting from the change of presentation of current income tax liabilities – in section 6.3.2.

Warsaw, 20 March 2024

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent company											Non-controlling interest	Total equity
	Share capital	Other capital								Retained earnings	Total		
		Treasury shares	Supplementary capital	Other reserve capital	Accumulated other comprehensive income								
					Revaluation reserve	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences				
Note	40.1											2.5	
As at 1 January 2023	**86**	**(4)**	**15,315**	**1,721**	**(2,455)**	**2,622**	**(79)**	**(6)**	**91**	**8,871**	**26,162**	**22,263**	**48,425**
Total comprehensive income	**-**	**-**	**-**	**-**	**1,639**	**(1,364)**	**31**	**(2)**	**(138)**	**5,766**	**5,932**	**9,332**	**15,264**
Net profit (loss)	-	-	-	-	-	-	-	-	-	5,766	5,766	6,686	12,452
Net other comprehensive income	-	-	-	-	1,639	(1,364)	31	(2)	(138)	-	166	2,646	2,812
Transaction with the shareholders of the parent company	**-**	**-**	**357**	**497**	**-**	**-**	**-**	**-**	**-**	**(2,926)**	**(2,072)**	**(1,138)**	**(3,210)**
Distribution of financial result	-	-	1,653	497	-	-	-	-	-	(2,150)	-	(1,138)	(1,138)
PZU dividend	-	-	(1,296)	-	-	-	-	-	-	(776)	(2,072)	-	(2,072)
Other changes	**-**	**-**	**132**	**-**	**(132)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sales of equity instruments designated at fair value through other comprehensive income	-	-	130	-	(130)	-	-	-	-	-	-	-	-
Sale of revalued properties and other	-	-	2	-	(2)	-	-	-	-	-	-	-	-
As at 31 December 2023	**86**	**(4)**	**15,804**	**2,218**	**(948)**	**1,258**	**(48)**	**(8)**	**(47)**	**11,711**	**30,022**	**30,457**	**60,479**

Warsaw, 20 March 2024

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent company											Non-controlling interest	Total equity
		Other capital											
					Accumulated other comprehensive income								
	Share capital	Treasury shares	Supple mentary capital	Other reserve capital	Revaluation reserve	Insurance finance income or expenses	Reinsurance finance income or expenses	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Total		
Note	40.1											2.5	
As at 31 December 2021	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**-**	**-**	**3**	**69**	**2,651**	**17,080**	**22,914**	**39,994**
Change in the accounting policy – application of IFRS 17	-	-	-	-	-	(752)	20	-	-	5,724	4,992	-	4,992
As at 1 January 2022	**86**	**(5)**	**14,816**	**600**	**(1,140)**	**(752)**	**20**	**3**	**69**	**8,375**	**22,072**	**22,914**	**44,986**
Total comprehensive income	**-**	**-**	**-**	**-**	**(1,305)**	**3,374**	**(99)**	**(9)**	**22**	**3,781**	**5,764**	**252**	**6,016**
Net profit (loss)	-	-	-	-	-	-	-	-	-	3,781	3,781	1,885	5,666
Net other comprehensive income	-	-	-	-	(1,305)	3,374	(99)	(9)	22	-	1,983	(1,633)	350
Transaction with the shareholders of the parent company	**-**	**-**	**489**	**1,121**	**-**	**-**	**-**	**-**	**-**	**(3,285)**	**(1,675)**	**(903)**	**(2,578)**
Distribution of financial result	-	-	1,439	1,121	-	-	-	-	-	(2,560)	-	(903)	(903)
PZU dividend	-	-	(950)	-	-	-	-	-	-	(725)	(1,675)	-	(1,675)
Other changes	**-**	**1**	**10**	**-**	**(10)**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	-	1	-	1
Sale of revalued properties and other	-	-	10	-	(10)	-	-	-	-	-	-	-	-
As at 31 December 2022	**86**	**(4)**	**15,315**	**1,721**	**(2,455)**	**2,622**	**(79)**	**(6)**	**91**	**8,871**	**26,162**	**22,263**	**48,425**

[1] The restatement of the comparative data resulting from the first application of IFRS17 is described in section 6.2.1.

Warsaw, 20 March 2024

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated cash flow statement

Consolidated cash flow statement	**Note**	**1 January – 31 December 2023**	**1 January – 31 December 2022** (restated)
Profit before tax		16,077	8,137
Adjustments		11,964	13,553
Amortization of intangible assets and depreciation of property, plant and equipment		1,386	1,328
Impairment charges for property, plant and equipment, intangible assets and goodwill		25	104
Acquisitions and redemptions of participation units and investment certificates of investment funds		881	(35)
Cash flow on investment contracts		155	10
Interest income and expenses		(6,433)	(3,480)
Net effect of movements in exchange rates		(187)	240
Realized gains/losses from investing activities and impairment losses		518	3,369
Net movement in fair value of assets and liabilities measured at fair value		(863)	(704)
Income tax paid		(1,206)	(1,573)
Movement in loan receivables from clients		(7,206)	(745)
Movement in liabilities under deposits		24,769	12,288
Movement in insurance contract assets and liabilities		3,089	1,048
Movement in reinsurance contract assets and liabilities		(1,091)	(944)
Movement in receivables		(752)	(757)
Movement in liabilities		1,996	2,666
Other adjustments		(3,117)	738
Net cash flows from operating activities		**28,041**	**21,690**
Cash flow from investing activities			
Proceeds		2,105,898	670,545
- sale of investment property		2	8
- proceeds from investment property		409	369
- sale of intangible assets and property, plant and equipment		65	136
- sale of ownership interests and shares		1,393	548
- realization of debt securities		1,429,090	234,443
- closing of buy-sell-back transactions		453,727	258,599
- closing of term deposits with credit institutions		179,965	139,409
- realization of other investments		38,345	34,637
- interest received		2,639	2,240
- dividends received		180	131
- increase in cash due to consolidation of investment funds		2	-
- other investment proceeds		81	25

Warsaw, 20 March 2024

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Expenditures		(2,130,024)	(687,903)
- purchase of investment property		(43)	(111)
- expenditures for the maintenance of investment property		(201)	(197)
- purchase of intangible assets and property, plant and equipment		(1,296)	(1,026)
- purchase of ownership interests and shares		(880)	(1,298)
- purchase of ownership interests and shares in subsidiaries		(35)	(24)
- decrease in cash due to the sale of entities and change in the scope of consolidation		(12)	-
- purchase of debt securities		(1,456,990)	(248,253)
- opening of buy-sell-back transactions		(455,608)	(261,268)
- purchase of term deposits with credit institutions		(178,076)	(141,159)
- purchase of other investments		(36,859)	(34,544)
- other expenditures for investments		(24)	(23)
Net cash flows from investing activities		**(24,126)**	**(17,358)**
Cash flows from financing activities			
Proceeds		189,940	203,451
- proceeds from loans and borrowings	53	1,728	1,869
- proceeds on the issue of own debt securities	53	5,387	24,908
- opening of repurchase transactions	53	182,825	176,674
Expenditures		(191,862)	(201,337)
– dividends paid to equity holders of the parent	40.2.1.1	(2,072)	(1,675)
- dividends to owners of non-controlling interests		(1,138)	(903)
- repayment of loans and borrowings	53	(1,372)	(1,243)
- redemption of own debt securities	53	(4,397)	(19,987)
- closing of repurchase transactions	53	(182,137)	(176,995)
- interest on loans and borrowings	53	(12)	(45)
- interest on outstanding debt securities	53	(436)	(193)
- expenditures on leases	53	(298)	(296)
Net cash flows from financing activities		**(1,922)**	**2,114**
Total net cash flows		**1,993**	**6,446**
Cash and cash equivalents at the beginning of the period		15,960	9,447
Movement in cash due to foreign exchange differences		(251)	67
Cash and cash equivalents at the end of the period, including:	39	17,702	15,960
- restricted cash		21	27

Warsaw, 20 March 2024

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

Supplementary information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("consolidated financial statements" and "PZU Group", respectively) have been prepared in line with the International Financial Reporting Standards as endorsed by the European Commission ("IFRS"), published and in force as at 31 December 2023.

Period covered by the statements

These consolidated financial statements cover the period of 12 months, from 1 January to 31 December 2023, and include comparative figures for the period of 12 months, from 1 January to 31 December 2022.

Approval of the statements

These consolidated financial statements were signed and authorized for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna on 20 March 2024 and will be subject to approval by the shareholder meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

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

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

Going concern assumption

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

Making this assumption, in its assessment, the PZU Management Board took into account the impact of factors subject to uncertainty, in particular the macroeconomic situation and the armed conflict in Ukraine which began on 24 February 2022 (additional information on this matter is presented in section 57.8) on the macroeconomic situation and its own operations.

Discontinued operations

Both in 2023 and in 2022, the PZU Group did not discontinue any material type of activity.

Glossary

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

Names of companies

Balta – AAS "BALTA".

Alior Bank – Alior Bank SA.

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

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

Idea Bank – Idea Bank SA.

LD – AB "Lietuvos draudimas".

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PG TUW – Polski Gaz Towarzystwo Ubezpieczeń Wzajemajemnych.

PG TUWnŻ – Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie.

PFR – Polski Fundusz Rozwoju SA.

PIM – Pekao Investment Management SA.

PZU, Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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

PZU LT GD – UAB "PZU Lietuva gyvybes draudimas".

PZU CO – PZU Centrum Operacji SA.

PZU Ukraine – PRJSC IC "PZU Ukraine".

PZU Ukraine Life – PRJSC IC "PZU Ukraine Life Insurance".

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BFG – Bank Guarantee Fund (Polish: Bankowy Fundusz Gwarancyjny).

CDI – core deposit intangible.

CGU – cash generating unit.

CSM – contractual service margin.

EBA – European Banking Authority.

ECL – expected credit loss.

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

FRA – Full retrospective approach.

GMM – General measurement model, for measurement of insurance contracts according to IFRS 17.

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

WSE – Warsaw Stock Exchange.

IBOR – Interbank Offered Rate.

IRS – Interest rate swap.

PZU's standalone financial statements for 2023 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2023, prepared in accordance with PAS, signed by the PZU Management Board on 20 March 2024.

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code.

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

LIC – Liability for incurred claims.

LRC – Liability for remaining coverage.

MRA – Modified retrospective approach.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2023.

NBP – National Bank of Poland.

NBU – National Bank of Ukraine.

PAA – premium allocation approach.

PD – probability of default of a counterparty over a specified time horizon.

POCI – Purchased or originated credit-impaired financial assets.

Tax Group – PZU Tax Group – on 22 September 2020, a Tax Group agreement was signed, covering 14 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., PZU Zdrowie SA, Tulare Investments sp. z o.o., PZU CASH SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA and Omicron Bis SA, PZU Projekt 01 SA. The Tax Group was established for a period of 3 years – from 1 January 2021 to 31 December 2023 – and the Head of the First Mazowiecki Tax Office issued a registration decision on 11 December 2020. PZU is the parent company representing the Tax Group. The Tax Group performs settlements with the Tax Office on a monthly basis. PZU pays advances for corporate income tax that are due from all the companies to the Tax Office, while the companies transfer the CIT advances related to their business activities to PZU.

PSR – Accounting Act of 29 September 1994 and regulations issued thereunder.

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

IASB – International Accounting Standards Board.

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

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

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2023.

SPPI Test – solely payments of principal and interest test.

CJEU – Court of Justice of the European Union.

KNF Office – Office of the Polish Financial Supervision Authority.

BFG Act – Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity.

Crowdfunding Act – Act of 7 July 2022 on crowdfunding for economic ventures and assistance to borrowers.

Supplementary Oversight Act – Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate.

VaR – value at risk.

VFA – variable fee approach.

EBA Guidelines – guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis" (EBA/GL/2020/02) of 2 April 2020 (as amended).

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

2. Composition of PZU Group

2.1 Key information on the PZU Group

Key information on the Group	
Name of the reporting entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Legal form	Spółka Akcyjna
Registered office	Poland
Country of registration	Poland
Registration address of the entity's offices	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw
Principal place of business	Rondo Ignacego Daszyńskiego 4, 00-843 Warsaw, Poland
Core business	property and casualty insurance (65.12 according to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe).
National Court Register (Krajowy Rejestr Sądowy)	District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, Register of commercial undertakings – number 0000009831

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

2.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2023	31 December 2022	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	AB "Lietuvos draudimas"	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	AAS "BALTA"	Riga, Latvia	30.06.2014	100.00%	100.00%	Property insurance. http://www.balta.lv/
7	PRJSC IC "PZU Ukraine"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PRJSC IC "PZU Ukraine Life Insurance"	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB "PZU Lietuva gyvybes draudimas"	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.02%	Banking services. http://www.pekaobh.pl/
12	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.02%	Lease services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.02%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.02%	Creation, representing and management of mutual funds. https://pekaotfi.pl/
16	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/
17	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% [1)]	46.81% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
18	Pekao Direct sp. z o.o.	Kraków	07.06.2017	20.02%	20.02%	Call centre services. https://www.pekaodirect.pl/
19	Pekao Property SA in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Development activity.
20	FPB – Media sp. z o.o. in bankruptcy	Warsaw	07.06.2017	20.02%	20.02%	No business conducted.
21	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.02%	Business consulting.

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				31 December 2023	31 December 2022	
Consolidated companies – Pekao Group – continued						
22	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.02%	Asset management. https://pekaotfi.pl/o-nas/pekao-investment-mangament
23	PeUF sp. z o.o.	Warsaw	20.07.2021	20.02%	20.02%	Auxiliary financial activities.
Consolidated companies – Alior Bank Group						
24	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
25	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
26	Alior Leasing sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA [2)]	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
28	Alior Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
29	AL Finance sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
30	Corsham sp. z o.o	Warsaw	04.02.2019	31.93%	31.93%	Business consulting.
31	RBL_VC sp. z o.o.	Warsaw	07.11.2019	31.93%	31.93%	Venture capital fund management activities.
32	RBL_VC sp. z o.o. ASI SKA	Warsaw	17.04.2020	31.93%	31.93%	Activity of trusts, funds and similar financial institutions.
33	Alior Leasing Individual sp. z o.o. [3)]	Warsaw	23.10.2023	31.93%	n/a	Finance lease
Consolidated companies – PZU Zdrowie Group						
34	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
35	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. https://www.plock.pzuzdrowie.pl/
36	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/
37	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/
38	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
39	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	100.00%	100.00%	Medical services. http://www.cmgamma.pl/
40	Starówka sp. z o.o.	Warsaw	03.06.2019	100.00%	100.00%	Medical services. https://www.starowkanzoz.pl/

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No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2023	31 December 2022	
Consolidated companies – PZU Zdrowie Group – continued						
41	Tomma Diagnostyka Obrazowa SA	Poznań	09.12.2019	100.00%	100.00%	Medical services. https://tomma.com.pl/
42	Bonus-Diagnosta sp. z o.o.	Poznań	09.12.2019	100.00%	100.00%	Medical services.
43	Centrum Medyczne Nowa 5 sp. z o.o.	Gorzów Wlkp.	30.12.2022	100.00%	100.00%	Medical services. http://www.nowa5.pl/
44	Boramed Centrum Medyczne sp. z o.o.	Warsaw	31.05.2023	100.00%	n/a	Medical services. https://www.boramed.pl/
Consolidated companies – other companies						
45	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
46	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds. https://www.pzu.pl/grupa-pzu/spolki/pzu-centrumoperacji
47	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
48	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
49	PZU Finance AB (publ.) in likvidation	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
50	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
51	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
52	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/
53	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
54	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
55	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
56	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

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				31 December 2023	31 December 2022	
Consolidated companies – other companies – continued						
57	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
58	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
59	PZU CASH SA	Warsaw	15.09.2017	100.00%	100.00%	Other monetary intermediation. https://www.pzu.pl/grupa-pzu/spolki/pzu-cash-sa
60	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
61	PZU Projekt 01 SA	Warsaw	01.09.2020	100.00%	100.00%	No business conducted.
62	UAB "B10 biurai"	Vilnius (Lithuania)	14.03.2023	100.00%	n/a	Property management.
63	UAB "B10 apartamentai"	Vilnius (Lithuania)	14.03.2023	100.00%	n/a	Property management.
Consolidated companies – Armatura Group						
64	Armatura Kraków SA	Kraków	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. https://www.kfa.pl/
65	AQ SA in liquidation	Kraków	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
66	Aquaform Ukraine TOW in liquidation	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
67	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
68	PZU FIZ Sektor Nieruchomości 2	Warsaw	21.11.2011	n/a	n/a	as above
69	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
70	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
71	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
72	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
73	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
74	inPZU Akcje Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
75	inPZU Obligacje Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
76	inPZU Akcje Rynków Wschodzących	Warsaw	28.10.2019	n/a	n/a	as above
77	inPZU Akcje Amerykańskie	Warsaw	28.10.2019	n/a	n/a	as above

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				31 December 2023	31 December 2022	
Consolidated companies – mutual funds – continued						
78	inPZU Akcje CEEplus	Warsaw	28.10.2019	n/a	n/a	as above
79	PZU FIZ Legato	Warsaw	11.08.2021	n/a	n/a	as above
80	inPZU Akcje Rynku Surowców	Warsaw	15.12.2021	n/a	n/a	as above
81	inPZU Akcje Rynku Złota	Warsaw	15.12.2021	n/a	n/a	as above
82	inPZU Akcje Sektora Zielonej Energii	Warsaw	15.12.2021	n/a	n/a	as above
83	inPZU Akcje Sektora Informatycznego	Warsaw	15.12.2021	n/a	n/a	as above
84	inPZU Akcje Sektora Nieruchomości	Warsaw	15.12.2021	n/a	n/a	as above
85	inPZU Akcje Europejskie	Warsaw	15.12.2021	n/a	n/a	as above
86	inPZU Obligacje Inflacyjne	Warsaw	15.12.2021	n/a	n/a	as above
87	PZU Akcji Globalnych Trendów	Warsaw	12.04.2023	n/a	n/a	as above
88	inPZU Akcje Sektora Biotechnologii	Warsaw	07.09.2023	n/a	n/a	as above
89	inPZU Akcje Sektora Cyberbezpieczeństwa	Warsaw	07.09.2023	n/a	n/a	as above
90	inPZU Sektora Technologii Kosmicznych	Warsaw	07.09.2023	n/a	n/a	as above
91	inPZU Akcje Sektora Zrównoważonej Gospodarki Wodnej	Warsaw	07.09.2023	n/a	n/a	as above
92	inPZU Zielone Obligacje	Warsaw	07.09.2023	n/a	n/a	as above
93	inPZU Obligacje Korporacyjne High Yield	Warsaw	07.09.2023	n/a	n/a	as above
Consolidated companies – special purpose vehicles of PZU FIZ Sektor Nieruchomości 2						
94	PH 3 sp. z o.o.	Warsaw	28.01.2011	100.00%	100.00%	Real property management.
95	PH 3 sp. z o.o. SKA	Warsaw	28.01.2011	100.00%	100.00%	Real property management.
96	Portfel Alliance Silesia I BIS sp. z o.o.	Warsaw	29.03.2013	100.00%	100.00%	Real property management.
97	Portfel Alliance Silesia III sp. z o.o.	Warsaw	02.10.2012	100.00%	100.00%	Real property management.
98	Portfel Alliance Silesia IV sp. z o.o.	Warsaw	04.10.2012	100.00%	100.00%	Real property management.
99	Portfel Alliance Silesia V sp. z o.o.	Warsaw	08.10.2012	100.00%	100.00%	Real property management.
100	Portfel Alliance Silesia VII sp. z o.o.	Warsaw	04.10.2012	100.00%	100.00%	Real property management.
101	Portfel PB 1 sp. z o.o.	Warsaw	03.10.2012	100.00%	100.00%	Real property management.
102	Portfel PB 2 sp. z o.o.	Warsaw	08.10.2012	100.00%	100.00%	Real property management.
103	Portfel PH 1 sp. z o.o.	Warsaw	02.10.2012	100.00%	100.00%	Real property management.
104	Portfel PH 2 sp. z o.o.	Warsaw	08.10.2012	100.00%	100.00%	Real property management.

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				31 December 2023	31 December 2022	
Consolidated companies – special purpose vehicles of PZU FIZ Sektor Nieruchomości 2						
105	EBP 1 sp. z o. o.	Warsaw	28.09.2018	100.00%	100.00%	Real property management.
106	EBP 2 sp. z o. o.	Warsaw	11.07.2012	100.00%	100.00%	Real property management.
107	EBP 3 Sp. z o.o.	Warsaw	13.07.2012	100.00%	100.00%	Real property management.
108	Ogrody Lubicz sp. z o.o.	Kraków	25.07.2012	100.00%	100.00%	Real property management.
109	Portfel PM 1 sp. z o.o.	Warsaw	09.10.2012	100.00%	100.00%	Real property management.
110	3 PB 1 sp. z o.o.	Warsaw	22.03.2012	100.00%	100.00%	Real property management.
111	3 PB 1 sp. z o.o. SKA	Warsaw	22.03.2012	100.00%	100.00%	Real property management.
112	Portfel2 PH5 sp. z o.o.	Warsaw	28.11.2014	100.00%	100.00%	Real property management.
113	2 PB 1 sp. z o.o.	Warsaw	13.12.2011	100.00%	100.00%	Real property management.
114	2 PB1 sp. z o.o. SKA	Warsaw	13.12.2011	100.00%	100.00%	Real property management.
115	2 PB 2 sp. z o.o.	Warsaw	08.02.2012	100.00%	100.00%	Real property management.
116	2PB3 sp. z o.o.	Warsaw	12.07.2012	100.00%	100.00%	Real property management.
117	2PB4 sp. z o.o.	Warsaw	11.07.2012	100.00%	100.00%	Real property management.
118	2PB5 sp. z o.o.	Warsaw	25.07.2012	100.00%	100.00%	Real property management.
119	2 PM 1 sp. z o.o.	Warsaw	28.03.2014	100.00%	100.00%	Real property management.
120	2PM2 sp. z o.o.	Warsaw	04.12.2012	100.00%	100.00%	Real property management.
121	2 PM 3 sp. z o.o.	Warsaw	13.08.2014	100.00%	100.00%	Real property management.
122	2PM4 sp. z o.o.	Warsaw	07.11.2014	100.00%	100.00%	Real property management.
123	2 PM 5 sp. z o.o.	Warsaw	07.11.2014	100.00%	100.00%	Real property management.
Associates						
124	Sigma BIS SA	Warsaw	03.10.2019	34.00%	34.00%	Advertising activity.
125	RUCH SA	Warsaw	23.12.2020	30.92%	30.92%	Retail sale of newspapers and stationery in specialized stores. https://ruch.com.pl/
126	Krajowy Integrator Płatności SA [4)]	Poznań	31.03.2021	7.67%	7.67%	Other monetary intermediation. https://tpay.com/

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

[2)] Information on the company's merger with Absource sp. z o.o. is presented in section 2.3.3.2.

[3)] Information on the company's establishment is presented in section 2.3.2.

[4)] Pekao's associate in which it holds a 38.33% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

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

Detailed accounting rules applicable to the recognition of acquisition transactions are presented in section 6.5.

2.3.1. Acquisitions

Acquisition of Boramed Centrum Medyczne sp. z o.o.

On 31 May 2023, PZU Zdrowie SA acquired 370,000 shares in the share capital of Boramed Centrum Medyczne sp. z o.o. representing 100% of the shares in Boramed Centrum Medyczne sp. z o.o. and entitling the holder a total of 100% of the votes at the shareholders' meeting for PLN 35 million and a deferred payment of PLN 2 million. Deferred payment is subject to the terms and conditions set out in the acquisition agreement.

Boramed Centrum Medyczne sp. z o.o. has been consolidated since 31 May 2023.

The acquisition of Boramed Centrum Medyczne sp. z o.o. is aimed at the development of the network of own facilities of PZU Zdrowie, particularly in the area of gynecological care in Warsaw. Boramed Centrum Medyczne sp. z o.o. is one of the largest entities specializing in gynecology in the Warsaw metropolitan area, offering a comprehensive range of gynecological care. The company has world-class diagnostic equipment and an outstanding medical staff, providing its services to both individual and corporate clients. The development of medical service offerings and health insurance is one of the main elements in the implementation of the PZU Group's strategy. The goodwill recognized in the consolidated financial statements is a result of the planned increase in the scale of this service segment and the volume of benefits generated by health insurance, while improving the profitability of these services by leaving a portion of the margin in PZU Group.

Purchase price allocation – Boramed Centrum Medyczne sp. z o.o.

The PZU Group made the final settlement of the acquisition, applying the principles of IFRS 3 Business Combinations as of the dates of obtaining control.

The allocation process of the share purchase prices was carried out based on accounting data as at 31 May 2023:

The consolidated financial statements contain the final fair value of the assets and liabilities acquired. During the goodwill calculation, no significant differences were identified between the carrying amount and the fair value of the acquired assets and liabilities. No intangible assets were found that were previously unrecognized in the financial statements of Boramed Centrum Medycznego sp. z o.o.; no contingent liabilities requiring recognition were identified; no potential indemnification assets requiring recognition were identified.

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

Value of acquired net assets	Boramed sp. z o.o. Final settlement
Assets	**9**
Property, plant and equipment	7
Receivables	1
Cash and cash equivalents	1
Liabilities	**7**
Other liabilities	7
Value of acquired net assets	**2**

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Calculated goodwill / gain from a bargain purchase	Boramed sp. z o.o. Final settlement
Consideration transferred	36
Net value of identifiable assets	(2)
Goodwill / (gain from a bargain purchase)	**34**

Goodwill will not be deductible from taxable income.

Financial data of the acquired company

The table below shows the financial data of the company acquired in 2023 included in the consolidated profit and loss account. The data was prepared in accordance with IFRS and relates to the period when this company was under the control of the PZU Group.

Data from the consolidated profit and loss account	
Other operating income	14
Other operating expenses	(13)
Operating profit	1
Profit before tax	1
Income tax	-
Net profit, including:	1
- profit attributable to the equity holders of the Parent Company	1
- profit (loss) attributable to holders of non-controlling interests	-

2.3.2. Establishment of Alior Leasing Individual sp. z o.o.

Alior Leasing Individual sp. z o.o. was established on 29 August 2023 and was registered with the National Court Register on 23 October 2023. The share capital of Alior Leasing Individual sp. z o.o. amounts to PLN 100,000 and is divided into 100 shares with a nominal value of PLN 1,000. The company's shareholders are Alior Leasing sp. z o.o. (90% of shares) and AL Finance sp. z o.o. (10% of shares). Alior Leasing Individual sp. z o.o. was consolidated.

2.3.3. Mergers of companies

Mergers described in this section had no impact on the PZU Group's consolidated financial statements.

2.3.3.1. Merger of Centrum Medyczne św. Łukasza sp. z o.o. with PZU Zdrowie SA

On 31 October 2023, Centrum Medyczne św. Łukasza sp. z o.o. (the acquired company) and PZU Zdrowie SA (the acquiring company) were merged.

2.3.3.2. Merger of Meritum Services ICB SA with Absource sp. z o.o.

On 8 December 2023, Absource sp. z o.o. (the acquired company) and Meritum Services ICB SA (the acquiring company) were merged.

2.3.4. Changes to consolidation of mutual funds

On 12 April 2023, the subfund PZU Akcji Globalnych Trendów was consolidated as a result of gaining control of the fund.

On 7 September 2023, inPZU Akcje Sektora Biotechnologii, inPZU Akcje Sektora Cyberbezpieczeństwa, inPZU Sektora Technologii Kosmicznych, inPZU Akcje Sektora Zrównoważonej Gospodarki Wodnej, inPZU Zielone Obligacje, inPZU Obligacje Korporacyjne High Yield funds were registered and consolidated.

During 2023, the consolidation of the following funds was discontinued due to loss of control:

- as of 30 June 2023 – inPZU Puls Życia 2025 and inPZU Puls Życia 2050;
- as of 30 September 2023 – inPZU Puls Życia 2030, inPZU Puls Życia 2040, inPZU Puls Życia 2060, inPZU Obligacji Rynków Rozwiniętych.

2.4 Purchase of PG TUW and PG TUWnŻ

On 4 September 2023, PZU (the "Buyer") entered into a conditional agreement with Orlen SA (the "Seller") for the sale of 2,000,000 shares in the share capital of PG TUW constituting 100% of the shares in the share capital of PG TUW and entitling to 99.9997% of the votes at the Shareholder Meeting of PG TUW, with the Seller being the sole equity member of PG TUW.

PG TUW holds 1,525,000 shares in the share capital of PG TUWnŻ representing 100% of the shares in PG TUWnŻ and entitling PG TUWnŻ to 99.99992% of the votes at the Shareholder Meeting of PG TUWnŻ, with PG TUW being the sole equity member of PG TUWnŻ.

Upon fulfillment of the conditions precedent, the Seller entered into the final agreement with the Buyer on 25 January 2024. As of 25 January 2024, both PG TUW and PG TUWnŻ have been subsidiaries of PZU and will be consolidated.

The total price for the acquired shares was PLN 47 million and may be subject to adjustment due to the difference between the net asset value of the companies as at 31 December 2022 and the value as at 25 January 2024 (the closing date of the transaction).

The purpose of the transaction is to increase the PZU Group's written premiums, strengthen cooperation with the Seller's Group and increase the value of the PZU Group's assets under management accumulated by EPS participants.

2.5 Non-controlling interest

2.5.1. Accounting policy

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

2.5.2. Quantitative data

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

Name of the entity	31 December 2023	31 December 2022
Pekao [1)]	79.98%	79.98%
Alior Bank [2)]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%

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

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

Carrying amount of non-controlling interests	31 December 2023	31 December 2022
Pekao Group	24,260	18,184
Alior Bank Group	6,194	4,078
Other	1	1
Total	**30,455**	**22,263**

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Assets	Pekao Group		Alior Bank Group	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Goodwill	693	693	-	-
Intangible assets	2,101	2,009	411	390
Deferred tax assets	1,105	1,572	1,018	1,458
Other assets	156	111	64	48
Property, plant and equipment	2,066	1,706	743	744
Entities accounted for using the equity method	54	48	-	-
Assets held for sale	33	14	-	2
Assets pledged as collateral for liabilities	1,648	930	47	41
Loan receivables from clients	158,502	155,174	59,850	57,095
Financial derivatives	10,122	15,369	663	544
Investment financial assets	111,427	84,829	23,358	17,162
Measured at amortized cost	94,926	67,167	7,790	7,195
Measured at fair value through other comprehensive income	14,830	16,594	15,472	9,896
Measured at fair value through profit or loss	1,671	1,068	96	71
Current income tax receivables	1	271	1	1
Other receivables	3,103	5,705	1,542	2,662
Cash and cash equivalents	14,715	12,681	2,259	2,551
Total assets	**305,726**	**281,112**	**89,956**	**82,698**

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Equity				
Equity attributable to the equity holders of the parent company	30,335	22,736	9,099	5,991
Share capital	263	263	1,306	1,306
Other capital	21,725	18,828	5,900	4,229
Retained earnings	8,347	3,645	1,893	456
Non-controlling interest	12	12	-	-
Total equity	**30,347**	**22,748**	**9,099**	**5,991**
Liabilities				
Subordinated liabilities	2,781	2,789	1,160	1,164
Liabilities on the issue of own debt securities	9,958	10,338	2,109	752
Liabilities to banks	6,759	7,450	288	270
Liabilities to clients under deposits	231,497	208,696	73,078	70,025
Derivatives	10,724	18,698	903	1,935
Current income tax liabilities	1,492	4	324	247
Other liabilities	10,267	9,019	2,674	2,027
Provisions	1,880	1,347	319	285
Deferred tax liability	21	23	2	2
Total liabilities	**275,379**	**258,364**	**80,857**	**76,707**
Total equity and liabilities	**305,726**	**281,112**	**89,956**	**82,698**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 2023	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Insurance service result before reinsurance	4,122	-	-	-	4,122
Insurance revenue	26,868	-	-	-	26,868
Insurance service expenses	(22,746)	-	-	-	(22,746)
Net income or expenses from reinsurance contracts held	(103)	-	-	-	(103)
Reinsurance premium allocation	(1,514)	-	-	-	(1,514)
Amounts recoverable from reinsurers	1,411	-	-	-	1,411
Insurance service result	4,019	-	-	-	4,019
Insurance finance income or expenses	(1,786)	-	-	-	(1,786)
Reinsurance finance income or expenses	38	-	-	-	38
Interest income calculated using the effective interest rate	27,579	(18,149)	(7,323)	228	2,335
Other net investment income	406	(303)	25	(5)	123
Result on derecognition of financial instruments and investments	592	(37)	(15)	-	540
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,225)	567	660	1	3
Net movement in fair value of assets and liabilities measured at fair value	863	(234)	(108)	1	522
Revenue from commissions and fees	5,528	(3,590)	(1,772)	160	326
Fee and commission expenses	(1,742)	817	940	(17)	(2)
Operating costs of banks	(6,332)	4,583	1,919	(170)	-
Interest expenses	(8,890)	6,162	2,542	(63)	(249)
Other operating income	1,859	(405)	(193)	59	1,320
Other operating expenses	(4,842)	2,080	582	(194)	(2,374)
Operating profit (loss)	**16,067**	**(8,509)**	**(2,743)**	**-**	**4,815**
Share of the net financial results of entities measured by the equity method	10	(6)	-	-	4
Profit (loss) before tax	**16,077**	**(8,515)**	**(2,743)**	**-**	**4,819**
Income tax	(3,625)	1,907	684	-	(1,034)
Net profit (loss)	**12,452**	**(6,608)**	**(2,059)**	**-**	**3,785**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 December 2022	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Insurance service result before reinsurance	3,600	-	-	-	3,600
Insurance revenue	24,745	-	-	-	24,745
Insurance service expenses	(21,145)	-	-	-	(21,145)
Net income or expenses from reinsurance contracts held	63	-	-	-	63
Reinsurance premium allocation	(1,126)	-	-	-	(1,126)
Amounts recoverable from reinsurers	1,189	-	-	-	1,189
Insurance service result	3,663	-	-	-	3,663
Insurance finance income or expenses	(408)	-	-	-	(408)
Reinsurance finance income or expenses	30	-	-	-	30
Interest income calculated using the effective interest rate	18,265	(11,211)	(5,387)	189	1,856
Other net investment income	(57)	(199)	411	(23)	132
Result on derecognition of financial instruments and investments	(366)	20	(40)	-	(386)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(3,193)	2,013	1,075	1	(104)
Net movement in fair value of assets and liabilities measured at fair value	704	(62)	(419)	-	223
Revenue from commissions and fees	5,136	(3,439)	(1,588)	154	263
Fee and commission expenses	(1,449)	644	815	(11)	(1)
Operating costs of banks	(5,450)	4,046	1,611	(207)	-
Interest expenses	(4,767)	2,871	1,745	(43)	(194)
Other operating income	1,662	(423)	(183)	54	1,110
Other operating expenses	(5,608)	2,825	885	(114)	(2,012)
Operating profit (loss)	**8,162**	**(2,915)**	**(1,075)**	**-**	**4,172**
Share of the net financial results of entities measured by the equity method	(25)	(5)	-	-	(30)
Profit (loss) before tax	**8,137**	**(2,920)**	**(1,075)**	**-**	**4,142**
Income tax	(2,471)	1,170	360	-	(941)
Net profit (loss)	**5,666**	**(1,750)**	**(715)**	**-**	**3,201**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 31 December 2023	1 January – 31 December 2022	1 January – 31 December 2023	1 January – 31 December 2022
Net profit	6,608	1,750	2,059	715
Other comprehensive income, gross	2,979	(2,068)	1,298	(536)
Subject to subsequent transfer to profit or loss	2,928	(1,999)	1,272	(521)
Valuation of debt instruments	952	(759)	207	(162)
Measurement of loan receivables from clients	4	(7)	-	-
Effect of movements in exchange rates	-	-	2	1
Cash flow hedging	1,972	(1,233)	1,063	(360)
Not to be transferred to profit or loss in the future	51	(69)	26	(15)
Valuation of equity instruments	80	(59)	26	(15)
Actuarial gains and losses related to provisions for employee benefits	(29)	(10)	-	-
Tax recognized in other comprehensive income	(566)	393	(248)	104
Total net comprehensive income	**9,021**	**75**	**3,109**	**283**

Statement of Cash Flows	Pekao Group		Alior Bank Group	
	1 January – 31 December 2023	1 January – 31 December 2022	1 January – 31 December 2023	1 January – 31 December 2022
Net cash flows from operating activities	30,340	19,205	4,848	340
Net cash flows from investing activities	(27,320)	(15,814)	(6,175)	(1,423)
Net cash flows from financing activities	(885)	4,294	1,152	(163)
Total net cash flows	**2,135**	**7,685**	**(175)**	**(1,246)**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 31 December 2023	1 January – 31 December 2022	1 January – 31 December 2023	1 January – 31 December 2022
Date of ratifying the dividend	6 June 2023	15 June 2022	-	-
Record date	4 July 2023	25 July 2022	-	-
Dividend payment date	18 July 2023	4 August 2022	-	-
Dividend per share (PLN)	5.42	4.30	-	-
Dividend attributable to PZU Group	285	226	-	-
Dividend attributable to non-controlling interest	1,138	903	-	-

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

3. Shareholder structure

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

31 December 2023

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the General Meeting of Shareholders
1	State Treasury	295,217,300	34.1875%
2	BlackRock, Inc. [1]	43,228,203	5.0060%
3	Other shareholders	525,077,497	60.8065%
Total		**863,523,000**	**100%**

[1] Number of shares based on the BlackRock, Inc. notification dated 13 December 2023.

31 December 2022

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the General Meeting of Shareholders
1	State Treasury	295,217,300	34.1875%
2	Funds managed by Nationale Nederlanden Powszechne Towarzystwo Emerytalne Spółka Akcyjna [1]	49,223,000	5.7003%
3	Other shareholders	519,082,700	60.1122%
Total		**863,523,000**	**100%**

[1] Number of shares held by funds at the Extraordinary Shareholder Meeting of PZU held on 1 September 2022.

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

Transactions with material blocks of PZU shares

On 5 January 2023, PZU was notified by Powszechne Towarzystwo Emerytalne Allianz Polska SA of an increase in the shareholding and in the general number of votes of PZU over 5% held jointly by the funds managed by Powszechne Towarzystwo Emerytalne Allianz Polska SA, i.e. by Allianz Polska Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and the Second Allianz Polska Otwarty Fundusz Emerytalny, which held in total 48,183,212 PZU shares, corresponding to 5.5798% of the share capital and entitling to 5.5798% of shares at the General Meeting of Shareholders of PZU.

On 17 May 2023, PZU advised about the notification it had received from Powszechne Towarzystwo Emerytalne Allianz Polska SA that on 12 May 2023 as a result of liquidation of the Second Allianz Polska Otwarty Fundusz Emerytalny and of transfer of its assets to Allianz Polska Otwarty Fundusz Emerytalny, Allianz Polska Otwarty Fundusz Emerytalny had held 45,736,958 PZU shares, corresponding to 5.2966% of the share capital and entitling to 5.2966 votes at the General Meeting of Shareholders of PZU.

On 24 November 2023, PZU advised about the notification it had received from Powszechne Towarzystwo Emerytalne Allianz Polska SA that following the sale of PZU shares on 16 November 2023 by Allianz Polska Otwarty Fundusz Emerytalny, the fund had held 42,530,871 PZU shares, corresponding to 4.9253% of the share capital and entitling to 4.9253% of votes at the General Meeting of Shareholders of PZU.

On 27 November 2023, PZU was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA that following the sale of PZU shares on 17 November 2023 by Nationale-Nederlanden Otwarty Fundusz Emerytalny, the fund had held 43,064,118 PZU shares, corresponding to 4.9870% of the share capital and entitling to 4.9870% of votes at the General Meeting of Shareholders of PZU. At the same time, funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA hold a total of 44,180,412 PZU shares, corresponding to 5.1163% of the share capital and entitling to 5.1163% of votes at the General Meeting of Shareholders of PZU.

On 1 December 2023, PZU was notified by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA – which manages the following funds: Nationale-Nederlanden Otwarty Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2025, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2030, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2035, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2040, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2045, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2050, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2055, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2060, Nationale-Nederlanden Dobrowolny Fundusz Emerytalny Nasze Jutro 2065 (the Funds) – that as a result of the sale of PZU shares in the transactions on WSE entered into on 23 November 2023, the Funds had reduced their total holding of PZU shares below 5% of votes at the General Meeting of Shareholders of PZU. Before the transaction was settled, the Funds had held a total of 43,467,027 PZU shares, corresponding to 5.03% of the share capital and entitling to exercise 43,467,027 votes, that is 5.03% of the total number of votes at the General Meeting of Shareholders of PZU. After the transaction was settled, the Funds hold 43,120,753 PZU shares, corresponding to 4.99% of the share capital and entitling to exercise 43,120,753 votes, that is 4.99% of the total number of votes at the General Meeting of Shareholders of PZU.

On 13 December 2023, PZU was notified by BlackRock, Inc. that as at 12 December 2023, Black Rock, Inc. had held 43,228,203 PZU shares, corresponding to 5.0060% of the share capital and entitling to 5.0060% of votes at the General Meeting of Shareholders of PZU.

4. Key management – Management Board and Group Directors

4.1 Management Board of the Parent Company

From 1 January 2023 to 31 December 2023, the composition of the Management Board of PZU was as follows:

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

On 23 February 2024, the PZU Supervisory Board dismissed the following persons from the PZU Management Board: Beata Kozłowska-Chyła, Ernest Bejda, Małgorzata Kot, Krzysztof Kozłowski, Piotr Nowak and Małgorzata Sadurska.

At the same time, the PZU Supervisory Board adopted resolutions to delegate the following Members of the PZU Supervisory Board:

- Anita Elżanowska – to temporarily perform the function of the President of the PZU Management Board;
- Michał Bernaczyk – to temporarily perform the function of the Member of the PZU Management Board.

This delegating was for a period of no more than 3 months. The resolutions came into force upon their adoption.

From 24 February 2024 to the date of signing the consolidated financial statements, the PZU Management Board consisted of the following persons:

- Anita Elżanowska – Member of the PZU Supervisory Board delegated to temporarily perform the function of the President of the PZU Management Board;
- Michał Bernaczyk – Member of the PZU Supervisory Board delegated to temporarily perform the function of the Member of the PZU Management Board;

- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board.

4.2 PZU Group Directors

From 1 January 2023, Directors of PZU Group were as follows:

- Aleksandra Agatowska (PZU);
- Andrzej Jaworski (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Sylwia Matusiak (PZU);
- Piotr Nowak (PZU Życie);
- Małgorzata Sadurska (PZU Życie).

On 1 February 2023, Małgorzata Skibińska was appointed to the position of PZU Group Director at PZU and PZU Życie.

On 6 June 2023, Dominik Witek and Ernest Bejda were appointed PZU Group Director, respectively at PZU and PZU Życie.

From 6 June 2023 to 31 December 2023, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Ernest Bejda (PZU Życie);
- Andrzej Jaworski (PZU);
- Krzysztof Kozłowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Sylwia Matusiak (PZU);
- Piotr Nowak (PZU Życie);
- Małgorzata Sadurska (PZU Życie);
- Małgorzata Skibińska (PZU i PZU Życie);
- Dominik Witek (PZU).

On 23 February 2024, Ernest Bejda, Krzysztof Kozłowski, Piotr Nowak and Małgorzata Sadurska ceased to hold the position of the PZU Group Director in PZU Życie.

From 24 February 2024 to the date of signing the consolidated financial statements, the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Andrzej Jaworski (PZU);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Sylwia Matusiak (PZU);
- Małgorzata Skibińska (PZU i PZU Życie);
- Dominik Witek (PZU).

5. Supervisory Board of the parent company

From 1 January 2023 to the date of conveying the condensed interim financial statements, the composition of the Supervisory Board of PZU was as follows:

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

On 5 June 2023, a shareholder of PZU, the State Treasury, exercising the right provided for in § 20(7) of PZU's Articles of Association, appointed Paweł Górecki to the Supervisory Board of PZU.

On 7 June 2023, the Annual General Meeting of PZU appointed the Supervisory Board of PZU for a new term of office in the following composition:

- Marcin Chludziński – Member of the Supervisory Board;
- Agata Górnicka – Member of the Supervisory Board;
- Robert Jastrzębski – Member of the Supervisory Board;
- Marcin Kubicza – Member of the Supervisory Board;
- Elżbieta Mączyńska-Ziemacka – Member of the Supervisory Board;
- Krzysztof Opolski – Member of the Supervisory Board;
- Radosław Sierpiński – Member of the Supervisory Board;
- Józef Wierzbowski – Member of the Supervisory Board;
- Maciej Zaborowski – Member of the Supervisory Board.

The appointment was made for a joint term of office covering three full financial years 2024-2026.

At the same time, as of the date of the Ordinary Shareholder Meeting of PZU, i.e. 7 June 2023, the mandates of two former members of the Supervisory Board of PZU, Robert Śnitko and Piotr Wachowiak, expired.

On 15 June 2023, Robert Jastrzębski was elected Chairman of the Supervisory Board of PZU and Paweł Górecki was appointed Deputy Chairman of the Supervisory Board of PZU.

On 30 August 2023, the PZU Supervisory Board elected Agata Górnicka as Secretary of the Supervisory Board.

On 13 September 2023, the Extraordinary General Meeting of PZU dismissed Elżbieta Mączyńska-Ziemacka from the PZU Supervisory Board.

From 14 September 2023 to 31 December 2023, the composition of the Supervisory Board of PZU was as follows:

- Robert Jastrzębski – Supervisory Board Chairman;
- Paweł Górecki – Deputy Chairman of the Supervisory Board;
- Agata Górnicka – Secretary of the Supervisory Board;
- Marcin Chludziński – Member of the Supervisory Board;
- Marcin Kubicza – Member of the Supervisory Board;
- Krzysztof Opolski – Member of the Supervisory Board;

- Radosław Sierpiński – Member of the Supervisory Board;
- Józef Wierzbowski – Member of the Supervisory Board;
- Maciej Zaborowski – Member of the Supervisory Board.

On 14 February 2024, PZU received a letter from the Minister for State Assets, acting on behalf of the State Treasury of the Republic of Poland, dated 13 February 2024, notifying of the dismissal of Paweł Górecki from the PZU Supervisory Board. Pursuant to § 20(7) of the Articles of Association of PZU SA and in line with Article 354 § 1of the Commercial Company Code, the dismissal through a written statement submitted by the State Treasury to the Management Board is effective upon its delivery.

On 15 February 2024, the Extraordinary General Meeting of PZU:

- dismissed the following persons from the PZU Supervisory Board: Robert Jastrzębski, Agata Górnicka, Radosław Sierpiński, Marcin Chludziński, Maciej Zaborowski, Krzysztof Opolski and Józef Wierzbowski;
- appointed the following persons to the PZU Supervisory Board: Michał Bernaczyk, Anita Elżanowska, Filip Gorczyca, Michał Jonczynski, Andrzej Kaleta, Małgorzata Kurzynoga, Anna Machnikowska, Wojciech Olejniczak and Adam Uszpolewicz.

On 16 February 2024, Marcin Kubicza was elected Chairman of the PZU Supervisory Board.

On 23 February 2024, Małgorzata Kurzynoga was elected Deputy Chair of the PZU Supervisory Board, and Anna Machnikowska was elected Secretary of the PZU Supervisory Board.

From 15 February 2024 to the date of signing the consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

- Marcin Kubicza – Chairman of the Supervisory Board (performing this function since 16 February 2024);
- Małgorzata Kurzynoga – Deputy Chair of the Supervisory Board (performing this function since 23 February 2024);
- Anna Machnikowska – Secretary of the Supervisory Board (performing this function since 23 February 2024);
- Michał Bernaczyk – Member of the Supervisory Board;
- Anita Elżanowska – Member of the Supervisory Board;
- Filip Gorczyca – Member of the Supervisory Board;
- Michał Jonczynski – Member of the Supervisory Board;
- Andrzej Kaleta – Member of the Supervisory Board;
- Wojciech Olejniczak – Member of the Supervisory Board;
- Adam Uszpolewicz – Member of the Supervisory Board.

6. Significant accounting policies and significant estimates and judgments

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

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

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

The actual value may differ from the estimated one. All judgments, estimates and related assumptions are revised on an ongoing basis. Their changes are recognized as described in section 6.1.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

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

Item of the profit and loss account	Note	Item of the statement of financial position	Note
Insurance service result	11	Assets and liabilities under insurance and reinsurance contracts	11
		Goodwill	27
Interest income calculated using the effective interest rate	13	Intangible assets	28
Result on derecognition of financial instruments and investments	15	Property, plant and equipment	30
Movement in allowances for expected credit losses and impairment losses on financial instruments	38	Investment property	31
Revenue from commissions and fees	18	Assets pledged as collateral for liabilities	35
Fee and commission expenses	19	Entities accounted for using the equity method	32
Operating costs of banks	20	Loan receivables from clients	33
Interest expenses	21	Financial derivatives	34
Income tax	25	Investment financial assets	36
		Cash and cash equivalents	39
		Assets and liabilities held for sale	48
		Equity attributable to the equity holders of the parent company	40
		Non-controlling interest	2.5
		Subordinated liabilities	41
		Liabilities on the issue of own debt securities	42
		Liabilities to banks	43
		Liabilities to clients under deposits	44
		Other liabilities	45
		Provisions	46
		Deferred tax	47

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

The accounting policies are changed only if the change:

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

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

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

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

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

In 2023 as well as in 2022, no corrections of errors from previous years were made.

6.2 Amendments to the applied IFRS

6.2.1. Implementation of IFRS 17

On 18 May 2017, the IASB issued IFRS 17 Insurance Contracts, which replaced the current IFRS 4 – Insurance Contracts, effective until the end of 2022.

The aim of the new standard is to introduce completely new, uniform principles for the measurement of insurance contracts, ensuring greater comparability of statements between different insurers, as well as providing a number of new disclosures for the use of recipients of financial statements.

IFRS 17 introduces new principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation feature.

According to the new standard:

- certain embedded derivatives, distinct investment components and the promise to transfer to a policyholder distinct goods or services other than insurance contract services are separated from the host insurance or reinsurance contracts and accounted for applying other relevant standards;
- the insurance and reinsurance contracts are divided into groups for which entity applies the recognition and measurement requirements of IFRS 17;
- the measurement method of a group of contracts in accordance with IFRS 17 is based on estimates of the present value of future fulfilment cash flows related to future and past service allocated to the group and on the contractual service margin (CSM) representing unearned profit;
- the profit on a group of insurance contracts is accounted for in each period in which the insurance service is provided. If a group of contracts is expected to be onerous, the loss is recognized immediately in the full amount in the profit or loss.

For the presentation in the statement of financial position, portfolios of insurance contracts and portfolios of reinsurance contracts are aggregated and the following portfolios are presented separately:

- insurance contracts issued that are assets;
- reinsurance contracts held that are assets;
- insurance contracts issued that are liabilities;
- reinsurance contracts held that are liabilities.

The structure of presentation in the consolidated profit and loss account and in the consolidated statement of comprehensive income has changed significantly. In particular, written premiums, claims and expenses incurred in the period and change in insurance contract liabilities were reported under IFRS 4.

In accordance with IFRS 17, the PZU Group presents separately the following items:

- insurance revenue;
- insurance service expenses;
- income or expenses from reinsurance contracts held;
- insurance finance income or expenses.

The most significant part of the operating profit for the PZU Group's insurance activities is the insurance service result. According to IFRS 17, the insurance service result comprises:

- the amount of insurance revenue reflecting the consideration to which the PZU Group is entitled in exchange for services provided in the period and
- insurance service expenses which include incurred claims, amortization of insurance acquisition cash flows, changes relating to the past service and losses on groups of onerous contracts.

The accounting policies and estimates applied for the purposes of measuring insurance contracts and reinsurance contracts, as well as the approach adapted to the preparation of disclosures are presented in detail in section 11.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

6.2.1.1. Transition date

PZU applied IFRS 17 Insurance Contracts for the first time to the consolidated financial statements for the periods starting on 1 January 2023.

Due to the need to prepare comparative figures, 1 January 2022 is assumed as the date of transition to the new standard.

At the transition date, PZU Group:

- derecognized any existing balances from the statement of financial position that would not exist had IFRS 17 always applied. These included technical reserves, certain deferred acquisition costs of insurance contracts, insurance receivables and payables, provisions for expenses attributable to the existing insurance contracts which, in accordance with IFRS 17, are included in the measurement of insurance contracts;
- identified, recognized and measured each group of insurance contracts in accordance with one of the three methods described below;
- recognized all the resulting net differences in the consolidated equity.

The standard allows the use of three methods for the purpose of measuring financial items at the transition date:

- full retrospective approach (FRA) – a method whereby an entity measures groups of insurance contracts as if the standard had been applied from the beginning for those contracts;
- modified retrospective approach (MRA) – a method that allows for simplifications to be applied to the FRA if its full application is impracticable;
- fair value approach – a method that is permitted if the FRA method is impracticable and if the entity has decided not to use the MRA method.

PZU Group applied all the three methods depending on the availability of historical data. The full retrospective approach was applied for all groups of non-life insurance contracts, except for pre-1993 liabilities for incurred claims, for which the fair value approach was applied. Approaches applied to the groups of life insurance contracts are presented in the table below:

Contract recognition date	Approach
2021 or later	• Full retrospective approach for all contracts
2019 – 2020	• Modified retrospective approach for unit-linked contracts • Full retrospective approach for other contracts
2016 – 2018	• Full retrospective approach for individually continued insurance contracts • Modified retrospective approach for other contracts
2015 and earlier	• Fair value approach for annuities and endowment insurance contracts (JUŻ) • Modified retrospective approach for other contracts

Full retrospective approach

In accordance with IFRS 17 paragraph C3, the PZU Group has applied the full retrospective approach unless it was impracticable. Pursuant to paragraph 5 of the International Accounting Standard 8, the application of the requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy or to make a retrospective restatement of data if:

- the effects of the retrospective approach are not determinable;
- the retrospective application or retrospective restatement of data requires assumptions about what management's intent would have been in that period; or
- The retrospective application or retrospective restatement of data requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and
  - would have been available when the financial statements for that prior period were authorized for issue.

For those parts of the business for which the application of the full retrospective approach was impracticable (e.g. data were not collected at the required resolution, there were changes in IT systems preventing the preparation of the relevant data and there were profound changes in actuarial models making the retrospective application impracticable), the PZU Group applied simplifications as permitted by the standard.

Simplifications

In cases where the application of the full retrospective approach has been assessed as impracticable, the PZU Group uses the modified retrospective approach or the fair value approach, and the choice of approach is made individually for each group of contracts. Factors such as the availability of historical data and significance are taken into account in the selection.

For some groups of contracts for which the PZU Group used the modified retrospective approach or the fair value approach, cumulative amount of finance income or expenses from insurance recognized in other comprehensive income at the transition date was determined as zero.

The following table presents simplifications which are allowed by the standard and which are applied by PZU Group:

Simplification	Approach adopted
Evaluation of the groups of contracts on the basis of information available at the transition date, instead of at the contract inception date	To the extent that the PZU Group did not have reasonable and documented information that would allow the full retrospective approach to be applied, decisions were made regarding the following issues, using reasonable and documented information available at the date of transition to the new standard instead of information available at the time of initial recognition: • the method of identifying groups of insurance contracts; • the assessment of whether an insurance contract corresponds to the definition of an insurance contract with direct participation features.
Non-application of IFRS 17 paragraph 22 to divide groups into those that do not include contracts issued more than one year apart	For some groups of contracts for which the PZU Group used the modified retrospective approach or the fair value approach, contracts concluded at intervals of more than one year were included within the groups.
Use of historical cash flows in order to determine contractual service margins	To the extent that the PZU Group did not have reasonable and documented information to apply the full retrospective approach, future cash flows at the date of initial recognition of the group of insurance contracts were estimated as the amount of future cash flows at the date of transition (or at an earlier date if the future cash flows at the earlier date could be determined retrospectively), adjusted for cash flows known to have occurred between the date of initial recognition of the group of insurance contracts and the date of transition (or an earlier date).
Simplified calculation of a risk adjustment for non-financial risk at the date of initial recognition of a group of insurance contracts	For groups of contracts for which the modified retrospective approach was used, to the extent that the PZU Group did not have reasonable and documented information to apply the full retrospective approach, the non-financial risk adjustment at the date of initial recognition of the group of insurance contracts (or later) was determined by adjusting the non-financial risk adjustment at the transition date by the expected release from risk prior to the transition date. The expected release from risk was determined by reference to the risk released for similar insurance contracts concluded by the PZU Group at the transition date.

Modified retrospective approach

Where the application of the full retrospective approach is impracticable, IFRS 17 allows the application of modifications to such an approach – the so-called modified retrospective approach – to achieve the closest outcome to retrospective application possible. Modifications allowed by the standard cover assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition, estimates related to the contractual service margin or loss component, and estimates of insurance finance income or expenses.

In the cases provided for in IFRS 17 and where the PZU Group has deemed the modified retrospective approach to be reasonable, the PZU Group has applied the following modifications to the full retrospective approach:

- the use of historical cash flows and reliable estimates of historical cash flows to estimate future cash flows and contractual service margin or loss component as at the initial recognition of a group of contracts or group of insurance contracts without direct participation features;

- estimated risk adjustment for non-financial risk as at the date of initial recognition of a group of insurance contracts and its release before the transition date based on information available as at the transition date. Information used for such estimates include the calibrated risk adjustment for non-financial risk as at the transition date, estimated cash flows at the date of initial recognition of the group of insurance contracts and historical data available as at the transition date;
- aggregation of groups of contracts issued more than one year apart.

In its estimations using the modified retrospective approach, the PZU Group did not apply the modifications allowed in the IFRS 17 relating to the measurement of discount rates.

When applying the modified retrospective approach, PZU Group used reasonable and supportable information, making the maximum use of the data available, without any undue cost or effort, which PZU Group would have used if the full retrospective approach had been applied.

Fair value approach

The fair value approach in the transition period was applied by the PZU Group for annuity and traditional products entered into before 1993 for which there are no reasonable and supportable information available without undue cost or effort that would allow computations in line with the modified retrospective approach.

With respect to contracts where the fair value approach has been applied, the PZU Group determined CSM as at the transition date as the difference between the fair value of the liability for remaining coverage and cash flows in respect of liabilities measured as at that date. In determining fair value, the PZU Group applied the requirements of IFRS 13 “Fair Value Measurement”, except for the requirement that the fair value of a financial liability with a demand feature (e.g. a demand deposit) cannot be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The PZU Group has aggregated contracts issued more than one year apart into one group of insurance contracts in line with the fair value approach as at the transition date, because it did not have reasonable and supportable information allowing for disaggregation into groups of contracts issued within one year.

When applying the fair value approach, PZU Group used reasonable and supportable information available as the transition date for the purposes of:

- identifying groups of insurance contracts;
- identifying discretionary cash flows for insurance contracts without direct participation features.

To measure the fair value of insurance contracts at the transition date as required by IFRS 13, PZU Group applied the income approach using cash flow discounting. In principle, this approach is consistent with the approach to measuring cash flows from the performance of contracts, in accordance with the guidance of IFRS 17. The differences lie in the approach to the measurement of the risk adjustment for non-financial risk - by taking into account a higher cost of capital (applicable in PZU Group and determined by the Capital Asset Pricing Model (CAPM) in the income approach).

6.2.1.2. Cash flow discounting

For the purposes of determining the discount rate curves for the measurement of liabilities for periods from 31 December 2015, PZU Group uses the risk-free discount rates published by EIOPA, and for earlier periods, i.e. years prior to the implementation of Solvency II Directive, PZU Group determined historical discount rate curves based on the bond market data and on the evaluation of availability of illiquid assets in the market. In addition, for periods prior to 2015, the discount rate curves have been adjusted (lowered) by a credit risk adjustment of 10 basis points, consistent with the EIOPA methodology. In applying discount rates, the assessment of liquidity of liabilities of a given product was also taken into account. The illiquidity premium was determined on the basis of market data and liquidity characteristics of individual groups of insurance contracts.

6.2.1.3. Impact of the application of IFRS 17 on the consolidated statement of financial position as at 1 January 2022

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Assets at 1 January 2022	IFRS 4	Reclassifications	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Goodwill	2,778	-	-	-	-	2,778	Goodwill
Intangible assets	3,403	-	-	-	-	3,403	Intangible assets
Deferred tax assets	3,058	-	20	-	-	3,078	Deferred tax assets
Other assets	633	(234)	(68)	-	-	331	Other assets
Property, plant and equipment	4,144	-	-	-	-	4,144	Property, plant and equipment
Investment property	2,773	-	-	-	-	2,773	Investment property
Entities accounted for using the equity method	93	-	-	-	-	93	Entities accounted for using the equity method
	n/a	-	252	(188)	-	64	Insurance contract assets
	n/a	1,513	(183)	-	179	1,509	Reinsurance contract assets
Deferred acquisition costs	1,573	(1,573)	-	-	-	n/a	
Reinsurers' share in technical provisions	2,540	(2,540)	-	-	-	n/a	
Assets pledged as collateral for liabilities	1,336	-	-	-	-	1,336	Assets pledged as collateral for liabilities
Assets held for sale	643	-	-	-	-	643	Assets held for sale
Loan receivables from clients	215,008	-	-	-	-	215,008	Loan receivables from clients
Financial derivatives	8,328	-	-	-	-	8,328	Financial derivatives
Investment financial assets	136,954	-	-	-	-	136,954	Investment financial assets
Measured at amortized cost	82,893	-	-	-	-	82,893	Measured at amortized cost
Measured at fair value through other comprehensive income	44,896	-	-	-	-	44,896	Measured at fair value through other comprehensive income
Measured at fair value through profit or loss	9,165	-	-	-	-	9,165	Measured at fair value through profit or loss
Current income tax receivables	223	-	-	-	-	223	Current income tax receivables
Other receivables	9,195	(2,639)	-	-	-	6,556	Other receivables
Cash and cash equivalents	9,447	-	-	-	-	9,447	Cash and cash equivalents
Total assets	**402,129**	**(5,473)**	**21**	**(188)**	**179**	**396,668**	**Total assets**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Equity and liabilities at 1 January 2022	IFRS 4	Reclassifications	Differences in measurement of insurance and reinsurance contract assets and liabilities	CSM	RA	IFRS 17	
Equity							**Equity**
Equity attributable to the equity holders of the parent company	17,080	-	14,004	(7,980)	(1,032)	22,072	Equity attributable to the equity holders of the parent company
Share capital	86	-	-	-	-	86	Share capital
Other capital	14,343	-	(732)	-	-	13,611	Other capital
Retained earnings	2,651	-	14,736	(7,980)	(1,032)	8,375	Retained earnings
Non-controlling interest	22,914	-	-	-	-	22,914	Non-controlling interest
Total equity	**39,994**	**-**	**14,004**	**(7,980)**	**(1,032)**	**44,986**	**Total equity**
Liabilities							**Liabilities**
	n/a	46,737	(15,133)	7,792	1,214	40,610	Insurance contract liabilities
	n/a	-	31	-	(3)	28	Reinsurance contract liabilities
Technical provisions	50,173	(50,173)	-	-	-	n/a	
Subordinated liabilities	6,274	-	-	-	-	6,274	Subordinated liabilities
Liabilities on the issue of own debt securities	5,940	-	-	-	-	5,940	Liabilities on the issue of own debt securities
Liabilities to banks	7,470	-	-	-	-	7,470	Liabilities to banks
Liabilities to clients under deposits	265,155	-	-	-	-	265,155	Liabilities to clients under deposits
Financial derivatives	11,880	-	-	-	-	11,880	Financial derivatives
Current income tax liabilities	147	-	-	-	-	147	Current income tax liabilities
Other liabilities	13,056	(2,111)	66	-	-	11,011	Other liabilities
Provisions	1,206	-	-	-	-	1,206	Provisions
Deferred tax liability	806	74	1,053	-	-	1,933	Deferred tax liability
Liabilities directly associated with assets classified as held for sale	28	-	-	-	-	28	Liabilities related to assets classified as held for sale
Total liabilities	**362,135**	**(5,473)**	**(13,983)**	**7,792**	**1,211**	**351,682**	**Total liabilities**
Total equity and liabilities	**402,129**	**(5,473)**	**21**	**(188)**	**179**	**396,668**	**Total equity and liabilities**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

The following columns of the table reflecting the impact of the application of IFRS 17 on the consolidated statement of financial position as at 1 January 2022 include respectively:

- “Reclassification”, i.e. balances measured in accordance with IFRS 4 carried from items that were recognized in the consolidated statement of financial position prepared in accordance with IFRS 4 to new items required under IFRS 17, i.e. “Assets under insurance contracts”, “Assets under reinsurance contracts”, “Liabilities under insurance contracts”, “Liabilities under reinsurance contracts”. Change in the total amount of equity and liabilities resulted from the fact that a part of balances (e.g. deferred acquisition expenses, prepayments or insurance receivables) were carried from assets to liabilities. The reclassifications do not influence the consolidated equity of the PZU Group;
- “Differences in measurement of insurance and reinsurance contract assets and liabilities” presents the effect of changed measurement of individual assets and liabilities as a result of the application of IFRS 17. The greatest part of the difference results from the application of the best estimate liability applying discounting based on current interest rates with regard to the approach applied to measure technical provisions in accordance with IFRS 4 - the difference in the valuation of assets and liabilities as at 1 January 2022 contributed to the growth of consolidated equity of the PZU Group by PLN 14,004 million;
- “CSM” presents the value of future profits from insurance contracts in accordance with GMM and VFA methods recognized as at 1 January 2022. The recognition of CSM reduced consolidated equity of the PZU Group by PLN 7,980 million;
- “RA” presents the adjustment due to non-financial risks resulting from the uncertainty of cash flows. The recognition of RA as at 1 January 2022 contributed to a decrease in consolidated equity of the PZU Group by PLN 1,032 million.

The impact of IFRS 17 on the PZU Group's consolidated equity as at 1 January 2022 was PLN 4,992 million. This resulted, in particular, from a change in the approach to the measurement of liabilities under insurance and reinsurance contracts in accordance with requirements of IFRS 17. The new standard allows for a part of the difference in the measurement of liabilities to be recognized as a reduction in the cumulative other comprehensive income by PLN 732 million. This is a result of declines in historical interest rates. The discount rates determined at the initial recognition (the so-called *locked-in* rates, which are rates from the period when the policy was issued or the period were the loss incurred) were mostly higher than the risk-free rates as at 1 January 2022.

As at 31 December 2022, the impact of the application of IFRS 17 on the equity in comparison to that at 1 January 2022 increased due to a significant increase in the risk-free interest rates in 2022.

Changes in accounting policies and significant estimates applied in the Condensed Interim Consolidated Financial Statements during 2023

PZU Group decided to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period (the so-called year-to-date reporting).

The final level of own equity as at 1 January 2022 presented in the Consolidated Financial Statements differs insignificantly from that presented in the Condensed Interim Financial Statements during 2023, mainly due to the change in accounting policies regarding the recognition of unit-linked products.

Instead of the fair value approach used in the Condensed Interim Financial Statements, the PZU Group decided to use a modified retrospective approach.

The cumulative effect of the changes as of 1 January 2022 is presented in the following tables.

Assets at 1 January 2022	**IFRS 17** (before restatement)	**Change**	**IFRS 17** (restated)
Deferred tax assets	3,077	1	3,078
Insurance contract assets	59	5	64
Reinsurance contract assets	1,539	(30)	1,509
Other receivables	6,559	(3)	6,556
Total assets	**396,695**	**(27)**	**396,668**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Equity and liabilities at 1 January 2022	IFRS 17 (before restatement)	Change	IFRS 17 (restated)
Equity			
Equity attributable to the equity holders of the parent company	22,129	(57)	22,072
Share capital	86	-	86
Other capital	13,649	(38)	13,611
Retained earnings	8,394	(19)	8,375
Non-controlling interest	22,914	-	22,914
Total equity	**45,043**	**(57)**	**44,986**
Liabilities			
Insurance contract liabilities	40,566	44	40,610
Other liabilities	11,006	5	11,011
Deferred tax liability	1,952	(19)	1,933
Total liabilities	**351,652**	**30**	**351,682**
Total equity and liabilities	**396,695**	**(27)**	**396,668**

6.2.2. Standards, interpretations and amendments to standards effective from 1 January 2023

The following amendments to standards have been applied to the consolidated financial statements.

Name of standard/interpretation	Approving regulation	Comment
Amendments to IAS 1 - Presentation of Financial Statements	2022/357	Under the amendments, an entity is required to disclose significant, rather than material (as before), accounting policies. The amendment provides examples of how to identify significant accounting policies and clarifies that an accounting policy may be material by its nature even if the figures are immaterial. An accounting policy is material if the users of the financial statements need it to understand other material information in such statements. Disclosure of immaterial accounting policies must not obscure material accounting policies. The amendment has not affected the PZU Group's consolidated statements to any significant extent.
Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	2022/357	Amendments to IAS 8 include: • replacement of the definition of a change in estimates with a definition of estimates. According to the new definition, estimated values are "monetary amounts in the financial statements that are subject to measurement uncertainty"; • clarification that a change in an estimate resulting from new information or new developments does not constitute the correction of an error. In addition, the effects of a change in the inputs or the valuation technique used to determine the estimate are changes in estimates, unless they result from the correction of prior period errors; • an explanation that a change in estimate can affect only the profit or loss of the current period or the profit or loss of both the current and future periods. The effect of a change relating to the current period is recognized as income or expense for the current period. The effect, if any, on future periods is recognized as income or expense in future periods. The amendment did not have a significant impact on the consolidated statements of PZU Group.
Amendment to IAS 12 - Income taxes	2022/1392	Under the amendment, the exemption set out in IAS 12.15(b) for the initial recognition of deferred tax assets or liabilities will not apply to transactions in which both taxable and deductible temporary differences arise, resulting in the need to recognize a deferred tax asset and liability at the same time (e.g. in the case of leasing transactions). The amendment applies to transactions that occur on or after the date that begins the earliest comparative period presented in the financial statements. The amendment did not have a significant impact on the consolidated statements of PZU Group.

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Name of standard/interpretation	Approving regulation	Comment
Amendments to IAS 12 - Income taxes	2023/2468	The amendment addresses the potential impact of implementing the model rules of the global minimum tax (top-up tax). In December 2021, the Organization for Economic Cooperation and Development published Pillar Two model rules to ensure that large, multinational companies will be subject to a minimum tax rate of 15%. The amendment to IAS 12 introduces: • an exception that an entity does not recognize and does not disclose information about deferred tax assets and liabilities related to the global minimum income taxes. An entity has to disclose that it has applied the exception; • a disclosure requirement that an entity has to disclose separately its current tax expense (income) related to the global minimum tax; • a disclosure requirement that state that in periods in which the global minimum tax legislation is enacted or substantively enacted, but not yet in effect, an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to the global minimum tax; • the requirement that an entity applies the exception and the requirement to disclose that it has applied the exception immediately upon issuance of the amendments and retrospectively in accordance with IAS 8. The remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023. The change did not have any significant effect on the PZU Group's consolidated financial statements.

6.2.3. Standards and interpretations and amendments to standards issued, not yet effective

Approved by the regulation of the European Commission

Name of standard/ interpretation	Approving regulation	Effective date (according to IASB)	Comment
Amendment to IFRS 16 – Leases	2023/2579	1 January 2024	The amendment requires that when measuring lease liabilities arising from a sale-leaseback, the seller (lessee) should not recognize any gain or loss associated with the retained right of use. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.
Amendment to IAS 1 - Classification of liabilities as current and non-current	2023/2822	1 January 2024	The amendment clarifies that conditions existing at the end of the reporting period are taken into account when determining the right to defer a liability, and that the classification does not depend on an entity's intention or expectation to exercise the option to defer a liability. The amendments will not exert a material influence on the PZU Group's consolidated financial statements.

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Not approved by the European Commission

Name of standard/ interpretation	Date of issue by the IASB	Effective date (according to IASB)	Comment
Amendments to IAS 7 - Statement of Cash Flows and IFRS 7 - Financial Instruments – Disclosures	25 May 2023	1 January 2024	The amendments relate to disclosure requirements (qualitative and quantitative) on supplier financing arrangements. Entities will be required to disclose information to assess how supplier arrangements affect the entity's liabilities and cash flows and to understand the impact of supplier arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to the entity. The amendment introduces disclosure requirements on: • the terms and conditions of the supplier finance arrangements; • for the arrangements, as at the beginning and end of the reporting period: – the carrying amounts of financial liabilities that are part of the arrangement and the associated line item presented; – the carrying amount of financial liabilities disclosed referred to above for which suppliers have already received payment from the finance providers; – the range of payment due dates of financial liabilities referred to above and comparable trade payables that are not part of a supplier finance arrangement; and • the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of the arrangement. Supplier financing arrangements are also added as an example under the liquidity risk disclosure requirements. The amendment will not have a significant impact on the consolidated financial statements of PZU Group.
Amendments to IAS 21 – The effects of changes in foreign exchange rates	16 August 2023	1 January 2025	The amendments relate to requirements to be applied by entities when the foreign currency is not exchangeable. The amendments include: • specify when a currency is exchangeable and when it is not; • specify how an entity determines the exchange rate to apply when a currency is not exchangeable; • require the disclosure of additional information when a currency is not exchangeable- evaluation how a currency’s lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows. PZU Group has not yet estimated the potential impact on the consolidated financial statements of PZU Group.

PZU Group does not expect the introduction of the above standards and interpretations to have a significant impact on the accounting policies applied by PZU Group.

6.3 Presentation changes in the consolidated financial statements

6.3.1. Interest income from hedging instruments derivatives

To better reflect the economic sense of hedging transactions and make the profit and loss account of the PZU Group in 2023 more transparent, interest income from hedging instruments was carried from “Other net revenue from investments” to “Interest income calculated using the effective interest rate”. In order to ensure the comparability of the data, the reclassification of comparative data was performed, as described below.

Consolidated profit and loss account	1 January – 31 December 2022 (before restatement)	Reclassification	1 January – 31 December 2022 (restated)
Interest income calculated using the effective interest rate	18,626	(361)	18,265
Other net investment income	(418)	361	(57)
Operating profit	**8,160**	-	**8,160**

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6.3.2. Receivables and liabilities under income tax

Due to the significance of the amounts relating to income tax liabilities, the PZU Group presented them in a separate line of liabilities in the balance sheet. To maintain consistency in presentation, income tax receivables have also been moved to a separate line. In order to ensure the comparability of the data, the reclassification of data was performed, as described below.

Consolidated statement of financial position	31 December 2022 (before restatement)	Reclassification	31 December 2022 (restated)	1 January 2022 (before restatement)	Reclassification	1 January 2022 (restated)
Current income tax receivables	-	305	305	-	223	223
Other receivables	9,413	(305)	9,108	6,779	(223)	6,556
Total assets	**429,186**	**-**	**429,186**	**396,668**	**-**	**396,668**

Consolidated statement of financial position	31 December 2022 (before restatement)	Reclassification	31 December 2022 (restated)	1 January 2022 (before restatement)	Reclassification	1 January 2022 (restated)
Current income tax liabilities	-	328	328	-	147	147
Other liabilities	14,629	(328)	14,301	11,158	(147)	11,011
Total equity and liabilities	**429,186**	**-**	**429,186**	**396,668**	**-**	**396,668**

6.4 Consolidation rules

These consolidated financial statements for the financial year ended on 31 December 2023 include financial data of the parent company and all its subsidiaries after elimination of intragroup transactions.

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

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

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

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

The rules applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies are presented in Section 6.6.

6.4.1. Judgments in exercising control

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

- how many votes it holds at the shareholder meeting and whether it holds more votes than other investors (including potential voting rights and rights resulting from other contractual arrangements);
- how many entities would have to act together in order to outvote the PZU Group;
- distribution of votes at previous shareholder meetings;
- if the key personnel of the entity or members of the investee's governing body are related parties of the PZU Group;

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- capacity to appoint members of management and supervisory bodies of the entity;
- commitments, if any, to ensure that an investee continues to operate as designed;
- capacity to obligate the entity to perform or prevent it from performing significant transactions;
- other prerequisites.

The analysis of prerequisites for exercising control over Pekao and Alior Bank as at 31 December 2023 is presented in the table below.

Criterion	Pekao	Alior Bank
Share in votes at the shareholder meeting	20.02%	31.93%
Shareholder agreements	On 23 January 2017, PZU and PFR (holding 12.8% of Pekao's share capital) signed a Shareholder Agreement to build Pekao's long-term value, implement a policy aimed at ensuring Pekao's development, financial stability and effective and prudent management. It defines the rules of cooperation between PZU and PFR, in particular pertaining to joint exercise of voting rights from the shares held and the implementation of a common long-term policy for Pekao's business. The Shareholder Agreement provides for the possibility of having real influence on Pekao's operating policies. On 1 June 2022, an annex was signed extending the Shareholder Agreement until 7 June 2025, with the possibility of further extensions. The Management Board of PZU does not have any information about any agreements that may have been concluded between Pekao's other shareholders.	The Management Board of PZU does not have any information about any agreements that may have been concluded between Alior Bank's other shareholders.
Other shareholders	Only two shareholders hold a stake of more than 5%, accounting in total for 12% shares. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.	Only three shareholders hold a stake of more than 5%, accounting in total for 24% shares. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.
Potential voting rights	No potential voting rights have been identified.	No potential voting rights have been identified.
Capacity to adopt resolutions in line with PZU's intentions	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.
PZU representatives in governing bodies	Supervisory Board members include persons fulfilling key management functions at PZU.	Supervisory Board members include persons fulfilling key management functions at PZU.
Investor commitments and exposure to variability of returns	In connection with bancassurance, assurbanking activities, joint initiatives in the cost areas, including IT and real property, between PZU and Pekao, PZU has access to financial results, activities and operations that are not available to other shareholders of Pekao.	The PZU Group has undertaken investor commitments towards Alior Bank and conducts operations together with Alior Bank. This means that it has greater exposure to the variability of Alior Bank's financial results than it is implied by the stake it holds in Alior Bank's equity.

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

6.4.2. Rules of consolidation of mutual funds

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

- PZU Group companies jointly have the capacity to exercise their authority over the fund to influence the value of the return on investment, with the prerequisites for this capacity being, among others, control exercised over the mutual fund company and a significant share in the total number of votes at the meeting of investors or board of investors;
- the total exposure of PZU Group companies to variable returns from their involvement in a mutual fund is significant, which means that the total share of PZU Group companies in the fund's net assets equals or exceeds 20% (whereas the fund's assets

that are net assets of unit-linked contracts are not used to determine this total share), for which the PZU Group bears no risk. It is assumed that if the involvement is less than 20% of the fund's net assets then the exposure to fluctuations in the fund's financial results, considered together with decision-making powers, imply that such a fund is not controlled by the Group.

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

In the course of its analysis, the PZU Group also takes into account the rights held by other entities, such as the rights and ability to convene a meeting of fund participants.

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

6.5 Acquisition method

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

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

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

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

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

Determination of goodwill or a gain from a bargain purchase

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

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

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

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

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

Intangible assets

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

- trademark – using the relief-from-royalty method, based on potential savings on the license fees that the company is not required to pay as the owner of the trademark (i.e. present value of future potential license fees). The market level of license fees is determined by analyzing license fee rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are determined as the product of the assumed license fee rate and the amount of the estimated sales revenues. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. Then the calculated net cash flows are increased by the potential tax relief arising from the tax amortization benefit (TAB) of the trademark. Finally, the calculated cash flows are discounted using the discount rate reflecting, among others, risk typical for a given trademark;
- relations with clients – using the multiperiod excess earnings method (MEEM), based on the present value of future profits generated by each relation. Fair value is then determined based on discounted future cash flows resulting from the excess income generated by a company in possession of the relevant intangible asset over revenues generated by a company without such an asset. The relations are identified and subsequently their life expectancy is determined (by applying the applicable attrition ratio using the Weibull curve) and revenues and costs associated with each relation are projected. Identified and calculated level of contributory asset charges (CAC), including maintenance of capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. If there are any tax structures in place that allow an average market participant to amortize a relation then its measurement should include TAB;
- relations with customers holding savings and checking accounts (CDI, core deposit intangible) – as the present value of the difference between the cost of the CDI and the alternative borrowing costs (including interest and administrative expenses) that the bank would have to incur if it had no core deposit. The value of CDI is measured using the favorable source of funds method derived from the expense and income methods. In this method, the account retention ratio is projected (using the Weibull curve), the average initial balance and the number of accounts to be included in the measurement are estimated and the net balance of deposits is calculated (adjusted by the retention ratio and the unstable part of the deposit base). Then the cost of acquired deposits is calculated as reserve requirements, interest and administration expenses less net commission income from the accounts. Next, interest rate benchmarks are used to estimate the alternative borrowing cost. In the next step, the difference between the alternative borrowing costs and the cost of acquired deposits is calculated, which is discounted using the required rate of return. The measurement of CDI does not include any tax amortization benefit (TAB).

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

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

Loans and advances to customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to the currency exchange restrictions in Ukraine and irregular quotations of the Ukrainian hryvnia by the NBP, PZU Group established an exchange rate for conversion of data of Ukrainian companies in accordance with the NBU Regulation (https://zakon.rada.gov.ua/laws/show/v0018500-22#n67), in keeping with which authorized institutions (banks) purchase and sell foreign currency, as commissioned by clients, in non-cash transactions:

- in U.S. dollars - at an exchange rate that may deviate by no more than 1% from the official National Bank of Ukraine rate in effect on the day of the transaction;
- in other foreign currencies - at the rate that may deviate by no more than 1% from the rate determined on the basis of the official exchange rate of the hryvnia to the U.S. dollar, in effect on the date of the transaction, as well as information on current exchange rates of foreign currencies to the U.S. dollar (or the U.S. dollar to foreign currencies) on international foreign exchange markets, which are received through trade information systems at the time of the transaction.

The official exchange rate of the Ukrainian hryvnia to American dollar adopted by the NBU (which on 21 July 2022 was and continues to be 36.5686 UAH/USD) was converted into Polish zloty at the USD/PLN exchange rate announced by the NBP. In keeping with the aforementioned the PLN/UAH exchange rate was 0.1204 PLN/UAH on 31 December 2022. The average exchange rate was established by applying the aforementioned method at the end of each month in the period from January to March 2023.

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As of 4 April 2023, the NBP resumed regular quoting of the hryvnia exchange rate, so the exchange rate as at 31 December 2023 was determined on the basis of the NBP exchange rate.

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

FX rates used for translation of financial data of foreign related parties	1 January – 31 December 2023	1 January – 31 December 2022	31 December 2023	31 December 2022
EUR	4.5284	4.6883	4.3480	4.6899
GBP	5.2080	5.4900	4.9997	5.2957
UAH	0.1137	0.1370	0.1037	0.1204

6.7 Reform of interest rate benchmarks

On 1 January 2018, a new standard took effect in the European Union for the development of benchmarks, based on the BMR, defining the principles of operation and duties of benchmark administrators and entities making use of these benchmarks. The purpose of the new rules is to increase the credibility, transparency and reliability of benchmarks. As a result of the reform, the benchmarks were adjusted to the new rules (including WIBOR and EURIBOR) or ceased to exist (such as LIBOR) having been replaced with alternative indicators. The largest impact of the reform on the PZU Group stems from loans and advances to customers.

As at 31 December 2023, the IBOR reform affecting the currencies covered by the PZU Group's exposure was largely completed. The table below presents the status of the transition to new benchmarks under the IBOR reform.

Currency	Benchmark before the reform	Benchmark status as at 1 January 2023	Benchmark after the reform	As at 31 December 2023
PLN	WIBOR (Warsaw Inter Bank Offered Rate)	consistent with the BMR	Reformed WIBOR / WIRON	in progress (in terms of fallback clauses)
EUR	EURIBOR	consistent with the BMR	EURIBOR	portfolio was not annexed
USD	USD LIBOR	during liquidation scheduled for the end of September 2024 from July 2023 developed as a synthetic indicator	SOFR, Term SOFR	currently in effect
GBP	GBP LIBOR	during liquidation scheduled for the end of March 2024 developed as a synthetic indicator	SONIA, Term SONIA	currently in effect

The following tables present the PZU Group's exposure to individual unreformed IBOR benchmarks.

31 December 2023	WIBOR (Warsaw Inter Bank Offered Rate)	USD LIBOR	GBP LIBOR
Assets (gross carrying amount)	181,186	1,098	390
Liabilities (gross carrying amount)	29,870	6	-
Off-balance sheet liabilities – granted (nominal value)	10,727	105	-
Off-balance sheet liabilities - granted (nominal value)	374,428	1,554	-
Derivatives – concluded under hedge accounting (nominal value)	46,785	-	-

31 December 2022	WIBOR (Warsaw Inter Bank Offered Rate)	USD LIBOR	GBP LIBOR
Assets (gross carrying amount)	184,002	1,331	495
Liabilities (gross carrying amount)	35,653	68	-
Off-balance sheet liabilities – granted (nominal value)	8,197	327	1
Off-balance sheet liabilities - granted (nominal value)	297,682	5,621	-
Derivatives – concluded under hedge accounting (nominal value)	50,020	-	-

6.7.1. WIBOR (Warsaw Inter Bank Offered Rate)

The Crowdfunding Act provides for work on the process of determining a substitute for the WIBOR rate in the form of new risk-free rates based on O/N (overnight) transactions. A national working group has been established in July 2022 to prepare a roadmap for the smooth and safe implementation of the various elements of the process leading to the replacement of the WIBOR interest rate reference index with a new reference index.

The Steering Committee of the National Working Group ("KS NGR"), at its meetings on 25 August and 1 September 2022 held a discussion and decided on the WIRON index (Warsaw Interest Rate Overnight) as an alternative interest rate benchmark, whose inputs are information representing O/N (overnight) transactions with financial institutions and large companies.

WIRON has been published since the beginning of August 2022, and is expected to become a key interest rate benchmark under the BMR, which will be used in financial contracts (e.g. loan agreements), financial instruments (e.g. debt securities or derivatives) and by investment funds (e.g. in setting management fees). The administrator of WIRON within the meaning of the BMR is WSE Benchmark SA, listed in the register of the European Securities and Markets Authority (ESMA).

In the course of the work of the national working group, the identification, prioritization and estimation of the time-consuming tasks required to be carried out by market participants in order to correctly and safely replace the previously used WIBOR reference indexes with the new index was carried out.

In October 2023, KS NGR decided to revise the deadlines for the Roadmap, which assumes the bottom-up move of the financial sector away from using WIBOR in favor of newly concluded contracts and financial instruments that apply a fixed interest rate or new RFR benchmarks. KS NGR indicated the end of 2027 as the final conversion date.

6.7.2. GBP LIBOR

As previously announced, the 1- and 6-month GBP LIBOR rates were published for the last time on 31 March 2023 using the synthetic method. Publishing the 3-month synthetic GBP LIBOR rate will stop at the end of March 2024. PZU Group is continuing the transformation to remove the GBP LIBOR benchmark in loan agreements.

6.7.3. USD LIBOR

In April 2023, FCA decided to oblige the ICE Benchmark Administration, an administrator of the LIBOR indices, to continue publishing the USD LIBOR rates for 1, 3 and 6 months, using a non-representative "synthetic" method. Publishing the synthetic USD LIBOR rates will end on 30 September 2024. The PZU Group has a portfolio of loan agreements based on the USD LIBOR benchmark with maturities extending beyond September 2024. In respect of these loan agreements, the Group is considering reaching out to the borrowers with a proposed annex in which any reference to the USD LIBOR benchmark will be removed.

6.7.4. Impact of the IBOR reform on hedge accounting

As part of the established hedging relationships, the PZU Group identifies the following interest rate reference rates: WIBOR, EURIBOR. As of the date on which the consolidated financial statements were prepared, these benchmarks were quoted and the resulting flows were exchanged with business partners.

The PZU Group assessed that in the case of EURIBOR there is currently no uncertainty regarding the dates or amounts of cash flows resulting from the IBOR reform. The benchmark has been adjusted to the requirements of the BMR and is calculated by an administrator authorized by regulatory authority. The PZU Group does not expect it will be necessary to change the hedged risk for other benchmarks.

In the case of WIBOR, the PZU Group believes there is uncertainty about the timing and amount of cash flows for the new benchmark Such uncertainty may influence the assessments of the effectiveness of the relationship and high probability of the hedged position. For the needs of these assessments the PZU Group assumes that the interest rate benchmark on which cash flows from the hedged position or hedging instrument will not change as a result of the WIBOR reform.

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

7. Segment reporting

7.1 Reportable segments

7.1.1. 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)	IFRS	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 and 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)	IFRS	Broad scope of property, accident, TPL and motor insurance products offered to retail clients and entities in the small and medium-sized enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	IFRS	Group insurance products offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons with a legal relationship with the policyholder (e.g. employer, trade union) accede to the insurance product granted and individually continued insurance products under which the policyholder acquires the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (non-investment contracts) and health insurance.	No aggregation.
Individual protective insurance products (life insurance)	IFRS	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 and health insurance.	No aggregation.
Life investment insurance	IFRS	Unit-linked insurance and single premium endowment insurance with guaranteed sum insured with significant insurance risk (investment agreements that are not investment contracts).	No aggregation.
Investments	IFRS	The segment includes investments of free funds, i.e. the surplus of the investment portfolio over the level allocated to pay insurance liabilities of PZU and PZU Życie and the operating result of TFI PZU.	The aggregation was effected because of the similar surplus-based nature of the revenues.
Banking activity	IFRS	Broad range of banking products offered both to corporate and individual clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to the similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	IFRS	2nd pillar pension insurance	No aggregation.

Segment	Accounting standards	Segment description	Aggregation criteria
Baltic States	IFRS	Non-life and life insurance products offered by LD and its branch in Estonia, Balta and PZU LT GD.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	IFRS	PZU Życie products that do not transfer any significant insurance risk within the meaning of IFRS 17 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed return and some unit-linked products).	No aggregation.
Other	IFRS	Other products and services not classified into any of the above segments.	

7.1.2. Description of differences in the basis for segment separation and the basis for the measurement of profit or loss of a segment in comparison with the previous annual consolidated financial statements

The PZU Group changed the basis for the measurement of profit or loss of certain segments in comparison with the Consolidated Financial Statements for 2022.

In the case of segments of corporate insurance (non-life insurance), mass insurance (non-life insurance), group and individually continued insurance (life insurance), individual protection insurance (life insurance), investments and investment contracts, the profit or loss of segments was measured in accordance with the Polish Accounting Standard till the end of 2022. Starting from consolidated financial statements for periods started 1 January 2023, the profit or loss of those segments is measured in accordance with the IFRS. In particular for insurance segments, the profit or loss on insurance services is measured in accordance with IFRS 17.

In addition, in accordance with IFRS 17, in the segments of group and individually continued insurance and individual insurance, a new segment of life investment insurance was separated and disclosed.

Data for comparative periods were restated accordingly to recognize the results of segments in accordance with the new structure and method of measurement of profit and loss.

7.1.3. 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.

7.2 Measure of the segment's profit

The PZU Group's fundamental measure of the segment's profit is IFRS-based profit from operating activities.

For all segments, with the exception of banking operations, the segment's result is reduced by intragroup transactions.

When reviewing the performance of PZU Group banks (Pekao and Alior Bank), CODM makes analyzes and decisions based on the consolidated result of the Pekao Group and Alior Bank Group. For this reason, the result of the "Banking Activity" segment is determined as the sum of the unadjusted consolidated results of the Pekao Group and Alior Bank Group. Intragroup transactions included in the results of the Pekao Group and Alior Bank Group, as well as adjustments due to the purchase price allocation, are reported under the "Other" segment.

7.3 Simplifications in the segmental note

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

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

7.4 Quantitative data

1 January – 31 December 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activities	Pension	Other	Total
Insurance service result before reinsurance	560	1,659	1,269	293	30	287	24	-	-	-	-	-	4,122
Insurance revenue	4,101	11,966	7,362	637	93	2,489	220	-	-	-	-	-	26,868
Amortization of liabilities for remaining coverage (PAA)	3,513	9,278	-	-	-	2,001	138	-	-	-	-	-	14,930
Expected claims and benefits (GMM, VFA)	-	-	4,892	130	6	9	16	-	-	-	-	-	5,053
Expected expenses (GMM, VFA)	-	-	788	90	(30)	8	1	-	-	-	-	-	857
Release of the contractual service margin (GMM, VFA)	-	-	1,223	244	45	13	5	-	-	-	-	-	1,530
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	126	18	36	2	1	-	-	-	-	-	183
Recovery of insurance acquisition cash flows	588	2,688	434	154	39	455	58	-	-	-	-	-	4,416
Other income	-	-	(101)	1	(3)	1	1	-	-	-	-	-	(101)
Insurance service expenses	(3,541)	(10,307)	(6,093)	(344)	(63)	(2,202)	(196)	-	-	-	-	-	(22,746)
Claims incurred in the period (without the investment component)	(2,006)	(6,971)	(4,864)	(116)	(6)	(1,632)	(104)	-	-	-	-	-	(15,699)
Expenses incurred in the period	(217)	(876)	(842)	(90)	(5)	(255)	(43)	-	-	-	-	-	(2,328)
Run-off of claim reserves from prior years	(733)	186	34	25	(15)	143	13	-	-	-	-	-	(347)
Amortization of the loss component	113	442	292	8	9	142	1	-	-	-	-	-	1,007
Recognition of the loss component	(110)	(400)	(279)	(17)	(7)	(145)	(5)	-	-	-	-	-	(963)
Amortization of insurance acquisition cash flows	(588)	(2,688)	(434)	(154)	(39)	(455)	(58)	-	-	-	-	-	(4,416)

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

1 January – 31 December 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activities	Pension	Other	Total
Net income or expenses from reinsurance contracts held	45	(108)	-	-	-	(33)	(7)	-	-	-	-	-	(103)
Reinsurance premium allocation	(1,301)	(146)	-	-	-	(65)	(2)	-	-	-	-	-	(1,514)
Amounts recoverable from reinsurers, including:	1,346	38	-	-	-	32	(5)	-	-	-	-	-	1,411
Incurred claims	423	13	-	-	-	55	1	-	-	-	-	-	492
Incurred expenses	10	1	-	-	-	-	-	-	-	-	-	-	11
Run-off of claim reserves from prior years	913	24	-	-	-	(23)	(6)	-	-	-	-	-	908
Insurance service result	**605**	**1,551**	**1,269**	**293**	**30**	**254**	**17**	**-**	**-**	**-**	**-**	**-**	**4,019**
Insurance finance income or expenses	(108)	(263)	(509)	(102)	(761)	(25)	(18)	-	-	-	-	-	(1,786)
Reinsurance finance income or expenses	35	5	-	-	-	(2)	-	-	-	-	-	-	38
Investment income	332	745	852	115	765	57	50	2	522	24,788	17	(30)	28,215
Fees and commissions result	-	-	-	-	-	2	-	3	171	3,605	147	(142)	3,786
Operating costs of banks	-	-	-	-	-	-	-	-	-	(6,489)	-	157	(6,332)
Interest expenses	-	-	-	-	-	-	-	-	(231)	(8,704)	-	45	(8,890)
Other operating income and expenses	-	-	-	-	-	-	-	-	(123)	(2,020)	(44)	(796)	(2,983)
Operating profit	**864**	**2,038**	**1,612**	**306**	**34**	**286**	**49**	**5**	**339**	**11,180**	**120**	**(766)**	**16,067**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

1 January – 31 December 2022	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activities	Pension	Other	Total
Insurance service result before reinsurance	136	1,611	1,277	280	(9)	233	72	-	-	-	-	-	3,600
Insurance revenue	3,448	10,981	7,316	581	89	2,082	248	-	-	-	-	-	24,745
Amortization of liabilities for remaining coverage (PAA)	2,952	8,579	-	-	-	1,656	156	-	-	-	-	-	13,343
Expected claims and benefits (GMM, VFA)	-	-	5,019	161	2	10	19	-	-	-	-	-	5,211
Expected expenses (GMM, VFA)	-	-	703	96	(16)	8	1	-	-	-	-	-	792
Release of the contractual service margin (GMM, VFA)	-	-	1,105	215	37	12	8	-	-	-	-	-	1,377
Release of risk adjustment for non-financial risks (GMM, VFA)	-	-	135	16	18	3	1	-	-	-	-	-	173
Recovery of insurance acquisition cash flows	496	2,402	405	143	51	393	73	-	-	-	-	-	3,963
Other income	-	-	(51)	(50)	(3)	-	(10)	-	-	-	-	-	(114)
Insurance service expenses	(3,312)	(9,370)	(6,039)	(301)	(98)	(1,849)	(176)	-	-	-	-	-	(21,145)
Claims incurred in the period (without the investment component)	(2,774)	(6,347)	(4,956)	(106)	(5)	(1,379)	(100)	-	-	-	-	-	(15,667)
Expenses incurred in the period	(159)	(789)	(730)	(78)	(3)	(220)	(43)	-	-	-	-	-	(2,022)
Run-off of claim reserves from prior years	112	236	(4)	20	(12)	134	40	-	-	-	-	-	526
Amortization of loss component	120	341	349	14	8	205	-	-	-	-	-	-	1,037
Recognition of the loss component	(115)	(409)	(293)	(8)	(35)	(196)	-	-	-	-	-	-	(1,056)
Amortization of insurance acquisition cash flows	(496)	(2,402)	(405)	(143)	(51)	(393)	(73)	-	-	-	-	-	(3,963)

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

1 January – 31 December 2022	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual protective insurance	Life investment insurance	Baltic States	Ukraine	Investment contracts	Investments	Banking activities	Pension	Other	Total
Net income or expenses from reinsurance contracts held	214	(87)	-	-	-	(20)	(44)	-	-	-	-	-	63
Reinsurance premium allocation	(917)	(139)	-	-	-	(49)	(21)	-	-	-	-	-	(1,126)
Amounts recoverable from reinsurers, including:	1,131	52	-	-	-	29	(23)	-	-	-	-	-	1,189
Incurred claims	1,184	16	-	-	-	27	14	-	-	-	-	-	1,241
Incurred expenses	17	2	-	-	-	-	-	-	-	-	-	-	19
Run-off of claim reserves from prior years	(70)	34	-	-	-	2	(37)	-	-	-	-	-	(71)
Insurance service result	**350**	**1,524**	**1,277**	**280**	**(9)**	**213**	**28**	**-**	**-**	**-**	**-**	**-**	**3,663**
Insurance finance income or expenses	(66)	(241)	(462)	(87)	450	24	(26)	-	-	-	-	-	(408)
Reinsurance finance income or expenses	15	11	-	-	-	1	3	-	-	-	-	-	30
Investment income	225	703	682	118	(455)	(13)	(1)	1	442	13,636	12	3	15,353
Fees and commissions result	-	-	-	-	-	2	-	3	87	3,569	161	(135)	3,687
Operating costs of banks	-	-	-	-	-	-	-	-	-	(5,639)	-	189	(5,450)
Interest expenses	-	-	-	-	-	-	-	-	(178)	(4,617)	-	28	(4,767)
Other operating income and expenses	-	-	-	-	-	-	-	-	(95)	(3,035)	(32)	(784)	(3,946)
Operating profit	**524**	**1,997**	**1,497**	**311**	**(14)**	**227**	**4**	**4**	**256**	**3,914**	**141**	**(699)**	**8,162**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Geographic breakdown	1 January – 31 December 2023					1 January – 31 December 2022				
	Poland	Baltic States	Ukraine	Unallocated	Consolidated value	Poland	Baltic States	Ukraine	Unallocated	Consolidated value
Insurance revenue	24,159	2,489	220	-	26,868	22,415	2,082	248	-	24,745
Fees and commissions result	3,784	2	-	-	3,786	3,685	2	-	-	3,687
Investment profit or loss [1]	28,108	57	50	-	28,215	15,367	(13)	(1)	-	15,353

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

Geographic breakdown	31 December 2023					31 December 2022				
	Poland	Baltic States	Ukraine [1]	Unallocated	Consolidated value	Poland	Baltic States	Ukraine [1]	Unallocated	Consolidated value
Non-current assets other than financial assets [2]	7,561	285	3	-	7,849	7,264	319	3	-	7,586
Deferred tax assets	2,204	1	2	-	2,207	3,092	6	5	-	3,103
Assets	465,264	3,498	366	(1,235)	467,893	426,840	3,209	369	(1,232)	429,186

[1] Assets of companies based in Ukraine, adjusted for mutual interests between them.
[2] The sum of the following items of the consolidated statement of financial position: “Intangible assets” and “Property, plant and equipment”.

7.5 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 insurance revenue).

8. Risk management

8.1 Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

8.2 Split of duties and tasks

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

The first three are:

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

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

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

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

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

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

8.3 Risk appetite, risk profile and risk tolerance

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

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

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

Tolerance limits are additional limits introduced for the individual risks types to mitigate potential risk.

This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents acceptance of risk levels that could jeopardize the financial stability of individual companies and the entire PZU Group. The determination of the appropriate level of risk in each entity is the responsibility of its Management Board. The risk unit reviews the size of the risk appetite at least once a year. All actions are coordinated at the PZU Group level.

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

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

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

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

Two levels are distinguished in the risk management process:

- the PZU Group level – ensuring that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk involved. The PZU Group provides support for the implementation of a risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and monitors their ongoing application. While carrying out their tasks in the risk management system, authorized PZU Group personnel cooperates with the Management Boards of subsidiaries and the management of such areas as finance, risk, actuary, reinsurance, investments and compliance on the basis of appropriate cooperation agreements. A risk concentration management system was implemented to ensure that entities in the financial conglomerate attain their business objectives in a manner ensuring financial stability at the level of both the entire conglomerate and individual entities. The system monitors appropriate risk concentration measures and their limits and threshold values. Risk measurement permits identification of the sources of concentration in individual risks at the level of both the financial conglomerate and individual regulated entities and supports an assessment of the impact of these concentrations on financial stability;
- the entity level – ensuring that the PZU Group entity attains its business objectives in a safe manner appropriate to the scale of the risk involved. Monitored at this level are the limits and risk categories specific to the company and, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance area) and the security management system.

8.5 Risk profile

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

High interest rates have not resulted in a deterioration in the credit quality of the PZU Group Banks' portfolios, but have had a positive impact on their financial performance. The introduction of a mortgage loan to the PZU Group banks' offering under the First Home – 2% Safe Mortgage program significantly enhanced the sales performance of the banks in the second half of 2023.

The declining inflation rate during 2023 contributed to the easing of the monetary policy pursued by the Monetary Policy Council. This translated into reducing the cost of financing, which was reflected in better repayment and better quality of the loan portfolios of PZU Group banks. The improved quality of the loan portfolios had the effect of the reduced level of allowances for expected credit losses.

Given the hostilities taking place in Ukraine, monthly monitoring of related risks continued in 2023.

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

In 2023, initiatives were continued to improve the identification, measurement, assessment and monitoring of the risks associated with sustainable development, in particular with climate changes. The main risks in this area are transition risks and physical risks[1], which are managed as part of individual risk categories specified below in this consolidated financial statements. In the framework of credit risk management, mechanisms have been put in place to monitor the risks associated with qualifying infrastructure investments and qualifying investments in infrastructure companies as indicated in Commission Delegated

[1] According to the European Commission guidance for non-financial reporting, transition risks refer to the transition of the economy to a low-carbon and climate-resilient future. Physical risk on the other hand entails financial losses stemming from the physical consequences of climate change and encompasses acute (e.g. storms, fires) and long-term risk (rising sea level).

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).

The management process for various risk categories comprises requirements of sustainable development, and the same applies at the level of each PZU Group subsidiary, in compliance with prevailing provisions of law and individually defined PZU Group internal policies, including the ESG Strategy which constitutes an integral part of the PZU Group Strategy.

8.5.1. Credit risk and concentration risk

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

Credit risk types in the PZU Group include:

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

Concentration risk is the risk stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

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

- risk of a customer's default against PZU Group under contracted loans (in banking activity);
- risk of bankruptcy of an issuer of financial instruments in which PZU Group invests or which it trades, e.g. corporate bonds;
- counterparty default risk, e.g. reinsurance or OTC derivatives and bancassurance activity;
- risk of default of a PZU Group's customer against a third party, e.g. insurance of cash receivables, insurance guarantees.

8.5.1.1. Concentration risk arising out of lending activity

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

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

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

The process of setting and updating concentration limits takes the following into account:

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

Risk analysis is performed, in individual and portfolio approach. Measures are undertaken to:

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

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

- reliability and creditworthiness, including detailed analysis of the source of repayment;
- collateral, which entails review of the formal, legal and economic status, including loan to value adequacy.

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

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

- concentration limits are set and tracked;
- early warning signals are monitored;
- credit portfolio is monitored regularly, especially material credit risk parameters;
- regular stress tests are carried out.

8.5.1.2. Credit risk in banking activity

Risk assessment in credit process

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

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

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

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

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

The financial effect of the established collateral for the portfolio of exposures measured individually with recognized impairment as at 31 December 2023 is PLN 1,420 million (as at 31 December 2022: PLN 2,035 million). This is an amount by which the level of the required impairment losses for this portfolio would be higher if no discounted cash flows obtained from collateral were taken into account in their estimation.

Scoring and credit rating

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

Pekao

In 2023, Pekao continued the process of aligning its rating scale for internal rating models with the rating scale model applicable to external ratings – the so-called Masterscale, in accordance with the following table:

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

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At the end of 2023, the rating models within the corporate/enterprise, microenterprise and retail client segments were mapped onto the Masterscale.

Retail customer portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Microentreprises	**n/a**	**n/a**	**n/a**	**n/a**	**3,200**	**321**	**-**	**3,521**
Class 1 (0% <= PD < 0.06%)	n/a	n/a	n/a	n/a	13	-	-	13
Class 2 (0.06% <= PD < 0.14%)	n/a	n/a	n/a	n/a	243	1	-	244
Class 3 (0.14% <= PD < 0.35%)	n/a	n/a	n/a	n/a	549	6	-	555
Class 4 (0.35% <= PD < 0.88%)	n/a	n/a	n/a	n/a	746	41	-	787
Class 5 (0.88% <= PD < 2.10%)	n/a	n/a	n/a	n/a	707	52	-	759
Class 6 (2.10% <= PD < 4.00%)	n/a	n/a	n/a	n/a	392	50	-	442
Class 7 (4.00% <= PD < 7.00%)	n/a	n/a	n/a	n/a	316	42	-	358
Class 8 (7.00% <= PD < 12.00%)	n/a	n/a	n/a	n/a	158	27	-	185
Class 9 (12.00% <= PD < 22.00%)	n/a	n/a	n/a	n/a	67	41	-	108
Class 10 (22.00% <= PD < 100%)	n/a	n/a	n/a	n/a	9	61	-	70
Microentrepreneurs (Masterscale)	**2,872**	**332**	**-**	**3,204**	**n/a**	**n/a**	**n/a**	**n/a**
AA (0% <= PD <= 0.01000%)	14	2	-	16	n/a	n/a	n/a	n/a
AA– (0.01000% < PD <= 0.01700%)	9	-	-	9	n/a	n/a	n/a	n/a
A+(0.01700% < PD <= 0.02890%)	22	-	-	22	n/a	n/a	n/a	n/a
A(0.02890% < PD <= 0.04913%)	31	1	-	32	n/a	n/a	n/a	n/a
A-(0.04913% < PD <= 0.08352%)	75	-	-	75	n/a	n/a	n/a	n/a
BBB+(0.08352% < PD <= 0.14199%)	164	2	-	166	n/a	n/a	n/a	n/a
BBB(0.14199% < PD <= 0.24138%)	168	-	-	168	n/a	n/a	n/a	n/a
BBB-(0.24138% < PD <= 0.41034%)	258	2	-	260	n/a	n/a	n/a	n/a
BB+(0.41034% < PD <= 0.69758%)	344	11	-	355	n/a	n/a	n/a	n/a
BB(0.69758% < PD <= 1.18588%)	346	26	-	372	n/a	n/a	n/a	n/a
BB-(1.18588% < PD <= 2.01599%)	417	37	-	454	n/a	n/a	n/a	n/a
B+(2.01599% < PD <= 3.42719%)	317	57	-	374	n/a	n/a	n/a	n/a
B(3.42719% < PD <= 5.82622%)	437	51	-	488	n/a	n/a	n/a	n/a
B-(5.82622% < PD <= 9.90458%)	129	34	-	163	n/a	n/a	n/a	n/a
CCC(9.90458% < PD <= 16.83778%)	78	21	-	99	n/a	n/a	n/a	n/a
CC(16.83778% < PD <= 28.62423%)	42	23	-	65	n/a	n/a	n/a	n/a
C(28.62423% < PD <= 100%)	21	65	-	86	n/a	n/a	n/a	n/a

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Retail customer portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Mortgage-backed residential loans (Masterscale)	**56,648**	**3,970**	**-**	**60,618**	**55,025**	**3,500**	**-**	**58,525**
AA (0% <= PD <= 0.01000%)	896	3	-	899	1,161	11	-	1,172
AA– (0.01000% < PD <= 0.01700%)	1,128	5	-	1,133	1,404	6	-	1,410
A+(0.01700% < PD <= 0.02890%)	2,338	9	-	2,347	2,740	32	-	2,772
A(0.02890% < PD <= 0.04913%)	4,212	17	-	4,229	4,548	48	-	4,596
A-(0.04913% < PD <= 0.08352%)	6,223	30	-	6,253	6,403	60	-	6,463
BBB+(0.08352% < PD <= 0.14199%)	8,338	55	-	8,393	8,170	107	-	8,277
BBB(0.14199% < PD <= 0.24138%)	9,748	80	-	9,828	9,120	132	-	9,252
BBB-(0.24138% < PD <= 0.41034%)	9,181	120	-	9,301	8,305	200	-	8,505
BB+(0.41034% < PD <= 0.69758%)	6,910	180	-	7,090	5,932	175	-	6,107
BB(0.69758% < PD <= 1.18588%)	4,380	296	-	4,676	3,900	110	-	4,010
BB-(1.18588% < PD <= 2.01599%)	1,985	572	-	2,557	1,962	254	-	2,216
B+(2.01599% < PD <= 3.42719%)	697	714	-	1,411	783	510	-	1,293
B(3.42719% < PD <= 5.82622%)	271	548	-	819	318	470	-	788
B-(5.82622% < PD <= 9.90458%)	134	397	-	531	124	440	-	564
CCC(9.90458% < PD <= 16.83778%)	93	301	-	394	61	337	-	398
CC(16.83778% < PD <= 28.62423%)	56	191	-	247	47	238	-	285
C(28.62423% < PD <= 100%)	58	452	-	510	47	370	-	417
Cash (consumer) loans (Masterscale)	**9,550**	**1,524**	**-**	**11,074**	**8,190**	**1,959**	**-**	**10,149**
AA (0% <= PD <= 0.01000%)	23	-	-	23	27	1	-	28
AA– (0.01000% < PD <= 0.01700%)	32	-	-	32	33	1	-	34
A+(0.01700% < PD <= 0.02890%)	64	1	-	65	67	2	-	69
A(0.02890% < PD <= 0.04913%)	127	2	-	129	134	3	-	137
A-(0.04913% < PD <= 0.08352%)	251	7	-	258	252	11	-	263
BBB+(0.08352% < PD <= 0.14199%)	416	11	-	427	406	14	-	420
BBB(0.14199% < PD <= 0.24138%)	629	17	-	646	599	25	-	624
BBB-(0.24138% < PD <= 0.41034%)	949	34	-	983	891	45	-	936
BB+(0.41034% < PD <= 0.69758%)	1,206	52	-	1,258	1,113	82	-	1,195
BB(0.69758% < PD <= 1.18588%)	1,370	84	-	1,454	1,193	129	-	1,322
BB-(1.18588% < PD <= 2.01599%)	1,497	135	-	1,632	1,231	194	-	1,425
B+(2.01599% < PD <= 3.42719%)	1,286	176	-	1,462	1,023	254	-	1,277
B(3.42719% < PD <= 5.82622%)	906	191	-	1,097	682	262	-	944
B-(5.82622% < PD <= 9.90458%)	473	199	-	672	351	244	-	595
CCC(9.90458% < PD <= 16.83778%)	196	170	-	366	139	200	-	339
CC(16.83778% < PD <= 28.62423%)	80	138	-	218	48	166	-	214
C(28.62423% < PD <= 100%)	45	307	-	352	1	326	-	327

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Retail customer portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Credit cards (Masterscale)	**720**	**110**	**-**	**830**	**636**	**128**	**-**	**764**
AA (0% <= PD <= 0.01000%)	58	-	-	58	51	8	-	59
AA– (0.01000% < PD <= 0.01700%)	27	-	-	27	24	4	-	28
A+(0.01700% < PD <= 0.02890%)	38	-	-	38	33	4	-	37
A(0.02890% < PD <= 0.04913%)	45	-	-	45	40	4	-	44
A-(0.04913% < PD <= 0.08352%)	58	-	-	58	51	5	-	56
BBB+(0.08352% < PD <= 0.14199%)	72	-	-	72	60	6	-	66
BBB(0.14199% < PD <= 0.24138%)	75	-	-	75	63	6	-	69
BBB-(0.24138% < PD <= 0.41034%)	84	-	-	84	68	8	-	76
BB+(0.41034% < PD <= 0.69758%)	87	1	-	88	71	8	-	79
BB(0.69758% < PD <= 1.18588%)	70	2	-	72	57	6	-	63
BB-(1.18588% < PD <= 2.01599%)	55	6	-	61	49	4	-	53
B+(2.01599% < PD <= 3.42719%)	31	15	-	46	38	3	-	41
B(3.42719% < PD <= 5.82622%)	10	21	-	31	26	2	-	28
B-(5.82622% < PD <= 9.90458%)	5	19	-	24	5	16	-	21
CCC(9.90458% < PD <= 16.83778%)	3	14	-	17	-	16	-	16
CC(16.83778% < PD <= 28.62423%)	2	12	-	14	-	11	-	11
C(28.62423% < PD <= 100%)	-	20	-	20	-	17	-	17
Renewable limits	**212**	**29**	**-**	**241**	**216**	**13**	**-**	**229**
AA: 0% <= PD <= 0.01000%	3	-	-	3	5	-	-	5
AA-: 0.01000% < PD <= 0.01700%	3	-	-	3	4	-	-	4
A+: 0.01700% < PD <= 0.02890%	5	-	-	5	7	-	-	7
A: 0.02890% < PD <= 0.04913%	8	-	-	8	11	-	-	11
A-: 0.04193% < PD <= 0.08352%	13	-	-	13	16	-	-	16
BBB+: 0.08352% < PD <= 0.14199%	19	-	-	19	21	-	-	21
BBB: 0.14199% < PD <= 0.24138%	25	-	-	25	27	-	-	27
BBB-: 0.24138% < PD <= 0.41034%	28	-	-	28	27	-	-	27
BB+: 0.41034% < PD <= 0.69758%	31	-	-	31	28	-	-	28
BB: 0.69758% < PD <= 1.18588%	27	1	-	28	25	-	-	25
BB-: 1.18588% < PD <= 2.01599%	21	2	-	23	19	-	-	19
B+: 2.01599% < PD <= 3.42719%	14	4	-	18	13	-	-	13
B: 3.42719% < PD <= 5.82622%	7	6	-	13	9	-	-	9
B-: 5.82622% < PD <= 9.90458%	3	5	-	8	3	3	-	6
CCC: 9.90458% < PD <= 16.83778%	3	4	-	7	1	4	-	5
CC: 16.83778% < PD <= 28.62423%	2	3	-	5	-	3	-	3
C: 28.62423% < PD <= 100%	-	4	-	4	-	3	-	3
Total retail customer segment	**70,002**	**5,965**	**-**	**75,967**	**67,267**	**5,921**	**-**	**73,188**

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Corporate segment portfolio (unimpaired) covered by the rating model – gross carrying amount	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Large enterprises (Masterscale)	**39,754**	**5,085**	**-**	**44,839**	**23,516**	**2,745**	**-**	**26,261**
AA (0% <= PD <= 0.01000%)	3	-	-	3	8	-	-	8
AA– (0.01000% < PD <= 0.01700%)	-	-	-	-	-	-	-	-
A+ (0.01700% < PD <= 0.02890%)	2	-	-	2	-	-	-	-
A (0.02890% < PD <= 0.04913%)	4	-	-	4	1	-	-	1
A- (0.04913% < PD <= 0.08352%)	170	-	-	170	3	-	-	3
BBB+(0.08352% < PD <= 0.14199%)	114	-	-	114	82	-	-	82
BBB(0.14199% < PD <= 0.24138%)	1,458	10	-	1,468	779	114	-	893
BBB-(0.24138% < PD <= 0.41034%)	2,790	36	-	2,826	2,550	12	-	2,562
BB+(0.41034% < PD <= 0.69758%)	7,013	249	-	7,262	3,534	-	-	3,534
BB (0.69758% < PD <= 1.18588%)	12,387	711	-	13,098	4,146	25	-	4,171
BB- (1.18588% < PD <= 2.01599%)	4,301	1,164	-	5,465	4,000	200	-	4,200
B+ (2.01599% < PD <= 3.42719%)	6,142	274	-	6,416	2,929	913	-	3,842
B (3.42719% < PD <= 5.82622%)	2,469	806	-	3,275	2,419	392	-	2,811
B- (5.82622% < PD <= 9.90458%)	1,328	781	-	2,109	2,554	437	-	2,991
CCC(9.90458% < PD <= 16.83778%)	270	1,012	-	1,282	465	626	-	1,091
CC (16.83778% < PD <= 28.62423%)	1,264	42	-	1,306	21	26	-	47
C (28.62423% < PD <= 100%)	39	-	-	39	25	-	-	25
Small and medium-sized enterprises (Masterscale)	**8,417**	**1,455**	**-**	**9,872**	**18,619**	**3,519**	**-**	**22,138**
AA (0% <= PD <= 0.01000%)	10	-	-	10	4	-	-	4
AA– (0.01000% < PD <= 0.01700%)	2	-	-	2	-	-	-	-
A+ (0.01700% < PD <= 0.02890%)	3	-	-	3	3	-	-	3
A (0.02890% < PD <= 0.04913%)	27	-	-	27	29	-	-	29
A- (0.04913% < PD <= 0.08352%)	58	-	-	58	107	-	-	107
BBB+(0.08352% < PD <= 0.14199%)	143	-	-	143	401	4	-	405
BBB(0.14199% < PD <= 0.24138%)	290	4	-	294	1,005	52	-	1,057
BBB-(0.24138% < PD <= 0.41034%)	725	32	-	757	2,450	43	-	2,493
BB+(0.41034% < PD <= 0.69758%)	936	54	-	990	2,168	52	-	2,220
BB (0.69758% < PD <= 1.18588%)	1,160	103	-	1,263	3,099	158	-	3,257
BB- (1.18588% < PD <= 2.01599%)	1,465	130	-	1,595	3,023	447	-	3,470
B+ (2.01599% < PD <= 3.42719%)	1,638	150	-	1,788	1,320	492	-	1,812
B (3.42719% < PD <= 5.82622%)	913	251	-	1,164	2,041	325	-	2,366
B- (5.82622% < PD <= 9.90458%)	670	327	-	997	2,639	944	-	3,583
CCC(9.90458% < PD <= 16.83778%)	208	244	-	452	275	807	-	1,082
CC (16.83778% < PD <= 28.62423%)	126	86	-	212	38	141	-	179
C (28.62423% < PD <= 100%)	43	74	-	117	17	54	-	71
Enterprises covered by the rating model of Pekao Bank Hipoteczny SA	**240**	**89**	**-**	**329**	**281**	**119**	**-**	**400**
Class 1	146	36	-	182	185	42	-	227
Class 2	93	5	-	98	95	28	-	123
Class 3	-	17	-	17	1	16	-	17
Class 4	1	10	-	11	-	6	-	6
Class 5	-	5	-	5	-	12	-	12
Class 6	-	6	-	6	-	9	-	9
Class 7	-	10	-	10	-	6	-	6
Total corporate segment	**48,411**	**6,629**	**-**	**55,040**	**42,416**	**6,383**	**-**	**48,799**

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Local government units (unimpaired) covered by the rating model – gross carrying amount		31 December 2023				31 December 2022			
		Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
AA	(0% <= PD <= 0.01000%)	-	-	-	-	-	-	-	-
AA–	(0.01000% < PD <= 0.01700%)	-	-	-	-	-	-	-	-
A+	(0.01700% < PD <= 0.02890%)	-	-	-	-	-	-	-	-
A	(0.02890% < PD <= 0.04913%)	-	-	-	-	-	-	-	-
A-	(0.04913% < PD <= 0.08352%)	-	-	-	-	3	-	-	3
BBB+	(0.08352% < PD <= 0.14199%)	95	-	-	95	151	-	-	151
BBB	(0.14199% < PD <= 0.24138%)	38	-	-	38	248	-	-	248
BBB-	(0.24138% < PD <= 0.41034%)	168	-	-	168	128	-	-	128
BB+	(0.41034% < PD <= 0.69758%)	190	-	-	190	216	-	-	216
BB	(0.69758% < PD <= 1.18588%)	105	-	-	105	106	-	-	106
BB-	(1.18588% < PD <= 2.01599%)	19	-	-	19	18	-	-	18
B+	(2.01599% < PD <= 3.42719%)	-	-	-	-	-	-	-	-
B	(3.42719% < PD <= 5.82622%)	-	-	-	-	-	-	-	-
B-	(5.82622% < PD <= 9.90458%)	-	-	-	-	-	-	-	-
CCC	(9.90458% < PD <= 16.83778%)	-	-	-	-	-	-	-	-
CC	(16.83778% < PD <= 28.62423%)	-	-	-	-	-	-	-	-
C	(28.62423% < PD <= 100%)	-	-	-	-	-	-	-	-
Total local government units		**615**	**-**	**-**	**615**	**870**	**-**	**-**	**870**

Portfolio of specialized lending exposures within the meaning of the CRR – unimpaired – by supervisory classes – gross carrying amount	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
High	341	-	-	341	597	-	-	597
Good	12,847	656	-	13,503	8,917	136	-	9,053
Satisfactory	434	573	-	1,007	364	1,800	-	2,164
Poor	-	-	-	-	-	2	-	2
Total	**13,622**	**1,229**	**-**	**14,851**	**9,878**	**1,938**	**-**	**11,816**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Portfolio	31 December 2023			31 December 2022		
	Gross carrying amount	Impairment allowance	Net carrying amount	Gross carrying amount	Impairment allowance	Net carrying amount
Exposures without recognized impairment	159,046	(1,733)	157,313	156,869	(2,134)	154,735
Portfolio covered by the rating model for the retail customer segment	75,970	(687)	75,283	73,188	(1,026)	72,162
Microentrepreneurs (as at 31 December 2023 – Masterscale)	3,207	(30)	3,177	3,521	(30)	3,491
Retail clients	72,763	(657)	72,106	69,667	(996)	68,671
Mortgage-backed residential loans	60,618	(285)	60,333	58,525	(561)	57,964
Cash (consumer) loans	11,074	(322)	10,752	10,149	(392)	9,757
Credit cards	830	(39)	791	764	(35)	729
Renewable limits	241	(11)	230	229	(8)	221
Portfolio covered by the rating model for the corporate segment	55,040	(556)	54,484	48,799	(586)	48,213
Large enterprises (Masterscale)	44,839	(428)	44,411	26,261	(272)	25,989
Small and medium-sized enterprises (Masterscale)	9,872	(121)	9,751	22,138	(303)	21,835
Corporate segment covered by the rating model of Pekao Bank Hipoteczny SA	329	(7)	322	400	(11)	389
Portfolio covered by the rating model for the local government unit segment (Masterscale)	615	-	615	870	(1)	869
Specialized lending exposures	14,851	(314)	14,537	11,816	(248)	11,568
Exposures not covered by the internal rating model	12,570	(176)	12,394	22,196	(273)	21,923
Exposures with recognized impairment	11,373	(7,913)	3,460	11,159	(7,861)	3,298
Total receivables from clients on account of impaired loans [1)]	**170,419**	**(9,646)**	**160,773**	**168,028**	**(9,995)**	**158,033**

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Nominal value of off-balance sheet exposures	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Microentrepreneurs (as at 31 December 2022 – not covered by Masterscale)	n/a	n/a	n/a	n/a	750	52	-	802
Class 1 (0% <= PD < 0.06%)	n/a	n/a	n/a	n/a	5	-	-	5
Class 2 (0.06% <= PD < 0.14%)	n/a	n/a	n/a	n/a	135	-	-	135
Class 3 (0.14% <= PD < 0.35%)	n/a	n/a	n/a	n/a	251	2	-	253
Class 4 (0.35% <= PD < 0.88%)	n/a	n/a	n/a	n/a	181	22	-	203
Class 5 (0.88% <= PD < 2.10%)	n/a	n/a	n/a	n/a	100	12	-	112
Class 6 (2.10% <= PD < 4.00%)	n/a	n/a	n/a	n/a	39	7	-	46
Class 7 (4.00% <= PD < 7.00%)	n/a	n/a	n/a	n/a	28	3	-	31
Class 8 (7.00% <= PD < 12.00%)	n/a	n/a	n/a	n/a	6	1	-	7
Class 9 (12.00% <= PD < 22.00%)	n/a	n/a	n/a	n/a	4	2	-	6
Class 10 (22.00% <= PD < 100%)	n/a	n/a	n/a	n/a	1	3	-	4
Portfolio covered by the rating model (data as at 31 December 2023, also including the Microentrepreneur portfolio)	49,712	3,440	-	53,152	48,924	3,095	-	52,019
AA (0% <= PD <= 0.01000%)	822	1	-	823	730	11	-	741
AA– (0.01000% < PD <= 0.01700%)	363	1	-	364	300	6	-	306
A+(0.01700% < PD <= 0.02890%)	482	2	-	484	348	6	-	354
A(0.02890% < PD <= 0.04913%)	594	3	-	597	420	7	-	427
A-(0.04913% < PD <= 0.08352%)	1,266	3	-	1,269	631	25	-	656
BBB+(0.08352% < PD <= 0.14199%)	1,976	13	-	1,989	1,305	17	-	1,322
BBB(0.14199% < PD <= 0.24138%)	5,680	140	-	5,820	3,466	71	-	3,537
BBB-(0.24138% < PD <= 0.41034%)	8,875	102	-	8,977	4,564	39	-	4,603
BB+(0.41034% < PD <= 0.69758%)	9,515	307	-	9,822	18,340	83	-	18,423
BB(0.69758% < PD <= 1.18588%)	9,447	313	-	9,760	6,263	152	-	6,415
BB-(1.18588% < PD <= 2.01599%)	5,499	588	-	6,087	5,429	287	-	5,716
B+(2.01599% < PD <= 3.42719%)	1,931	313	-	2,244	2,467	375	-	2,842
B(3.42719% < PD <= 5.82622%)	1,305	709	-	2,014	1,263	527	-	1,790
B-(5.82622% < PD <= 9.90458%)	714	412	-	1,126	3,214	479	-	3,693
CCC(9.90458% < PD <= 16.83778%)	144	495	-	639	182	873	-	1,055
CC(16.83778% < PD <= 28.62423%)	1,095	18	-	1,113	2	101	-	103
C(28.62423% < PD <= 100%)	4	20	-	24	-	36	-	36
Specialized lending exposures	5,649	364	-	6,013	2,484	44	-	2,528
High	328	-	-	328	12	-	-	12
Good	5,092	364	-	5,456	2,274	44	-	2,318
Satisfactory	229	-	-	229	198	-	-	198
Poor	-	-	-	-	-	-	-	-
Exposures not covered by the rating model	4,086	347	-	4,433	11,055	366	-	11,421
Exposures with recognized impairment	-	-	567	567	-	-	294	294
Total	**59,447**	**4,151**	**567**	**64,165**	**63,213**	**3,557**	**294**	**67,064**

The value of write-off relating to off-balance sheet exposures amounted to PLN 503 million as at 31 December 2023 (as at 31 December 2022: PLN 391 million).

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

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Loan receivables from clients – outstanding	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
Retail segment	**33,794**	**1,766**	**-**	**35,560**	**31,068**	**1,485**	**-**	**32,553**
PD < 0.18%	7,654	194	-	7,848	9,460	173	-	9,633
0.18% <= PD < 0.28%	6,390	224	-	6,614	950	12	-	962
0.28% <= PD < 0.44%	2,685	63	-	2,748	4,312	129	-	4,441
0.44% <= PD < 0.85%	3,710	118	-	3,828	2,537	56	-	2,593
0.85% <= PD < 1.33%	1,807	32	-	1,839	2,580	57	-	2,637
1.33% <= PD < 2.06%	3,736	135	-	3,871	3,717	78	-	3,795
2.06% <= PD < 3.94%	3,482	156	-	3,638	3,406	154	-	3,560
3.94% <= PD < 9.10%	2,921	206	-	3,127	2,075	103	-	2,178
PD => 9.1%	1,367	638	-	2,005	1,966	723	-	2,689
No scoring	42	-	-	42	65	-	-	65
Business segment	**16,152**	**3,818**	**-**	**19,970**	**15,354**	**3,974**	**-**	**19,328**
PD < 0.28%	693	18	-	711	16	-	-	16
0.28% <= PD < 0.44%	371	5	-	376	706	37	-	743
0.44% <= PD < 0.85%	1,500	125	-	1,625	1,727	195	-	1,922
0.85% <= PD < 1.33%	2,932	191	-	3,123	1,019	110	-	1,129
1.33% <= PD < 2.06%	1,174	386	-	1,560	2,948	257	-	3,205
2.06% <= PD < 3.94%	2,776	637	-	3,413	4,173	402	-	4,575
3.94% <= PD < 9.1%	4,978	1,371	-	6,349	3,246	1,477	-	4,723
PD => 9.1%	675	1,085	-	1,760	1,087	1,496	-	2,583
No scoring	1,053	-	-	1,053	432	-	-	432
Total non past due receivables from clients, without impairment	**49,946**	**5,584**	**-**	**55,530**	**46,422**	**5,459**	**-**	**51,881**

Past due loan receivables from clients	31 December 2023	31 December 2022
Stage 1 and Stage 2	**2,607**	**2,618**
Retail segment	1,512	1,701
Business segment	1,095	917
Stage 3	**1,508**	**1,509**
Retail segment	521	556
Business segment	987	953
POCI	**272**	**252**
Retail segment	101	108
Business segment	171	144
Total past due assets	**4,387**	**4,379**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Nominal value of not overdue off-balance sheet exposures	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total
PD < 0.28%	2,468	149	-	2,617	826	134	-	960
0.28% <= PD < 0.44%	931	21	-	952	822	26	-	848
0.44% <= PD < 0.85%	1,945	67	-	2,012	912	20	-	932
0.85% <= PD < 1.33%	1,684	173	-	1,857	1,135	92	-	1,227
1.33% <= PD < 2.06%	1,723	383	-	2,106	1,904	168	-	2,072
2.06% <= PD < 3.94%	1,261	243	-	1,504	2,139	263	-	2,402
3.94% <= PD < 9.10%	712	202	-	914	766	247	-	1,013
PD => 9.1%	67	179	-	246	190	178	-	368
No scoring	33	-	-	33	34	-	-	34
Total	**10,824**	**1,417**	**-**	**12,241**	**8,728**	**1,128**	**-**	**9,856**

8.5.1.3. Restructured exposures

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

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

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

In the case of granting a loan moratorium period, the PZU Group applies an approach consistent with the regulatory guidance in this respect and does not classify such items automatically as forborne.

Loan receivables from clients	31 December 2023						31 December 2022					
	Stage 1	Stage 2	Stage 3		POCI	Total	Stage 1	Stage 2	Stage3		POCI	Total
			Individual analysis	Group analysis					Individu-al analysis	Group analysis		
Measured at amortized cost												
Gross forborne exposures	85	1,855	1,718	1,175	981	5,814	238	1,896	2,281	1,241	1,950	7,606
Impairment loss	-	(105)	(793)	(616)	(470)	(1,984)	(5)	(143)	(1,064)	(639)	(1,504)	(3,355)
Net forborne exposures	85	1,750	925	559	511	3,830	233	1,753	1,217	602	446	4,251
Total	**85**	**1,750**	**925**	**559**	**511**	**3,830**	**233**	**1,753**	**1,217**	**602**	**446**	**4,251**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in net carrying amount of forborne exposures	1 January – 31 December 2023	1 January – 31 December 2022
Opening balance	4,251	4,278
Value of exposures recognized in the period	1,388	2,097
Value of exposures excluded in the period	(1,485)	(1,900)
Movements in impairment losses	140	150
Other changes	(464)	(374)
Total net receivables	**3,830**	**4,251**

8.5.1.4. Credit risk arising out of investing activity

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

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

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

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

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

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

Exposure to credit risk

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

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Credit risk assets as at 31 December 2023	Stage 1	Stage2	Stage 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	121,095	454	-	25	121,574
– gross carrying amount	121,184	479	-	96	121,759
– from AAA to A	84,213	-	-	-	84,213
– from BBB to B	2,302	283	-	-	2,585
– no rating	34,669	196	-	96	34,961
– write-off for expected credit losses	(89)	(25)	-	(71)	(185)
Debt securities measured at fair value through other comprehensive income – carrying amount	45,104	119	-	-	45,223
– from AAA to A	37,134	-	-	-	37,134
– from BBB to B	3,956	81	-	-	4,037
– no rating	4,014	38	-	-	4,052
– write-off for expected credit losses [1)]	(34)	(2)	-	-	(36)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	5,990
– from AAA to A	X	X	X	X	4,391
– from BBB to B	X	X	X	X	591
– no rating	X	X	X	X	8
– assets at the client's risk	X	X	X	X	1,000
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	9,839	140	60	-	10,039
– gross carrying amount	9,839	151	67	-	10,057
– from AAA to A	4,010	-	-	-	4,010
– from BBB to B	450	-	-	-	450
– no rating	5,342	151	67	-	5,560
– assets at the client's risk	37	-	-	-	37
– write-off for expected credit losses	-	(11)	(7)	-	(18)
Loans – carrying amount	3,465	797	-	-	4,262
– gross carrying amount	3,478	827	-	-	4,305
– from BBB to B	366	-	-	-	366
– no rating	3,112	827	-	-	3,939
– write-off for expected credit losses	(13)	(30)	-	-	(43)
Derivatives	X	X	X	X	11,396
– from AAA to A	X	X	X	X	4,263
– from BBB to B	X	X	X	X	325
– no rating	X	X	X	X	6,797
– assets at the client's risk	X	X	X	X	11
Total	**179,503**	**1,510**	**60**	**25**	**198,484**

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Credit risk assets as at 31 December 2022	Stage 1	Stage2	Stage 3	POCI	Total
Debt securities measured at amortized cost – carrying amount	91,428	208	-	10	91,646
– gross carrying amount	91,515	236	24	63	91,838
– from AAA to A	65,085	-	-	-	65,085
– from BBB to B	1,959	141	-	-	2,100
– no rating	24,471	95	24	63	24,653
– write-off for expected credit losses	(87)	(28)	(24)	(53)	(192)
Debt securities measured at fair value through other comprehensive income – carrying amount	38,719	237	-	-	38,956
– from AAA to A	30,380	-	-	-	30,380
– from BBB to B	4,518	123	-	-	4,641
– no rating	3,821	114	-	-	3,935
– write-off for expected credit losses [1]	(45)	(21)	-	-	(66)
Debt securities measured at fair value through profit or loss – carrying amount	X	X	X	X	2,469
– from AAA to A	X	X	X	X	1,313
– from BBB to B	X	X	X	X	99
– no rating	X	X	X	X	153
– assets at the client's risk	X	X	X	X	904
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	9,884	129	126	-	10,139
– gross carrying amount	9,885	140	136	-	10,161
– from AAA to A	575	-	-	-	575
– from BBB to B	1,437	-	-	-	1,437
– no rating	7,852	140	136	-	8,128
– assets at the client's risk	21	-	-	-	21
– write-off for expected credit losses	(1)	(11)	(10)	-	(22)
Loans – carrying amount	4,269	-	-	-	4,269
– gross carrying amount	4,300	-	-	-	4,300
– from BBB to B	170	-	-	-	170
– no rating	4,130	-	-	-	4,130
– write-off for expected credit losses	(31)	-	-	-	(31)
Derivatives	X	X	X	X	16,197
– from AAA to A	X	X	X	X	4,394
– from BBB to B	X	X	X	X	670
– no rating	X	X	X	X	11,113
– assets at the client's risk	X	X	X	X	20
Total	**144,300**	**574**	**126**	**10**	**163,676**

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

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Off-balance sheet liabilities granted	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage2	Stage 3	POCI	Total	Stage 1	Stage2	Stage 3	POCI	Total
Par value										
Beginning of the period	74,161	4,684	695	16	79,556	60,819	6,344	791	19	67,973
Newly created/acquired off-balance sheet liabilities	27,337	335	23	1	27,696	30,155	372	109	1	30,637
Changes due to expiration of off-balance sheet liability	(22,752)	(1,325)	(369)	-	(24,446)	(12,579)	(1,516)	(234)	-	(14,329)
Reclassification to stage 1	1,745	(1,731)	(14)	-	-	2,507	(2,504)	(3)	-	-
Reclassification to stage 2	(3,781)	3,817	(36)	-	-	(2,536)	2,550	(14)	-	-
Reclassification to stage 3	(218)	(210)	428	-	-	(125)	(48)	173	-	-
Change in commitment	(3,397)	110	32	1	(3,254)	(4,298)	(532)	(129)	(4)	(4,963)
Other changes, including effect of movements in exchange rates	(745)	(27)	(3)	-	(775)	218	18	2	-	238
End of the period	**72,350**	**5,653**	**756**	**18**	**78,777**	**74,161**	**4,684**	**695**	**16**	**79,556**
Write-off for off-balance sheet liabilities										
Change in the write-off for off-balance sheet liabilities	205	131	174	4	514	140	90	266	1	497
Newly created/acquired off-balance sheet liabilities	186	3	-	-	189	99	2	-	-	101
Changes due to expiration of off-balance sheet liability	(34)	(34)	(97)	-	(165)	(30)	(15)	(27)	-	(72)
Reclassification to stage 1	22	(20)	(2)	-	-	31	(30)	(1)	-	-
Reclassification to stage 2	(37)	41	(4)	-	-	(15)	21	(6)	-	-
Reclassification to stage 3	(86)	(20)	106	-	-	(2)	(2)	4	-	-
Change in commitment	(62)	16	98	(1)	51	(21)	64	(61)	(2)	(20)
Other changes, including effect of movements in exchange rates	(4)	(3)	(6)	1	(12)	3	1	(1)	5	8
End of the period	**190**	**114**	**269**	**4**	**577**	**205**	**131**	**174**	**4**	**514**

8.5.1.5. Credit risk in insurance activity

The PZU Group enters into reinsurance contracts to mitigate actuarial risks arising from its insurance activity. Reinsurance is exposed to credit risk associated with the risk that a reinsurer defaults on its obligations.

The credit quality of reinsurers is assessed based on the rating assigned by leading rating agencies and the results of the reinsurers' internal financial strength model. A potential counterparty is subject to individual evaluation before entering into a reinsurance contract. Preference is given to counterparties with an external rating of no less than A-. In addition, a quarterly assessment of all counterparties is carried out as part of credit risk monitoring.

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

Reinsurer	Reinsurance contract assets as at 31 December 2023	Best A.M.'s rating as at 31 December 2023 [1)]
Reinsurer 1	545	A+
Reinsurer 2	338	A+
Reinsurer 3	245	NR
Reinsurer 4	216	A+
Reinsurer 5	165	A
Reinsurer 6	161	A+
Reinsurer 7	120	A++
Reinsurer 8	113	A+
Reinsurer 9	107	A+
Reinsurer 10	100	A
Others, including: [2)]	**1,359**	
With investment-grade rating	1,169	BBB- or higher
With sub-investment grade rating or unrated	190	BB+ or lower, or no rating
Total	**3,469**	

[1)] In the absence of Best A.M.'s rating, a rating from Standard&Poor's has been included.
[2)] "Others" includes reinsurance contract assets if their carrying amounts are lower than those presented above.

Reinsurer	Reinsurance contract assets as at 31 December 2022	Best A.M.'s rating as at 31 December 2022 [1)]
Reinsurer 1	344	A+
Reinsurer 2	219	NR
Reinsurer 3	183	A+
Reinsurer 4	117	A+
Reinsurer 5	90	A+
Reinsurer 6	89	A++
Reinsurer 7	84	A
Reinsurer 8	82	A
Reinsurer 9	76	A+
Reinsurer 10	63	A++
Others, including: [2)]	**989**	
With investment-grade rating	863	BBB- or higher
With sub-investment grade rating or unrated	126	BB+ or lower, or no rating
Total	**2,336**	

[1)] In the absence of Best A.M.'s rating, a rating from Standard&Poor's has been included.
[2)] "Others" includes reinsurance contract assets if their carrying amounts are lower than those presented above.

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

8.5.1.6. Risk concentration in credit risk

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

- exposure to financial investments such as equity instruments, debt securities, loans granted buy-sell-back transactions, bank accounts and term deposits;
- amounts of extended insurance guarantees;
- liability limits for insurance of receivables;
- value of loans (gross carrying amount and off-balance sheet exposure).

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Industry segment	31 December 2023	31 December 2022
O. Public administration and defense, compulsory social security	31.80%	26.15%
K. Financial and insurance activities	14.30%	15.14%
C. Manufacturing	13.13%	16.67%
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	10.14%	11.26%
L. Real estate activities	5.59%	5.84%
M. Professional, scientific and technical activity	4.86%	4.09%
F. Construction	4.37%	4.44%
H. Transportation and storage	3.46%	3.70%
D. Electricity, gas, steam, hot water and air conditioning supply	3.08%	3.18%
J. Information and communication	2.23%	2.12%
B. Mining and quarrying	1.15%	0.87%
Other sectors	5.89%	6.54%
Total	**100.00%**	**100.00%**

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

Actuarial risk is the possibility of loss or of adverse change in the value of liabilities underthe executed insurance agreements and insurance guarantee agreements, due to inadequate premium pricing and setting the value of insurance contract liabilities. Actuarial risk includes:

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

PZU Group manages its actuarial risk among others through:

- calculation and monitoring of the adequacy of liabilities under insurance contracts;
- tariff strategy and monitoring of premium adequacy;
- *underwriting;*
- reinsurance.

Calculation and monitoring of the adequacy of estimates of future cash flows

PZU Group manages the risk of the adequacy of estimates of future cash flows by using appropriate estimation methodology and by controlling the processes involved in determining their amount. This policy is based on:

- a prudent approach to estimating future cash flows by including a non-financial risk adjustment;
- a continuity principle, which entails making no changes in the methodology for estimating future cash flows if no significant circumstances occur to justify such changes.

For non-life insurance, the adequacy of the level of estimates of future cash flows for incurred claims is evaluated once a month and in specific circumstances (when a payment is made or new information obtained from adjusters or lawyers) their amount is updated. The developments and payments in subsequent years are used to analyze the estimates of future cash flows for incurred claims. This analysis provides an assessment of the relevance of the current actuarial methods.

For life insurance products, the main sources of data used to estimate the expected frequency of claims include public statistical data (life expectancy tables) published by specialized statistical institutions and analysis of historical insurance portfolio data. Periodic statistical analysis of claim incidence are made at the level of product groups, individual insurance portfolios and properly defined homogeneous risk groups. These analyses form the basis for measuring relative incidence of events compared to publicly available statistical data. The use of appropriate statistical methods makes it possible to determine the significance of the determined statistics.

Estimation of future cash flows in the PZU Group is supervised by chief actuaries of particular entities.

Tariff strategy and monitoring of premium adequacy

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

Underwriting

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

As part of the underwriting process for corporate clients, an engineering underwriting is performed by a specialized team of engineers. Engineering audits are conducted physically at the client's location.

Reinsurance

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

PZU Group limits its risk among others by way of:

- non-proportional excess of loss treaties, which protect the portfolios against catastrophic losses (e.g. flood, cyclone);

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

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

Claims handling process

The area of claims handling is important for actuarial risk management by controlling costs, optimizing process times and providing the data needed for accurate risk assessment. The PZU Group in the area of claims handling manages the process, paying special attention to the key aspects from the actuarial risk point of view:

- claims handling expenses;
- process time;
- operational risk management;
- data analysis and delivery;
- optimization of claims provisions.

In terms of claims and benefits handling, the PZU Group identifies the following risks:

- financial risks arising from incorrectly determined compensation;
- the risk of not complying with the timeliness of statutory information obligations and timely issuance of substantive decisions on claims;
- operational risks due to unavailability of systems and resources;
- reputational risks due to erroneous claims handling, with the content of the correspondence.

The PZU Group manages risk in the area of claims and benefits handling by:

- using system safeguards to secure timeliness (system commands reminding of the deadline of 7, 14, 30 days and system safeguards for the proxy amounts of dedicated employees);
- providing dedicated training for the claims handling staff (refresher training and training on new topics);
- providing template responses to clients on relevant issues;
- preparing dedicated reports for timeliness and other quality indicators in claims handling;
- implementing an adequate organizational structure to effectively manage risk (division into handling units, teams dedicated to handling specific cases, implementation of a system of replacements in case of employee absence);
- implementing a system of periodic controls.

The area of claims handling is monitored in terms of:

- fraud risks in the field of claims handling;
- legal risks as regards the trend in the number of new passive litigation cases relating to insurance, as well as the ratio of such cases to the number of new claims; legal risks may also materialize in the form of litigation cases (interest for delay, court and attorney fees, etc.) as a result of a dispute over the denial of payment or the amount of payment of compensation / benefits, and information on this is reported;
- claims handling effectiveness.

8.5.2.1. Claims development in non-life insurance

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

The following tables show how the estimates of undiscounted amounts of claims and benefits developed in non-life insurance (on a gross and net basis).

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Claims development in non-life insurance, gross (by reporting year)	2018	2019	2020	2021	2022	2023	Total
Estimated gross undiscounted amounts of claims and benefits:							
- at the end of the claim year	5,274	9,284	8,670	9,331	10,824	11,115	
– calculated 1 year later	5,151	9,081	8,302	9,246	11,728	-	
– calculated 2 years later	5,154	9,099	8,277	9,135	-	-	
– calculated 3 years later	5,216	9,089	8,318	-	-	-	
– calculated 4 years later	5,207	9,180	-	-	-	-	
– calculated 5 years later	5,131	-	-	-	-	-	
Total amount of claims and benefits paid	4,246	7,911	7,197	7,705	7,868	6,663	41,590
Liability for incurred claims, net of expenses that have occurred less than 5 years from the balance sheet date – undiscounted value of the best estimate	885	1,269	1,121	1,430	3,860	4,452	13,017
Other liability for incurred claims – undiscounted value of the best estimate							**10,373**
Liability for incurred claims – undiscounted value of the risk adjustment for non-financial risk							2,029
Discount effect							**(9,425)**
Carrying amount of liability for incurred claims							**15,994**

Claims development in non-life insurance, on a net basis (by reporting year)	2018	2019	2020	2021	2022	2023	Total
Estimated undiscounted amounts of claims and benefits on a net basis:							
- at the end of the claim year	4,985	9,010	8,393	8,976	9,563	10,638	
– calculated 1 year later	4,828	8,676	8,032	8,843	9,555	-	
– calculated 2 years later	4,817	8,610	8,043	8,774	-	-	
– calculated 3 years later	4,850	8,610	8,047	-	-	-	
– calculated 4 years later	4,849	8,647	-	-	-	-	
– calculated 5 years later	4,777	-	-	-	-	-	
Total amount of claims and benefits paid	3,947	7,659	7,066	7,501	7,717	6,641	40,531
Liability for incurred claims, net of expenses that have occurred less than 5 years from the balance sheet date – undiscounted value of the best estimate	830	988	981	1,273	1,838	3,997	9,907
Other liability for incurred claims – undiscounted value of the best estimate							9,576
Liability for incurred claims – undiscounted value of the risk adjustment for non-financial risk							1,798
Discount effect							**(8,763)**
Carrying amount of liability for incurred claims							**12,518**

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8.5.2.2. Risk concentration in non-life insurance

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

Exposure to catastrophic losses in property insurance	Sum insured (PLN million) 31 December 2023							Sum insured (PLN million) 31 December 2022						
	0–0.2	0.2–0.5	0.5–2	2 – 10	10–50	over 50	Sum	0–0.2	0.2–0.5	0.5–2	2 – 10	10–50	over 50	Sum
Dolnośląskie	0.7%	1.4%	1.8%	0.7%	0.5%	1.2%	**6.3%**	0.6%	1.2%	1.4%	0.5%	0.4%	1.7%	**5.8%**
Kujawsko-Pomorskie	0.5%	0.8%	0.7%	0.4%	0.3%	1.0%	**3.7%**	0.5%	0.7%	0.6%	0.3%	0.3%	1.1%	**3.5%**
Lubelskie	0.4%	0.7%	0.4%	0.2%	0.1%	0.9%	**2.7%**	0.4%	0.6%	0.3%	0.1%	0.1%	1.1%	**2.6%**
Lubuskie	0.2%	0.3%	0.3%	0.2%	0.1%	0.3%	**1.4%**	0.2%	0.3%	0.3%	0.1%	0.1%	0.5%	**1.5%**
Łódzkie	0.5%	1.0%	1.0%	0.3%	0.3%	3.1%	**6.2%**	0.6%	1.0%	0.8%	0.3%	0.2%	3.5%	**6.4%**
Małopolskie	0.6%	1.4%	1.4%	0.5%	0.5%	1.4%	**5.8%**	0.6%	1.4%	1.1%	0.4%	0.4%	1.6%	**5.5%**
Mazowieckie	1.6%	3.0%	3.3%	1.1%	1.3%	12.9%	**23.2%**	1.6%	3.1%	2.8%	0.9%	1.1%	9.7%	**19.2%**
Opolskie	0.2%	0.4%	0.4%	0.1%	0.1%	0.8%	**2.0%**	0.2%	0.4%	0.3%	0.1%	0.1%	0.6%	**1.7%**
Podkarpackie	0.4%	0.9%	0.5%	0.2%	0.2%	0.9%	**3.1%**	0.4%	0.8%	0.4%	0.2%	0.2%	1.4%	**3.4%**
Podlaskie	0.3%	0.4%	0.4%	0.2%	0.2%	0.6%	**2.1%**	0.3%	0.4%	0.3%	0.2%	0.2%	0.5%	**1.9%**
Pomorskie	0.5%	1.0%	1.3%	0.6%	0.8%	5.4%	**9.6%**	0.5%	1.0%	1.0%	0.5%	0.6%	5.8%	**9.4%**
Śląskie	0.9%	1.6%	1.7%	0.6%	0.4%	2.6%	**7.8%**	0.9%	1.5%	1.4%	0.5%	1.5%	3.7%	**9.5%**
Świętokrzyskie	0.3%	0.5%	0.3%	0.1%	0.1%	0.4%	**1.7%**	0.3%	0.4%	0.2%	0.1%	0.1%	0.4%	**1.5%**
Warmińsko-Mazurskie	0.3%	0.5%	0.4%	0.2%	0.1%	0.4%	**1.9%**	0.3%	0.4%	0.4%	0.2%	0.1%	0.5%	**1.9%**
Wielkopolskie	0.9%	1.7%	1.9%	0.8%	0.7%	2.1%	**8.1%**	1.0%	1.8%	1.6%	0.7%	0.6%	2.6%	**8.3%**
Zachodniopomorskie	0.3%	0.5%	0.6%	0.4%	0.4%	1.3%	**3.5%**	0.3%	0.5%	0.5%	0.4%	0.4%	1.5%	**3.6%**
Lithuania and Estonia	0.3%	1.8%	2.7%	0.5%	0.5%	1.4%	**7.2%**	0.4%	2.2%	3.1%	1.1%	1.0%	2.0%	**9.8%**
Latvia	0.1%	0.5%	1.1%	0.5%	0.5%	0.8%	**3.5%**	0.1%	0.5%	1.1%	0.5%	0.5%	0.5%	**3.2%**
Ukraine	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.1%	0.2%	0.6%	**0.9%**
Norway	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	**0.2%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	**0.4%**
Total	**9.0%**	**18.4%**	**20.2%**	**7.6%**	**7.1%**	**37.7%**	**100.0%**	**9.2%**	**18.2%**	**17.6%**	**7.2%**	**8.1%**	**39.7%**	**100.0%**

8.5.2.3. Exposure to insurance risk – life insurance

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

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

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

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

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

8.5.2.4. Sensitivity analysis

The following tables show how contractual service margin, net profit and equity will change, as a result of changes in insurance risk factors. The analysis presents sensitivities both before and after risk mitigation by way of reinsurance and assumes that all other variables remain constant.

Sensitivity analysis of insurance risk 31 December 2023	**Contractual service margin**		**Net profit**		**Equity**	
	gross	**net**	**gross**	**net**	**gross**	**net**
Corporate insurance						
Claim amount – increase by 5%	n/a	n/a	(90)	(73)	(91)	(74)
Claim amount – decrease by 5%	n/a	n/a	89	72	90	73
Mortality for annuities – increase by 5%	n/a	n/a	5	5	5	5
Mortality for annuities – decrease by 5%	n/a	n/a	(5)	(5)	(4)	(4)
Mass insurance						
Claim amount – increase by 5%	n/a	n/a	(363)	(363)	(367)	(366)
Claim amount – decrease by 5%	n/a	n/a	351	351	354	354
Mortality for annuities – increase by 5%	n/a	n/a	47	46	41	41
Mortality for annuities – decrease by 5%	n/a	n/a	(49)	(49)	(43)	(43)
Group and individually continued insurance						
Mortality – increase by 5%	(420)	(420)	(65)	(65)	(53)	(53)
Mortality – decrease by 5%	437	437	65	65	52	52
Morbidity – increase by 5%	(81)	(81)	(37)	(37)	(33)	(33)
Morbidity – decrease by 5%	77	77	37	37	33	33
Expenses – increase by 10%	(231)	(231)	(42)	(42)	(25)	(25)
Expenses – decrease by 10%	227	227	42	42	25	25
Lapse rate – increase by 10%	10	10	12	12	6	6
Lapse rate – decrease by 10%	(13)	(13)	(13)	(13)	(6)	(6)
Individual insurance						
Mortality – increase by 5%	(19)	(19)	1	1	-	-
Mortality – decrease by 5%	19	19	(1)	(1)	(1)	(1)
Morbidity – increase by 5%	(4)	(4)	(1)	(1)	-	-
Morbidity – decrease by 5%	4	4	1	1	-	-
Expenses – increase by 10%	(47)	(47)	(8)	(8)	(5)	(5)
Expenses – decrease by 10%	47	47	8	8	5	5
Lapse rate – increase by 10%	(41)	(41)	(1)	(1)	(6)	(6)
Lapse rate – decrease by 10%	44	44	1	1	7	7

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Sensitivity analysis of insurance risk 31 December 2023	Contractual service margin		Net profit		Equity	
	gross	net	gross	net	gross	net
Investment insurance						
Mortality – increase by 5%	(2)	(2)	-	-	-	-
Mortality – decrease by 5%	2	2	-	-	-	-
Expenses – increase by 10%	(9)	(9)	(6)	(6)	(6)	(6)
Expenses – decrease by 10%	10	10	6	6	6	6
Lapse rate – increase by 10%	(20)	(20)	(4)	(4)	(4)	(4)
Lapse rate – decrease by 10%	22	22	5	5	5	5
Baltic States						
Claim amount – increase by 5%	n/a	n/a	(83)	(81)	(80)	(77)
Claim amount – decrease by 5%	n/a	n/a	74	72	71	70
Mortality – increase by 5%	(2)	(2)	-	-	-	-
Mortality – decrease by 5%	2	2	-	-	-	-
Morbidity – increase by 5%	(5)	(5)	-	-	-	-
Morbidity – decrease by 5%	5	5	1	1	-	-
Expenses – increase by 10%	(5)	(5)	-	-	-	-
Expenses – decrease by 10%	5	5	1	1	-	-
Lapse rate – increase by 10%	(8)	(8)	-	-	-	-
Lapse rate – decrease by 10%	9	9	-	-	1	1
Mortality for annuities – increase by 5%	n/a	n/a	1	1	1	1
Mortality for annuities – decrease by 5%	n/a	n/a	(1)	(1)	(1)	(1)
Ukraine						
Claim amount – increase by 5%	n/a	n/a	(5)	(5)	(5)	(5)
Claim amount – decrease by 5%	n/a	n/a	5	5	5	5
Morbidity – increase by 5%	-	-	-	-	(2)	(2)
Morbidity – decrease by 5%	-	-	-	-	2	2
Expenses – increase by 10%	-	-	-	-	(1)	(1)
Expenses – decrease by 10%	-	-	-	-	1	1

Sensitivity analysis of insurance risk 31 December 2022	Contractual service margin		Net profit		Equity	
	gross	net	gross	net	gross	net
Corporate insurance						
Claim amount – increase by 5%	n/a	n/a	(115)	(69)	(114)	(68)
Claim amount – decrease by 5%	n/a	n/a	114	67	113	67
Mortality for annuities – increase by 5%	n/a	n/a	4	4	3	3
Mortality for annuities – decrease by 5%	n/a	n/a	(6)	(6)	(4)	(4)
Mass insurance						
Claim amount – increase by 5%	n/a	n/a	(376)	(375)	(372)	(372)
Claim amount – decrease by 5%	n/a	n/a	323	322	319	319
Mortality for annuities – increase by 5%	n/a	n/a	41	41	29	29
Mortality for annuities – decrease by 5%	n/a	n/a	(53)	(53)	(38)	(38)
Group and individually continued insurance						
Mortality – increase by 5%	(417)	(417)	(63)	(63)	(26)	(26)
Mortality – decrease by 5%	438	438	64	64	24	24
Morbidity – increase by 5%	(72)	(72)	(31)	(31)	(21)	(21)
Morbidity – decrease by 5%	72	72	31	31	21	21
Expenses – increase by 10%	(227)	(227)	(38)	(38)	-	-
Expenses – decrease by 10%	227	227	38	38	-	-
Lapse rate – increase by 10%	5	5	12	12	1	1
Lapse rate – decrease by 10%	(5)	(5)	(12)	(12)	(1)	(1)

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Sensitivity analysis of insurance risk 31 December 2022	Contractual service margin		Net profit		Equity	
	gross	net	gross	net	gross	net
Individual insurance						
Mortality – increase by 5%	(11)	(11)	(2)	(2)	(2)	(2)
Mortality – decrease by 5%	11	11	2	2	2	2
Morbidity – increase by 5%	(4)	(4)	(1)	(1)	-	-
Morbidity – decrease by 5%	4	4	1	1	-	-
Expenses – increase by 10%	(46)	(46)	(7)	(7)	-	-
Expenses – decrease by 10%	46	46	6	6	-	-
Lapse rate – increase by 10%	(22)	(22)	2	2	(12)	(12)
Lapse rate – decrease by 10%	23	23	(2)	(2)	13	13
Investment insurance						
Mortality – increase by 5%	(1)	(1)	(1)	(1)	(1)	(1)
Mortality – decrease by 5%	1	1	1	1	1	1
Expenses – increase by 10%	(8)	(8)	(7)	(7)	(7)	(7)
Expenses – decrease by 10%	8	8	7	7	7	7
Lapse rate – increase by 10%	(16)	(16)	(7)	(7)	(7)	(7)
Lapse rate – decrease by 10%	18	18	7	7	7	7
Baltic States						
Claim amount – increase by 5%	n/a	n/a	(135)	(134)	(134)	(133)
Claim amount – decrease by 5%	n/a	n/a	92	91	90	89
Mortality – increase by 5%	(2)	(2)	-	-	-	-
Mortality – decrease by 5%	2	2	-	-	-	-
Morbidity – increase by 5%	(5)	(5)	-	-	-	-
Morbidity – decrease by 5%	5	5	-	-	-	-
Expenses – increase by 10%	(6)	(6)	(1)	(1)	-	-
Expenses – decrease by 10%	6	6	1	1	-	-
Lapse rate – increase by 10%	(8)	(8)	-	-	(1)	(1)
Lapse rate – decrease by 10%	8	8	3	3	3	3
Mortality for annuities – increase by 5%	n/a	n/a	1	1	1	1
Mortality for annuities – decrease by 5%	n/a	n/a	(1)	(1)	(1)	(1)
Ukraine						
Claim amount – increase by 5%	n/a	n/a	(6)	(4)	(5)	(4)
Claim amount – decrease by 5%	n/a	n/a	6	4	5	4
Morbidity – increase by 5%	-	-	-	-	(2)	(2)
Morbidity – decrease by 5%	-	-	-	-	2	2
Expenses – increase by 10%	-	-	-	-	(1)	(1)
Expenses – decrease by 10%	-	-	-	-	1	1
Lapse rate – increase by 10%	-	-	-	-	1	1
Lapse rate – decrease by 10%	-	-	-	-	(1)	(1)

Changes in insurance risk factors primarily affect:

- a contractual service margin – changes in cash flows not related to the loss component, other than those recognized as insurance finance income and expenses;
- a net financial result – changes in cash flows related to the loss component, changes in cash flows recognized as insurance and reinsurance finance income or expenses;
- equity – changes in cash flows recognized as insurance and reinsurance finance income or expenses recognized in other comprehensive income and changes affecting the net financial result.

8.5.3. Market risk

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

Market risk types in the PZU Group include:

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

Concentration risk and credit spread risk are regarded as an integral part of market risk when measuring risk for the purposes of risk profile, risk tolerance, and market risk ratio reporting. The risk management process has, however, a different set of traits from the process of managing the other sub-categories of market risk and has been described in section 8.5.1.1 along with the process for managing counterparty insolvency risk.

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

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

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

Risk units take part in the risk identification process, measure, monitor and report on the risks. Market risk is measured with a standard formula in accordance with the rules defined by Solvency II Directive, with a number of other indicators relating to measures of sensitivity and exposure, and with Value at Risk (VaR), determined by the economic capital calculation of the market risk. In order to effectively manage market risk, risk limits are adopted in a form of a capital amount allocated to each market risk and limits for individual market risks.

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

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

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

In Alior Bank, the exposure to market risk is restricted by the system of periodically updated limits covering all risk measures the level of which is monitored and reported by Alior Bank's organizational units that are independent of the business division. In Alior Bank, there are three types of limits that differ in respect to their functioning – basic, supplementary and stress-test limits. Market risk management focuses on limiting potential adverse changes in economic value of equity.

Exposure to market risk

Carrying amount	Note	31 December 2023				31 December 2022			
		Assets at Group's risk		Assets at client's risk	Total	Assets at Group's risk		Assets at client's risk	Total
			including banks' assets				including banks' assets		
Financial assets and cash exposed to interest rate risk		**432,243**	**381,156**	**1,045**	**433,288**	**389,627**	**344,610**	**931**	**390,558**
Fixed-income debt securities	35,36	140,691	102,960	933	141,624	107,587	75,050	860	108,447
Variable-income debt securities	35,36	31,096	26,012	67	31,163	24,580	22,076	44	24,624
Loan receivables from clients	33	218,808	218,808	-	218,808	212,693	212,693	-	212,693
Term deposits with credit institutions	36	993	454	43	1,036	3,047	2,562	21	3,068
Loans	36	4,262	-	-	4,262	4,269	-	-	4,269
Cash	39	17,700	16,973	2	17,702	15,954	15,231	6	15,960
Buy-sell-back transactions	36	9,003	6,286	-	9,003	7,071	2,572	-	7,071
Derivatives	34	9,690	9,663	-	9,690	14,426	14,426	-	14,426
Financial assets exposed to other price risk		**4,337**	**1,886**	**4,321**	**8,658**	**5,041**	**2,172**	**4,084**	**9,125**
Equity instruments	36	2,642	764	4,310	6,952	3,290	692	4,064	7,354
Derivatives	34	1,695	1,122	11	1,706	1,751	1,480	20	1,771
Total		**436,580**	**383,042**	**5,366**	**441,946**	**394,668**	**346,782**	**5,015**	**399,683**

The value of liabilities under insurance contracts exposed to interest rate risk amounted to PLN 35,574 million as at 31 December 2023 (as at 31 December 2022: PLN 31,247 million).

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

Financial assets of banks and financial assets at client's risk	Note	31 December 2023		31 December 2022	
		Pekao and Alior Bank	Financial assets at client's risk	Pekao and Alior Bank	Financial assets at client's risk
Loan receivables from clients	**33**	**218,808**	**-**	**212,693**	**-**
Financial derivatives		**10,785**	**11**	**15,906**	**20**
Investment financial assets		**136,476**	**5,353**	**102,952**	**4,989**
Measured at amortized cost		102,716	43	74,402	21
Debt securities		95,976	-	69,268	-
Government securities		60,841	-	48,111	-
Domestic		50,947	-	42,654	-
Fixed rate		44,505	-	38,661	-
Floating rate		6,442	-	3,993	-
Foreign		9,894	-	5,457	-
Fixed rate		9,894	-	5,457	-
Other		35,135	-	21,157	-
Fixed rate		28,180	-	15,843	-
Floating rate		6,955	-	5,314	-
Buy-sell-back transactions		6,286	-	2,572	-
Term deposits with credit institutions		454	43	2,562	21
Measured at fair value through other comprehensive income		31,996	-	27,359	-
Equity instruments		508	-	443	-
Debt securities		31,488	-	26,916	-
Government securities		24,763	-	18,133	-
Domestic		20,514	-	18,075	-
Fixed rate		11,521	-	9,601	-
Floating rate		8,993	-	8,474	-
Foreign		4,249	-	58	-
Fixed rate		4,249	-	58	-
Other		6,725	-	8,783	-
Fixed rate		3,288	-	4,735	-
Floating rate		3,437	-	4,048	-
Measured at fair value through profit or loss		1,764	5,310	1,191	4,968
Equity instruments		246	405	239	311
Participation units and investment certificates		10	3,905	10	3,753
Debt securities		1,508	1,000	942	904
Government securities		1,180	971	743	860
Domestic		1,180	963	743	851
Fixed rate		1,093	922	650	846
Floating rate		87	41	93	5
Foreign		-	8	-	9
Fixed rate		-	8	-	9
Other		328	29	199	44
Fixed rate		230	3	45	5
Floating rate		98	26	154	39
Cash		**16,973**	**2**	**15,231**	**6**
Total financial assets of banks and financial assets at client's risk		**383,042**	**5,366**	**346,782**	**5,015**

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

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

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

Carrying amount of debt securities issued by governments other than the Polish government	31 December 2023	31 December 2022
France	4,763	1,864
United States	4,240	1,226
Germany	4,032	2,557
Austria	1,177	3
Lithuania	832	717
Spain	529	142
Romania	483	209
The Netherlands	430	-
Croatia	240	75
Latvia	235	180
Belgium	216	-
Finland	216	-
Indonesia	156	176
Saudi Arabia	120	48
Columbia	119	76
Hungary	117	128
Italy	113	114
Ukraine	99	78
Mexico	92	78
Panama	89	66
Bulgaria	87	78
Serbia	63	30
Peru	55	64
Other	653 [1)]	610 [2)]
Total	**19,156**	**8,519**

[1)] The item "Other" comprises bonds issued by 49 countries towards which the balance sheet liability per country does not exceed PLN 50 million.

[2)] The item "Other" comprises bonds issued by 52 countries.

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Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations, local government units and National Bank of Poland	31 December 2023	31 December 2022
K. Financial and insurance activities, of which:	33,570	22,256
Foreign banks	9,720	5,864
National Bank of Poland	20,451	14,594
Companies from the WIG-Banks Index	886	562
O. Public administration and defense, compulsory social security, of which:	6,468	5,313
Domestic local governments	6,468	5,309
D. Electricity, gas, steam, hot water and air conditioning production and supply, of which:	1,650	1,914
Companies from the WIG-Energy Index	1,107	1,308
C. Manufacturing, of which:	1,331	1,676
Production and processing of crude oil refining products (including WIG-Fuels)	509	707
E. Water supply; sewerage, waste management and remediation activities	1,136	584
U. Extra-territorial organizations and teams	865	-
N. Administrative and support service activities	668	620
H. Transportation and storage	626	679
J. Information and communication	468	365
F. Construction	353	373
I. R. Accommodation and food service activities (including: WIG - hotels and restaurants), and arts, entertainment and recreation activities	264	298
M. Professional, scientific and technical activity	248	187
L. Real estate activities	180	185
B. Mining and quarrying	127	192
G. Wholesale and retail trade services; repair services of motor vehicles and motorcycles	12	24
Total	**47,966**	**34,666**

8.5.3.1. Interest rate risk

The following tables present the sensitivity test of the portfolio of financial instruments for which the PZU Group bears the risk (except for loan receivables from clients and deposit liabilities) and the portfolio of liabilities under insurance agreements.

Change in portfolio value caused by a +/-100 bp shift in the yield curve, by currency of the instrument	31 December 2023				31 December 2022			
	Net profit		Equity		Net profit		Equity	
	increase	decrease	increase	decrease	increase	decrease	increase	decrease
Polish zloty	9	(53)	(387)	396	(60)	(2)	(543)	500
Euro	49	(67)	(65)	55	60	(87)	(21)	20
U.S. dollar	19	(27)	(49)	47	18	(29)	(50)	46
British pound	9	(16)	(1)	1	13	(20)	-	-
Total	**86**	**(163)**	**(502)**	**499**	**31**	**(138)**	**(614)**	**566**

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Change in the value of assets and liabilities under insurance and reinsurance contracts as a result of a +/- 100 bps change in the yield curve, by currency	31 December 2023				31 December 2022			
	Net profit		Equity		Net profit		Equity	
	increase	decrease	increase	decrease	increase	decrease	increase	decrease
Polish zloty	3	(4)	1,183	(1,481)	2	(2)	984	(1,220)
Euro	(1)	1	65	(77)	(1)	-	63	(75)
U.S. dollar	-	(1)	(2)	2	1	(1)	-	-
British pound	-	-	5	(6)	-	-	-	-
other	-	-	3	(6)	-	-	11	(14)
Total	**2**	**(4)**	**1,254**	**(1,568)**	**2**	**(3)**	**1,058**	**(1,309)**

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

Entity	Measure	31 December 2023		31 December 2022	
		decrease	increase	decrease	increase
Pekao Group	NII	-1.66%	0.34%	-3.85%	0.16%
	EVE	3.02%	-6.57%	3.10%	-5.75%
Alior Bank Group	NII	-6.14%	3.12%	-4.68%	0.65%
	EVE	-1.77%	0.53%	1.56%	-4.74%

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8.5.3.2. Currency risk

Exposure to FX risk

Assets by currency	31 December 2023					31 December 2022				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Insurance contract assets	110	1	-	-	111	67	1	-	-	68
Reinsurance contract assets	1,277	410	1,761	21	3,469	1,786	402	112	36	2,336
Loan receivables from clients	179,092	36,249	2,284	1,183 [1)]	218,808	174,067	35,520	1,570	1,536 [2)]	212,693
Financial derivatives	9,853	1,320	223	-	11,396	14,503	1,450	243	1	16,197
Investment financial assets	159,999	22,403	10,814	824	194,040	130,875	13,411	9,612	935	154,833
Measured at amortized cost	118,066	12,470	5,111	228	135,875	93,592	7,686	4,463	313	106,054
Debt securities	105,739	11,001	4,743	91	121,574	80,542	6,707	4,326	71	91,646
Government securities	70,587	8,482	4,017	91	83,177	59,486	5,254	3,820	71	68,631
Other	35,152	2,519	726	-	38,397	21,056	1,453	506	-	23,015
Buy-sell-back transactions	8,576	427	-	-	9,003	6,991	80	-	-	7,071
Term deposits with credit institutions	520	98	281	137	1,036	2,511	287	28	242	3,068
Loans	3,231	944	87	-	4,262	3,548	612	109	-	4,269
Measured at fair value through other comprehensive income	33,911	7,430	4,199	520	46,060	31,311	4,780	3,965	548	40,604
Equity instruments	796	41	-	-	837	1,609	39	-	-	1,648
Debt securities	33,115	7,389	4,199	520	45,223	29,702	4,741	3,965	548	38,956
Government securities	26,563	6,030	3,490	-	36,083	22,203	3,331	2,028	-	27,562
Other	6,552	1,359	709	520	9,140	7,499	1,410	1,937	548	11,394
Measured at fair value through profit or loss	8,022	2,503	1,504	76	12,105	5,972	945	1,184	74	8,175
Equity instruments	600	30	423	66	1,119	443	20	322	45	830
Participation units and investment certificates	3,392	850	747	7	4,996	3,231	882	739	24	4,876
Debt securities	4,030	1,623	334	3	5,990	2,298	43	123	5	2,469
Government securities	3,863	1,470	225	3	5,561	2,070	28	109	5	2,212
Other	167	153	109	-	429	228	15	14	-	257
Current income tax receivables	18	1	-	-	19	304	1	-	-	305
Other receivables	4,254	899	64	10	5,227	8,086	873	140	9	9,108
Cash and cash equivalents	12,502	2,580	1,352	1,268 [3)]	17,702	10,077	3,338	1,472	1,073 [4)]	15,960
Total assets	**367,105**	**63,863**	**16,498**	**3,306**	**450,772**	**339,765**	**54,996**	**13,149**	**3,590**	**411,500**

[1)] Of which PLN 239 million in Swiss francs, PLN 527 million in British pounds, PLN 113 million in Romanian lei and PLN 207 million in Norwegian kroner.
[2)] Of which PLN 413 million in Swiss francs, PLN 545 million in British pounds, PLN 244 million in Romanian lei and PLN 243 million in Norwegian kroner.
[3)] Of which PLN 233 million in Swiss francs, PLN 272 million in British pounds and PLN 276 million in Japanese yen.
[4)] Of which PLN 306 million in Swiss francs and PLN 275 million in British pounds.

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Liabilities by currency	31 December 2023					31 December 2022				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Insurance contract liabilities	36,757	3,184	1,800	587	42,328	34,066	2,991	65	396	37,518
Reinsurance contract liabilities	29	4	-	2	35	22	1	-	8	31
Subordinated liabilities	6,166	-	-	-	6,166	6,184	-	-	-	6,184
Liabilities on the issue of own debt securities	9,197	2,680	126	-	12,003	10,764	319	7	-	11,090
Liabilities to banks	3,425	3,464	76	82 [1)]	7,047	4,390	3,095	138	97 [2)]	7,720
Liabilities to clients under deposits	247,164	35,842	16,081	4,694 [3)]	303,781	225,346	32,050	16,254	4,408 [4)]	278,058
Financial derivatives	10,868	724	62	2	11,656	19,765	997	188	6	20,956
Current income tax liabilities	1,989	1	-	1	1,991	325	-	-	3	328
Other liabilities	13,160	3,514	244	62	16,980	11,216	2,588	459	38	14,301
Total liabilities by currency	**328,755**	**49,413**	**18,389**	**5,430**	**401,987**	**312,078**	**42,041**	**17,111**	**4,956**	**376,186**

[1)] Of which PLN 79 million in Swiss francs.

[2)] Of which PLN 93 million in Swiss francs.

[3)] Of which PLN 1,916 million in British pounds, PLN 1,204 million in Swiss francs, PLN 385 million in Norwegian kroner, PLN 346 million in Canadian dollars, PLN 281 million in Swedish kronor and PLN 71 million in Australian dollars.

[4)] Of which PLN 2,044 million in British pounds, PLN 1,250 million in Swiss francs, PLN 308 million in Norwegian kroner, PLN 226 million in Canadian dollars, PLN 189 million in Swedish kronor and PLN 76 million in Australian dollars.

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

Contingent liabilities by currency	31 December 2023					31 December 2022				
	PLN	EUR	USD	Other	Total	PLN	EUR	USD	Other	Total
Contingent liabilities	66,094	11,800	2,606	173	80,673	67,017	10,147	3,393	118	80,676

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

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

The following tables present a sensitivity analysis of foreign exchange risk for portfolios of financial instruments and for insurance and reinsurance contract assets and liabilities.

Exchange rates fluctuations primarily affects:

- net financial result – foreign exchange gains and losses on insurance and reinsurance contracts as well as financial instruments, recognized in the consolidated profit and loss account;
- equity – foreign exchange gains and losses, recognized in other comprehensive income and the consolidated profit and loss account.

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Sensitivity analysis of foreign exchange risk	31 December 2023				31 December 2022			
	Net profit		Equity		Net profit		Equity	
	increase	decrease	increase	decrease	increase	decrease	increase	decrease
EUR – change of 20%								
Insurance and reinsurance contract assets and liabilities	(105)	105	(534)	534	(107)	107	(502)	502
Financial instruments	110	(59)	757	(706)	110	(104)	695	(689)
GBP – change of 20%								
Insurance and reinsurance contract assets and liabilities	(43)	43	(40)	40	-	-	-	-
Financial instruments	(80)	80	4	(4)	(90)	90	(1)	1
USD – change of 20%								
Insurance and reinsurance contract assets and liabilities	(6)	6	(6)	6	8	(8)	8	(8)
Financial instruments	(255)	257	24	(22)	(241)	236	12	(17)
Other – change of 20%								
Insurance and reinsurance contract assets and liabilities	(4)	4	(62)	62	(6)	6	(69)	69
Financial instruments	61	(65)	61	(65)	41	(33)	41	(33)

8.5.3.3. Equity risk

Level of risk exposure

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

Sensitivity analysis

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

Impact of a change in the measurement of quoted equity instruments on equity	31 December 2023	31 December 2022
increase in measurement of quoted equity instruments by 20%	163	288
decrease in measurement of quoted equity instruments by 20%	(163)	(288)

8.5.4. Liquidity risk

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

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

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

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

- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;

- potential shortage of financial funds (medium-term financial liquidity risk) – through analysis of historical and expected cash flows from the operating activity;
- stress tests (medium-term financial liquidity risk) – by estimating the possibility of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;
- current statements of estimates (short-term financial liquidity risk) – by monitoring demand for cash reported by the date defined in regulations which are in force in that entity.

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

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

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

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

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

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

The following measures aim to reduce financial liquidity risk:

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

In 2023, basic liquidity ratios at PZU Group banks remained stable at high and safe levels, reflecting a good liquidity situation and easy access to financing, particularly in the form of client deposits. Issues performed to meet MREL requirements also contributed to improving liquidity.

The impact of the current environment on the liquidity risk of the PZU Group's insurance segment in 2023 should be classified as low. This liquidity was maintained at a required level, and there were no grounds to take extraordinary management actions in terms of liquidity risk. As part of routine management actions regarding liquidity risk, the PZU Group constantly monitored the level of available liquid funds and the current utilization of liquidity limits.

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Risk exposure

Carrying amount of debt instruments, by maturity	31 December 2023							31 December 2022						
	up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total	up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Loan receivables from clients	60,275	23,232	20,160	15,835	16,204	83,102	218,808	59,360	24,681	18,591	15,672	12,756	81,633	212,693
Investment (deposit) debt instruments	69,160	21,315	16,303	16,402	15,003	48,905	187,088	45,154	22,794	15,139	15,149	12,602	36,641	147,479
Measured at amortized cost	54,631	16,204	7,340	11,601	6,780	39,319	135,875	36,872	14,623	11,010	6,602	9,254	27,693	106,054
Debt securities	44,427	16,035	6,488	10,976	6,201	37,447	121,574	26,814	13,331	10,291	5,395	8,959	26,856	91,646
Government securities	22,419	12,030	4,040	9,602	5,465	29,621	83,177	12,948	11,881	9,491	3,608	8,082	22,621	68,631
Other	22,008	4,005	2,448	1,374	736	7,826	38,397	13,866	1,450	800	1,787	877	4,235	23,015
Buy-sell-back transactions	9,003	-	-	-	-	-	9,003	7,071	-	-	-	-	-	7,071
Term deposits with credit institutions	962	11	9	9	14	31	1,036	2,981	36	18	14	8	11	3,068
Loans	239	158	843	616	565	1,841	4,262	6	1,256	701	1,193	287	826	4,269
Measured at fair value through other comprehensive income	12,413	4,680	8,575	4,568	6,518	8,469	45,223	7,907	7,581	3,858	8,212	3,084	8,314	38,956
Government securities	8,411	3,746	7,340	4,010	5,782	6,794	36,083	3,521	5,783	2,711	6,896	2,428	6,223	27,562
Other	4,002	934	1,235	558	736	1,675	9,140	4,386	1,798	1,147	1,316	656	2,091	11,394
Measured at fair value through profit or loss	2,116	431	388	233	1,705	1,117	5,990	375	590	271	335	264	634	2,469
Government securities	1,796	406	363	216	1,695	1,085	5,561	251	509	252	317	259	624	2,212
Other	320	25	25	17	10	32	429	124	81	19	18	5	10	257
Total	**129,435**	**44,547**	**36,463**	**32,237**	**31,207**	**132,007**	**405,896**	**104,514**	**47,475**	**33,730**	**30,821**	**25,358**	**118,274**	**360,172**

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

Liquidity risk	31 December 2023								31 December 2022							
	Up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5–10 years	Over 10 years	Total	Up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5–10 years	Over 10 years	Total
Assets	**190,562**	**46,623**	**41,455**	**31,553**	**29,862**	**70,930**	**76,759**	**487,744**	**154,401**	**55,168**	**37,287**	**33,420**	**25,003**	**68,436**	**71,898**	**445,613**
Cash and cash equivalents	10,845	1,137	334	266	225	789	4,106	17,702	10,394	497	345	273	239	767	3,445	15,960
Receivables	3,375	825	5	3	-	955	83	5,246	2,530	3,924	234	213	322	2,190	-	9,413
Loan receivables from clients	61,452	32,636	27,561	20,737	18,255	42,178	50,236	253,055	61,009	36,378	25,851	20,316	15,829	41,894	51,225	252,502
Debt securities	104,249	11,522	12,402	9,590	10,717	25,323	22,071	195,874	69,804	12,819	9,894	11,369	8,244	22,920	16,935	151,985
Loans	558	501	1,153	957	665	1,657	263	5,754	505	1,548	963	1,249	369	664	293	5,591
Buy-sell-back transactions	9,048	-	-	-	-	-	-	9,048	7,075	-	-	-	-	-	-	7,075
Term deposits with credit institutions	1,035	2	-	-	-	28	-	1,065	3,084	2	-	-	-	1	-	3,087
Liabilities	**(159,712)**	**(21,645)**	**(13,717)**	**(16,734)**	**(8,300)**	**(27,940)**	**(140,080)**	**(388,128)**	**(155,866)**	**(20,493)**	**(14,345)**	**(9,573)**	**(12,064)**	**(27,695)**	**(115,288)**	**(355,324)**
Insurance contract liabilities	(6,574)	(3,097)	(2,056)	(1,232)	(956)	(4,264)	(23,881)	(42,060)	(5,072)	(2,495)	(1,791)	(1,353)	(974)	(4,175)	(24,935)	(40,795)
Reinsurance contract liabilities	49	3	2	1	1	2	1	59	75	4	6	2	1	2	-	90
Lease liabilities	(205)	(244)	(206)	(183)	(226)	(649)	(591)	(2,304)	(184)	(163)	(201)	(159)	(131)	(427)	(654)	(1,919)
Other liabilities	(152,982)	(18,307)	(11,457)	(15,320)	(7,119)	(23,029)	(115,609)	(343,823)	(150,685)	(17,839)	(12,359)	(8,063)	(10,960)	(23,095)	(89,699)	(312,700)
Gap	**30,850**	**24,978**	**27,738**	**14,819**	**21,562**	**42,990**	**(63,321)**	**99,616**	**(1,465)**	**34,675**	**22,942**	**23,847**	**12,939**	**40,741**	**(43,390)**	**90,289**

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

Off-balance sheet liabilities granted	31 December 2023						31 December 2022					
	up to 1 month	1–3 months	3 months to 1 year	1–5 years	over 5 years	Total	up to 1 month	1–3 months	3 months to 1 year	1–5 years	over 5 years	Total
Financing	66,760	-	-	-	-	66,760	66,767	-	-	-	-	66,767
Guarantees	11,541	-	-	-	-	11,541	12,727	-	-	-	-	12,727
Total	**78,301**	**-**	**-**	**-**	**-**	**78,301**	**79,494**	**-**	**-**	**-**	**-**	**79,494**

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Insurance contract liabilities payable on demand	31 December 2023		31 December 2022	
	value payable on demand	carrying amount	value payable on demand	carrying amount
Individual insurance	1,910	1,855	1,923	1,812
Investment insurance	5,846	5,849	5,153	5,103
Baltic States	376	300	352	267
Ukraine	145	147	143	196
Total	**8,277**	**8,151**	**7,571**	**7,378**

8.5.5. Operational risk

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

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

Operational risk is identified in particular by:

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

Operational risk is assessed and measured by:

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

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

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

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

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

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

On 28 January 2022, the Crisis Management Team in PZU and PZU Życie, in the face of an attack by the armed forces of the Russian Federation on Ukraine, declared a crisis situation, under which ongoing monitoring of the current political and market situation is implemented and adequate measures directed in particular towards:

- safety of employees;
- business continuity of the companies and security of financial assets of the PZU Group;
- additional safety measures in terms of cybersecurity and physical safety.

The task unit of the Crisis Management Team continuously monitors the situation of Ukrainian companies, also in terms of reaching the assumptions of the “Crisis Situation Management Plan”, as prepared by Ukrainian companies.

Additional cybersafety measures were introduced to mitigate risk with increasing probability of materialization. Anomalies in terms of cyber threats, extending to subsidiaries, are under continuous 24/7 monitoring. Due to the nationwide implementation of CRP Alert Level 3 (CHARLIE-CRP) and Alert Level 2 (BRAVO), a heightened state of readiness of the physical and cyber security areas has been maintained continuously since February 2022.

8.5.6. Compliance risk

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

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

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

Ongoing compliance risk management entails: identifying, assessing and measuring, monitoring, and reporting.

8.5.7. Model risk

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

- risk identification – taking place through regular identification of the models used in the areas covered by the process and assessment of their materiality;
- risk measurement - which is based on the results of independent model validations and monitoring;
- risk monitoring – involving ongoing analysis of deviations from the adopted points of reference regarding the model risk (including verification of how recommendations are implemented, verification that the level of model risk is acceptable from the point of view of the Model Risk Management Policy);
- risk reporting – involving communicating the process results on the appropriate management level, in particular results of risk monitoring, validation and measurement;
- management actions – aiming to mitigate the model risk level (active – e.g. recommendations resulting from completed validations – and passive – e.g. developing model and model risk management standards).

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

9. Equity management

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

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

- manage capital effectively by optimizing the use 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 the organic growth and acquisitions;

- ensure sufficient financial means to cover the PZU Group's liabilities towards its clients.

The capital management policy is based on the following principles:

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

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

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

- The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for PZU's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- the dividend amount proposed by the PZU Management Board paid for the financial year is determined on the basis of the PZU Group's consolidated financial result attributable to equity holders of the parent company, where:
  - not more than 20% will increase retained earnings (supplementary capital) for purposes of organic development and innovations, and implementation of development initiatives;
  - no less than 50% is subject to payment as an annual dividend;
  - the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

subject to the items below:

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

External capital requirements

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

Pursuant to Article 412(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 2022 report published on 11 May 2023 is available online at https://www.pzu.pl/relacje-inwestorskie/raporty?queries%5Byear%5D=2022.

For the 2023 report, the publication deadline is no later than 20 weeks after the year end, that is until 20 May 2024. Pursuant to Article 290(1) of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2022, published in the PZU Group's 2022 solvency and financial condition report, was 240%. As at the date of signing the consolidated financial statements, the calculation of the solvency ratio as at 31 December 2023 has not yet been available.

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

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt securities and loans

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

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

The fair value of loans and debt securities for which an active market does not exist is measured using the discounted cash flow method. For debt instruments based on a variable interest rate, the reference curve reflecting the level of risk-free rates for the discounting of future flows is developed on the basis of an appropriate swap curve for the respective currency. However, for instruments based on a fixed interest rate – based on the quotes of treasury bonds in the given currency. For unlisted loans and bonds, in addition to the individual spread quantifying the specific risk of a given debt instrument, a market sector spread published in news services is added to reflect the pricing of the risk for the relevant sector for the issuer's business sector and its rating.

10.1.2. Equity-based financial assets

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

10.1.3. Participation units and investment certificates of mutual funds

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

10.1.4. Derivatives

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

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

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

10.1.5. 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 (lower) than the margins in the existing portfolio the fair value of the loan portfolio is lower (higher) than its carrying amount.

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

10.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

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

The fair value of liabilities on the issue of own debt securities, including subordinated liabilities, is calculated as the present value of expected payments based on the current interest rate curves and the individual credit spread for the given issue. The individual spread is initially calibrated to the issue price and periodically recalibrated when transaction data is available.

10.1.8. 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.

10.1.9. Other liabilities

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

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

10.1.9.2. Liabilities to members of consolidated mutual funds

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

10.1.9.3. Liabilities on borrowed securities

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

10.2 Fair value hierarchy

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

- level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
  - liabilities on borrowed securities quoted on exchanges (short sale).
- level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others: FX Swap, FX Forward, IRS, CIRS, forward rate agreement;
  - participation units of mutual funds;
  - investment properties or properties held for sale measured using the comparative method, for which there is a sufficient number of transactions of similar properties in the analyzed market, including 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 or the comparative method (if there is no adequate number of transactions of similar properties);
  - loan receivables from clients and liabilities to clients under deposits;
  - options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

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

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

10.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 December 2023				31 December 2022			
	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	28,974	11,686	5,400	46,060	23,429	11,200	5,975	40,604
Equity instruments	338	-	499	837	1,254	-	394	1,648
Debt securities	28,636	11,686	4,901	45,223	22,175	11,200	5,581	38,956
Investment financial assets measured at fair value through profit or loss	4,846	6,891	368	12,105	2,813	4,951	411	8,175
Equity instruments	865	-	254	1,119	578	-	252	830
Participation units and investment certificates	246	4,750	-	4,996	215	4,645	16	4,876
Debt securities	3,735	2,141	114	5,990	2,020	306	143	2,469
Loan receivables from clients	-	-	332	332	-	-	438	438
Measured at fair value through other comprehensive income	-	-	82	82	-	-	254	254
Measured at fair value through profit or loss	-	-	250	250	-	-	184	184
Financial derivatives	-	11,377	19	11,396	-	16,172	25	16,197
Investment property	-	193	2,905	3,098	-	160	2,861	3,021
Liabilities								
Derivatives	-	11,653	3	11,656	-	20,956	-	20,956
Liabilities to members of consolidated mutual funds	-	485	-	485	-	305	-	305
Investment contracts for the client's account and risk (unit-linked)	-	294	-	294	-	238	-	238
Liabilities on borrowed securities (short sale)	813	-	-	813	875	-	-	875

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Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 2023	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	**394**	**5,581**	**252**	**16**	**143**	**25**	**-**	**254**	**184**	**2,861**
Purchase/opening of the position/granting	-	750	-	-	751	2	2	-	90	46
Reclassification from Level II [1]	-	1,412	-	-	87	3	-	-	-	26
Reclassification from own properties	-	-	-	-	-	-	-	-	-	173
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	20
Profit or loss recognized in the profit and loss account:	-	275	26	-	8	5	1	17	11	(219)
- interest income calculated using the effective interest rate	-	213	-	-	1	(1)	-	12	11	-
- result on derecognition of financial instruments and investments	-	62	-	-	3	-	-	5	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	26	-	4	6	1	-	-	(219)
Profits or losses recognized in other comprehensive income	107	332	-	-	-	-	-	7	-	-
Sales/settlements/repayments/conversions		(1,460)	(21)	(16)	(820)	(16)	-	(196)	(35)	-
Reclassification to assets held for sale or own properties	-	-	-	-	-	-	-	-	-	-
Reclassification to level II [1]		(1,986)	-	-	(55)	-	-	-	-	-
Effect of movements in exchange rates	(2)	(3)	(3)	-	-	-	-	-	-	(2)
End of the period	**499**	**4,901**	**254**	**-**	**114**	**19**	**3**	**82**	**250**	**2,905**

[1] Information on the restatements is presented in section 10.3.

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Movement in assets and liabilities classified as level III of the fair value hierarchy in the year ended 31 December 2022	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	**471**	**5,601**	**259**	**21**	**166**	**54**	**20**	**246**	**160**	**2,607**
Purchase/opening of the position/granting	2	234	-	-	1,096	-	-	151	53	144
Reclassification from Level II [1)]	-	2,040	-	-	67	1	-	-	-	7
Reclassification from own properties	-	-	-	-	-	-	-	-	-	7
Reclassifications from assets held for sale to investment property	-	-	-	-	-	-	-	-	-	23
Profit or loss recognized in the profit and loss account:	-	195	28	(4)	4	(10)	(10)	14	3	73
- interest income calculated using the effective interest rate	-	157	-	-	2	(1)	-	14	3	-
- result on derecognition of financial instruments and investments	-	38	-	-	1	(1)	(9)	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	28	(4)	1	(8)	(1)	-	-	73
Profits or losses recognized in other comprehensive income	(80)	(301)	-	-	-	-	-	(6)	-	1
Sales/settlements/repayments/conversions	-	(788)	(42)	-	(1,049)	(19)	(10)	(151)	(32)	-
Reclassification to assets held for sale or own properties	-	-	-	-	-	-	-	-	-	(1)
Reclassification to level II [1)]	-	(1,400)	-	-	(141)	(1)	-	-	-	-
Effect of movements in exchange rates	1	-	7	(1)	-	-	-	-	-	-
End of the period	**394**	**5,581**	**252**	**16**	**143**	**25**	**-**	**254**	**184**	**2,861**

[1)] Information on the restatements is presented in section 10.3.

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10.2.1.1. Changes in the method of measurement of fair value of financial instruments measured at fair value

Both in 2023 and in 2022, no changes were made in the fair value measurement method for financial instruments measured at fair value that would be of material significance for the consolidated financial statements.

10.2.1.2. Sensitivity analysis of fair value of assets classified as level III

Loan receivables from clients

As at 31 December 2023, the sensitivity of the change in the valuation measurement of loan receivables from clients classified as level III fair value in the case of a 50 basis point increase/decrease in the credit spread was:

- for loan receivables from clients measured at fair value through financial result: PLN +10/-9 million (as at 31 December 2022: PLN +5/-5 million, respectively);
- for loan receivables from clients measured at fair value through other comprehensive income: PLN +1/ PLN -1 million (as at 31 December 2022: PLN +4/-4 million).

Investment financial assets – debt instruments

Impacts of unobservable factors on the fair value of financial instruments are presented in the following tables.

Debt securities	Fair value as at 31 December 2023	Measurement technique	Unobservable parameter	Scenario	Impact on fair value as at 31 December 2023	
					positive scenario	negative scenario
Corporate and municipal debt securities	4,700	Discounted cash flow model	Credit spread	+50 bps / -50 pps	93	(100)
Treasury debt securities	315	Discounted cash flow model	Spread to the reference bond	+40 bps / -40 pps	6	(6)

Debt securities	Fair value as at 31 December 2022	Measurement technique	Unobservable parameter	Scenario	Impact on fair value as at 31 December 2022	
					positive scenario	negative scenario
Corporate and municipal debt securities	4,495	Discounted cash flow model	Credit spread	+55 bps / -55 pps	94	(94)
Treasury debt securities	1,164	Discounted cash flow model	Spread to the reference bond	+40 bps / -40 pps	26	(26)

Investment financial assets – equity instruments

Impacts of unobservable factors on the fair value of equity-based financial assets are presented in the following tables.

Equity-based financial assets	Fair value as at 31 December 2023	Parameter	Scenario	Impact on fair value as at 31 December 2023	
				positive scenario	negative scenario
VISA series C	66	Conversion discount	10% / -10%	8	(8)
VISA series A	163	Conversion discount	10% / -10%	-	(16)
Biuro Informacji Kredytowej SA	321	Discount rate	1% / -1%	52	(39)
PSP sp. z o.o.	116	Risk-free rate	Risk premium +/- 25 bps; Financial forecasts +/- 10%	16	(16)

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Equity-based financial assets	Fair value as at 31 December 2022	Parameter	Scenario	Impact on fair value as at 31 December 2022	
				positive scenario	negative scenario
VISA series C	59	Conversion discount	10% / -10%	7	(7)
VISA series A	145	Conversion discount	10% / -10%	-	(15)
Biuro Informacji Kredytowej SA	270	Discount rate	1% / -1%	32	(26)
PSP sp. z o.o.	79	Risk-free rate	Risk premium +/- 25 bps; Financial forecasts +/- 10%	11	(11)

Financial derivatives

Impacts of unobservable factors on the fair value of derivatives are presented in the following tables.

Equity-based financial assets	Fair value as at 31 December 2023	Parameter	Scenario	Impact on fair value as at 31 December 2023	
				positive scenario	negative scenario
Foreign exchange derivatives	3	Probability of default	20% / -20%	-	(2)
Options, including exotic options	13	Prices of options embedded in structured products are sourced from the market	Volatility of underlying instrument prices, correlations of underlying instrument prices	-	-

Equity-based financial assets	Fair value as at 31 December 2022	Parameter	Scenario	Impact on fair value as at 31 December 2022	
				positive scenario	negative scenario
Foreign exchange derivatives	3	Probability of default	20% / -20%	-	(2)
Options, including exotic options	22	Prices of options embedded in structured products are sourced from the market	Volatility of underlying instrument prices, correlations of underlying instrument prices	-	-

Investment property

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

All real properties classified as level III fair value were measured by the income approach using the investment method and the straight capitalization technique or using a mixed approach. This valuation uses non-observable inputs such as:

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

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Properties classified as level III	Type of space	31 December 2023			31 December 2022		
		Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement	Carrying amount	Rental fees included in the measurement	Capitalization rates included in the measurement
Investment property							
office	Office Parking lot	985	12.50 – 14.50 EUR 40.00 – 100.00 EUR	6.50% – 7.75%	958	12.50 – 14.50 EUR 40.00 – 90.00 EUR	6.25% – 7.50%
warehouse	Office Warehouse	1,617	9.50 – 11.50 EUR 4.00 – 4.50 EUR	5.75% – 6.50%	1,680	9.50 – 11.00 EUR 3.65 – 4.00 EUR	4.95%-6.70%
commercial	Commercial	193	depending on size of leased space	6.50% – 7.75%	151	depending on size of leased space	6.25%-7.50%
other		110	-	-	72	-	-
Total		**2,905**			**2,861**		
Investment property held for sale							
warehouse	Office Warehouse	555	9.50 – 10.00 EUR 4.00 EUR	6.25%-6.75%	607	9.50 EUR 3.60 – 3.65 EUR	5.70%-6.20%
other		6	-	-	6	-	-
Total		**561**			**613**		

Real property	Fair value as at 31 December 2023	Unobservable parameter	Scenario	Impact on fair value as at 31 December 2023	
				positive scenario	negative scenario
Investment property	2,905	Capitalization rate	-0.25 p.p. / +0.25 p.p.	111	(102)
		Monthly rent rate	+5% / -5%	107	(107)
Investment property held for sale	561	Capitalization rate	-0.25 p.p. / +0.25 p.p.	25	(23)
		Monthly rent rate	+5% / -5%	24	(24)

Real property	Fair value as at 31 December 2022	Unobservable parameter	Scenario	Impact on fair value as at 31 December 2022	
				positive scenario	negative scenario
Investment property	2,861	Capitalization rate	-0.25 p.p. / +0.25 p.p.	127	(116)
		Monthly rent rate	+5% / -5%	114	(114)
Investment property held for sale	613	Capitalization rate	-0.25 p.p. / +0.25 p.p.	26	(24)
		Monthly rent rate	+5% / -5%	26	(26)

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10.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 December 2023					31 December 2022				
	Level I	Level II	Level III	Total fair value	Carrying amount	Level I	Level II	Level III	Total fair value	Carrying amount
Assets										
Loan receivables from clients measured at amortized cost	-	-	217,405	217,405	218,476	-	-	212,467	212,467	212,255
Investment financial assets measured at amortized cost	52,172	58,016	22,950	133,138	135,875	40,218	36,396	20,448	97,062	106,054
Debt securities	52,172	52,270	14,256	118,698	121,574	40,218	32,226	10,170	82,614	91,646
Buy-sell-back transactions	-	5,384	3,619	9,003	9,003	-	2,277	4,794	7,071	7,071
Term deposits with credit institutions	-	362	685	1,047	1,036	-	1,893	1,187	3,080	3,068
Loans	-	-	4,390	4,390	4,262	-	-	4,297	4,297	4,269
Liabilities										
Liabilities to banks	-	874	6,171	7,045	7,047	-	1,637	6,117	7,754	7,720
Liabilities to clients under deposits	-	-	303,709	303,709	303,781	-	-	278,277	278,277	278,058
Liabilities on the issue of own debt securities [1)]	-	10,004	2,108	12,112	12,003	-	10,315	821	11,136	11,090
Subordinated liabilities [1)]	-	2,778	3,431	6,209	6,166	-	2,788	3,331	6,119	6,184
Liabilities on account of repurchase transactions	-	1,609	14	1,623	1,623	-	930	1	931	931

[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.

10.3 Reclassification between fair value hierarchy levels

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

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

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

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

In 2023, the following transfers of assets between fair value levels were made:

- corporate bonds which were measured using market price information for comparable financial instruments, as well as corporate and municipal bonds for which the impact of estimated credit parameters did not significantly affect the measurement, as well as capital market derivatives for which the estimated volatility did not significantly affect the valuation were reclassified from level III to level II;
- financial assets and liabilities for which the impact of the estimated unobservable factor significantly affected the measurement: corporate and municipal bonds (credit parameters), treasury debt securities, foreign exchange derivatives (probability of default) were reclassified from level III to level II;
- government bonds with the value of PLN 55 million which were measured using market quotations were reclassified from level II to level I due to an increase in market activity;

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- debt securities with the value of PLN 137 million which were measured using market price information for comparable financial instruments were reclassified from level II to level I.

In 2022, the following transfers of assets between fair value levels were made:

- corporate, municipal bonds, which were measured using market price information for comparable financial instruments, as well as corporate, municipal and Treasury bonds and foreign exchange and interest rate derivatives, for which the impact of estimated credit parameters did not significantly affect the valuation, and capital market derivatives, for which the estimated volatility did not significantly affect the valuation, were reclassified from Level III to Level II;
- reclassification from Level II to Level III was applied to corporate and municipal bonds for which the impact exerted by the estimated credit parameters on the measurement was significant and capital market derivatives for which estimated volatility exerted a significant impact on the measurement;
- debt securities with the value of PLN 124 million which were measured using market quotations were reclassified from level II to level I due to an increase in market activity;
- government bonds with the value of PLN 27 million were measured using market price information for comparable financial instruments were reclassified from level II to level I.

11. Insurance and reinsurance contracts

11.1 Accounting policies and significant estimates

The table below presents information on the key decisions made by PZU Group with regard to the accounting policy applied for the measurement purposes in accordance with IFRS 17.

Assumptions as made	Decision made by PZU Group	Justification
Method for determining discount rate curves	Curves determined with the bottom-up approach.	Approach adopted for consistency with Solvency II discounting methodology
Risk adjustment for non-financial risk	Depending on a nature of the risk concerned, a risk adjustment for non-financial risks is determined using the VaR method or the cost-of-capital method.	Decision on the valuation method made taking into account the characteristics of a risk profile of the portfolio concerned, as referred to in section 11.1.1, in order to best reflect uncertainties of measurement associated with non-financial risks.
Contract grouping	For life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a year (“annual cohorts”). For non-life insurance products, PZU Group decided to divide contracts into groups that contain contracts concluded within a quarter (“quarterly cohorts”).	PZU Group considered that, for long-term life insurance contracts, the introduction of a period shorter than one year would lead to excessive complexity (storage of greater quantities of data), which would not be commensurate with the benefits obtained. However, for non-life insurance products, which are mostly short-term, the division into quarterly cohorts allows for the profitability to be assessed in a more accurate manner in situations in which tariffs change during the year.

11.1.1. Identification and aggregation of insurance contracts

In order to identify insurance contracts and inward reinsurance contracts that are within the scope of IFRS 17, the PZU Group verifies whether, under a given contract, the entity accepts a significant insurance risk from the policyholder and undertakes to compensate the policyholder for an adverse effect defined as an uncertain future insurable event.

The assessment whether a contract transfers considerable insurance risk requires analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. Such an assessment includes an element of subjective judgment, which has significant influence on the accounting principles applied. According to the assumptions made by the PZU Group, we are dealing with significant insurance risk when the occurrence of an insured event results in disbursement of a benefit that is at least 10% higher than the benefit that would be paid had the event not occurred. Based on this criterion, concluded contracts are recognized either according to IFRS 17 or according to IFRS 9.

IFRS 17 does not provide specific guidance on combining contracts subject to valuation measurement under different standards. Following the provisions of IAS 8, that is, analyzing similar issues described in the standards and the provisions of the conceptual assumptions, the PZU Group assessed that insurance, credit or leasing contracts do not meet the criteria for combining contracts and should be recognized and measured separately, in accordance with the relevant standards.

Classification of non-life insurance contracts

Analysis has shown that all non-life insurance contracts transfer considerable insurance risk and accordingly they are governed by the requirements of IFRS 17.

The PZU Group applies IFRS 17 to financial guarantees offered by the PZU Group's insurance companies.

Classification of life insurance contracts

Analysis has shown that PZU Group's offer contains products that do not transfer significant insurance risk (including certain products with guaranteed rate of return and some unit-linked products) and thus do not meet the definition of an insurance contract pursuant to IFRS 17. Therefore, these products have been classified in the consolidated financial statements as investment contracts measured in accordance with IFRS 9 at amortized cost or fair value (depending on the structure of each product).

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

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

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

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 17.

In addition, no life insurance contracts were identified that included an investment component (requiring separation) or a component for services other than those covered by the insurance contract.

Aggregation of insurance contracts

For the measurement of liabilities, insurance contracts are aggregated into groups of insurance contracts. The purpose of this aggregation is to ensure that profits are recognized over time in proportion to the insurance services provided, and losses are recognized immediately when the entity assesses that the concluded contract is onerous. Offsetting profits and losses between the identified groups of insurance contracts is not allowed. Insurance contracts are grouped on initial recognition and in accordance with IFRS 17 the PZU Group does not reassess the groups in subsequent periods, unless there are grounds for derecognition as set forth in IFRS 17 , related to the modification of the insurance contract, causing a new contract to be recognized. Insurance contracts are aggregated into groups of insurance contracts, taking into consideration the following three levels:

- portfolio – contracts with similar risk characterization, managed jointly;
- cohort – contracts issued no more than one year apart;
- profitability – contracts belonging to the same profitability group – one of the three defined by IFRS 17:

- the group of contracts that are onerous at the initial recognition;
- the group of contracts that at the initial recognition have no significant possibility of becoming onerous subsequently;
- the group of the remaining contracts in the portfolio.

In PZU Group, portfolios are divided into groups of insurance contracts, taking into account the aforementioned levels as follows:

- portfolio:
  - based on the risk characterization of individual insurance contracts and based on existing insurance portfolio management processes;
- profitability:
  - for life insurance – at the level of a single contract by measuring the given insurance contract, that is by determining whether the expected current value of future inflows under this contract, less the expected value of future outflows within the limits of the contract, and taking into account the risk adjustment for non-financial risk, is a positive value or not. If this value is negative, such a contract is considered to be an onerous contract;
  - for non-life insurance – all the contracts are treated as profitable unless there are facts or circumstances that indicate that they are not profitable. Profitability is assessed at the level of the IFRS 17 portfolio based on the analysis of the combined ratio for a given portfolio, taking into account the risk adjustment for non-financial risk and any other significant business information that may affect product profitability. The assessment may be moved to the level of the cohort for the given quarter or year;
- cohorts:
  - it has been decided to group life insurance into annual cohorts and non-life insurance into quarterly cohorts, which allows a more accurate allocation of insurance contracts to profitability for the purposes of measuring liabilities.

Insurance contracts may include one or more components subject to another IFRS if these were separate contracts. Such components may be as follows:

- embedded derivative instruments whose economic characteristics and risks are not strictly connected with economic characteristics and risks of the underlying contract and whose terms and conditions do not meet the definition of an insurance contract or a reinsurance contract as an independent instrument;
- separated investment components which are not related, to a large extent, to insurance components and with regard to which contracts of equivalent terms and conditions are sold or could be sold separately in the same market or in the same jurisdiction by entities selling insurance contracts or other entities;
- commitments to transfer separated goods or services other than services incorporated in the insurance contract to the policyholder.

The PZU Group analyzed whether its products include insurance contracts that constitute one or more of the above components. As a result of that analysis, the PZU Group decided that it does not offer any products whose components constitute separate contracts subject to another IFRS.

The non-separated investment component cannot be separated from the insurance contract and is recognized in accordance with IFRS 17. However, it is excluded from insurance revenue and insurance service expenses. It represents the value that must be returned to the policyholder in any possible scenario (i.e., regardless of whether an insured event occurs) and is identified when the benefit occurs.

The PZU Group identifies the following cases where there is a non-separated investment component:

- premium for no claims and low claims ratio (non-life insurance contracts);
- scale commission and reinsurer's profit share (reinsurance contracts);
- the value of unit-linked insurance contracts (life insurance contracts);
- the surrender value (life insurance contracts).

11.1.2. Contract boundaries

The measurement of an insurance contract covers solely the cash flows that are within the contract boundary. The contract boundary distinguishes future cash flows that relate to existing insurance contracts from those that relate to future insurance contracts that have not been issued yet.

The PZU Group sets that the contract boundary start at date of initial recognition of contract. Insurance contract is issued from the earliest of the following:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group becomes due;
- for a group of onerous contracts, when the group becomes onerous.

The PZU Group sets the contract boundary when the PZU Group cannot compel the policyholder to pay the premiums and when the PZU Group has a substantive obligation to provide the policyholder with insurance contract services. The substantive obligation to provide services expires when:

- it is feasible in practice to reassess the risk for an individual insured and, consequently, a price or level of benefits can be established that fully reflects that risk (assessment at the level of an individual insured); or
- both of the following criteria are met:
  - the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio (portfolio assessment); and
  - the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

In PZU Group, the approach to the contract boundary, except for a few exceptions, is consistent with the definition of the end of the contract provided for in the insurance contract as a legal document. The exceptions are contract boundaries applied in life insurance riders. From a legal perspective, riders are mostly yearly renewable contracts. For the purpose of measurement in accordance with IFRS 17, riders are recognized and measured along with the main contract, unless it has been assessed that they constitute a separate insurance contract and should therefore be separated from the main contract. Contracts comprising additional risks linked with the main contract are modelled with account taken of renewals, and contract boundaries of riders are in line with the boundary of the main contract. In the case of unit-linked products with regular premiums, for an IFRS 17 measurement, the contract boundary occurs when the PZU Group no longer has a substantive obligation to provide the policyholder with insurance contract services, which in practice means including all forecast future cash flows in the measurement.

11.1.3. Modification of the insurance contract

A modification of the insurance contract changes the original terms and conditions of the contract on the basis of an agreement between the parties or as a result of amendments in legal regulations. It differs from an amendment resulting from any party to the contract exercising its rights that come within the original terms and conditions of the contract.

If terms and conditions of the insurance contract are modified and at least one of the following conditions is met, then the PZU Group derecognizes the original contract and recognizes the modified contract as a new contract. The conditions for contract modification as a result of which the PZU Group derecognizes the contract are as follows:

- the contract is no longer subject to IFRS 17;
- the different components must be separated from the host insurance contract;
- the modified contract has substantially different contract boundary;
- the modified contract would be included in a different group of contracts at initial recognition;
- the modified contract meets the definition of an insurance contract with direct participation features, while the original contract no longer meets that definition, or vice versa;
- the contract no longer meets eligibility criteria for the application of PAA, while the original contract met those criteria.

In case of contract derecognition within the group of contracts, the PZU Group applies the following requirements:

- cash flows from contract allocated to the group, are adjusted in order to eliminate the present value of future cash flows and risk adjustment for non-financial risk related to rights and obligations that are derecognized within the group;
- the contractual service margin for the group is adjusted by changes in the value of cash flows described above; and
- the number of coverage units with regard to expected remaining services stipulated by the contract is adjusted in order to reflect derecognized coverage units within in the group and the contractual service margin recognized in the profit or loss of a given period is based on the adjusted number of coverage units.

11.1.4. Measurement methods

In accordance with IFRS 17, insurance contracts are measured according to the following rules:

- GMM – general measurement model;

  In this model, the total insurance contract liability is computed as a sum of:

  – fulfilment cash flows, which comprise: (1) estimates of future cash flows within the contract boundary; (2) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; (3) a risk adjustment for non-financial risk, which reflects the compensation for bearing the uncertainty , about the amount and timing of the cash flows that arise from non-financial risk; and

  – the contractual service margin representing an unearned profit. The contractual service margin is sensitive to changes in cash flow estimates triggered by changes in non-economic assumptions. The contractual service margin cannot be a negative value – losses on contracts are recognized directly in profit or loss;

- PAA – premium allocation approach:

  The premium allocation approach is a simplified approach, where the measurement of the liability for remaining coverage is in line with the insurance risk distribution over time (without a separate presentation of risk adjustment for non-financial risk or contractual service margin), while the liability for incurred claims is measured in the same manner as for the general measurement model. PAA is applied for contracts which meet relevant eligibility criteria at initial recognition, allowing the application of the simplifications referred to in paragraphs 53 or 69 IFRS 17:

  – the entity reasonably expects that this simplification produces a measurement of the liability for remaining coverage for the group of contracts that would not differ materially from the one that would be produced applying the GMM method;

  – the coverage period for each contract in the group is one year or less.

  Group of insurance contracts may be measured with the PAA method even if they do not meet the above criteria, provided that the impact on the consolidated financial statements of the PZU Group will be deemed immaterial.

  In line with the PZU Group's policy, under the PAA approach, insurance acquisition cash flows are included in the liability for the remaining coverage (LRC) and are therefore amortized over the entire coverage period.

  For the PAA method, PZU Group does not make any adjustment to reflect the time value of money and the impact of financial risk;

- VFA – variable fee approach:

  The liability measurement method used for IFRS 17 reporting of insurance contracts with direct participation features, is analogous to GMM, with the difference being that changes in the CSM in subsequent periods also include the impact of changing economic assumptions, and not just operating assumptions. The variable fee approach is used solely to measure selected products, after eligibility criteria are assessed, at initial recognition. The PZU Group applies VFA to unit-linked products which meet the eligibility criteria (the PZU Group assesses all its unit-linked products to meet the VFA eligibility criteria).

In the PZU Group, the majority of non-life insurance and reinsurance contracts meet the criteria for applying the simplified premium allocation approach (PAA). Life insurance contracts are measured using the general model (GMM), and insurance contracts with direct participation features are measured by the PZU Group using VFA method.

Liability for remaining coverage without loss component

Measurement at the initial recognition

Liability for remaining coverage (LRC) is a liability that corresponds to an entity's obligation to:

- investigate and pay valid claims under existing insurance contracts for insurance events that have not yet occurred (i.e. the obligation in respect of the unexpired portion of the insurance coverage); and
- pay amounts under existing insurance contracts that are not included in the aforementioned point and that relate to:
  - the insurance contract services not yet provided (i.e., the obligations that relate to future provision of insurance contract services); or
  - any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.

At initial recognition, the total insurance contract liability comprises the liability for remaining coverage. Moreover, the carrying amount is equal to zero for non-onerous contracts.

In accordance with the general measurement model, as well as within the variable fee approach, the liability for remaining coverage at initial recognition is measured as:

- the fulfilment cash flows described in section 11.1.5; and increased by
- the contractual service margin representing unearned profit.

The premium allocation approach does not account for the contractual service margin, risk adjustment for non-financial risk, or the adjustment to reflect the time value of money. The liability for remaining coverage at initial recognition is measured as:

- premiums received at the date of initial recognition;
- minus any insurance acquisition cash flows; and
- plus or minus any amount arising from the derecognition as at that date of:
  - any assets in respect of the insurance contract acquisition cash flows paid out prior to the initial recognition of the group of insurance contracts; and
  - any other assets or liabilities previously recognized in respect of cash flows relating to the group of contracts.

Subsequent measurement

After initial recognition, as at the end of each reporting period liability for remaining coverage, excluding contractual service margin, is reassessed using fulfilment cash flows concerning contracts related to the subsequent coverage period, i.e., it covers the best estimate present value of the cash flows required to fulfil the liability together with a risk adjustment for non-financial risk.

According to the general measurement model and variable fee approach, as at the end of the reporting period, the liability for remaining coverage excluding CSM is estimated as:

- liability for remaining coverage at the beginning of the reporting period, which is equal to the value of this liability at the end of the previous reporting period;
- plus/minus estimated expected amounts related to the payments of premiums, claims and expenses which are to be incurred in the reporting period, as estimated as at the previous reporting date;
- plus/minus changes in estimates resulting from changes in assumptions relating to future services;
- plus/minus interest accreted on the present carrying amount of future cash flows and risk adjustment for non-financial risk within the reporting period, using a discount rate applied at initial recognition (so-called locked-in rate);
- plus/minus the remaining interest accreted using current discount rates.

In line with the premium allocation approach, as at the end of the reporting period, the liability for remaining coverage is measured as:

- the carrying amount of this liability at the beginning of the period;
- plus the premiums received in the period;
- minus insurance acquisition cash flows;
- plus any amounts relating to the amortization of insurance acquisition cash flows recognized as an expense in the reporting period;
- minus the amount recognized as insurance revenue for services provided in that period; and
- minus any investment component paid or transferred to the liability for incurred claims.

In the light of the foregoing, the PZU Group recognizes income and expenses for the following changes in the carrying amount of the liability for remaining coverage:

- insurance revenue – for the reduction in the liability for remaining coverage because of services provided in the period;
- insurance service expenses — for losses on groups of onerous contracts, and reversals of such losses;
- insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk.

Contractual service margin

Measurement at the initial recognition

The contractual service margin is set for non-onerous contracts at initial recognition and reflects unearned profit. An amount of the contractual service margin for a group of insurance contracts is recognized in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period.

Contractual service margin may be defined as expected cash inflows minus expected cash outflows within the contract boundary, with risk adjustment for non-financial risk and time value of money.

Contractual service margin is not recognized under premium allocation approach. Under the general measurement model and variable fee approach, at initial recognition, the PZU Group measures contractual service margin of a group of contracts at an amount that results in no income or expenses arising from:

- the initial recognition of an amount for the fulfilment cash flows;
- any cash flows arising from the contracts in the group at that date;
- the derecognition at the date of initial recognition of:
  - any asset for insurance acquisition cash flows;
  - any other asset or liability previously recognized for cash flows related to the group of contracts.

As a rule, contractual service margin may not be used to recognize losses over time. Loss identified on recognition of a group of contracts is recognized in the profit and loss account at an amount corresponding to the excess of the expected future outflows over the expected future inflows accounting for non-financial risk (through risk adjustment for non-financial risk). This approach is opposite to the manner in which expected profit from insurance business is recognized over time, proportionally to the insurance service provided.

Subsequent measurement

Contractual service margin as at the end of the reporting period reflects the profit in the group of insurance contracts that has not yet been recognized in profit or loss because it relates to future service to be provided under the contracts in the group.

As at the end of the reporting period, the carrying amount of the contractual service margin for a group of insurance contracts without direct participation features, measured in line with the general measurement model, equals the carrying amount as at the beginning of the reporting period adjusted for:

- the effect of any new contracts added to the group;

- interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates at initial recognition (so-called locked-in rates);
- changes in fulfilment cash flows relating to future services, except to the extent that:
  - such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss; or
  - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage;
- the effect of any currency exchange differences on the contractual service margin; and
- the amount recognized as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

At the end of each reporting period, the carrying amount of the contractual service margin for a group of insurance contracts with direct participation features, measured in line with the variable fee approach, equals the carrying amount as at the start of the reporting period adjusted for:

- the effect of any new contracts added to the group;
- the change in the amount of the entity's share of the fair value of the underlying items;
- the changes in fulfilment cash flows relating to future service;
- the effect of any currency exchange differences on the contractual service margin; and
- the amount recognized as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

Changes in fulfilment cash flows related to future services that adjust the contractual service margin for the group of insurance contracts that do not include direct participation features are as follows:

- experience adjustments (i.e., the difference between actual and expected amounts) arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates specified at initial recognition;
- changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those not related to future service, measured at the discount rates specified at initial recognition;
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, increased by an investment component, resulting from claims incurred but not paid, measured at the discount rates specified at initial recognition; and
- changes in the risk adjustment for non-financial risk that relate to future service.

Loss component

Measurement at the initial recognition

The loss component is part of the liability for remaining coverage (LRC) and represents losses from the group of onerous contracts. Initial loss is separated in profit or loss, and adjusted in subsequent periods for further losses, reversal of losses, and their release over time, so that the loss component for a group of contracts is nil until the end of the coverage period of a group of contracts.

The loss component is established regardless of the measurement model applied (i.e., it is set for the general measurement model, variable fee approach, and the premium allocation approach).

An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows (with risk adjustment for non-financial risk and the time value of money) allocated to the contract, any previously recognized insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow, recognized in profit or loss.

For the purpose of the premium allocation approach, if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the entity establishes a loss component which can be expressed as the difference between the carrying amount of the liability for remaining coverage computed in line with PAA and the fulfilment cash flows that relate to remaining coverage of the group in line with the general model.

Subsequent measurement

Under the general measurement model and variable fee approach, an insurance contract or group of insurance contracts becomes onerous (or more onerous) on subsequent measurement if unfavorable changes relating to future service arising from changes in estimates of future cash flows and the risk adjustment for non-financial risk exceed the carrying amount of the contractual service margin. In this case, the PZU Group recognizes the loss in profit or loss at the amount equal to the said excess.

If on subsequent measurement, there are favorable changes relating to future service, the PZU Group recognizes profit (reversal of losses) in profit or loss to the maximum amount of the loss component. Should favorable changes exceed the value of the loss component, the PZU Group recognizes profit equal to the recognized loss component, whereas the excess is recognized as contractual service margin.

In the case of premium allocation approach, loss component in subsequent measurement is measured using the same calculation method as at initial recognition and may be reversed to zero.

Liability for incurred claims

Measurement at the initial recognition

Liability for incurred claims corresponds to an entity's obligation to:

- investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and
- pay amounts other than specified in the point above and which relate to:
  - insurance contract services which have already been provided; or
  - any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.

In all valuation models, at the initial recognition of a group of contracts, the liability for incurred claims is usually zero, as no insured events have yet occurred.

The liability for incurred claims has to be established (separately for each type of insured event) once a single insured event of a contract occurred, comprising the expected claims payout for this single event, for which claims have not been fully paid yet.

Liability for incurred claims comprises cash flows related to the past service as at the reporting date. The measurement of this liability is based on the same requirements concerning (1) estimates of the future cash flows; (2) discount rates; and (3) risk adjustment for non-financial risk, which also apply to the liability for remaining coverage on initial and subsequent measurement.

Subsequent measurement

For each reporting period, liability for incurred claims is measured as fulfillment cash flows related to incurred claims. This means that it covers the present value of expected estimates of future cash flows required to settle the liability for incurred claims and expenses for each insured event, along with risk adjustment for non-financial risk.

For all the measurement methods, as at the end of the reporting period, the liability for incurred claims is estimated as:

- liability for incurred claims as at the beginning of the reporting period, equal to the liability as at the end of the previous reporting period;
- plus/minus expected cash flows related to past service;
- plus the increase related to claims and expenses incurred in the period but not yet paid;

- plus/minus interest accreted on the best estimate present value of liabilities and risk adjustment for non-financial risk in the reporting period using the discount rate applied at initial recognition (so-called locked-in rate);
- plus/minus the remaining interest accreted using current discount rates.

Subsequent to the initial recognition, the entity recognizes income and expenses for the following changes in the carrying amount of the liability for incurred claims:

- insurance service expenses — for the increase in the liability because of claims and expenses incurred in the period, excluding any investment components;
- insurance service expenses — for any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses; and
- insurance finance income or expenses — for the effect of the time value of money and the effect of financial risk.

For the purpose of its computations, the PZU Group has decided to recognize the values on a compound basis from the beginning of the year to the reporting date (Year To Date – YTD). Because of this, the “previous reporting period” referred to in the points hereinabove is, in every case, the end of December of the preceding year.

Insurance finance income or expenses

To reduce the volatility of the financial result and to keep the approach in measuring financial assets and liabilities under insurance and reinsurance contracts as consistent as possible, PZU Group presents insurance and reinsurance finance income and expenses in the consolidated profit and loss account or in other comprehensive income (for portfolios of contracts without direct participation features). In order to determine the value of insurance and reinsurance finance income or expenses, PZU Group uses:

- for groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to policyholders – discount rates determined at the date of initial recognition of a group of contracts;
- for groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders, discount rates that allocate the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate.

Assets in relation to cash flows from the acquisition of insurance contracts

Prepayments understood as acquisition expenses paid before their due date and initial recognition of an contract (where payments are not within the contract boundary but are part of fulfillment cash flows following the initial recognition of a contract) are not recognized under the liability for remaining coverage (LRC) until the initial recognition of the contract; however, they are treated as part of the insurance contract assets or liabilities as assets for insurance acquisition cash flows.

If facts and circumstances indicate that an asset may have been impaired in relation to the cash flows from the acquisition of insurance contracts, then at the end of each reporting period PZU Group:

- recognizes an impairment loss so that the carrying amount of each asset does not exceed the expected net cash inflows for that group of insurance contracts (group level impairment testing); and
- if the asset relates to the groups expected to arise from the renewal of insurance contracts in the group (additional impairment test), recognizes an impairment loss to the extent that:
  - insurance acquisition cash flows exceed the net cash inflow for the expected renewals;
  - the excess has not already been recognized as an impairment loss.

Previously recognized impairment loss is reversed in the subsequent reporting period to the extent that the impairment has improved or no longer exists. In its IFRS 17 reporting, as at 31 December 2023, 31 December 2022 as well as at 1 January 2022, the PZU Group has recognized no assets relating to groups of insurance contracts expected to arise from renewals.

11.1.5. Significant judgements and estimation processes

Cash flows from the performance of insurance contracts

In estimating future cash flows, PZU Group considers all reasonable and documented information that is available without undue cost and effort. This information includes both historical internal and external data concerning claims and other measurement elements, updated to reflect current expectations of future events.

Estimates of future cash flows include all cash flows expected to arise from the fulfilment of the rights and obligations under the insurance contract. Estimates of future cash flows:

- are within the contract boundary;
- account for all information available about the amount, timing and uncertainty of those future cash flows;
- are explicit – the entity estimates the risk adjustment for non-financial risk separately from the other estimates; the entity also estimates the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates;
- reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables;
- are up to date.

Cash flows within the boundary of an insurance contract are those directly related to the fulfillment of rights and obligations under the contract, including cash flows in respect of which the PZU Group may, at its discretion, determine the amount or timing. The cash flows within the boundary include:

- premiums;
- payments to (or on behalf of) the insured, including claims that have already been reported but have not yet been paid (i.e. reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the PZU Group has a substantive obligation;
- payments to (or on behalf of) a policyholder that vary depending on returns on underlying items;
- payments to (or on behalf of) the insured resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract;
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs;
- claims handling expenses;
- costs the PZU Group will incur in providing contractual benefits paid in kind;
- policy administration and maintenance costs;
- transaction-based taxes that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis;
- payments by the PZU Group in a fiduciary capacity to meet tax obligations incurred by the insured, and related receipts;
- potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims;
- costs the PZU Group will incur:
  - performing investment activity, to the extent the PZU Group performs that activity to enhance benefits from insurance coverage for the insured;
  - providing investment-return service to the insured of insurance contracts without direct participation features; or
  - providing investment-related service to policyholders of insurance contracts with direct participation features;
- allocation of fixed and variable indirect costs directly related to the performance of insurance contracts;
- any other costs specifically chargeable to the policyholder under the terms of the contract.

Reinsurance contracts are modeled on the same basis as insurance contracts. However, taking into account the features of reinsurance contracts, at initial recognition (and similarly as at every subsequent reporting date), expected future cash flows include estimates of future cash flows from underlying insurance contracts expected to be issued in the future by the reinsured entity within the reinsurance contracts' boundaries.

Key assumptions

For the purposes of estimating future cash flows for the measurement of the liability for remaining coverage, the PZU Group applies the following key assumptions:

- loss ratios – assumptions are based on historical observations as well as the PZU Group's own assessment of expected claims patterns for new insurance contracts;
- mortality – assumptions are based on life tables published by the Central Statistical Office, which are adjusted to reflect historical observations on mortality in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- morbidity – assumptions are based on historical observations in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- lapse rates – assumptions are based on historical lapse levels in the PZU Group's insurance contracts portfolio, taking into account expert judgment;
- expenses – assumptions are based on the PZU Group's own assessment of future expenses, adopted in the financial planning procedure for the following year. The projected level of future expenses includes the development of operations and cost inflation, which are the resultant of changes in the macroeconomic environment and the impact of inflation on the various areas of PZU Group operations. Long-term assumptions are based on the National Bank of Poland's inflation target.

For the purposes of estimating future cash flows for the measurement of the liability for incurred claims, PZU Group relies on historical data and standard actuarial methods for estimating the ultimate value of claims, such as the Chain-Ladder method or the Bornhuetter-Ferguson method. These methods assume that historical data can forecast accurately future expected claim development patterns. To assess the extent to which historical claim development patterns apply to the future, PZU Group uses a qualitative assessment that takes into account additional factors such as changes in the economic and legal environment, changes in the claims handling process, one-time events or changes in portfolio characteristics. Estimates are made at the level of homogeneous risk groups.

Cash flows for reported annuities are forecast individually based on the current annuity amount, the expected period of annuity payment and the expected growth rate. The annuity payment period is determined on the basis of age and gender of the annuity recipient, based on mortality determined at 100% of the Polish Life Expectancy Tables 2019 ("PLET 2019"), and in the case of temporary annuities, additionally based on the end of the annuity payment. The annuity growth forecast is made on the basis of historical annuity increases.

Claim inflation was taken into account in the calculation, and a level similar to 2023 was assumed for 2024 – 7%, while for 2025 – 3.5%.

The calculation of flows from potential compensation for harm to the next of kin of a victim who suffered severe and permanent injury was based on an estimate of the number of eligible persons and the average expected compensation.

Mortality assumptions for long-term products were made using the relative mortality method, based on the Polish Life Expectancy Tables 2018 ("PLET 2018") and experience in the implementation of these tables. In other cases, mainly for short-term products, the assumption was set as the frequency of deaths per 1,000 insured persons, based on the PZU Group's current experience for these products, however, for the main group insurance portfolio, the assumed mortality constitutes 83% of the average mortality determined on the Polish working-age population.

In the case of individually continued and traditional insurance, assumptions are set by age and gender, including other factors, and vary significantly by product and target client group. Traditional insurance has a lower relative mortality rate – for whole life products, the assumptions used are below 93% PLET 2018 for ages up to 80. Above the age of 80 there is an interpolation to 100% PLET 2018.

In the case of life and endowment insurance and dowry insurance, assumptions are made in the range of 34% – 57% PLET 2018 for men and 48% – 71% PLET 2018 for women.

The mortality rate for individually continued insurance ranges from 86% PLET 2018 and does not exceed 100% PLET 2018 for most insured persons.

Division of indirect costs into directly and indirectly attributable to the insurance contracts

The PZU Group regularly analyses whether indirect costs are directly attributable to insurance contracts under the ABC process (*Activity Based Costing*). Based on this process, a division is made on a quarterly basis between costs directly attributable to the insurance activities and costs not attributable to the insurance contracts.

Costs classified as not attributable to the insurance activities are excluded from the calculation of liabilities for remaining coverage and liabilities for incurred claims, which means that they are recognized in the result as they are incurred, in accordance with the provisions of other standards, usually as “other operating expenses.”

The allocation of costs directly attributable to the insurance activitiesto IFRS 17 portfolios is based on the ABC model, which allocates prepayments and accruals to the product level. The data is then aggregated to the IFRS 17 portfolios level.

As a next step, for non-life insurance, PZU Group applies the following allocation keys to be used for the allocation of actual costs incurred to the cohort level:

- indirect claims handling costs – the value of claims paid in a given quarter;
- salvage recovery costs – the value of salvage paid in a given quarter;
- indirect acquisition expenses – premiums written in a given quarter;
- administrative expenses are allocated to cohorts that began in a given quarter.

For the life insurance business, the PZU Group uses an alternative cost allocation key, i.e. divides costs into cohorts in proportion to the number of active policies in each cohort. Acquisition costs are allocated to the cohort beginning in the quarter.

Cash flow discounting

The PZU Group uses discount rate curves determined under the bottom-up approach (IFRS 17:B80), which assumes that discount curves will be determined as liquid risk-free rate curves adjusted for the illiquidity premium resulting from the difference in the liquidity characteristics of the rates observed in the market and the liquidity characteristics of the insurance contracts. For groups of contracts established for cohorts arising after the transition date for IFRS 17 measurement (i.e., after 1 January 2022), the PZU Group applies the EIOPA methodology to establish the underlying risk-free curve. The approach to discount rate curves established for the cohorts recognized before the transition date is described in Section 6.2.1.1.

The table below shows the curves used to discount insurance contract cash flows for the main currencies. The ‘No premium’ rows present the base curves for IFRS 17 portfolios in which no illiquidity premium has been added (applicable to group insurance and profit share insurance products, bancassurance and unit-linked products). The 'Annuities' rows present curves for PLN and EUR, respectively, used for the purposes of discounting the selected non-life annuities. In the line “IK” – curves used for the purposes of discounting selected individual life insurance products, in particular, the individually continued insurance contracts portfolio and term insurance.

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Portfolio duration	31 December 2023					31 December 2022					1 January 2022				
	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years	1 year	5 years	10 years	20 years	40 years
No premium															
PLN	4.95%	4.84%	5.10%	4.95%	4.36%	6.40%	6.74%	6.65%	6.01%	4.94%	2.66%	3.73%	3.57%	3.50%	3.52%
EUR	3.36%	2.32%	2.39%	2.41%	2.71%	3.18%	3.13%	3.09%	2.76%	2.85%	(0.59%)	(0.08%)	0.21%	0.46%	1.62%
USD	4.76%	3.50%	3.45%	3.46%	3.19%	5.07%	3.95%	3.75%	3.63%	2.82%	0.44%	1.28%	1.50%	1.67%	1.36%
GBP	4.74%	3.36%	3.28%	3.43%	3.08%	4.46%	4.06%	3.71%	3.53%	3.31%	0.78%	1.20%	1.11%	1.05%	0.75%
NOK	4.00%	3.31%	3.22%	3.27%	3.33%	3.46%	3.15%	3.20%	3.29%	3.36%	1.14%	1.78%	1.81%	2.23%	2.80%
Annuities															
PLN	5.29%	5.18%	5.44%	5.28%	4.70%	6.81%	7.15%	7.05%	6.42%	5.35%	2.83%	3.91%	3.75%	3.68%	3.69%
EUR	3.41%	2.38%	2.45%	2.46%	2.77%	3.23%	3.18%	3.14%	2.82%	2.90%	(0.57%)	(0.07%)	0.22%	0.47%	1.64%
IK															
PLN	5.18%	5.07%	5.33%	5.17%	4.58%	6.67%	7.01%	6.92%	6.28%	5.21%	2.77%	3.85%	3.69%	3.62%	3.63%

Risk adjustment for non-financial risk

PZU Group includes risk adjustment for non-financial risks (e.g. underwriting risk, surrender risk and expense risk) in the measurement of insurance contracts. The risk adjustment for non-financial risk is compensation for the uncertainty about the amount and timing of cash flows from groups of insurance contracts. Due to different risk characteristics, the risk adjustment concerning cash flows related to the future coverage period (accounted for in the liability for remaining coverage) and past coverage period (accounted for in the liability for incurred claims) is estimated separately.

The PZU Group estimates the adjustment using the methods available, including the value-at-risk method (VaR) and techniques based on the cost of capital method.

At the entity's level, the risk adjustment is established as a simple sum of risk adjustments for all groups of contracts in the portfolio, not accounting for any correlations between the groups. Finally, that value serves to establish the confidence level which takes into account the correlations and diversification effects between homogeneous risk groups. The parameters for risk adjustment are selected so that the final value of the risk adjustment for non-financial risk corresponds to a confidence level from the interval 75% - 85% determined by the PZU Group as the confidence level expected for the purpose of determining non-financial risk in IFRS 17 financial reporting.

Confidence level for the final non-financial risk adjustment was 79.6% as at 31 December 2023 (80% as at 31 December 2022 and 1 January 2022).

Coverage units

Contractual service margin, recognized in profit or loss for a period, is determined by the PZU Group in line with the requirements of IFRS 17 based on coverage units. For each group of insurance contracts, PZU Group identifies the coverage units provided based on the characteristics of the product, considering for each contract the quantity of the benefits provided and expected coverage period. For groups of contracts providing insurance cover and providing an investment-related service, the PZU Group does not apply relative weights and adds up the unweighted coverage units resulting from both types of services.

For each product segment, the PZU Group establishes coverage units in line with the following table:

Type of insurance	Basis of computing coverage units
Group and continuing insurance	Total sum insured under the main contract and riders
Traditional insurance	In addition to annuity insurance, the total sum insured under the main contract and riders. Annual benefit for annuity insurance
Unit-linked insurance	Total sum insured under the host contract and riders (fund covered)
Other insurance	Total sum insured under the main contract and riders

11.1.6. Presentation of insurance contracts in the consolidated profit and loss account or in the consolidated statement of other comprehensive income

The PZU Group's consolidated profit and loss account and consolidated statement of other comprehensive income separately present:

- the insurance service result, including:
  - insurance revenue – the consideration to which the entity expects to be entitled in exchange for services provided in the period and which is comprised of:
    - expected claims and benefits, and expected costs;
    - release of the contractual service margin in the portion attributable to a given period;
    - release of adjustment for non-financial risk;
    - amortization of liabilities for remaining coverage (PAA);
  - insurance service expenses:
    - incurred claims (excluding investment components) and other incurred insurance service expenses;
    - amortization of insurance acquisition cash flows;
    - changes that relate to past service, i.e., changes in fulfilment cash flows relating to the liability for incurred claims; and
    - losses on groups of onerous contracts, and reversals of such losses;
- insurance financial income or expenses:
  - the effect of the time value of money;
  - the effect of financial risks.

In accordance with IFRS 17, the PZU Group has the right to decide whether to present the total insurance finance income or expenses in the profit or loss account or decide to disaggregate them and present them separately in the profit or loss account and in the other comprehensive income for each IFRS 17 portfolio. PZU Group has exercised the option of disaggregation for all IFRS 17 portfolios other than those with direct participation features (in the case of the PZU Group, these are unit-linked products).

11.1.7. Reinsurance contracts

A reinsurance contract is an insurance contract issued by one entity (the reinsurer) to compensate another entity (the holder) for claims arising from one or more insurance contracts issued by that other entity (underlying contracts).

All reinsurance contracts issued by the PZU Group transfer significant insurance risk onto the reinsurer; therefore, they are considered reinsurance contracts held within the meaning of IFRS 17, and measured accordingly.

The PZU Group identifies, classifies, measures and presents reinsurance contracts held using the same principles as for insurance contracts, with the key exceptions.

Aggregation of reinsurance contracts held

Reinsurance contracts held are divided into two profitability groups:

- contracts with a net gain at initial recognition (i.e. a net inflow);
- other contracts for which there is a net cost of purchasing reinsurance with a significant possibility of a net gain arising subsequent to initial recognition.

Contract boundary

Initial recognition of reinsurance contracts held is defined as follows:

- if the reinsurance contract held provides proportional coverage, at the beginning of the coverage period of the group of reinsurance contracts held or the date of initial recognition of any of the underlying insurance contracts, whichever is the later; and
- in all other cases – from the beginning of the coverage period of the group of reinsurance contracts held.

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the entity:

- is obliged to pay amounts to the reinsurer; or
- has a material right to avail itself of the reinsurer's services.

Measurement methods

All reinsurance contracts at PZU Group meet the eligibility criterion for the application of the simplified premium allocation approach.

Asset for remaining coverage

Reinsurance contracts held are measured separately from their underlying insurance contracts. The entity uses consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of underlying insurance contracts. In addition to using consistent assumptions, the PZU Group applies the following modifications to calculate the estimates of the present value of cash flows for reinsurance contracts held, compared to underlying insurance contracts:

- the estimates of the present value of the future cash flows for the group of reinsurance contracts held include the effect of any risk of non-performance by the reinsurer of the reinsurance contract, including the effects of collateral and losses from disputes;
- estimated risk adjustment for non-financial risk is determined so that it represents the amount of risk being transferred by the holder to the reinsurer.

For the purpose of the premium allocation approach, asset for remaining coverage, at the initial recognition is equal to the amount of premiums paid less the amount of commissions received.

If a loss recovery component is recognized at the initial recognition for reinsurance contracts held measured using the premium allocation approach, the corresponding amount adjusts the asset for remaining coverage.

The measurement of the asset for remaining coverage as of subsequent reporting dates for the premium allocation approach for reinsurance contracts held is in accordance with the rules for insurance contracts entered into and constitutes the sum of the following:

- asset for remaining coverage at the beginning of the period;
- plus premiums paid;
- less commissions received;
- less changes in the financing component;
- less amortization of the asset for remaining coverage;
- investment component.

Loss recovery component

When the premium allocation approach is applied to a group of reinsurance contracts held, if the PZU Group recognizes a loss at the initial recognition of the onerous group of underlying insurance contracts, the carrying amount asset for remaining coverage is adjusted.

The above-mentioned adjustment applies if, and only if, the reinsurance contract is held before or at the same time as the onerous underlying insurance contracts are recognized.

The adjustment of asset for remaining coverage and the resulting gain referred to above are calculated by multiplying the loss recognized on the underlying insurance contracts by the expected percentage of claims related to the underlying insurance contracts recovered from the group's reinsurance contracts held (recovery ratio).

The PZU Group creates a loss recovery component for the group of reinsurance contracts held in an amount equal to the above adjustment.

Measurement for subsequent reporting dates of the loss recovery component involves three stages:

- adding the underlying onerous insurance contracts to the group;
- changes in assumptions (so-called unlocking) for the loss recovery component corresponding to the change in assumptions (unlocking) for the loss component for the underlying groups of insurance contracts;
- release of the loss recovery component corresponding to the release of the loss component for the underlying groups of insurance contracts.

Under no circumstances can the carrying amount of the loss recovery component exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the PZU Group expects to recover from the group of reinsurance contracts held.

The PZU Group calculates changes in assumptions (unlocking) for the loss recovery component by multiplying the changes in assumptions (unlocking) for the loss component for the underlying insurance contracts by the corresponding recovery ratio.

The PZU Group takes into account the following limitations when calculating the release of the loss recovery component:

- the loss recovery component shall not be negative;
- the loss recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that PZU Group expects to recover from the group of reinsurance contracts held.

If the underlying groups of insurance contracts are measured using the premium allocation approach, the calculation of the release of the loss recovery component is similar to that of the loss component.

Presentation

In respect of reinsurance contracts held, the PZU Group's consolidated statement of financial position, consolidated profit and loss account, and consolidated comprehensive income statement separately present:

- Income or expenses on reinsurance contracts held:
  - allocation of reinsurance premiums – the consideration to which the reinsurer expects to be entitled in exchange for services provided in the period;
  - amounts recoverable from reinsurers: recoveries of claims incurred in the current period, excluding any investment component; recoveries of expenses incurred in the current period; changes related to past service; loss recovery component and changes in assumptions (so-called unlocking) of the loss recovery component;
- Reinsurance financial income or expenses:
  - the effect of the time value of money;
  - the effect of financial risks.

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11.2 Insurance revenue

1 January – 31 December 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual insurance	Investment insurance	Baltic States	Ukraine	Total
Contracts not measured under the PAA	-	-	7,362	637	93	43	36	8,171
Amounts relating to changes in liabilities for the remaining coverage	-	-	6,928	483	54	33	24	7,522
Expected incurred claims and other insurance service expenses	-	-	5,680	220	(24)	17	17	5,910
Release of the risk adjustment for non-financial risk for the period	-	-	126	18	36	2	1	183
Contractual service margin recognized in profit or loss for services provided	-	-	1,223	244	45	13	5	1,530
Other (including experience adjustments on premiums)	-	-	(101)	1	(3)	1	1	(101)
Recovery of insurance acquisition cash flows	-	-	434	154	39	10	12	649
Contracts measured under the PAA	4,101	11,966	-	-	-	2,446	184	18,697
Total insurance revenue	**4,101**	**11,966**	**7,362**	**637**	**93**	**2,489**	**220**	**26,868**

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1 January – 31 December 2022	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual insurance	Investment insurance	Baltic States	Ukraine	Total
Contracts not measured under the PAA	-	-	7,316	581	89	43	50	8,079
Amounts relating to changes in liabilities for the remaining coverage	-	-	6,911	438	38	33	19	7,439
Expected incurred claims and other insurance service expenses	-	-	5,722	257	(14)	18	20	6,003
Release of the risk adjustment for non-financial risk for the period	-	-	135	16	18	3	1	173
Contractual service margin recognized in profit or loss for services provided	-	-	1,105	215	37	12	8	1,377
Other (including experience adjustments on premiums)	-	-	(51)	(50)	(3)	-	(10)	(114)
Recovery of insurance acquisition cash flows	-	-	405	143	51	10	31	640
Contracts measured under the PAA	3,448	10,981	-	-	-	2,039	198	16,666
Total insurance revenue	**3,448**	**10,981**	**7,316**	**581**	**89**	**2,082**	**248**	**24,745**

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11.3 Reinsurance premium allocation

Insurance revenue	1 January – 31 December 2023	1 January – 31 December 2022
Contracts not measured under the PAA	-	-
Contracts measured under the PAA	(1,514)	(1,126)
Allocation of reinsurance premiums, total	**(1,514)**	**(1,126)**

11.4 Assets and liabilities under insurance contracts

Assets and liabilities under insurance contracts	31 December 2023	31 December 2022
Short-term	15,266	13,115
Insurance contract assets	(51)	(28)
Insurance contract liabilities	15,317	13,143
Long-term	26,951	24,335
Insurance contract assets	(60)	(40)
Insurance contract liabilities	27,011	24,375
Total assets and liabilities under insurance contracts	**42,217**	**37,450**

Assets and liabilities under insurance contracts 31 December 2023	Assets	including prepayments	Liabilities	including prepayments
Non-life insurance – premium allocation approach	(11)	-	22,744	(1)
Corporate insurance	(10)	-	6,951	(1)
Mass insurance	-	-	14,041	-
Baltic States	(1)	-	1,613	-
Ukraine	-	-	139	-
Life insurance	(100)	-	19,584	-
General model	(100)	-	14,672	-
Group and individually continued insurance	-	-	10,771	-
Individual insurance	(99)	-	2,506	-
Investment insurance	-	-	1,078	-
Baltic States	(1)	-	160	-
Ukraine	-	-	157	-
Variable fee approach	-	-	4,912	-
Investment insurance	-	-	4,772	-
Baltic States	-	-	140	-
Total	**(111)**	**-**	**42,328**	**(1)**

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Assets and liabilities under insurance contracts 31 December 2022	Assets	including prepayments	Liabilities	including prepayments
Non-life insurance – premium allocation approach	(11)	-	19,764	(1)
Corporate insurance	(11)	-	5,454	(1)
Mass insurance	-	-	12,677	-
Baltic States	-	-	1,504	-
Ukraine	-	-	129	-
Life insurance	(57)	-	17,754	-
General model	(57)	-	13,185	-
Group and individually continued insurance	-	-	9,828	-
Individual insurance	(57)	-	2,358	-
Investment insurance	-	-	648	-
Baltic States	-	-	152	-
Ukraine	-	-	199	-
Variable fee approach	-	-	4,569	-
Investment insurance	-	-	4,455	-
Baltic States	-	-	114	-
Total	**(68)**	**-**	**37,518**	**(1)**

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11.4.1. Movement in insurance contract assets and liabilities

11.4.1.1. Analysis by remaining coverage period and incurred claims

Movement in insurance contract assets and liabilities 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**22,658**	**565**	**730**	**12,361**	**1,136**	**37,450**
Assets	(79)	4	3	4	-	(68)
Liabilities	22,737	561	727	12,357	1,136	37,518
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(21,726)**	**(21)**	**7,178**	**13,889**	**22**	**(658)**
Insurance service result before reinsurance	(23,760)	(44)	7,163	12,605	(86)	(4,122)
Insurance revenue	(26,868)	-	-	-	-	(26,868)
Measured under the modified retrospective approach	(2,243)	-	-	-	-	(2,243)
Measured under the fair value	(43)	-	-	-	-	(43)
Other contracts	(24,582)	-	-	-	-	(24,582)
Insurance service expenses	4,416	(44)	5,915	12,545	(86)	22,746
Incurred claims and other insurance service expenses	-	(1,007)	5,915	12,545	(86)	17,367
Incurred in the period	-	(1,007)	5,960	11,727	340	17,020
Incurred in the past	-	-	(45)	818	(426)	347
Amortization of insurance acquisition cash flows	4,416	-	-	-	-	4,416
Losses and loss reversals on onerous contracts	-	963	-	-	-	963
Investment component	(1,308)	-	1,248	60	-	-
Net finance expenses from insurance contracts	2,037	23	15	1,341	113	3,529
Effect of movements in exchange rates	(3)	-	-	(57)	(5)	(65)
Cash flows	**24,057**	**-**	**(7,112)**	**(11,333)**	**-**	**5,612**
Premiums received	28,617	-	-	-	-	28,617
Insurance service expenses paid, including investment components	-	-	(7,112)	(11,333)	-	(18,445)
Insurance acquisition cash flows	(4,560)	-	-	-	-	(4,560)
Other changes	(99)	(6)	(1)	(76)	(5)	(187)
End of the period	**24,890**	**538**	**795**	**14,841**	**1,153**	**42,217**
Assets	(129)	5	9	4	-	(111)
Liabilities	25,019	533	786	14,837	1,153	42,328

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Movement in insurance contract assets and liabilities **1 January – 31 December 2022**	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**25,079**	**535**	**697**	**13,021**	**1,214**	**40,546**
Assets	(91)	6	17	4	-	(64)
Liabilities	25,170	529	680	13,017	1,214	40,610
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(24,410)**	**29**	**7,466**	**9,656**	**(77)**	**(7,336)**
Insurance service result before reinsurance	(22,393)	19	7,465	11,262	47	(3,600)
Insurance revenue	(24,745)	-	-	-	-	(24,745)
Measured under the modified retrospective approach	(2,518)	-	-	-	-	(2,518)
Measured under the fair value	(44)	-	-	-	-	(44)
Other contracts	(22,183)	-	-	-	-	(22,183)
Insurance service expenses	3,963	19	5,911	11,205	47	21,145
Incurred claims and other insurance service expenses	-	(1,037)	5,911	11,205	47	16,126
Incurred in the period	-	(1,037)	5,914	11,326	449	16,652
Incurred in the past	-	-	(3)	(121)	(402)	(526)
Amortization of insurance acquisition cash flows	3,963	-	-	-	-	3,963
Losses and loss reversals on onerous contracts	-	1,056	-	-	-	1,056
Investment component	(1,611)	-	1,554	57	-	-
Net finance expenses from insurance contracts	(2,020)	10	(1)	(1,624)	(127)	(3,762)
Effect of movements in exchange rates	3	-	2	18	3	26
Cash flows	**22,024**	**-**	**(7,431)**	**(10,311)**	**-**	**4,282**
Premiums received	26,133	-	-	-	-	26,133
Insurance service expenses paid, including investment components	-	-	(7,431)	(10,311)	-	(17,742)
Insurance acquisition cash flows	(4,109)	-	-	-	-	(4,109)
Other changes	(35)	1	(2)	(5)	(1)	(42)
End of the period	**22,658**	**565**	**730**	**12,361**	**1,136**	**37,450**
Assets	(79)	4	3	4	-	(68)
Liabilities	22,737	561	727	12,357	1,136	37,518

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Corporate insurance

Movement in insurance contract assets and liabilities Corporate insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**1,124**	**63**	**-**	**3,755**	**501**	**5,443**
Assets	(14)	-	-	3	-	(11)
Liabilities	1,138	63	-	3,752	501	5,454
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(3,519)**	**(3)**	**-**	**3,291**	**(58)**	**(289)**
Insurance service result before reinsurance	(3,518)	(3)	-	3,046	(85)	(560)
Insurance revenue	(4,101)	-	-	-	-	(4,101)
Measured under the modified retrospective approach	-	-	-	-	-	-
Measured under the fair value	-	-	-	-	-	-
Other contracts	(4,101)	-	-	-	-	(4,101)
Insurance service expenses	588	(3)	-	3,041	(85)	3,541
Incurred claims and other insurance service expenses	-	(113)	-	3,041	(85)	2,843
Incurred in the period	-	(113)	-	2,070	153	2,110
Incurred in the past	-	-	-	971	(238)	733
Amortization of insurance acquisition cash flows	588	-	-	-	-	588
Losses and loss reversals on onerous contracts	-	110	-	-	-	110
Investment component	(5)	-	-	5	-	-
Net finance expenses from insurance contracts	1	-	-	265	29	295
Effect of movements in exchange rates	(2)	-	-	(20)	(2)	(24)
Cash flows	**3,687**	**-**	**-**	**(1,900)**	**-**	**1,787**
Premiums received	4,297	-	-	-	-	4,297
Insurance service expenses paid, including investment components	-	-	-	(1,900)	-	(1,900)
Insurance acquisition cash flows	(610)	-	-	-	-	(610)
Other changes	-	-	-	-	-	-
End of the period	**1,292**	**60**	**-**	**5,146**	**443**	**6,941**
Assets	(14)	-	-	4	-	(10)
Liabilities	1,306	60	-	5,142	443	6,951

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Movement in insurance contract assets and liabilities Corporate insurance 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**1,050**	**68**	**-**	**3,020**	**417**	**4,555**
Assets	(10)	-	-	4	-	(6)
Liabilities	1,060	68	-	3,016	417	4,561
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(2,957)**	**(5)**	**-**	**2,489**	**84**	**(389)**
Insurance service result before reinsurance	(2,959)	(5)	-	2,724	104	(136)
Insurance revenue	(3,448)	-	-	-	-	(3,448)
Measured under the modified retrospective approach	-	-	-	-	-	-
Measured under the fair value	-	-	-	-	-	-
Other contracts	(3,448)	-	-	-	-	(3,448)
Insurance service expenses	496	(5)	-	2,717	104	3,312
Incurred claims and other insurance service expenses	-	(120)	-	2,717	104	2,701
Incurred in the period	-	(120)	-	2,644	289	2,813
Incurred in the past	-	-	-	73	(185)	(112)
Amortization of insurance acquisition cash flows	496	-	-	-	-	496
Losses and loss reversals on onerous contracts	-	115	-	-	-	115
Investment component	(7)	-	-	7	-	-
Net finance expenses from insurance contracts	-	-	-	(239)	(21)	(260)
Effect of movements in exchange rates	2	-	-	4	1	7
Cash flows	**3,031**	**-**	**-**	**(1,754)**	**-**	**1,277**
Premiums received	3,561	-	-	-	-	3,561
Insurance service expenses paid, including investment components	-	-	-	(1,754)	-	(1,754)
Insurance acquisition cash flows	(530)	-	-	-	-	(530)
Other changes	-	-	-	-	-	-
End of the period	**1,124**	**63**	**-**	**3,755**	**501**	**5,443**
Assets	(14)	-	-	3	-	(11)
Liabilities	1,138	63	-	3,752	501	5,454

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Mass insurance

Movement in insurance contract assets and liabilities Mass insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**4,151**	**233**	**-**	**7,717**	**576**	**12,677**
Assets	-	-	-	-	-	-
Liabilities	4,151	233	-	7,717	576	12,677
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(9,278)**	**(42)**	**-**	**8,668**	**71**	**(581)**
Insurance service result before reinsurance	(9,278)	(42)	-	7,668	(7)	(1,659)
Insurance revenue	(11,966)	-	-	-	-	(11,966)
Measured under the modified retrospective approach	-	-	-	-	-	-
Measured under the fair value	-	-	-	-	-	-
Other contracts	(11,966)	-	-	-	-	(11,966)
Insurance service expenses	2,688	(42)	-	7,668	(7)	10,307
Incurred claims and other insurance service expenses	-	(442)	-	7,668	(7)	7,219
Incurred in the period	-	(442)	-	7,694	153	7,405
Incurred in the past	-	-	-	(26)	(160)	(186)
Amortization of insurance acquisition cash flows	2,688	-	-	-	-	2,688
Losses and loss reversals on onerous contracts	-	400	-	-	-	400
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	-	-	-	1,040	81	1,121
Effect of movements in exchange rates	-	-	-	(40)	(3)	(43)
Cash flows	**9,574**	**-**	**-**	**(7,629)**	**-**	**1,945**
Premiums received	12,324	-	-	-	-	12,324
Insurance service expenses paid, including investment components	-	-	-	(7,629)	-	(7,629)
Insurance acquisition cash flows	(2,750)	-	-	-	-	(2,750)
Other changes	-	-	-	-	-	-
End of the period	**4,447**	**191**	**-**	**8,756**	**647**	**14,041**
Assets	-	-	-	-	-	-
Liabilities	4,447	191	-	8,756	647	14,041

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Mass insurance 1 January – 31 December 2022	LRC		LIC			Total
	excluding the loss component	loss component	Contracts not under PAA	Contracts under PAA: estimated present value of future cash flows	Contracts under PAA: risk adjustment for non-financial risk	
Beginning of the period	**3,837**	**165**	**-**	**9,082**	**735**	**13,819**
Assets	-	-	-	-	-	-
Liabilities	3,837	165	-	9,082	735	13,819
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(8,579)**	**68**	**-**	**5,646**	**(159)**	**(3,024)**
Insurance service result before reinsurance	(8,579)	68	-	6,957	(57)	(1,611)
Insurance revenue	(10,981)	-	-	-	-	(10,981)
Measured under the modified retrospective approach	-	-	-	-	-	-
Measured under the fair value	-	-	-	-	-	-
Other contracts	(10,981)	-	-	-	-	(10,981)
Insurance service expenses	2,402	68	-	6,957	(57)	9,370
Incurred claims and other insurance service expenses	-	(341)	-	6,957	(57)	6,559
Incurred in the period	-	(341)	-	7,006	130	6,795
Incurred in the past	-	-	-	(49)	(187)	(236)
Amortization of insurance acquisition cash flows	2,402	-	-	-	-	2,402
Losses and loss reversals on onerous contracts	-	409	-	-	-	409
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	-	-	-	(1,323)	(103)	(1,426)
Effect of movements in exchange rates	-	-	-	12	1	13
Cash flows	**8,893**	**-**	**-**	**(7,011)**	**-**	**1,882**
Premiums received	11,400	-	-	-	-	11,400
Insurance service expenses paid, including investment components	-	-	-	(7,011)	-	(7,011)
Insurance acquisition cash flows	(2,507)	-	-	-	-	(2,507)
Other changes	**-**	**-**	**-**	**-**	**-**	**-**
End of the period	**4,151**	**233**	**-**	**7,717**	**576**	**12,677**
Assets	-	-	-	-	-	-
Liabilities	4,151	233	-	7,717	576	12,677

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Group and individually continued insurance

Movement in insurance contract assets and liabilities Group and individually continued insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**9,022**	**159**	**647**	**-**	**-**	**9,828**
Assets	(5)	4	1	-	-	-
Liabilities	9,027	155	646	-	-	9,828
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(5,855)**	**9**	**5,684**	**-**	**-**	**(162)**
Insurance service result before reinsurance	(6,928)	(13)	5,672	-	-	(1,269)
Insurance revenue	(7,362)	-	-	-	-	(7,362)
Measured under the modified retrospective approach	(1,971)	-	-	-	-	(1,971)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(5,391)	-	-	-	-	(5,391)
Insurance service expenses	434	(13)	5,672	-	-	6,093
Incurred claims and other insurance service expenses	-	(292)	5,672	-	-	5,380
Incurred in the period	-	(292)	5,706	-	-	5,414
Incurred in the past	-	-	(34)	-	-	(34)
Amortization of insurance acquisition cash flows	434	-	-	-	-	434
Losses and loss reversals on onerous contracts	-	279	-	-	-	279
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	1,073	22	12	-	-	1,107
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**6,734**	**-**	**(5,629)**	**-**	**-**	**1,105**
Premiums received	7,198	-	-	-	-	7,198
Insurance service expenses paid, including investment components	-	-	(5,629)	-	-	(5,629)
Insurance acquisition cash flows	(464)	-	-	-	-	(464)
Other changes	-	-	-	-	-	-
End of the period	**9,901**	**168**	**702**	**-**	**-**	**10,771**
Assets	-	-	-	-	-	-
Liabilities	9,901	168	702	-	-	10,771

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Group and individually continued insurance 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**10,669**	**205**	**616**	**-**	**-**	**11,490**
Assets	(15)	2	10	-	-	(3)
Liabilities	10,684	203	606	-	-	11,493
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(8,172)**	**(46)**	**5,690**	**-**	**-**	**(2,528)**
Insurance service result before reinsurance	(6,911)	(56)	5,690	-	-	(1,277)
Insurance revenue	(7,316)	-	-	-	-	(7,316)
Measured under the modified retrospective approach	(2,203)	-	-	-	-	(2,203)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(5,113)	-	-	-	-	(5,113)
Insurance service expenses	405	(56)	5,690	-	-	6,039
Incurred claims and other insurance service expenses	-	(349)	5,690	-	-	5,341
Incurred in the period	-	(349)	5,686	-	-	5,337
Incurred in the past	-	-	4	-	-	4
Amortization of insurance acquisition cash flows	405	-	-	-	-	405
Losses and loss reversals on onerous contracts	-	293	-	-	-	293
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	(1,261)	10	-	-	-	(1,251)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**6,525**	**-**	**(5,659)**	**-**	**-**	**866**
Premiums received	6,955	-	-	-	-	6,955
Insurance service expenses paid, including investment components	-	-	(5,659)	-	-	(5,659)
Insurance acquisition cash flows	(430)	-	-	-	-	(430)
Other changes	-	-	-	-	-	-
End of the period	**9,022**	**159**	**647**	**-**	**-**	**9,828**
Assets	(5)	4	1	-	-	-
Liabilities	9,027	155	646	-	-	9,828

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Individual insurance

Movement in insurance contract assets and liabilities **Individual insurance** **1 January – 31 December 2023**	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**2,233**	**6**	**62**	**-**	**-**	**2,301**
Assets	(59)	-	2	-	-	(57)
Liabilities	2,292	6	60	-	-	2,358
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(597)**	**10**	**478**	**-**	**-**	**(109)**
Insurance service result before reinsurance	(778)	9	476	-	-	(293)
Insurance revenue	(637)	-	-	-	-	(637)
Measured under the modified retrospective approach	(138)	-	-	-	-	(138)
Measured under the fair value	(36)	-	-	-	-	(36)
Other contracts	(463)	-	-	-	-	(463)
Insurance service expenses	154	9	181	-	-	344
Incurred claims and other insurance service expenses	-	(8)	181	-	-	173
Incurred in the period	-	(8)	206	-	-	198
Incurred in the past	-	-	(25)	-	-	(25)
Amortization of insurance acquisition cash flows	154	-	-	-	-	154
Losses and loss reversals on onerous contracts	-	17	-	-	-	17
Investment component	(295)	-	295	-	-	-
Net finance expenses from insurance contracts	181	1	2	-	-	184
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**687**	**-**	**(472)**	**-**	**-**	**215**
Premiums received	872	-	-	-	-	872
Insurance service expenses paid, including investment components	-	-	(472)	-	-	(472)
Insurance acquisition cash flows	(185)	-	-	-	-	(185)
Other changes	-	-	-	-	-	-
End of the period	**2,323**	**16**	**68**	**-**	**-**	**2,407**
Assets	(113)	5	9	-	-	(99)
Liabilities	2,436	11	59	-	-	2,506

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Individual insurance 1 January – 31 December 2022	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**2,716**	**12**	**60**	**-**	**-**	**2,788**
Assets	(61)	4	7	-	-	(50)
Liabilities	2,777	8	53	-	-	2,838
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(1,054)**	**(6)**	**489**	**-**	**-**	**(571)**
Insurance service result before reinsurance	(763)	(6)	489	-	-	(280)
Insurance revenue	(581)	-	-	-	-	(581)
Measured under the modified retrospective approach	(154)	-	-	-	-	(154)
Measured under the fair value	(36)	-	-	-	-	(36)
Other contracts	(391)	-	-	-	-	(391)
Insurance service expenses	143	(6)	164	-	-	301
Incurred claims and other insurance service expenses	-	(14)	164	-	-	150
Incurred in the period	-	(14)	184	-	-	170
Incurred in the past	-	-	(20)	-	-	(20)
Amortization of insurance acquisition cash flows	143	-	-	-	-	143
Losses and loss reversals on onerous contracts	-	8	-	-	-	8
Investment component	(325)		325	-		-
Net finance expenses from insurance contracts	(291)	-	-	-	-	(291)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**571**	**-**	**(487)**	**-**	**-**	**84**
Premiums received	736	-	-	-	-	736
Insurance service expenses paid, including investment components	-	-	(487)	-	-	(487)
Insurance acquisition cash flows	(165)	-	-	-	-	(165)
Other changes	-	-	-	-	-	-
End of the period	**2,233**	**6**	**62**	**-**	**-**	**2,301**
Assets	(59)	-	2	-	-	(57)
Liabilities	2,292	6	60	-	-	2,358

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Investment insurance

Movement in insurance contract assets and liabilities Investment insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**5,062**	**33**	**8**	**-**	**-**	**5,103**
Assets	-	-	-	-	-	-
Liabilities	5,062	33	8	-	-	5,103
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(196)**	**(2)**	**946**	**-**	**-**	**748**
Insurance service result before reinsurance	(974)	(2)	946	-	-	(30)
Insurance revenue	(93)	-	-	-	-	(93)
Measured under the modified retrospective approach	(67)	-	-	-	-	(67)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(26)	-	-	-	-	(26)
Insurance service expenses	39	(2)	26	-	-	63
Incurred claims and other insurance service expenses	-	(9)	26	-	-	17
Incurred in the period	-	(9)	11	-	-	2
Incurred in the past	-	-	15	-	-	15
Amortization of insurance acquisition cash flows	39	-	-	-	-	39
Losses and loss reversals on onerous contracts	-	7	-	-	-	7
Investment component	(920)	-	920	-	-	-
Net finance expenses from insurance contracts	778	-	-	-	-	778
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**941**	**-**	**(942)**	**-**	**-**	**(1)**
Premiums received	947	-	-	-	-	947
Insurance service expenses paid, including investment components	-	-	(942)	-	-	(942)
Insurance acquisition cash flows	(6)	-	-	-	-	(6)
Other changes	-	-	-	-	-	-
End of the period	**5,807**	**31**	**12**	**-**	**-**	**5,850**
Assets	-	-	-	-	-	-
Liabilities	5,807	31	12	-	-	5,850

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities **Investment insurance** **1 January – 31 December 2022**	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**5,830**	**6**	**8**	**-**	**-**	**5,844**
Assets	-	-	-	-	-	-
Liabilities	5,830	6	8	-	-	5,844
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(1,686)**	**27**	**1,220**	**-**	**-**	**(439)**
Insurance service result before reinsurance	(1,238)	27	1,220	-	-	9
Insurance revenue	(89)	-	-	-	-	(89)
Measured under the modified retrospective approach	(79)	-	-	-	-	(79)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(10)	-	-	-	-	(10)
Insurance service expenses	51	27	20	-	-	98
Incurred claims and other insurance service expenses	-	(8)	20	-	-	12
Incurred in the period	-	(8)	8	-	-	-
Incurred in the past	-	-	12	-	-	12
Amortization of insurance acquisition cash flows	51	-	-	-	-	51
Losses and loss reversals on onerous contracts	-	35	-	-	-	35
Investment component	(1,200)	-	1,200	-	-	-
Net finance expenses from insurance contracts	(448)	-	-	-	-	(448)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**918**	**-**	**(1,220)**	**-**	**-**	**(302)**
Premiums received	922	-	-	-	-	922
Insurance service expenses paid, including investment components	-	-	(1,220)	-	-	(1,220)
Insurance acquisition cash flows	(4)	-	-	-	-	(4)
Other changes	-	-	-	-	-	-
End of the period	**5,062**	**33**	**8**	**-**	**-**	**5,103**
Assets	-	-	-	-	-	-
Liabilities	5,062	33	8	-	-	5,103

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Baltic States

Movement in insurance contract assets and liabilities **Baltic States** **1 January – 31 December 2023**	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**829**	**69**	**5**	**816**	**51**	**1,770**
Assets	(1)	-	-	1	-	-
Liabilities	830	69	5	815	51	1,770
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(2,089)**	**3**	**56**	**1,802**	**8**	**(220)**
Insurance service result before reinsurance	(2,122)	3	56	1,770	6	(287)
Insurance revenue	(2,489)	-	-	-	-	(2,489)
Measured under the modified retrospective approach	(31)	-	-	-	-	(31)
Measured under the fair value	(7)	-	-	-	-	(7)
Other contracts	(2,451)	-	-	-	-	(2,451)
Insurance service expenses	455	3	23	1,715	6	2,202
Incurred claims and other insurance service expenses	-	(142)	23	1,715	6	1,602
Incurred in the period	-	(142)	24	1,832	31	1,745
Incurred in the past	-	-	(1)	(117)	(25)	(143)
Amortization of insurance acquisition cash flows	455	-	-	-	-	455
Losses and loss reversals on onerous contracts	-	145	-	-	-	145
Investment component	(88)	-	33	55	-	-
Net finance expenses from insurance contracts	33	-	-	31	2	66
Effect of movements in exchange rates	-	-	-	1	-	1
Cash flows	2,239	-	(55)	(1,683)	-	501
Premiums received	2,717	-	-	-	-	2,717
Insurance service expenses paid, including investment components	-	-	(55)	(1,683)	-	(1,738)
Insurance acquisition cash flows	(478)	-	-	-	-	(478)
Other changes	(66)	(5)	-	(65)	(4)	(140)
End of the period	**913**	**67**	**6**	**870**	**55**	**1,911**
Assets	(2)	-	-	-	-	(2)
Liabilities	915	67	6	870	55	1,913

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Baltic States 1 January – 31 December 2022	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss component	**loss component**	**Contracts not under PAA**	**estimated present value of future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**753**	**77**	**5**	**803**	**51**	**1,689**
Assets	(1)	-	-	-	-	(1)
Liabilities	754	77	5	803	51	1,690
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(1,843)**	**(9)**	**51**	**1,426**	**(1)**	**(376)**
Insurance service result before reinsurance	(1,768)	(9)	51	1,491	2	(233)
Insurance revenue	(2,082)	-	-	-	-	(2,082)
Measured under the modified retrospective approach	(32)	-	-	-	-	(32)
Measured under the fair value	(8)	-	-	-	-	(8)
Other contracts	(2,042)	-	-	-	-	(2,042)
Insurance service expenses	393	(9)	22	1,441	2	1,849
Incurred claims and other insurance service expenses	-	(205)	22	1,441	2	1,260
Incurred in the period	-	(205)	22	1,551	26	1,394
Incurred in the past	-	-	-	(110)	(24)	(134)
Amortization of insurance acquisition cash flows	393	-	-	-	-	393
Losses and loss reversals on onerous contracts	-	196	-	-	-	196
Investment component	(79)	-	29	50	-	-
Net finance expenses from insurance contracts	(75)	-	-	(65)	(3)	(143)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**1,904**	**-**	**(51)**	**(1,428)**	**-**	**425**
Premiums received	2,325	-	-	-	-	2,325
Insurance service expenses paid, including investment components	-	-	(51)	(1,428)	-	(1,479)
Insurance acquisition cash flows	(421)	-	-	-	-	(421)
Other changes	15	1	-	15	1	32
End of the period	**829**	**69**	**5**	**816**	**51**	**1,770**
Assets	(1)	-	-	1	-	-
Liabilities	830	69	5	815	51	1,770

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Ukraine

Movement in insurance contract assets and liabilities Ukraine 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**237**	**2**	**8**	**73**	**8**	**328**
Assets	-	-	-	-	-	-
Liabilities	237	2	8	73	8	328
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(192)**	**4**	**14**	**128**	**1**	**(45)**
Insurance service result before reinsurance	(162)	4	13	121	-	(24)
Insurance revenue	(220)	-	-	-	-	(220)
Measured under the modified retrospective approach	(36)	-	-	-	-	(36)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(184)	-	-	-	-	(184)
Insurance service expenses	58	4	13	121	-	196
Incurred claims and other insurance service expenses	-	(1)	13	121	-	133
Incurred in the period	-	(1)	13	131	3	146
Incurred in the past	-	-	-	(10)	(3)	(13)
Amortization of insurance acquisition cash flows	58	-	-	-	-	58
Losses and loss reversals on onerous contracts	-	5	-	-	-	5
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	(29)	-	1	5	1	(22)
Effect of movements in exchange rates	(1)	-	-	2	-	1
Cash flows	**195**	**-**	**(14)**	**(121)**	**-**	**60**
Premiums received	262	-	-	-	-	262
Insurance service expenses paid, including investment components	-	-	(14)	(121)	-	(135)
Insurance acquisition cash flows	(67)	-	-	-	-	(67)
Other changes	(33)	(1)	(1)	(11)	(1)	(47)
End of the period	**207**	**5**	**7**	**69**	**8**	**296**
Assets	-	-	-	-	-	-
Liabilities	207	5	7	69	8	296

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Movement in insurance contract assets and liabilities Ukraine 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss component	loss component	Contracts not under PAA	estimated present value of future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**224**	**2**	**8**	**116**	**11**	**361**
Assets	(4)	-	-	-	-	(4)
Liabilities	228	2	8	116	11	365
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(119)**	**-**	**16**	**95**	**(1)**	**(9)**
Insurance service result before reinsurance	(175)	-	15	90	(2)	(72)
Insurance revenue	(248)	-	-	-	-	(248)
Measured under the modified retrospective approach	(50)	-	-	-	-	(50)
Measured under the fair value	-	-	-	-	-	-
Other contracts	(198)	-	-	-	-	(198)
Insurance service expenses	73	-	15	90	(2)	176
Incurred claims and other insurance service expenses	-	-	15	90	(2)	103
Incurred in the period	-	-	14	125	4	143
Incurred in the past	-		1	(35)	(6)	(40)
Amortization of insurance acquisition cash flows	73	-	-	-	-	73
Losses and loss reversals on onerous contracts	-	-	-	-	-	-
Investment component	-	-	-	-	-	-
Net finance expenses from insurance contracts	55	-	(1)	3	-	57
Effect of movements in exchange rates	1	-	2	2	1	6
Cash flows	**182**	**-**	**(14)**	**(118)**	**-**	**50**
Premiums received	234	-	-	-	-	234
Insurance service expenses paid, including investment components	-	-	(14)	(118)	-	(132)
Insurance acquisition cash flows	(52)	-	-	-	-	(52)
Other changes	(50)	-	(2)	(20)	(2)	(74)
End of the period	**237**	**2**	**8**	**73**	**8**	**328**
Assets	-	-	-	-	-	-
Liabilities	237	2	8	73	8	328

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

11.4.1.2. Analysis by measured component – non-PAA contracts

Movement in insurance contract assets and liabilities Non-PAA insurance contracts 1 January – 31 December 2023	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**7,961**	**1,388**	**4,639**	**29**	**3,680**	**8,348**	**17,697**
Assets	(302)	47	26	-	172	198	(57)
Liabilities	8,263	1,341	4,613	29	3,508	8,150	17,754
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(128)**	**160**	**(62)**	**(6)**	**500**	**432**	**464**
Insurance service result before reinsurance	(1,596)	(70)	(271)	(6)	333	56	(1,610)
Changes that relate to future services	(1,376)	98	323	(4)	1,267	1,586	308
Contracts initially recognized in the period	(1,058)	134	-	-	1,260	1,260	336
Changes that adjust the CSM	(266)	(43)	319	(4)	4	319	10
Changes on onerous contracts	(52)	7	4	-	3	7	(38)
Changes that relate to current services	(200)	(142)	(594)	(2)	(934)	(1,530)	(1,872)
CSM recognized for services provided	-	-	(594)	(2)	(934)	(1,530)	(1,530)
Changes in risk adjustments for non-financial risks for the period	-	(142)	-	-	-	-	(142)
Experience adjustment for current service	(200)	-	-	-	-	-	(200)
Changes that relate to past services – changes for claims and other insurance service expenses	(20)	(26)	-	-	-	-	(46)
Net finance expenses from insurance contracts	1,468	230	209	-	167	376	2,074
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**1,371**	**-**	**-**	**-**	**-**	**-**	**1,371**
Premiums received	9,164	-	-	-	-	-	9,164
Insurance service expenses paid, including investment component	(7,112)	-	-	-	-	-	(7,112)
Insurance acquisition cash flows	(681)	-	-	-	-	-	(681)
Other changes	(25)	(6)	(14)	(1)	(2)	(17)	(48)
End of the period	**9,179**	**1,542**	**4,563**	**22**	**4,178**	**8,763**	**19,484**
Assets	(497)	84	28	-	285	313	(100)
Liabilities	9,676	1,458	4,535	22	3,893	8,450	19,584

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts 1 January – 31 December 2022	**Estimates of the present value of the future cash flows**	**Risk adjustment for non-financial risk**	**CSM**				**Total**
			Measurement under modified retrospective transition approach	**Measurement under fair value retrospective transition approach**	**Other contracts**	**Subtotal**	
Beginning of the period	**10,994**	**1,623**	**4,826**	**30**	**3,124**	**7,980**	**20,597**
Assets	(301)	59	25	-	163	188	(54)
Liabilities	11,295	1,564	4,801	30	2,961	7,792	20,651
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(3,715)**	**(232)**	**(178)**	**(1)**	**556**	**377**	**(3,570)**
Insurance service result before reinsurance	(1,682)	54	(395)	(1)	462	66	(1,562)
Changes that relate to future services	(1,332)	227	209	2	1,232	1,443	338
Contracts initially recognized in the period	(875)	129	-	-	1,080	1,080	334
Changes that adjust the CSM	(442)	97	202	2	148	352	7
Changes on onerous contracts	(15)	1	7	-	4	11	(3)
Changes that relate to current services	(372)	(149)	(604)	(3)	(770)	(1,377)	(1,898)
CSM recognized for services provided	-	-	(604)	(3)	(770)	(1,377)	(1,377)
Changes in risk adjustments for non-financial risks for the period	-	(149)	-	-	-	-	(149)
Experience adjustment for current service	(372)	-	-	-	-	-	(372)
Changes that relate to past services – changes for claims and other insurance service expenses	22	(24)	-	-	-	-	(2)
Net finance expenses from insurance contracts	(2,036)	(286)	217	-	94	311	(2,011)
Effect of movements in exchange rates	3	-	-	-	-	-	3
Cash flows	**705**	**-**	**-**	**-**	**-**	**-**	**705**
Premiums received	8,764	-	-	-	-	-	8,764
Insurance service expenses paid, including investment component	(7,431)	-	-	-	-	-	(7,431)
Insurance acquisition cash flows	(628)	-	-	-	-	-	(628)
Other changes	(23)	(3)	(9)	-	-	(9)	(35)
End of the period	**7,961**	**1,388**	**4,639**	**29**	**3,680**	**8,348**	**17,697**
Assets	(302)	47	26	-	172	198	(57)
Liabilities	8,263	1,341	4,613	29	3,508	8,150	17,754

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Group and individually continued insurance

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Group and individually continued insurance 1 January – 31 December 2023	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**1,760**	**1,014**	**3,973**	**-**	**3,081**	**7,054**	**9,828**
Assets	-	-	-	-	-	-	-
Liabilities	1,760	1,014	3,973	-	3,081	7,054	9,828
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(517)**	**109**	**(60)**	**-**	**306**	**246**	**(162)**
Insurance service result before reinsurance	(1,106)	(80)	(250)	-	167	(83)	(1,269)
Changes that relate to future services	(911)	50	248	-	892	1,140	279
Contracts initially recognized in the period	(698)	82	-	-	940	940	324
Changes that adjust the CSM	(168)	(32)	248	-	(48)	200	-
Changes on onerous contracts	(45)	-	-	-	-	-	(45)
Changes that relate to current services	(181)	(109)	(498)	-	(725)	(1,223)	(1,513)
CSM recognized for services provided	-	-	(498)	-	(725)	(1,223)	(1,223)
Changes in risk adjustments for non-financial risks for the period	-	(109)	-	-	-	-	(109)
Experience adjustment for current service	(181)	-	-	-	-	-	(181)
Changes that relate to past services – changes for claims and other insurance service expenses	(14)	(21)	-	-	-	-	(35)
Net finance expenses from insurance contracts	589	189	190	-	139	329	1,107
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**1,105**	**-**	**-**	**-**	**-**	**-**	**1,105**
Premiums received	7,198	-	-	-	-	-	7,198
Insurance service expenses paid, including investment component	(5,629)	-	-	-	-	-	(5,629)
Insurance acquisition cash flows	(464)	-	-	-	-	-	(464)
Other changes	-	-	-	-	-	-	-
End of the period	**2,348**	**1,123**	**3,913**	**-**	**3,387**	**7,300**	**10,771**
Assets	-	-	-	-	-	-	-
Liabilities	2,348	1,123	3,913	-	3,387	7,300	10,771

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Group and individually continued insurance 1 January – 31 December 2022	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**3,513**	**1,242**	**4,047**	**-**	**2,688**	**6,735**	**11,490**
Assets	(12)	2	-	-	7	7	(3)
Liabilities	3,525	1,240	4,047	-	2,681	6,728	11,493
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(2,619)**	**(228)**	**(74)**	**-**	**393**	**319**	**(2,528)**
Insurance service result before reinsurance	(1,334)	16	(267)	-	308	41	(1,277)
Changes that relate to future services	(1,008)	156	234	-	912	1,146	294
Contracts initially recognized in the period	(587)	82	-	-	832	832	327
Changes that adjust the CSM	(388)	75	234	-	80	314	1
Changes on onerous contracts	(33)	(1)	-	-	-	-	(34)
Changes that relate to current services	(352)	(118)	(501)	-	(604)	(1,105)	(1,575)
CSM recognized for services provided	-	-	(501)	-	(604)	(1,105)	(1,105)
Changes in risk adjustments for non-financial risks for the period	-	(118)	-	-	-	-	(118)
Experience adjustment for current service	(352)	-	-	-	-	-	(352)
Changes that relate to past services – changes for claims and other insurance service expenses	26	(22)	-	-	-	-	4
Net finance expenses from insurance contracts	(1,285)	(244)	193	-	85	278	(1,251)
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**866**	**-**	**-**	**-**	**-**	**-**	**866**
Premiums received	6,955	-	-	-	-	-	6,955
Insurance service expenses paid, including investment component	(5,659)	-	-	-	-	-	(5,659)
Insurance acquisition cash flows	(430)	-	-	-	-	-	(430)
Other changes	-	-	-	-	-	-	-
End of the period	**1,760**	**1,014**	**3,973**	**-**	**3,081**	**7,054**	**9,828**
Assets	-	-	-	-	-	-	-
Liabilities	1,760	1,014	3,973	-	3,081	7,054	9,828

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Individual insurance

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Individual insurance 1 January – 31 December 2023	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**1,228**	**181**	**347**	**9**	**536**	**892**	**2,301**
Assets	(301)	47	25	-	172	197	(57)
Liabilities	1,529	134	322	9	364	695	2,358
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(288)**	**39**	**(15)**	**(6)**	**161**	**140**	**(109)**
Insurance service result before reinsurance	(393)	1	(30)	(6)	135	99	(293)
Changes that relate to future services	(347)	21	26	(6)	323	343	17
Contracts initially recognized in the period	(304)	39	-	-	272	272	7
Changes that adjust the CSM	(47)	(17)	26	(6)	51	71	7
Changes on onerous contracts	4	(1)	-	-	-	-	3
Changes that relate to current services	(26)	(15)	(56)	-	(188)	(244)	(285)
CSM recognized for services provided	-	-	(56)	-	(188)	(244)	(244)
Changes in risk adjustments for non-financial risks for the period	-	(15)	-	-	-	-	(15)
Experience adjustment for current service	(26)	-	-	-	-	-	(26)
Changes that relate to past services – changes for claims and other insurance service expenses	(20)	(5)	-	-	-	-	(25)
Net finance expenses from insurance contracts	105	38	15	-	26	41	184
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**215**	**-**	**-**	**-**	**-**	**-**	**215**
Premiums received	872	-	-	-	-	-	872
Insurance service expenses paid, including investment component	(472)	-	-	-	-	-	(472)
Insurance acquisition cash flows	(185)	-	-	-	-	-	(185)
Other changes	-	-	-	-	-	-	-
End of the period	**1,155**	**220**	**332**	**3**	**697**	**1,032**	**2,407**
Assets	(494)	84	28	-	283	311	(99)
Liabilities	1,649	136	304	3	414	721	2,506

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts Individual insurance 1 January – 31 December 2022	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**1,816**	**189**	**361**	**9**	**413**	**783**	**2,788**
Assets	(287)	57	24	-	156	180	(50)
Liabilities	2,103	132	337	9	257	603	2,838
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(672)**	**(8)**	**(14)**	**-**	**123**	**109**	**(571)**
Insurance service result before reinsurance	(394)	31	(31)	-	114	83	(280)
Changes that relate to future services	(336)	46	25	1	272	298	8
Contracts initially recognized in the period	(234)	37	-	-	202	202	5
Changes that adjust the CSM	(102)	9	25	1	68	94	1
Changes on onerous contracts	-	-	-	-	2	2	2
Changes that relate to current services	(41)	(13)	(56)	(1)	(158)	(215)	(269)
CSM recognized for services provided	-	-	(56)	(1)	(158)	(215)	(215)
Changes in risk adjustments for non-financial risks for the period	-	(13)	-	-	-	-	(13)
Experience adjustment for current service	(41)	-	-	-	-	-	(41)
Changes that relate to past services – changes for claims and other insurance service expenses	(17)	(2)	-	-	-	-	(19)
Net finance expenses from insurance contracts	(278)	(39)	17	-	9	26	(291)
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**84**	**-**	**-**	**-**	**-**	**-**	**84**
Premiums received	736	-	-	-	-	-	736
Insurance service expenses paid, including investment component	(487)	-	-	-	-	-	(487)
Insurance acquisition cash flows	(165)	-	-	-	-	-	(165)
Other changes	-	-	-	-	-	-	-
End of the period	**1,228**	**181**	**347**	**9**	**536**	**892**	**2,301**
Assets	(301)	47	25	-	172	197	(57)
Liabilities	1,529	134	322	9	364	695	2,358

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Investment insurance

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Investment insurance 1 January – 31 December 2023	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**4,753**	**131**	**178**	**-**	**41**	**219**	**5,103**
Assets	-	-	-	-	-	-	-
Liabilities	4,753	131	178	-	41	219	5,103
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**721**	**3**	**7**	**-**	**17**	**24**	**748**
Insurance service result before reinsurance	(54)	3	6	-	15	21	(30)
Changes that relate to future services	(76)	18	33	-	33	66	8
Contracts initially recognized in the period	(35)	8	-	-	31	31	4
Changes that adjust the CSM	(29)	2	29	-	-	29	2
Changes on onerous contracts	(12)	8	4	-	2	6	2
Changes that relate to current services	7	(15)	(27)	-	(18)	(45)	(53)
CSM recognized for services provided	-	-	(27)	-	(18)	(45)	(45)
Changes in risk adjustments for non-financial risks for the period	-	(15)	-	-	-	-	(15)
Experience adjustment for current service	7	-	-	-	-	-	7
Changes that relate to past services – changes for claims and other insurance service expenses	15	-	-	-	-	-	15
Net finance expenses from insurance contracts	775	-	1	-	2	3	778
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Premiums received	947	-	-	-	-	-	947
Insurance service expenses paid, including investment component	(942)	-	-	-	-	-	(942)
Insurance acquisition cash flows	(6)	-	-	-	-	-	(6)
Other changes	-	-	-	-	-	-	-
End of the period	**5,473**	**134**	**185**	**-**	**58**	**243**	**5,850**
Assets	-	-	-	-	-	-	-
Liabilities	5,473	134	185	-	58	243	5,850

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts Investment insurance 1 January – 31 December 2022	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**5,480**	**124**	**217**	**-**	**23**	**240**	**5,844**
Assets	-	-	-	-	-	-	-
Liabilities	5,480	124	217	-	23	240	5,844
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(425)**	**7**	**(39)**	**-**	**18**	**(21)**	**(439)**
Insurance service result before reinsurance	23	7	(39)	-	18	(21)	9
Changes that relate to future services	(2)	22	(9)	-	25	16	36
Contracts initially recognized in the period	(30)	4	-	-	27	27	1
Changes that adjust the CSM	7	16	(16)	-	(2)	(18)	5
Changes on onerous contracts	21	2	7	-	-	7	30
Changes that relate to current services	13	(15)	(30)	-	(7)	(37)	(39)
CSM recognized for services provided	-	-	(30)	-	(7)	(37)	(37)
Changes in risk adjustments for non-financial risks for the period	-	(15)	-	-	-	-	(15)
Experience adjustment for current service	13	-	-	-	-	-	13
Changes that relate to past services – changes for claims and other insurance service expenses	12	-	-	-	-	-	12
Net finance expenses from insurance contracts	(448)	-	-	-	-	-	(448)
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**(302)**	**-**	**-**	**-**	**-**	**-**	**(302)**
Premiums received	922	-	-	-	-	-	922
Insurance service expenses paid, including investment component	(1,220)	-	-	-	-	-	(1,220)
Insurance acquisition cash flows	(4)	-	-	-	-	-	(4)
Other changes	-	-	-	-	-	-	-
End of the period	**4,753**	**131**	**178**	**-**	**41**	**219**	**5,103**
Assets	-	-	-	-	-	-	-
Liabilities	4,753	131	178	-	41	219	5,103

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Baltic States

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Baltic States 1 January – 31 December 2023	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	**80**	**46**	**100**	**20**	**20**	**140**	**266**
Assets	(1)	-	1	-	-	1	-
Liabilities	81	46	99	20	20	139	266
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(7)**	**10**	**4**	**-**	**16**	**20**	**23**
Insurance service result before reinsurance	(39)	9	4	-	16	20	(10)
Changes that relate to future services	(43)	11	13	2	18	33	1
Contracts initially recognized in the period	(21)	5	-	-	16	16	-
Changes that adjust the CSM	(21)	6	13	2	1	16	1
Changes on onerous contracts	(1)	-	-	-	1	1	-
Changes that relate to current services	5	(2)	(9)	(2)	(2)	(13)	(10)
CSM recognized for services provided	-	-	(9)	(2)	(2)	(13)	(13)
Changes in risk adjustments for non-financial risks for the period	-	(2)	-	-	-	-	(2)
Experience adjustment for current service	5	-	-	-	-	-	5
Changes that relate to past services – changes for claims and other insurance service expenses	(1)	-	-	-	-	-	(1)
Net finance expenses from insurance contracts	32	1	-	-	-	-	33
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**31**	**-**	**-**	**-**	**-**	**-**	**31**
Premiums received	100	-	-	-	-	-	100
Insurance service expenses paid, including investment component	(55)	-	-	-	-	-	(55)
Insurance acquisition cash flows	(14)	-	-	-	-	-	(14)
Other changes	(7)	(3)	(8)	(1)	(2)	(11)	(21)
End of the period	**97**	**53**	**96**	**19**	**34**	**149**	**299**
Assets	(3)	-	-	-	2	2	(1)
Liabilities	100	53	96	19	32	147	300

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Baltic States 1 January – 31 December 2022	Estimates of the present value of the future cash flows	Risk adjustment for non-financial risk	CSM				Total
			Measurement under modified retrospective transition approach	Measurement under fair value retrospective transition approach	Other contracts	Subtotal	
Beginning of the period	111	48	131	21	-	152	311
Assets	(2)	-	1	-	-	1	(1)
Liabilities	113	48	130	21	-	151	312
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**(67)**	**(3)**	**(34)**	**(1)**	**20**	**(15)**	**(85)**
Insurance service result before reinsurance	3	2	(34)	(1)	20	(15)	(10)
Changes that relate to future services	(1)	4	(25)	1	21	(3)	-
Contracts initially recognized in the period	(22)	6	-	-	17	17	1
Changes that adjust the CSM	24	(2)	(25)	1	2	(22)	-
Changes on onerous contracts	(3)	-	-	-	2	2	(1)
Changes that relate to current services	4	(2)	(9)	(2)	(1)	(12)	(10)
CSM recognized for services provided	-	-	(9)	(2)	(1)	(12)	(12)
Changes in risk adjustments for non-financial risks for the period	-	(2)	-	-	-	-	(2)
Experience adjustment for current service	4	-	-	-	-	-	4
Changes that relate to past services – changes for claims and other insurance service expenses	-	-	-	-	-	-	-
Net finance expenses from insurance contracts	(70)	(5)	-	-	-	-	(75)
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**34**	**-**	**-**	**-**	**-**	**-**	**34**
Premiums received	98	-	-	-	-	-	98
Insurance service expenses paid, including investment component	(51)	-	-	-	-	-	(51)
Insurance acquisition cash flows	(13)	-	-	-	-	-	(13)
Other changes	2	1	3	-	-	3	6
End of the period	**80**	**46**	**100**	**20**	**20**	**140**	**266**
Assets	(1)	-	1	-	-	1	-
Liabilities	81	46	99	20	20	139	266

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Ukraine

Movement in insurance contract assets and liabilities Non-PAA insurance contracts Ukraine 1 January – 31 December 2023	**Estimates of the present value of the future cash flows**	**Risk adjustment for non-financial risk**	**CSM**				**Total**
			Measurement under modified retrospective transition approach	**Measurement under fair value retrospective transition approach**	**Other contracts**	**Subtotal**	
Beginning of the period	**140**	**16**	**41**	**-**	**2**	**43**	**199**
Assets	-	-	-	-	-	-	-
Liabilities	140	16	41	-	2	43	199
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	(37)	(1)	2	-	-	2	(36)
Insurance service result before reinsurance	(4)	(3)	(1)	-	-	(1)	(8)
Changes that relate to future services	1	(2)	3	-	1	4	3
Contracts initially recognized in the period	-	-	-	-	1	1	1
Changes that adjust the CSM	(1)	(2)	3	-	-	3	-
Changes on onerous contracts	2	-	-	-	-	-	2
Changes that relate to current services	(5)	(1)	(4)	-	(1)	(5)	(11)
CSM recognized for services provided	-	-	(4)	-	(1)	(5)	(5)
Changes in risk adjustments for non-financial risks for the period	-	(1)	-	-	-	-	(1)
Experience adjustment for current service	(5)	-	-	-	-	-	(5)
Changes that relate to past services – changes for claims and other insurance service expenses	-	-	-	-	-	-	-
Net finance expenses from insurance contracts	(33)	2	3	-	-	3	(28)
Effect of movements in exchange rates	-	-	-	-	-	-	-
Cash flows	**21**	**-**	**-**	**-**	**-**	**-**	**21**
Premiums received	47	-	-	-	-	-	47
Insurance service expenses paid, including investment component	(14)	-	-	-	-	-	(14)
Insurance acquisition cash flows	(12)	-	-	-	-	-	(12)
Other changes	(18)	(3)	(6)	-	-	(6)	(27)
End of the period	**106**	**12**	**37**	**-**	**2**	**39**	**157**
Assets	-	-	-	-	-	-	-
Liabilities	106	12	37	-	2	39	157

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Movement in insurance contract assets and liabilities Non-PAA insurance contracts Ukraine 1 January – 31 December 2022	**Estimates of the present value of the future cash flows**	**Risk adjustment for non-financial risk**	**CSM**				**Total**
			Measurement under modified retrospective transition approach	**Measurement under fair value retrospective transition approach**	**Other contracts**	**Subtotal**	
Beginning of the period	74	20	70	-	-	70	164
Assets	-	-	-	-	-	-	-
Liabilities	74	20	70	-	-	70	164
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**68**	**-**	**(17)**	**-**	**2**	**(15)**	**53**
Insurance service result before reinsurance	20	(2)	(24)	-	2	(22)	(4)
Changes that relate to future services	15	(1)	(16)	-	2	(14)	-
Contracts initially recognized in the period	(2)	-	-	-	2	2	-
Changes that adjust the CSM	17	(1)	(16)	-	-	(16)	-
Changes on onerous contracts	-	-	-	-	-	-	-
Changes that relate to current services	4	(1)	(8)	-	-	(8)	(5)
CSM recognized for services provided	-	-	(8)	-	-	(8)	(8)
Changes in risk adjustments for non-financial risks for the period	-	(1)	-	-	-	-	(1)
Experience adjustment for current service	4	-	-	-	-	-	4
Changes that relate to past services – changes for claims and other insurance service expenses	1	-	-	-	-	-	1
Net finance expenses from insurance contracts	45	2	7	-	-	7	54
Effect of movements in exchange rates	3	-	-	-	-	-	3
Cash flows	**23**	**-**	**-**	**-**	**-**	**-**	**23**
Premiums received	53	-	-	-	-	-	53
Insurance service expenses paid, including investment component	(14)	-	-	-	-	-	(14)
Insurance acquisition cash flows	(16)	-	-	-	-	-	(16)
Other changes	(25)	(4)	(12)	-	-	(12)	(41)
End of the period	**140**	**16**	**41**	**-**	**2**	**43**	**199**
Assets	-	-	-	-	-	-	-
Liabilities	140	16	41	-	2	43	199

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

11.5 Reinsurance contract assets and liabilities

Assets and liabilities under reinsurance contracts	31 December 2023	31 December 2022
Short-term	(1,822)	(1,308)
Reinsurance contract assets	(1,757)	(1,266)
Reinsurance contract liabilities	(65)	(42)
Long-term	(1,612)	(997)
Reinsurance contract assets	(1,712)	(1,070)
Reinsurance contract liabilities	100	73
Total assets and liabilities under reinsurance contracts	**(3,434)**	**(2,305)**

Assets and liabilities under reinsurance contracts 31 December 2023	Assets	including prepayments	Liabilities	including prepayments
Non-life insurance – premium allocation approach	(3,469)	-	35	-
Corporate insurance	(2,924)	-	13	-
Mass insurance	(398)	-	12	-
Baltic States	(121)	-	7	-
Ukraine	(26)	-	3	-
Total	**(3,469)**	**-**	**35**	**-**

Assets and liabilities under reinsurance contracts 31 December 2022	Assets	including prepayments	Liabilities	including prepayments
Non-life insurance – premium allocation approach	(2,336)	-	31	-
Corporate insurance	(1,861)	-	8	-
Mass insurance	(332)	-	12	-
Baltic States	(106)	-	4	-
Ukraine	(37)	-	7	-
Total	**(2,336)**	**-**	**31**	**-**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

11.5.1.1. Analysis by remaining coverage period and incurred claims

Movement in reinsurance contract assets and liabilities 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(64)**	**-**	**-**	**(2,038)**	**(203)**	**(2,305)**
Assets	(122)	-	-	(2,013)	(201)	(2,336)
Liabilities	58	-	-	(25)	(2)	31
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**1,524**	**-**	**-**	**(1,513)**	**16**	**27**
Net income or expenses from reinsurance contracts held	1,519	-	-	(1,439)	23	103
Reinsurance premium allocation	1,514	-	-	-	-	1,514
Amounts recoverable from reinsurers	-	-	-	(1,434)	23	(1,411)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(454)	(49)	(503)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(980)	72	(908)
Investment component	5	-	-	(5)	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	1	-	1
Net finance income from reinsurance contracts	-	-	-	(98)	(9)	(107)
Effect of movements in exchange rates	5	-	-	23	2	30
Cash flows	**(1,416)**	**-**	**-**	**259**	**-**	**(1,157)**
Premiums paid	(1,416)	-	-	-	-	(1,416)
Claims recovered and expenses paid	-	-	-	259	-	259
Other changes	(2)	-	-	4	(1)	1
End of the period	**42**	**-**	**-**	**(3,288)**	**(188)**	**(3,434)**
Assets	(9)	-	-	(3,272)	(188)	(3,469)
Liabilities	51	-	-	(16)	-	35

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in reinsurance contract assets and liabilities 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(42)**	**-**	**-**	**(1,257)**	**(182)**	**(1,481)**
Assets	(90)	-	-	(1,240)	(179)	(1,509)
Liabilities	48	-	-	(17)	(3)	28
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**1,128**	**-**	**-**	**(1,078)**	**(23)**	**27**
Net income or expenses from reinsurance contracts held	1,130	-	-	(1,169)	(24)	(63)
Reinsurance premium allocation	1,126					1,126
Amounts recoverable from reinsurers	-	-	-	(1,165)	(24)	(1,189)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(1,139)	(121)	(1,260)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(26)	97	71
Investment component	4		-	(4)		-
Change in the risk of non-performance by the reinsurer	-	-	-	1	-	1
Net finance income from reinsurance contracts	-	-	-	95	1	96
Effect of movements in exchange rates	(2)	-	-	(5)	-	(7)
Cash flows	**(1,152)**	**-**	**-**	**291**	**-**	**(861)**
Premiums paid	(1,152)	-	-	-	-	(1,152)
Claims recovered and expenses paid	-	-	-	291	-	291
Other changes	2	-	-	6	2	10
End of the period	**(64)**	**-**	**-**	**(2,038)**	**(203)**	**(2,305)**
Assets	(122)	-	-	(2,013)	(201)	(2,336)
Liabilities	58	-	-	(25)	(2)	31

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Corporate insurance

Movement in reinsurance contract assets and liabilities Corporate insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(60)**	**-**	**-**	**(1,637)**	**(156)**	**(1,853)**
Assets	(71)	-	-	(1,635)	(155)	(1,861)
Liabilities	11	-	-	(2)	(1)	8
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**1,310**	**-**	**-**	**(1,400)**	**7**	**(83)**
Net income or expenses from reinsurance contracts held	1,305	-	-	(1,361)	11	(45)
Reinsurance premium allocation	1,301					1,301
Amounts recoverable from reinsurers	-	-	-	(1,357)	11	(1,346)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(394)	(39)	(433)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(963)	50	(913)
Investment component	4	-	-	(4)		-
Change in the risk of non-performance by the reinsurer	-	-	-	1	-	1
Net finance income from reinsurance contracts	-	-	-	(55)	(5)	(60)
Effect of movements in exchange rates	5	-	-	15	1	21
Cash flows	**(1,178)**	**-**	**-**	**203**	**-**	**(975)**
Premiums paid	(1,178)	-	-	-	-	(1,178)
Claims recovered and expenses paid	-	-	-	203	-	203
Other changes	-	-	-	-	-	-
End of the period	**72**	**-**	**-**	**(2,834)**	**(149)**	**(2,911)**
Assets	51	-	-	(2,826)	(149)	(2,924)
Liabilities	21	-	-	(8)	-	13

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Movement in reinsurance contract assets and liabilities Corporate insurance 1 January – 31 December 2022	LRC		LIC			Total
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	Contracts under PAA: estimates of the present value of the future cash flows	Contracts under PAA: risk adjustment for non-financial risk	
Beginning of the period	**(31)**	**-**	**-**	**(800)**	**(143)**	**(974)**
Assets	(59)	-	-	(789)	(141)	(989)
Liabilities	28	-	-	(11)	(2)	15
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**917**	**-**	**-**	**(1,092)**	**(17)**	**(192)**
Net income or expenses from reinsurance contracts held	919	-	-	(1,121)	(12)	(214)
Reinsurance premium allocation	917					917
Amounts recoverable from reinsurers	-	-	-	(1,119)	(12)	(1,131)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(1,090)	(111)	(1,201)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(29)	99	70
Investment component	2	-	-	(2)		-
Change in the risk of non-performance by the reinsurer	-	-	-	1	-	1
Net finance income from reinsurance contracts	-	-	-	32	(5)	27
Effect of movements in exchange rates	(2)	-	-	(4)	-	(6)
Cash flows	**(946)**	**-**	**-**	**255**	**-**	**(691)**
Premiums paid	(946)	-	-	-	-	(946)
Claims recovered and expenses paid	-	-	-	255		255
Other changes	-	-	-	-	4	4
End of the period	**(60)**	**-**	**-**	**(1,637)**	**(156)**	**(1,853)**
Assets	(71)	-	-	(1,635)	(155)	(1,861)
Liabilities	11	-	-	(2)	(1)	8

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Mass insurance

Movement in reinsurance contract assets and liabilities Mass insurance 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(29)**	**-**	**-**	**(272)**	**(19)**	**(320)**
Assets	(50)	-	-	(264)	(18)	(332)
Liabilities	21	-	-	(8)	(1)	12
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**146**	**-**	**-**	**(71)**	**(3)**	**72**
Net income or expenses from reinsurance contracts held	146	-	-	(38)	-	108
Reinsurance premium allocation	146					146
Amounts recoverable from reinsurers	-	-	-	(38)	-	(38)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(13)	(1)	(14)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(25)	1	(24)
Investment component	-	-	-	-	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	(39)	(3)	(42)
Effect of movements in exchange rates	-	-	-	6	-	6
Cash flows	**(156)**	**-**	**-**	**18**	**-**	**(138)**
Premiums paid	(156)	-	-	-	-	(156)
Claims recovered and expenses paid	-	-	-	18	-	18
Other changes	-	-	-	-	-	-
End of the period	**(39)**	**-**	**-**	**(325)**	**(22)**	**(386)**
Assets	(59)	-	-	(317)	(22)	(398)
Liabilities	20	-	-	(8)	-	12

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in reinsurance contract assets and liabilities Mass insurance 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**(19)**	**-**	**-**	**(301)**	**(21)**	**(341)**
Assets	(32)	-	-	(295)	(20)	(347)
Liabilities	13	-	-	(6)	(1)	6
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**139**	**-**	**-**	**9**	**3**	**151**
Net income or expenses from reinsurance contracts held	139	-	-	(50)	(2)	87
Reinsurance premium allocation	139					139
Amounts recoverable from reinsurers	-	-	-	(50)	(2)	(52)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(17)	(1)	(18)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	(33)	(1)	(34)
Investment component	-	-	-	-	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	60	5	65
Effect of movements in exchange rates	-	-	-	(1)	-	(1)
Cash flows	**(150)**	-	-	**20**	**-**	**(130)**
Premiums paid	(150)	-	-	-	-	(150)
Claims recovered and expenses paid	-	-	-	20	-	20
Other changes	1	-	-	-	(1)	-
End of the period	**(29)**	-	-	**(272)**	**(19)**	**(320)**
Assets	(50)	-	-	(264)	(18)	(332)
Liabilities	21	-	-	(8)	(1)	12

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Baltic States

Movement in reinsurance contract assets and liabilities Baltic States 1 January – 31 December 2023	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss recovery component	**loss recovery component**	**Contracts not under PAA**	**estimates of the present value of the future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**16**	**-**	**-**	**(93)**	**(25)**	**(102)**
Assets	(2)	-	-	(79)	(25)	(106)
Liabilities	18	-	-	(14)	-	4
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**66**	**-**	**-**	**(43)**	**10**	**33**
Net income or expenses from reinsurance contracts held	66	-	-	(43)	10	33
Reinsurance premium allocation	65					65
Amounts recoverable from reinsurers	-	-	-	(42)	10	(32)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(46)	(9)	(55)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	4	19	23
Investment component	1	-	-	(1)	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	(2)	(1)	(3)
Effect of movements in exchange rates	-	-	-	2	1	3
Cash flows	**(72)**	-	**-**	**26**	-	**(46)**
Premiums paid	(72)	-	-		-	(72)
Claims recovered and expenses paid	-	-	-	26		26
Other changes	(1)	-	-	2	-	1
End of the period	**9**	**-**	**-**	**(108)**	**(15)**	**(114)**
Assets	(1)	-	-	(105)	(15)	(121)
Liabilities	10	-	-	(3)	-	7

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Movement in reinsurance contract assets and liabilities Baltic States 1 January – 31 December 2022	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**12**	**-**	**-**	**(86)**	**(10)**	**(84)**
Assets	6	-	-	(86)	(10)	(90)
Liabilities	6	-	-	-	-	6
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**51**	**-**	**-**	**(12)**	**(14)**	**25**
Net income or expenses from reinsurance contracts held	51	-	-	(16)	(15)	20
Reinsurance premium allocation	49					49
Amounts recoverable from reinsurers	-	-	-	(14)	(15)	(29)
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(18)	(9)	(27)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	4	(6)	(2)
Investment component	2	-	-	(2)	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	4	1	5
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**(48)**	**-**	**-**	**6**	**-**	**(42)**
Premiums paid	(48)	-	-	-	-	(48)
Claims recovered and expenses paid	-	-	-	6		6
Other changes	1	-	-	(1)	(1)	(1)
End of the period	**16**	**-**	**-**	**(93)**	**(25)**	**(102)**
Assets	(2)	-	-	(79)	(25)	(106)
Liabilities	18	-	-	(14)	-	4

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Ukraine

Movement in reinsurance contract assets and liabilities Ukraine 1 January – 31 December 2023	LRC		LIC			Total
				Contracts under PAA		
	excluding the loss recovery component	loss recovery component	Contracts not under PAA	estimates of the present value of the future cash flows	risk adjustment for non-financial risk	
Beginning of the period	**9**	**-**	**-**	**(36)**	**(3)**	**(30)**
Assets	1	-	-	(35)	(3)	(37)
Liabilities	8	-	-	(1)	-	7
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**2**	**-**	**-**	**1**	**2**	**5**
Net income or expenses from reinsurance contracts held	2	-	-	3	2	7
Reinsurance premium allocation	2					2
Amounts recoverable from reinsurers	-	-	-	3	2	5
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(1)	-	(1)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	4	2	6
Investment component	-	-	-	-		-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	(2)	-	(2)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**(10)**	**-**	**-**	**12**	**-**	**2**
Premiums paid	(10)	-	-	-	-	(10)
Claims recovered and expenses paid	-	-	-	12	-	12
Other changes	(1)	-	-	2	(1)	-
End of the period	**-**	**-**	**-**	**(21)**	**(2)**	**(23)**
Assets	-	-	-	(24)	(2)	(26)
Liabilities	-	-	-	3	-	3

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Movement in reinsurance contract assets and liabilities Ukraine 1 January – 31 December 2022	**LRC**		**LIC**			**Total**
				Contracts under PAA		
	excluding the loss recovery component	**loss recovery component**	**Contracts not under PAA**	**estimates of the present value of the future cash flows**	**risk adjustment for non-financial risk**	
Beginning of the period	**(4)**	**-**	**-**	**(70)**	**(8)**	**(82)**
Assets	(5)	-	-	(70)	(8)	(83)
Liabilities	1	-	-	-	-	1
Changes in the consolidated profit or loss or in the consolidated other comprehensive income	**21**	**-**	**-**	**17**	**5**	**43**
Net income or expenses from reinsurance contracts held	21	-	-	18	5	44
Reinsurance premium allocation	21					21
Amounts recoverable from reinsurers	-	-	-	18	5	23
Recoveries of incurred claims and other expenses incurred in the period	-	-	-	(14)	-	(14)
Changes for recoveries of incurred claims and other expenses incurred in the past	-	-	-	32	5	37
Investment component	-	-	-	-	-	-
Change in the risk of non-performance by the reinsurer	-	-	-	-	-	-
Net finance income from reinsurance contracts	-	-	-	(1)	-	(1)
Effect of movements in exchange rates	-	-	-	-	-	-
Cash flows	**(8)**	**-**	**-**	**10**	**-**	**2**
Premiums paid	(8)	-	-	-	-	(8)
Claims recovered and expenses paid	-	-	-	10	-	10
Other changes	-	-	-	7	-	7
End of the period	**9**	**-**	**-**	**(36)**	**(3)**	**(30)**
Assets	1	-	-	(35)	(3)	(37)
Liabilities	8	-	-	(1)	-	7

11.5.1.2. Analysis by measured component – non-PAA contracts

All reinsurance contracts at PZU Group meet the eligibility criterion for the application of the simplified premium allocation approach.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

11.6 Deferred assets and liabilities under insurance contracts – acquisition cash flows

Deferred assets and liabilities under insurance contracts – acquisition cash flows 1 January – 31 December 2023	Corporate insurance	Baltic States	Ukraine	Total
Beginning of the period	(1)	-	-	(1)
Assets	-	-	-	-
Liabilities	(1)	-	-	(1)
Movement in the period	-	-	-	-
Values recognized in the period	(4)	-	67	63
Values removed and recognized in the measurement of insurance contracts	4	-	(67)	(63)
End of the period	(1)	-	-	(1)
Assets	-	-	-	-
Liabilities	(1)	-	-	(1)

Deferred assets and liabilities under insurance contracts – acquisition cash flows 1 January – 31 December 2022	Corporate insurance	Baltic States	Ukraine	Total
Beginning of the period	(2)	-	-	(2)
Assets	-	-	-	-
Liabilities	(2)	-	-	(2)
Movement in the period	1	-	-	1
Values recognized in the period	(4)	-	52	48
Values removed and recognized in the measurement of insurance contracts	5	-	(52)	(47)
End of the period	(1)	-	-	(1)
Assets	-	-	-	-
Liabilities	(1)	-	-	(1)

11.7 Carrying amount of insurance and reinsurance contracts recognized in the period (without PAA)

Non-PAA insurance contracts	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	3,940	2,904	6,844	3,775	2,691	6,466
Present value of claims and insurance service expenses	3,470	2,665	6,135	3,343	2,493	5,836
Present value of insurance acquisition cash flows	470	239	709	432	198	630
Present value of cash inflows	(5,307)	(2,595)	(7,902)	(4,955)	(2,386)	(7,341)
Risk adjustment for non-financial risk	107	27	134	100	29	129
CSM	1,260	-	1,260	1,080	-	1,080
Losses recognized on initial recognition	-	(336)	(336)	-	(334)	(334)
Reinsurance contracts						
Present value of cash outflows	-	-	-	-	-	-
Present value of cash inflows	-	-	-	-	-	-
Risk adjustment for non-financial risk	-	-	-	-	-	-
CSM	-	-	-	-	-	-

PZU Group has no reinsurance contracts that are not measured using the PAA method.

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11.7.1. Group and individually continued insurance

Non-PAA insurance contracts Group and individually continued insurance	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	2,507	2,703	5,210	2,391	2,607	4,998
Present value of claims and insurance service expenses	2,244	2,493	4,737	2,157	2,425	4,582
Present value of insurance acquisition cash flows	263	210	473	234	182	416
Present value of cash inflows	(3,507)	(2,401)	(5,908)	(3,279)	(2,306)	(5,585)
Risk adjustment for non-financial risk	60	22	82	56	26	82
CSM	940	-	940	832	-	832
Losses recognized on initial recognition	-	(324)	(324)	-	(327)	(327)

11.7.2. Individual insurance

Non-PAA insurance contracts Individual insurance	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	636	98	734	581	51	632
Present value of claims and insurance service expenses	447	83	530	417	37	454
Present value of insurance acquisition cash flows	189	15	204	164	14	178
Present value of cash inflows	(944)	(94)	(1,038)	(818)	(48)	(866)
Risk adjustment for non-financial risk	36	3	39	35	2	37
CSM	272	-	272	202	-	202
Losses recognized on initial recognition	-	(7)	(7)	-	(5)	(5)

11.7.3. Investment insurance

Non-PAA insurance contracts Investment insurance	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	678	82	760	633	25	658
Present value of claims and insurance service expenses	672	78	750	626	25	651
Present value of insurance acquisition cash flows	6	4	10	7	-	7
Present value of cash inflows	(715)	(80)	(795)	(663)	(25)	(688)
Risk adjustment for non-financial risk	6	2	8	3	1	4
CSM	31	-	31	27	-	27
Losses recognized on initial recognition	-	(4)	(4)	-	(1)	(1)

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11.7.4. Baltic States

Non-PAA insurance contracts Baltic States	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	116	3	119	150	5	155
Present value of claims and insurance service expenses	105	3	108	134	3	137
Present value of insurance acquisition cash flows	11	-	11	16	2	18
Present value of cash inflows	(137)	(3)	(140)	(173)	(4)	(177)
Risk adjustment for non-financial risk	5	-	5	6	-	6
CSM	16	-	16	17	-	17
Losses recognized on initial recognition	-	-	-	-	(1)	(1)

11.7.5. Ukraine

Non-PAA insurance contracts Ukraine	Contracts issued 1 January – 31 December 2023			Contracts issued 1 January – 31 December 2022		
	profitable	onerous	total	profitable	onerous	total
Insurance contracts						
Present value of cash outflows	3	18	21	20	3	23
Present value of claims and insurance service expenses	2	8	10	9	3	12
Present value of insurance acquisition cash flows	1	10	11	11	-	11
Present value of cash inflows	(4)	(17)	(21)	(22)	(3)	(25)
Risk adjustment for non-financial risk	-	-	-	-	-	-
CSM	1	-	1	2	-	2
Losses recognized on initial recognition	-	(1)	(1)	-	-	-

11.8 Contractual service margin

Expected contractual service margin release by period 31 December 2023	under 1 year	1 – 2 years of age	2 – 3 years of age	3 – 4 years of age	4 – 5 years of age	5 – 10 years of age	over 10 years	Total
Insurance contracts	1,227	908	786	688	612	2,122	2,420	8,763
- group and individually continued insurance	954	702	631	568	514	1,826	2,105	7,300
- individual insurance	212	159	119	90	71	200	181	1,032
- investment insurance	43	31	21	17	14	49	68	243
- Baltic States	13	12	11	10	10	37	56	149
- Ukraine	5	4	4	3	3	10	10	39
Reinsurance contracts	-	-	-	-	-	-	-	-

Expected contractual service margin release by period 31 December 2022	under 1 year	1 – 2 years of age	2 – 3 years of age	3 – 4 years of age	4 – 5 years of age	5 – 10 years of age	over 10 years	Total
Insurance contracts	1,128	834	729	643	572	2,030	2,412	8,348
- group and individually continued insurance	898	660	594	539	490	1,761	2,112	7,054
- individual insurance	177	130	100	75	57	178	175	892
- investment insurance	36	28	20	15	13	44	63	219
- Baltic States	12	11	11	10	9	36	51	140
- Ukraine	5	5	4	4	3	11	11	43
Reinsurance contracts	-	-	-	-	-	-	-	-

12. Result on investment activity

The following tables present the result from investment activities in the insurance segments. Complete information on the investment performance of the PZU Group is presented in the notes 13 – 17.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

1 January – 31 December 2023	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual insurance	Investment insurance	Baltic States	Ukraine	Total
Investment income	332	745	852	115	765	57	50	2,916
Insurance finance income or expenses	**(271)**	**(1,078)**	**(1,107)**	**(184)**	**(778)**	**(67)**	**21**	**(3,464)**
Movement in fair value of assets covering contracts with direct participation features	-	-	-	-	(705)	(21)	-	(726)
Interest accreted	(132)	(306)	(509)	(102)	(56)	(3)	(17)	(1,125)
Result on interest rate change and other financial assumptions	(163)	(815)	(598)	(81)	(17)	(42)	39	(1,677)
Result on the measurement of estimate changes according to current interest rates and release of contractual service margin and loss component in the period	-	-	-	(1)	-	-	-	(1)
Net effect of movements in exchange rates	24	43	-	-	-	(1)	(1)	65
Recognized in:								
- consolidated profit and loss account	(108)	(263)	(509)	(102)	(761)	(25)	(18)	(1,786)
- other comprehensive income	(163)	(815)	(598)	(82)	(17)	(42)	39	(1,678)
Reinsurance finance income or expenses	**38**	**36**	**-**	**-**	**-**	**-**	**2**	**76**
Interest accreted	56	11	-	-	-	1	-	68
Result on interest rate change and other financial assumptions	4	31	-	-	-	2	2	39
Net effect of movements in exchange rates	(21)	(6)	-	-	-	(3)	-	(30)
Change in the risk of non-performance by the reinsurer	(1)	-	-	-	-	-	-	(1)
Recognized in:								
- consolidated profit and loss account	35	5	-	-	-	(2)	-	38
- other comprehensive income	3	31	-	-	-	2	2	38
Finance income or expenses, in total	**(233)**	**(1,042)**	**(1,107)**	**(184)**	**(778)**	**(67)**	**23**	**(3,388)**
- recognized in consolidated profit and loss account	(73)	(258)	(509)	(102)	(761)	(27)	(18)	(1,748)
- recognized in other comprehensive income	(160)	(784)	(598)	(82)	(17)	(40)	41	(1,640)

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1 January – 31 December 2022	Corporate insurance	Mass insurance	Group and individually continued insurance	Individual insurance	Investment insurance	Baltic States	Ukraine	Total
Investment income	225	703	682	118	(455)	(13)	(1)	1,259
Insurance finance income or expenses	**253**	**1,413**	**1,251**	**291**	**448**	**143**	**(63)**	**3,736**
Movement in fair value of assets covering contracts with direct participation features	-	-	-	-	465	23	-	488
Interest accreted	(59)	(228)	(462)	(87)	(15)	1	(20)	(870)
Result on interest rate change and other financial assumptions	319	1,654	1,713	326	(2)	119	(37)	4,092
Result on the measurement of estimate changes according to current interest rates and release of contractual service margin and loss component in the period	-	-	-	52	-	-	-	52
Net effect of movements in exchange rates	(7)	(13)	-	-	-	-	(6)	(26)
Recognized in:								
- consolidated profit and loss account	(66)	(241)	(462)	(87)	450	24	(26)	(408)
- other comprehensive income	319	1,654	1,713	378	(2)	119	(37)	4,144
Reinsurance finance income or expenses	**(22)**	**(64)**	**-**	**-**	**-**	**(5)**	**1**	**(90)**
Interest accreted	9	10	-	-	-	1	3	23
Result on interest rate change and other financial assumptions	(36)	(75)	-	-	-	(6)	(2)	(119)
Net effect of movements in exchange rates	6	1	-	-	-	-	-	7
Change in the risk of non-performance by the reinsurer	(1)	-	-	-	-	-	-	(1)
Recognized in:								
- consolidated profit and loss account	15	11	-	-	-	1	3	30
- other comprehensive income	(37)	(75)	-	-	-	(6)	(2)	(120)
Finance income or expenses, in total	**231**	**1,349**	**1,251**	**291**	**448**	**138**	**(62)**	**3,646**
- recognized in consolidated profit and loss account	(51)	(230)	(462)	(87)	450	25	(23)	(378)
- recognized in other comprehensive income	282	1,579	1,713	378	(2)	113	(39)	4,024

13. Interest income calculated using the effective interest rate

13.1 Accounting policy

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

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

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

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

Interest income calculated using the effective interest rate also includes income and expenses from fees and commissions directly related to the creation of financial assets with specific repayment schedules. These include commissions for granting credit, for changing the terms of a loan agreement, changing the form of financing, restructuring a loan, or commissions for brokering loans and borrowings.

13.2 Estimates and assumptions

On 14 July 2022, the President of the Republic of Poland signed the Crowdfunding Act.

During the suspension of the loan repayment the borrower was not obligated to make any payments under the loan agreement, except for the fees for insurance associated with such agreements.

In accordance with the provisions of IFRS 9, the right introduced by the act for clients to take advantage of suspension of loan repayments (between July 2022 and December 2023) required adjusting the gross carrying amount of such loans by determining and recognizing in the PZU Group's financial result the estimated cost resulting from this entitlement as the difference between:

- the present value of expected cash flows from the loan portfolio that meets the criteria of the act (the gross carrying amount of that portfolio) and
- the present value of expected cash flows from this portfolio determined on the basis of modified cash flows taking into account the provisions of the act, discounted at the current effective interest rate,

taking into account the estimate level of participation of eligible clients who, in the opinion of the PZU Group, have exercised this right.

At PZU Group, the final participation rate (rate of exercising rights under the Crowdfunding Act) was about 70%.

In its consolidated profit and loss account for 2022, PZU Group recognized a PLN 2,460 million expense with regard to the estimated client’s use of the option to suspend repayment of loan installments. The actual exercise of these rights translated into a total expense of PLN 2,355 million, resulting in the recognition of a change of estimate adjustment of PLN 105 million recognized in interest income in 2023.

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13.3 Quantitative data

Interest income calculated using the effective interest rate	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Loan receivables from clients	18,341	12,658 [1)]
Debt securities measured at fair value through other comprehensive income	3,037	1,452
Debt securities measured at amortized cost	3,973	2,323
Buy-sell-back transactions	640	403
Term deposits with credit institutions	380	176
Loans	446	285
Receivables purchased	753	593
Hedge derivatives	(915)	(361)
Receivables	68	88
Cash and cash equivalents	856	648
Interest income calculated using the effective interest rate, total	**27,579**	**18,265**

[1)] Including a reduction in revenue of 2,460 million from moratorium periods.

14. Other net investment income

14.1 Accounting policy

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

14.2 Quantitative data

Other net investment income	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Dividend income, including:	95	57
Investment financial assets measured at fair value through profit or loss	30	30
Investment financial assets measured at fair value through other comprehensive income	65	27
Effect of movements in exchange rates	187	(240)
Income on investment property	350	306
Investment property maintenance expenses	(179)	(135)
Investment activity expenses	(60)	(28)
Other	13	(17)
Total other net investment income	**406**	**(57)**

15. Result on derecognition of financial instruments and investments

15.1 Accounting policy

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

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15.2 Quantitative data

Result on derecognition of financial instruments and investments	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Investment financial assets	150	(225)
Debt instruments measured at fair value through other comprehensive income	(39)	(29)
Financial instruments measured at fair value through profit or loss	170	(214)
Equity instruments	52	(38)
Participation units and investment certificates	74	(133)
Debt instruments	44	(43)
Instruments measured at amortized cost	19	18
Loan receivables from clients measured at amortized cost	(18)	8
Derivatives	469	(171)
Short sale	(7)	22
Receivables	(2)	-
Result on derecognition of financial instruments and investments, total	**592**	**(366)**

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

16.1 Accounting policy

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

16.2 Quantitative data

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Investment financial assets	5	(69)
Debt instruments measured at fair value through other comprehensive income	18	14
Instruments measured at amortized cost	(13)	(83)
- debt instruments	(2)	(40)
- term deposits with credit institutions	1	(23)
- loans	(12)	(20)
Loan receivables from clients	(1,124)	(3,068)
Measured at amortized cost	(1,127)	(3,068)
Measured at fair value through other comprehensive income	3	-
Guarantees and sureties granted	(74)	(11)
Receivables	(11)	(21)
Cash and cash equivalents	-	(8)
Associates	(21)	(16)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(1,225)**	**(3,193)**

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

17.1 Accounting policy

Information on the method used to determine fair value of assets and liabilities is presented in section 10.

17.2 Quantitative data

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 December 2023	1 January – 31 December 2022
Investment financial instruments measured at fair value through profit or loss	386	(175)
Equity instruments	180	(42)
Debt securities	(145)	138
Participation units and investment certificates	351	(271)
Derivatives	829	674
Measurement of liabilities to members of consolidated mutual funds	(55)	40
Investment contracts for the client's account and risk (unit-linked)	(50)	34
Investment property	(275) [1]	119
Loan receivables from clients	28	12
Net movement in fair value of assets and liabilities measured at fair value, total	**863**	**704**

[1] The decrease in the fair value of investment properties is mainly due to the decline in the EUR exchange rate against the PLN between 31 December 2022 and 31 December 2023.

18. Revenue from commissions and fees

18.1 Accounting policy

The fees and commissions not settled according to the effective interest rate are recognized to reflect the transfer of the promised services to the client in the amount reflecting the fee to which the PZU Group is entitled in return for such services.

Commission income is settled by the straight-line method when they are charged in advance for a non-recurring activity or when they pertain to granted loans with undetermined schedules of future cash flows for which the effective interest rate cannot be determined. Such commissions include commissions received on current account overdrafts, revolving loans, guarantees and lines of credit (for example, commissions for granting, increasing or extending a limit).

Other fees and commissions for financial services not related directly with the creation of a financial asset are recognized based on a five-step revenue recognition model (identification of the contract with the client, indication of individual obligations included in the contract, determination of the price, allocation of the price to individual elements of the contract, recognition of revenue upon fulfillment of conditions for individual elements of the contract).

Revenue for cash management services, brokerage services, investment advisory services, financial planning, investment banking services and asset management services and margins earned on FX transactions with clients are recognized once in the profit and loss account when the service is provided.

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

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18.2 Quantitative data

Revenue from commissions and fees	1 January – 31 December 2023	1 January – 31 December 2022
Banking activity	4,879	4,608
Margin on foreign exchange transactions with clients	1,074	1,038
Brokerage fees	219	181
Fiduciary activity	74	76
Payment card and credit card services	1,627	1,407
Fees on account of insurance intermediacy activities	36	21
Credits and loans	562	508
Bank account-related services	382	482
Transfers	309	307
Cash operations	112	122
Receivables purchased	88	80
Guarantees, letters of credit, collections, promises	105	103
Commissions on leasing activity	105	95
Other commission	186	188
Revenue and payments received from funds and mutual fund management companies	498	363
Pension insurance	147	161
Other	4	4
Total revenue from commissions and fees	**5,528**	**5,136**

19. Fee and commission expenses

Fee and commission expenses	1 January – 31 December 2023	1 January – 31 December 2022
Costs of card and ATM transactions, including card issue costs	1,231	1,044
Commissions on acquisition of banking clients	106	106
Fees for the provision of ATMs	48	46
Costs of awards to banking clients	24	18
Costs of bank transfers and remittances	48	50
Additional services attached to banking products	21	23
Brokerage fees	32	28
Cost of operation of bank accounts	6	6
Cost of banknote operations	24	29
Cost of custody activities	26	25
Other commissions	176	74
Total fee and commission expenses	**1,742**	**1,449**

20. Operating costs of banks

20.1 Accounting policy

Operating costs of banks include employee and material costs, depreciation, taxes and fees.

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20.2 Quantitative data

Operating costs of banks by type	1 January – 31 December 2023	1 January – 31 December 2022
Consumption of materials and energy	190	105
Third party services	1,057	1,059
Taxes and charges	79	63
Employee expenses	3,700	3,043
Depreciation of property, plant and equipment	509	501
Amortization of intangible assets	382	363
Other, including:	415	316
- advertising	234	188
– other	181	128
Operating costs of banks, total	**6,332**	**5,450**

21. Interest expenses

21.1 Accounting policy

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

21.2 Quantitative data

Interest expenses	1 January – 31 December 2023	1 January – 31 December 2022
Term deposits	4,188	1,638
Current deposits	1,897	1,002
Own debt securities issued	1,215	828
Hedge derivatives	819	723
Loans	50	72
Repurchase transactions	355	298
Bank loans contracted by PZU Group companies	218	117
Leases	61	46
Other	87	43
Total interest expenses	**8,890**	**4,767**

22. Employee expenses

Employee expenses	1 January – 31 December 2023	1 January – 31 December 2022
Payroll	5,808	4,977
Defined contribution plans, including:	1,065	894
– charges on salary	934	785
– 3rd pillar pension insurance, including costs of EPS or ECS contributions incurred in the period	131	109
Other	218	202
Total employee expenses	**7,091**	**6,073**

Employee costs are included in insurance service expenses, bank operating expenses and other operating expenses of the consolidated profit and loss account.

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23. Other operating income

Other operating income	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	1,193	1,033
Revenues from direct claims handling on behalf of other insurance undertakings	145	143
Reversal of provisions	171	181
Reimbursement of the costs of pursuit of claims	54	55
Other	296	250
Other operating income, total	**1,859**	**1,662**

24. Other operating expenses

Other operating expenses	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Levy on financial institutions	1,496	1,452
Expenses of the core business of non-insurance and non-banking companies	1,412	1,150
Direct claims handling expenses on behalf of other insurance undertakings	153	151
Compulsory payments to banking market institutions	46	41
Bank Guarantee Fund	249	365
Cost of fees for the bank protection system	-	696
Costs of the Borrower Support Fund fee	-	231
Expenditures for prevention activity	69	38
Establishment of provisions	802	753
Amortization of intangible assets purchased in company acquisition transactions	80	99
Recognition of impairment losses for non-financial assets	37	124
Donations	56	45
Costs of pursuit of claims	116	90
Unallocated costs in insurance activities	227	153
Other	99	220
Other operating expenses, total	**4,842**	**5,608**

25. Income tax

25.1 Accounting policy

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

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

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25.2 Quantitative data

Income tax	**1 January – 31 December 2023**	**1 January – 31 December 2022** (restated)
Profit before tax (consolidated)	16,077	8,137
CIT rate (or range of CIT rates) for the country of the parent company's seat (%)	19%	19%
Income tax which would be calculated as the product of gross accounting profit of the entities and the CIT rate in the country of the parent company's seat	3,055	1,546
Differences between the income tax calculated above and the income tax shown in the profit and loss account:	570	925
– levy on financial institutions	284	276
– provisions for credit receivables in the part not covered by deferred tax	55	44
– measurement of financial assets	29	10
– recognition/reversal of impairment losses for receivables, not classified as tax-deductible expenses	80	79
– recognition/reversal of other provisions and impairment losses for assets, not classified as tax-deductible expenses	84	314
– fee payable to BFG	47	69
- Borrower Support Fund	-	44
– differences due to different tax rates	(11)	10
– dividends	(6)	(4)
– tax losses	1	21
– other tax increases, waivers, exemptions, deductions and reductions	7	62
Income tax shown in the profit and loss account	**3,625**	**2,471**

Total amount of current and deferred tax	**1 January – 31 December 2023**	**1 January – 31 December 2022** (restated)
Recognized in the profit and loss account, including:	**3,625**	**2,471**
– current tax	3,125	1,672
– deferred tax	500	799
Recognized in other comprehensive income, including:	**679**	**78**
– current tax	30	-
- deferred tax	649	78

Income tax on other comprehensive income items	**1 January – 31 December 2023**	**1 January – 31 December 2022** (restated)
Other comprehensive income, gross	3,491	428
Income tax	(679)	(78)
Valuation of debt instruments	(383)	405
Reclassification of debt instruments valuation for the profit and loss account	(7)	(5)
Insurance finance income or expenses	314	(770)
Reinsurance finance income or expenses	(7)	21
Measurement of loan receivables from clients	(1)	1
Cash flow hedging	(600)	295
Valuation of equity instruments	-	(29)
Reclassification of real property from property, plant and equipment to investment property	(1)	-
Actuarial gains and losses related to provisions for employee benefits	6	4
Net other comprehensive income	**2,812**	**350**

The PZU Group is comprised of units operating in different countries and subject to different tax regulations. Regulations on tax on goods and services, corporate income tax, personal income tax or social security contributions are subject to relatively frequent changes. The regulations applicable in the countries where the PZU Group operates also include many ambiguities, which result in different opinions on the legal interpretation of tax regulations both between public authorities and between public authorities and companies. Tax and other settlements (e.g. customs and foreign exchange settlements) may be controlled by authorities (in Poland for five years), which have the right to impose high penalties. Additional liabilities identified during such controls must be paid together with high interest. This generates tax risk, as a result of which amounts disclosed in the financial statements may change later after they are finally determined by tax authorities.

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26. Earnings per share

26.1 Accounting policy

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

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

26.2 Quantitative data

Earnings per share	**1 January – 31 December 2023**	**1 January – 31 December 2022** (restated)
Net earnings attributable to owners of the parent company	5,766	3,781
Weighted average basic and diluted number of common shares	863,378,107	863,390,384
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	144,893	132,616
Basic and diluted earnings (losses) per common share (in PLN)	6.68	4.38

In the 2023 and in 2022, there were no transactions or events resulting in the dilution of earnings per share.

27. Goodwill

27.1 Accounting policy

Goodwill, whose initial value has been determined in a manner described in section 6.5 is not amortized, but at the end of each financial year and any time there are any indications of impairment, it is tested for impairment. The goodwill impairment test involves assessing the recoverable amount of the individual cash-generating units to which goodwill has been allocated and comparing it with their carrying amount (including the allocated goodwill). If the recoverable amount is lower than the impairment loss applies first to the goodwill allocated to the cash-generating unit. The cash-generating unit, for which the test is performed may not be larger than an operating segment.

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27.2 Quantitative data

Goodwill	31 December 2023	31 December 2022
Pekao [1]	1,715	1,715
LD [2]	480	518
Medical companies	341	307
Mass insurance segment in non-life insurance (Link4)	221	221
Balta	39	42
Other	5	5
Goodwill, total	**2,801**	**2,808**

[1] Includes goodwill on acquisition of PIM and Idea Bank.
[2] Includes goodwill on the acquisition of the LD branch in Estonia.

Movement in goodwill	1 January – 31 December 2023	1 January – 31 December 2022
Gross goodwill at the beginning of the period	4,124	4,094
– acquisition of medical companies	34	21
– effect of movements in exchange rates	(42)	9
Gross goodwill at the end of the period	4,116	4,124
Impairment losses at the beginning of the period	(1,316)	(1,316)
- impairment charges – medical companies	-	(2)
– effect of movements in exchange rates	1	2
Impairment losses – at the end of the period	(1,315)	(1,316)
Net goodwill at the end of the period	**2,801**	**2,808**

27.3 Testing for impairment

Impairment tests for goodwill were performed as at 31 December 2023 for all the CGUs, to which goodwill was allocated.

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

Cash-generating units (CGUs)

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

Carrying amount

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

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

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Recoverable amount

The recoverable amount is the higher of the fair value less costs of disposal or the value in use. As at 31 December 2023, the recoverable amount was estimated on the basis of value in use.

The recoverable amount of individual CGUs was determined based on value in use of the entities, using the discounted cash flow method based on the most current financial projections, for a period, which are presented in the table below.

CGU financial projections take into account the product offering and market growth prospects, balance sheet structure and available capital surpluses, to-date results and expected macroeconomic parameters, such as the interest rate levels and economic growth.

The discount rates used for testing of the insurance companies were set at the cost of equity level. For medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was set in accordance with the CAPM model. Also, size premiums were applied in justified cases. Risk-free rates were determined based on the yield of 10-year government bonds offered by the country where the CGU is domiciled and the betas were based on measures of similar listed entities. Market premiums were 5% (in 2022: 5.25%).

For regulated entities (banks and insurance companies, financial institutions), the projected cash flows incorporate the requirement to maintain an adequate level of own funds (economic capital). Cash flows of the mass insurance segment were calculated based on the amount of hypothetical dividends that the segment could have paid if it had operated as a separate insurance company. The amount of dividends depends on the projected technical results of that segment, net of income tax and levy on financial institutions and capital surpluses allocated to that segment as at the balance sheet date and in subsequent periods. The growth ratios after the projection period were determined while taking into account the long-term growth prospects for the market on which the entity conducts its business. Growth rates do not exceed the long-term GDP growth forecasts of the country in nominal terms.

Cash generating unit	31 December 2023			31 December 2022		
	Discount rate	Growth rate after the projection period	Timeframe of financial projections	Discount rate	Growth rate after the projection period	Timeframe of financial projections
Pekao	10.3%	3.5%	3 years	12.9%	3.5%	6 years
LD	8.4%	3.0%	3 years	8.6%	3.0%	3 years
Mass insurance segment	10.1%	2.5%	3 years	11.7%	2.5%	3 years
Balta	8.5%	3.0%	3 years	8.8%	3.0%	3 years
Medical companies	8.2%	2.0%-3.0%	3 years	9.3%	2.0%-3.0%	3 years

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Sensitivity analysis

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

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

Cash generating unit	31 December 2023			31 December 2022		
	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Pekao	1,767	12.2%	0.7%	200	13.2%	2.5%
LD	1,217	13.4%	(3.4%)	642	11.5%	(0.5%)
Balta	593	16.7%	(8.9%)	229	12.4%	(1.5%)
Mass insurance segment	5,674	18.0%	n/a [2]	5,400 [1]	27.2%	n/a [2]
Medical companies	715	9.4%-21.9%	(19.6%)-0.9%	183	9.4%-17.5%	(9.6%)-1.7%

[1] Surplus of the recoverable amount of the mass insurance segment over its carrying amount, including the Link4 acquisition goodwill allocation allocated to that segment.
[2] The amount of discounted cash flows in the projection period is higher than the carrying amount attributed to the mass insurance segment and therefore no marginal growth rate was presented after the projection period.

28. Intangible assets

28.1 Accounting policy

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

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

The method used to measure the fair value of an intangible asset acquired in a business combination is presented in section 6.5.

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

Intangible assets are amortized over their estimated economic life:

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

Impairment

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

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

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

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

Impairment tests for trademarks were performed as at 31 December 2023. As a result of the tests, no need has been found to recognize impairment losses. The value in use of trademarks was determined on the basis of the value of discounted cash flows from potential license fees. The value of license fees was set at 0.4-0.8% of the Pekao Group retail and corporate segment’s revenue and 1% of insurance revenue. The discount rates were established based on the cost of capital plus specific premiums: 2 p.p. – for Pekao, 0,7–1,0 p.p. – for insurance companies. The growth rates after the forecast period of the respective CGUs were assumed at the same level as in goodwill impairment tests, as described in section 27.3.

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28.2 Quantitative data

Movement in intangible assets (by type groups) in the year ended 31 December 2023	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	3,974	623	2,013	852	110	7,572
Changes:	402	(9)	(23)	97	217	684
– purchases and in-house production	24	-	-	753	7	784
– change in composition of the group	-	-	-	-	-	-
– transfers	441	-	-	(657)	216	-
– sale and liquidation	(61)	-	-	(3)	(3)	(67)
– effect of movements in exchange rates and other	(2)	(9)	(23)	4	(3)	(33)
Gross value at the end of the period	**4,376**	**614**	**1,990**	**949**	**327**	**8,256**
Accumulated amortization at the beginning of the period	(2,362)	-	(1,605)	-	(86)	(4,053)
Changes:	(466)	-	(57)	-	(18)	(541)
– amortization for the period	(529)	-	(80)	-	(25)	(634)
– sale and liquidation	58	-	-	-	3	61
– effect of movements in exchange rates and other	5	-	23	-	4	32
Accumulated amortization at the end of the period	**(2,828)**	**-**	**(1,662)**	**-**	**(104)**	**(4,594)**
Impairment losses at the beginning of the period	(56)	(100)	(61)	(20)	-	(237)
Changes charged to other operating expenses	(6)	-	-	(3)	(12)	(21)
Other changes	-	-	-	(1)	-	(1)
Impairment losses – at the end of the period	**(62)**	**(100)**	**(61)**	**(23)**	**(12)**	**(258)**
Net value of intangible assets at the end of the period	**1,486**	**514**	**267**	**926**	**211**	**3,404**

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Movement in intangible assets (by type groups) in the year ended 31 December 2022	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	3,873	622	1,999	703	101	7,298
Changes:	101	1	14	149	9	274
– purchases and in-house production	19	-	-	682	-	701
– change in composition of the group	-	-	9	-	-	9
– transfers	523	-	-	(531)	8	-
– sale and liquidation	(129)	-	-	(1)	-	(130)
– effect of movements in exchange rates and other	(312)	1	5	(1)	1	(306)
Gross value at the end of the period	**3,974**	**623**	**2,013**	**852**	**110**	**7,572**
Accumulated amortization at the beginning of the period	(2,120)	-	(1,501)	-	(81)	(3,702)
Changes:	(242)	-	(104)	-	(5)	(351)
– amortization for the period	(496)	-	(99)	-	(6)	(601)
– sale and liquidation	121	-	-	-	-	121
– effect of movements in exchange rates and other	133	-	(5)	-	1	129
Accumulated amortization at the end of the period	**(2,362)**	**-**	**(1,605)**	**-**	**(86)**	**(4,053)**
Impairment losses at the beginning of the period	(15)	(100)	(61)	(17)	-	(193)
Changes charged to other operating expenses	(47)	-	-	(5)	-	(52)
Other changes	6	-	-	2	-	8
Impairment losses – at the end of the period	**(56)**	**(100)**	**(61)**	**(20)**	**-**	**(237)**
Net value of intangible assets at the end of the period	**1,556**	**523**	**347**	**832**	**24**	**3,282**

Amortization of intangible assets, by their presentation in consolidated profit and loss account	1 January – 31 December 2023	1 January – 31 December 2022
Expenses under insurance contracts	143	123
Operating costs of banks	382	363
Other operating expenses [1)]	109	115
Total amortization	**634**	**601**

[1)] Including the amortization of intangible assets purchased in company acquisition transactions in the amount of PLN 80 million (in 2022: PLN 99 million).

29. Other assets

Other assets	31 December 2023	31 December 2022 (restated)
Deferred IT expenses	202	205
Accrued direct claims handling receivables	46	47
Costs settled over time	149	117
Inventories	37	56
Other assets	49	37
Total other assets	**483**	**462**

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Other assets	31 December 2023	31 December 2022 (restated)
Short-term	466	447
Long-term	17	15
Total other assets	**483**	**462**

30. Property, plant and equipment

30.1 Accounting policy

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

All property, plant and equipment, and their important components, with the exception of land and property, plant and equipment under construction, are depreciated using the straight-line method, starting from the moment of their availability for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the intended manner.

Annual depreciation rates for material assets are presented below:

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

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

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

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30.2 Quantitative data

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2023	Plant and machinery	Means of transport	Property, plant and equipment under construction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	1,604	353	405	4,817	656	7,835
Changes:	104	15	(24)	(292)	60	(137)
– purchases and in-house production	20	24	478	12	35	569
– increase in right-of-use assets	27	21	-	605	-	653
– change in composition of the group	1	-	-	6	-	7
– sale and liquidation	(177)	(26)	-	(83)	(73)	(359)
– decrease in right-of-use assets (termination of agreements, sales)	(12)	(19)	-	(282)	(3)	(316)
– transfers to categories held for sale under IFRS 5	-	-	-	(96)	-	(96)
– transfers to and from the investment property category	-	-	(24)	(547)	-	(571)
– transfers	246	15	(463)	100	102	-
– effect of movements in exchange rates and other	(1)	-	(15)	(7)	(1)	(24)
Gross value at the end of the period	**1,708**	**368**	**381**	**4,525**	**716**	**7,698**
Accumulated amortization at the beginning of the period	(957)	(128)	-	(1,983)	(271)	(3,339)
Changes:	(48)	(19)	-	310	(27)	216
– amortization for the period	(219)	(28)	-	(97)	(95)	(439)
– amortization of right-of-use assets	(1)	(18)	-	(293)	(1)	(313)
– sale and liquidation	172	11	-	34	68	285
– sale, liquidation and other movement in right-of-use assets	-	20	-	310	1	331
– transfers to categories held for sale under IFRS 5	-	-	-	71	-	71
– transfers to the investment property	-	-	-	283	-	283
– effect of movements in exchange rates and other	-	(4)	-	2	-	(2)
Accumulated amortization at the end of the period	**(1,005)**	**(147)**	**-**	**(1,673)**	**(298)**	**(3,123)**
Impairment losses at the beginning of the period	(18)	(3)	-	(159)	(12)	(192)
Changes charged to other operating expenses	(3)	-	-	(11)	(2)	(16)
Changes charged to other operating income	-	2	-	9	1	12
Transfers to the investment property category	-	-	-	61	-	61
Other changes	2	1	-	-	2	5
Impairment losses – at the end of the period	**(19)**	**-**	**-**	**(100)**	**(11)**	**(130)**
Net value of property, plant and equipment – at the end of the period	**684**	**221**	**381**	**2,752**	**407**	**4,445**
– including net value of right-of-use assets	16	81	-	1,410	-	1,507

The value of right-of-use assets is presented in section 49.

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Movement in property, plant and equipment (by type groups) in the year ended 31 December 2022	Plant and machinery	Means of transport	Property, plant and equipment under construction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	1,606	363	283	4,409	697	7,358
Changes:	(2)	(10)	122	408	(41)	477
– purchases and in-house production	12	4	427	4	11	458
– increase in right-of-use assets	2	12	-	621	-	635
– change in composition of the group	-	-	-	6	2	8
– sale and liquidation	(184)	(22)	-	(64)	(121)	(391)
– decrease in right-of-use assets (termination of agreements, sales)	-	(21)	-	(111)	-	(132)
– transfers to categories held for sale under IFRS 5	(5)	-	-	(68)	-	(73)
– transfers to and from the investment property category	-	-	-	(5)	-	(5)
– transfers	171	15	(285)	28	71	-
– effect of movements in exchange rates and other	2	2	(20)	(3)	(4)	(23)
Gross value at the end of the period	**1,604**	**353**	**405**	**4,817**	**656**	**7,835**
Accumulated amortization at the beginning of the period	(945)	(114)	-	(1,702)	(300)	(3,061)
Changes:	(12)	(14)	-	(281)	29	(278)
– amortization for the period	(198)	(21)	-	(113)	(84)	(416)
– amortization of right-of-use assets	-	(17)	-	(293)	(1)	(311)
– sale and liquidation	182	17	-	42	113	354
– sale, liquidation and other movement in right-of-use assets	-	12	-	46	-	58
– transfers to categories held for sale under IFRS 5	5	-	-	38	-	43
– effect of movements in exchange rates and other	(1)	(5)	-	(1)	1	(6)
Accumulated amortization at the end of the period	**(957)**	**(128)**	**-**	**(1,983)**	**(271)**	**(3,339)**
Impairment losses at the beginning of the period	(14)	(3)	-	(120)	(16)	(153)
Changes charged to other operating expenses	(6)	(1)	-	(47)	(3)	(57)
Changes charged to other operating income	2	1	-	-	1	4
Other changes	-	-	-	8	6	14
Impairment losses – at the end of the period	**(18)**	**(3)**	**-**	**(159)**	**(12)**	**(192)**
Net value of property, plant and equipment – at the end of the period	**629**	**222**	**405**	**2,675**	**373**	**4,304**
– including net value of right-of-use assets	2	77	-	1,079	3	1,161

31. Investment property

31.1 Accounting policy

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

Investment property is initially recognized at purchase price or production cost, plus transaction costs. After initial recognition it is measured at fair value, in accordance with the rules described in section 10.1.6. Gains and losses resulting from the change of fair value of investment property are recognized in the consolidated profit and loss account under “Net movement in fair value of assets and liabilities measured at fair value” item in the period in which they occurred.

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

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

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

31.2 Estimates and assumptions

The impact of the factors having a significant impact on the investment property valuations is presented in section 10.2.1.2.

31.3 Quantitative data

Movement in investment property	1 January – 31 December 2023	1 January – 31 December 2022
Net carrying amount at the beginning of the period	3,021	2,773
Additions	273	176
– purchase	46	146
- transfer from property intended for personal use	212	7
– transfers from held for sale categories under IFRS 5	-	23
– transfer from property intended for personal use – right-of-use assets	15	-
Reductions	-	(3)
– transfer to property intended for personal use	-	(2)
– transfers to held for sale categories under IFRS 5	-	(1)
Gain (loss) on remeasurement to fair value	(194)	75
– through profit or loss	(220)	73
– through other comprehensive income	26	2
Effect of movements in exchange rates	(2)	-
Net carrying amount at the end of the period, including	**3,098**	**3,021**
– buildings and structures	2,733	2,760
– own land	228	191
– perpetual usufruct right to land and cooperative ownership right to premises	137	70

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

As at 31 December 2023, the fair value of investment property results from valuations by independent appraisers conducted mainly in 2023.

32. Entities accounted for using the equity method

32.1 Accounting policy

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

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

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

32.2 Quantitative data

Associates	31 December 2023	31 December 2022
Krajowy Integrator Płatności SA	54	48
Sigma BIS SA	8	4
RUCH	-	-
Associates, total	**62**	**52**

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

33. Loan receivables from clients

33.1 Accounting policy

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

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

Information on the SPPI test is presented in section 36.1.1.

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

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

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

Modification of financial assets

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

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

Otherwise, the modification does not result in removing the financial asset from the statement of financial position, and only the new gross carrying amount is calculated and the result from the modification is recognized in the consolidated profit and loss account in the "Interest income calculated using the effective interest rate" line item.

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

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

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

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

33.2 Quantitative data

Loan receivables from clients	31 December 2023	31 December 2022
Measured at amortized cost	218,476	212,255
Measured at fair value through other comprehensive income	82	254
Measured at fair value through profit or loss	250	184
Total loan receivables from clients	**218,808**	**212,693**

Loan receivables from clients	31 December 2023	31 December 2022
Retail segment	**114,692**	**108,537**
Operating loans	197	191
Consumer finance	25,116	24,809
Consumer finance loans	5,007	4,292
Loan to purchase securities	2	14
Overdrafts in credit card accounts	1,192	1,123
Loans for residential real estate	82,237	77,220
Other mortgage loans	618	647
Car financing loans	1	2
Other receivables	322	239
Business segment	**104,116**	**104,156**
Operating loans	32,626	35,005
Car financing loans	-	1
Investment loans	29,378	30,107
Receivables purchased (factoring)	9,874	8,224
Overdrafts in credit card accounts	98	109
Loans for residential real estate	42	59
Other mortgage loans	10,355	9,872
Finance lease	16,181	14,935
Other receivables	5,562	5,844
Total loan receivables from clients	**218,808**	**212,693**

34. Financial derivatives

34.1 Accounting policy

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

Derivative financial instruments held for trading are recognized at fair value on the transaction date and subsequently measured at fair value in accordance with the rules described in section 10.1.4.

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

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

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

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

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

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

34.2 Types of hedging strategies

34.2.1. Fair value hedges

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

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

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

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

- impact of counterparty credit risk and own credit risk on the fair value of hedging transactions which is not reflected in the fair value of the hedged item;

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- differences between the maturities of IRS transactions and the maturities of debt securities;
- differences in the level of interest coupons generated by the hedged item and hedging instruments.

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

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

The table presents nominal values and interest rate of hedging instruments:

	Currency	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	200	-	200	-	-	200	-	200
Average interest rate of the fixed-rate part	PLN	-	-	5.8	-	5.8	-	-	7.2	-	7.2
Par value	EUR	204	-	500	141	845	94	-	760	152	1,006
Average interest rate of the fixed-rate part	EUR	4.8	-	4.0	4.6	4.3	2.4	-	1.0	1.1	1.1
Total		**204**	**-**	**700**	**141**	**1,045**	**94**	**-**	**960**	**152**	**1,206**

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023 Hedges of securities measured at amortized cost	31 December 2023 Hedges of securities measured at fair value	31 December 2023 Total	31 December 2022 Hedges of securities measured at amortized cost	31 December 2022 Hedges of securities measured at fair value	31 December 2022 Total
Hedging instruments						
Par value	200	845	1,045	200	1,006	1,206
Carrying amount – assets	9	45	54	22	67	89
Carrying amount – liabilities	-	1	1	-	5	5
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(13)	(33)	(46)	16	168	184
Hedge inefficiency amount recognized in the profit and loss account	-	-	-	1	3	4
Hedged items						
Carrying amount – assets	191	823	1,014	178	967	1,145
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position – assets	(9)	(36)	(45)	(22)	(58)	(80)
Change in value of the hedged item used as the basis for estimating hedge inefficiency	13	33	46	(15)	(165)	(180)
Accumulated adjustment to fair value of a hedged item remaining in the statement of financial position, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-	-	-	-	-

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

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

The table presents nominal values and interest rate of hedging instruments:

	Curren-cy	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	-	-	-	-	-	250	-	250
Average interest rate of the fixed-rate part	PLN	-	-	-	-	-	-	-	0.2	-	0.2
Par value	EUR	-	-	145	261	406	-	-	157	-	157
Average interest rate of the fixed-rate part	EUR	-	-	0.7	2.9	2.1	-	-	0.7	-	0.7
Total		**-**	**-**	**145**	**261**	**406**	**-**	**-**	**407**	**-**	**407**

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023 Hedging of investment financial assets measured at amortized cost	31 December 2023 Hedging of investment financial assets measured at fair value	31 December 2023 Total	31 December 2022 Hedging of investment financial assets measured at amortized cost	31 December 2022 Hedging of investment financial assets measured at fair value	31 December 2022 Total
Hedging instruments						
Par value	-	406	406	250	157	407
Carrying amount – assets	-	14	14	16	20	36
Carrying amount – liabilities	-	11	11	-	-	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	-	(17)	(17)	(2)	16	14
Hedge inefficiency amount recognized in the profit and loss account	-	1	1	(1)	-	(1)
Hedged items						
Carrying amount – assets	-	405	405	422	144	566
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position – assets	-	-	-	(6)	-	(6)
Change in value of the hedged item used as the basis for estimating hedge inefficiency	-	18	18	1	(16)	(15)
Accumulated adjustment to fair value of a hedged item remaining in the statement of financial position, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-	-	-	-	-

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Fair value hedges for deposits

Alior Bank hedges the risk of changes in the fair value of deposits (current accounts, savings accounts without a specified revaluation date) for risks arising from changes in the interest rate curve (market interest rate volatility risk), excluding other effects changing the valuation (including asset swap spread). As part of this strategy, Alior Bank creates hedging relationships in which an IRS/OIS (interest rate swap / overnight index swap) float to fixed (floating interest rate) transaction is a hedging instrument. The replication profile of the interest rate revaluation date, determined according to the methodology used to realign the measurement of interest rate risk, is applied to define the hedged deposit. The fair value of modeled deposits is subject to changes due to volatility in the market forward interest rate curve.

The table presents nominal values and interest rate of hedging instruments:

	Currency	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	-	25	-	25	-	-	-	-	-
Average interest rate of the fixed-rate part		-	-	4.2	-	4.2	-	-	-	-	-
Total		**-**	**-**	**25**	**-**	**25**	**-**	**-**	**-**	**-**	**-**

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	25	-
Carrying amount – assets	-	-
Carrying amount – liabilities	-	-
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	-	-
Hedge inefficiency amount recognized in the profit and loss account	-	-
Hedged items		
Carrying amount – liabilities	25	-
Accumulated adjustment to fair value of the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position – liabilities	-	-
Change in value of the hedged item used as the basis for estimating hedge inefficiency	-	-
Accumulated adjustment to fair value of a hedged item remaining in the statement of financial position, for those hedged items for which the balance sheet item is no longer adjusted to fair value	-	-

34.2.2. Cash flow hedges

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

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

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

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

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

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

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

	Currency	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	784	5,665	16,658	4,928	28,035	200	3,372	17,010	7,959	28,541
Average interest rate of the fixed-rate part	PLN	1.0	2.1	2.9	4.3	2.9	1.1	1.3	1.7	4.7	2.5
Par value	EUR	-	-	2,174	-	2,174	-	-	-	-	-
Average interest rate of the fixed-rate part	EUR	-	-	3.1	-	3.1	-	-	-	-	-

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	30,209	28,541
Carrying amount – assets	547	104
Carrying amount – liabilities	1,357	3,089
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	2,024	(1,250)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	2,021	(1,251)
Hedge inefficiency amount recognized in the profit and loss account	4	2
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(2,021)	1,234
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(738)	(2,760)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

34.2.2.2. Hedging of the deposit portfolio in PLN

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

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	Curren-cy	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	-	20	1,767	140	1,927	5	25	116	198	344
Average interest rate of the fixed-rate part		-	5.6	6.6	6.4	6.5	7.4	6.2	7.3	6.0	6.5

Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	1,927	344
Carrying amount – assets	14	39
Carrying amount – liabilities	40	13
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(46)	20
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	(46)	20
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	46	(20)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(20)	26
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

34.2.2.3. Hedging the portfolio of loans and lease receivables with variable interest rates in EUR and the portfolio of deposits in PLN

Pekao hedged its exposure to interest rate risk associated with the volatility of market reference rates (WIBOR, EURIBOR) and its exposure to currency risk generated by loan portfolios and lease receivables with a variable interest rate denominated in EUR and deposits in Polish zloty, which economically constituted a long-term liability with a variable interest rate, using currency interest rate swaps (basis swaps). Discontinuing hedge accounting for this relationship had no impact on the profit and loss account.

	Curren-cy	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/PLN	-	-	-	-	-	455	793	-	-	1,248

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Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	-	1,248
Carrying amount – assets	-	-
Carrying amount – liabilities	-	68
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	4	(4)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	6	(31)
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(4)	4
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	-	(6)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	(17)	(21)

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

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

	Curren-cy	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/PLN	1,457	1,282	-	-	2,739	703	469	-	-	1,172
Average rate		4.7	4.6	-	-	4.7	4.9	4.8	-	-	4.9
Par value	EUR/USD	1,304	556	-	-	1,860	938	235	-	-	1,173
Average rate		1.1	1.1	-	-	1.1	1.1	1.1	-	-	1.1

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Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	4,599	2,345
Carrying amount – assets	190	48
Carrying amount – liabilities	31	1
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	12	9
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	10	10
Hedge inefficiency amount recognized in the profit and loss account	-	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	-	-
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(12)	(9)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	7	(3)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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

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

	Currency	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	PLN	975	3,890	13,077	-	17,942	600	5,365	15,117	-	21,082
Average interest rate of the fixed-rate part	PLN	2.9	2.6	3.2	-	3.1	1.8	1.5	2.6	-	2.3
Par value	EUR	74	265	174	-	513	-	-	553	-	553
Average interest rate of the fixed-rate part	EUR	(0.5)	(0.3)	(0.3)	-	(0.3)	-	-	(0.3)	-	(0.3)

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Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	18,455	21,635
Carrying amount – assets	322	142
Carrying amount – liabilities	672	1,679
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	(394)	(1,539)
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	250	(1,062)
Hedge inefficiency amount recognized in the profit and loss account	6	(2)
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	812	703
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	397	1,541
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(414)	(1,476)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	-	-

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

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

	Currency	31 December 2023 Maturity					31 December 2022 Maturity				
		Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Par value	EUR/ PLN	96	96	804	65	1,061	-	-	1,002	204	1,206
Average rate		4.3	4.3	4.3	4.4	4.3	-	-	4.3	4.3	4.3
Par value	USD / PLN	-	-	391	-	391	-	-	438	-	438
Average rate		-	-	3.8	-	3.8	-	-	3.8	-	3.8
Par value	GBP / PLN	-	-	358	15	373	-	16	358	191	565
Average rate		-	-	5.0	5.0	5.0	-	4.8	5.0	5.0	5.0

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Impact of the hedge relationship on the statement of financial position and the financial result	31 December 2023	31 December 2022
Hedging instruments		
Par value	1,825	2,209
Carrying amount – assets	9	-
Carrying amount – liabilities	32	319
Change in the fair value of the hedging instrument, on the basis of which hedge inefficiency is estimated	296	13
Profit or loss arising out of net position hedge, captured in a separate line item of other comprehensive income	122	42
Hedge inefficiency amount recognized in the profit and loss account	(1)	-
Amount transferred from cash flow hedge accounting capital to the profit and loss account as reclassification adjustment	174	(29)
Hedged items		
Amount equal to the change in the fair value of a hypothetical derivative representing the hedged item, which forms the basis for estimating hedge inefficiency in the period	(297)	(13)
Balance of the hedge accounting capital item for relations, for which hedge accounting will be continued after the end of the reporting period	(5)	(127)
Balance remaining in the hedge accounting capital item for those relations, to which hedge accounting is no longer applied	5	-

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

Revaluation reserve and non-controlling interests resulting from the measurement of the hedging derivatives in hedge accounting	31 December 2023	31 December 2022
Beginning of the period	(4,367)	(2,835)
Profits or losses resulting from hedging – recognized in other comprehensive income	3,176	(1,570)
Interest rate risk	3,038	(1,591)
Interest rate risk and currency risk	138	21
Part of loss transferred to profit and loss account due to no expectation of occurrence of hedged item	9	38
End of the period	**(1,182)**	**(4,367)**

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34.3 Quantitative data

Derivatives as at 31 December 2023	Base amount by maturities					Assets	Liabilities
	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total		
Related to interest rates	**60,659**	**132,137**	**230,918**	**42,022**	**465,736**	**9,690**	**10,740**
Fair value hedging instruments – swap transactions	204	-	870	402	1,476	68	12
Cash flow hedging instruments – swap transactions	1,929	9,936	35,403	5,148	52,416	892	2,101
Instruments carried as held for trading, including:	58,526	122,201	194,645	36,472	411,844	8,730	8,627
- forward contracts	39,528	62,020	2,191	-	103,739	64	60
- SWAP transactions	18,508	59,285	189,732	34,097	301,622	8,616	8,515
- call options (purchase)	403	684	2,531	282	3,900	35	40
- put options (sale)	-	-	55	2,093	2,148	13	10
- cap floor options	87	212	136	-	435	2	2
Related to exchange rates	**43,272**	**9,519**	**2,050**	**-**	**54,841**	**1,416**	**647**
Cash flow hedging instruments – swap transactions	2,761	1,838	-	-	4,599	190	31
Instruments carried as held for trading, including:	40,511	7,681	2,050	-	50,242	1,226	616
- forward contracts	8,150	3,869	1,372	-	13,391	266	336
- SWAP transactions	31,377	2,666	287	-	34,330	947	244
- call options (purchase)	650	670	217	-	1,537	9	3
- put options (sale)	334	476	174	-	984	4	33
Related to prices of securities	**575**	**1,544**	**186**	**-**	**2,305**	**20**	**6**
- call options (purchase)	516	1,544	186	-	2,246	19	6
– forward contracts	59	-	-	-	59	1	-
Related to commodity prices	**2,731**	**1,478**	**116**	**-**	**4,325**	**270**	**263**
- forward contracts	176	21	-	-	197	4	4
- SWAP transactions	2,480	1,457	116	-	4,053	260	253
- call options (purchase)	75	-	-	-	75	6	6
Total	**107,237**	**144,678**	**233,270**	**42,022**	**527,207**	**11,396**	**11,656**

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

Derivatives as at 31 December 2022	Base amount by maturities					Assets	Liabilities
	Up to 3 months	Over 3 months up to 1 year	Over 1 year to 5 years	Over 5 years	Total		
Related to interest rates	**24,779**	**83,615**	**233,388**	**57,368**	**399,150**	**14,426**	**19,625**
Fair value hedging instruments – swap transactions	94	-	1,367	152	1,613	125	5
Cash flow hedging instruments – swap transactions	1,260	9,571	34,594	8,552	53,977	285	5,168
Instruments carried as held for trading, including:	23,425	74,044	197,427	48,664	343,560	14,016	14,452
- forward contracts	11,714	22,413	400	-	34,527	45	36
- SWAP transactions	11,638	47,338	194,509	45,747	299,232	13,870	14,303
- call options (purchase)	42	2,153	2,379	511	5,085	83	97
- put options (sale)	-	1,955	-	2,396	4,351	15	13
- cap floor options	31	185	139	10	365	3	3
Related to exchange rates	**45,517**	**19,661**	**2,807**	**-**	**67,985**	**1,300**	**896**
Cash flow hedging instruments – swap transactions	1,641	704	-	-	2,345	48	1
Instruments carried as held for trading, including:	43,876	18,957	2,807	-	65,640	1,252	895
- forward contracts	15,808	6,670	1,903	-	24,381	544	322
- SWAP transactions	25,720	10,834	695	-	37,249	652	529
- call options (purchase)	1,186	740	105	-	2,031	28	5
- put options (sale)	1,162	713	104	-	1,979	28	39
Related to prices of securities	**109**	**724**	**1,573**	**-**	**2,406**	**26**	**3**
- call options (purchase)	77	724	1,573	-	2,374	26	2
– forward contracts	32	-	-	-	32	-	1
Related to commodity prices	**2,568**	**2,278**	**381**	**-**	**5,227**	**445**	**432**
- forward contracts	233	1	-	-	234	5	3
- SWAP transactions	2,335	2,277	381	-	4,993	440	429
Total	**72,973**	**106,278**	**238,149**	**57,368**	**474,768**	**16,197**	**20,956**

35. Assets pledged as collateral for liabilities

35.1 Accounting policy

Accounting policies for assets pledged as collateral for liabilities are the same as those applicable to investment financial assets and are described in section 36.1.

These assets are pledged as collateral for concluded repurchase transactions and the loan taken by Alior Bank from the European Investment Bank.

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35.2 Quantitative data

Assets pledged as collateral for liabilities	31 December 2023				31 December 2022			
	at amortized cost	at fair value through other comprehen-sive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other comprehen-sive income	at fair value through profit or loss	Total
Debt securities	-	1,694	14	1,708	41	879	52	972
Government securities	-	1,694	14	1,708	41	879	52	972
Domestic	-	1,694	14	1,708	41	879	52	972
Fixed rate	-	1,647	-	1,647	41	791	51	883
Floating rate	-	47	14	61	-	88	1	89
Total assets securing liabilities	**-**	**1,694**	**14**	**1,708**	**41**	**879**	**52**	**972**

36. Investment financial assets

36.1 Accounting policy

36.1.1. Recognition and classification

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

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

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

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

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

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

Business models

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

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

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

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

SPPI test

The SPPI test is carried out to assess whether the contractual cash flows represent only principal amount and interest payments. The principal amount is defined as the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

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

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

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

The SPPI test is carried out:

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

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

36.1.2. Principles of measurement

Financial assets measured at amortized cost

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

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

Financial assets measured at amortized cost include, among others:

- payment transferred for debt securities purchased under a contract under which the seller retained substantially all the risks and rewards of ownership of the securities (*buy-sell-back* and *reverse repo* transactions);
- debt securities;
- term deposits with credit institutions;
- loans granted.

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

The rules of measurement to fair value are described in section 10.1. The effects of changes in the fair value are recognized in other comprehensive income until exclusion of the asset from the statement of financial position, when the cumulative effects of the measurement are moved to the profit and loss account, to the "Result on derecognition of financial instruments and investments" item.

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

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

Financial assets at fair value through profit or loss

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

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

The rules of measurement to fair value are described in section 10.1. The effect of the change in measurement of financial instruments at fair value, including related interest income and changes in liabilities under investment contracts for the client's account and risk are recognized under "Net movement in fair value of assets and liabilities measured at fair value" in the period to which they relate.

36.1.3. Derecognition from statement of financial position

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

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

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

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

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36.2 Quantitative data

Investment financial assets	31 December 2023				31 December 2022			
	at amortized cost	at fair value through other comprehens-ive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other comprehens-ive income	at fair value through profit or loss	Total
Equity instruments	n/a	837	1,119	1,956	n/a	1,648	830	2,478
Participation units and investment certificates	n/a	n/a	4,996	4,996	n/a	n/a	4,876	4,876
Debt securities	121,574	43,529	5,976	171,079	91,605	38,077	2,417	132,099
Government securities	83,177	34,389	5,547	123,113	68,590	26,683	2,160	97,433
Domestic	73,044	27,049	3,864	103,957	62,918	23,973	2,023	88,914
Fixed rate	66,196	16,926	2,170	85,292	58,616	14,984	1,630	75,230
Floating rate	6,848	10,123	1,694	18,665	4,302	8,989	393	13,684
Foreign	10,133	7,340	1,683	19,156	5,672	2,710	137	8,519
Fixed rate	10,133	7,340	1,683	19,156	5,672	2,710	137	8,519
Other	38,397	9,140	429	47,966	23,015	11,394	257	34,666
Fixed rate	29,586	5,654	289	35,529	16,418	7,334	63	23,815
Floating rate	8,811	3,486	140	12,437	6,597	4,060	194	10,851
Other, including:	14,301	-	-	14,301	14,408	-	-	14,408
Buy-sell-back transactions	9,003	-	-	9,003	7,071	-	-	7,071
Term deposits with credit institutions	1,036	-	-	1,036	3,068	-	-	3,068
Loans	4,262	-	-	4,262	4,269	-	-	4,269
Investment financial assets, total	**135,875**	**44,366**	**12,091**	**192,332**	**106,013**	**39,725**	**8,123**	**153,861**

Equity instruments measured at fair value through other comprehensive income	31 December 2023		31 December 2022	
	Fair value	Dividends recognized in the period	Fair value	Dividends recognized in the period
Biuro Informacji Kredytowej SA	321	26	270	24
Grupa Azoty SA	178	-	284	-
Orlen SA	142	37	910	-
PSP sp. z o.o.	116	-	79	-
Krajowa Izba Rozliczeniowa SA	29	2	15	2
Webuild SpA	12	-	10	-
Other	39	-	80	1
Equity instruments measured at fair value through other comprehensive income, total	**837**	**65**	**1,648**	**27**

PZU's decision to acquire Orlen SA's shares was made in 2022, at a time when the valuation measurement of Orlen SA's shares was under great pressure, and market analyses indicated the potential to increase their value and thus achieve a high return on investment. In accordance with earlier statements, once the expected return on investment is achieved, a systematic sale of the stake held is being implemented. In 2023, the PZU Group sold shares with a fair value at the time of sale of PLN 791 million and a gross realized gain of PLN 150 million.

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37. Other receivables

Other receivables – carrying amount	31 December 2023	31 December 2022
Receivables on direct insurance	146	139
Receivables from sale of securities and security deposits [1]	1,839	6,401
Receivables on account of payment card settlements	1,752	1,358
Trade receivables	602	507
Receivables from the state budget, other than corporate income tax receivables	107	118
Receivables from commissions on off-balance sheet products	234	165
Prevention settlements	52	52
Receivables from direct claims handling on behalf of other insurance undertakings	7	16
Receivables from security and bid deposits	62	64
Interbank and interbranch receivables	18	14
Other	408	274
Other receivables, total	**5,227**	**9,108**

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

As at 31 December 2023 and 31 December 2022, 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.

Other receivables – by contractual maturity	31 December 2023	31 December 2022
Up to 1 year [1]	5,004	8,735
1 to 5 years	86	307
Over 5 years	137	66
Other receivables – by contractual maturity, total	**5,227**	**9,108**

[1] Including past due receivables.

38. Expected credit losses and impairment of financial assets

38.1 Accounting policies and significant estimates

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

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

Objective evidence of impairment includes information about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (forbearance);
- it becoming probable that the borrower will enter liquidation, bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or
  - adverse changes in the economic condition in a specific industry, region, etc. contributing to the deterioration of the debtors' capacity for repayment;
- adverse changes in the technology, market, economic, legal or other environment in which the issuer of an equity instrument operates indicating that costs of investment in that equity instrument may not be recovered.

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

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

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

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

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

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

The charge is calculated in three categories:

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

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

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

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

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

- IFRS 9 Financial Instruments;
- Recommendation R of the Polish Financial Supervision Authority on the principles of credit exposure classification, estimation and recognition of expected credit losses and credit risk management, issued in April 2021;
- Article 178 of the CRR, guidelines EBA/GL/2016/07 on the application of the definition of default and the Regulation of the Minister of Finance, Investments and Development of 3 October 2019 on the materiality level of overdue credit obligations and EU Regulation No. 2021/451, Annex V – in accordance with which the definition of default is used at the level of:
  - distinct credit instruments – in the case of retail exposures (including the infection in the case of arrears material for the whole relationship);
  - debtor – for commercial exposures.

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

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

For exposures outstanding as at 31 December 2023, the PZU Group considers that the legal risk impacts the expected cash flows from the credit exposure and that the level of the expected credit loss, as defined in IFRS 9.

Accordingly, the credit risk of the Swiss franc mortgage portfolio is evaluated in compliance with the legal risk associated with this portfolio; the risk materializes as litigations and out-of-court settlements with borrowers. Considering the unfavorable case-law resulting in a significant probability of losing the case as at 31 December 2023, the PZU Group assumed that loans in litigation, together with loans for which a probability of a client filing a lawsuit or entering into a settlement was estimated at more than 60%, were classified into Stage 3. The remaining loans that do not meet these criteria are classified into Stage 2.

The PZU Group recognizes the amount of the provision pertaining to credit exposures outstanding as at 31 December 2023 (comprising existing and possible future statements of claim) in the impairment losses for loan receivables from clients and, accordingly, in the "movement in allowances for expected credit losses and impairment losses". A surplus (if any) of this provision over the net value of the credit exposure is presented under "Provisions," as per IAS 37.

Additional information on estimation of the provisions associated with the legal risk pertaining to foreign currency mortgage loans in Swill francs is presented in section 46.3.

Rules for estimating expected credit losses

The process of estimating expected credit losses requires the use of significant estimates and judgments, including assumptions about macroeconomic forecasts and possible scenarios for how these forecasts will evolve in the future, expert adjustments for industries for which the PZU Group identifies increased risk and the models used fail to fully reflect the risks of these industries, and rules for identifying significant increases in credit risk.

Determination of impairment losses in compliance with IFRS 9 requires the formulation of forecasts of the evolution of the key credit risk parameters.

For the calculation of allowances, the PZU Group takes into account various scenarios for the assessment of the portfolio quality, reflecting the current and expected changes in the economic situation and the uncertainty factors.

The PZU Group calculates its expected credit losses in accordance with various scenarios for the future macroeconomic situation.

Estimated movement in the impairment of loan receivables from clients due to a change in PD or LGD affecting the portfolio by +/– 10%	**31 December 2023**		**31 December 2022**	
	-10%	**+10%**	**-10%**	**+10%**
Stage 1	292	(313)	298	(323)
Stage 2	270	(245)	280	(295)

Due to the specific nature of individual banks and their portfolios, the synchronization of scenarios used in the calculation of write-offs is not applied.

Pekao

For Pekao portfolio exposures, expected credit losses are determined by considering three scenarios for the macroeconomic situation – baseline (with a realization probability of 45%), positive (assuming positive changes in the quality of the portfolio in subsequent years relative to the baseline scenario, with a realization probability of 5%) and negative (assuming negative changes in the situation in subsequent years relative to the baseline scenario, with a realization probability of 50%).

The table below presents projections of the 12-month PD used in the calculation of write-offs in the baseline scenario for Pekao's portfolio. For the retail portfolio, these parameters are weighted by gross carrying amount capped at PLN 2 million at the loan level for cash loans and mortgages and at the client level for SME loans. For the non-retail portfolio, parameters are weighted by exposure limited to PLN 20 million at the client level.

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Maintaining the solution developed in 2022, for clients in certain portfolios and industries for which increased risk was identified, the PD levels were increased by 100% As a result, the PZU Group maintains an increased level of expected credit losses in the amount of PLN 216 million for loan receivables from clients with a gross carrying amount of PLN 18,797 million.

Portfolio	31 December 2023		31 December 2022	
	historical median	baseline PD forecast	historical median	baseline PD forecast
Cash loans	3.7%	4.3%	3.9%	5.0%
Mortgage loans	0.5%	0.7%	0.5%	0.6%
SME loans	3.6%	5.4%	3.5%	5.5%
Loans to other companies	1.7%	4.1%	1.8%	4.1%

The PD parameters assumed above assume GDP growth of 0.5%, average annual inflation of around 10% and a year-end 3M WIBOR of over 5.5%.

PD parameters for the positive and negative scenarios are shown below:

Portfolio	31 December 2023		31 December 2022	
	positive scenario	negative scenario	positive scenario	negative scenario
Cash loans	2.5%	7.0%	3.4%	7.4%
Mortgage loans	0.5%	1.1%	0.3%	1.0%
SME loans	3.7%	5.9%	3.7%	5.9%
Loans to other companies	2.0%	5.0%	2.0%	4.9%

The table presents the difference in expected credit losses for unimpaired exposures between calculations for individual macroeconomic scenarios and weighted probabilities for all scenarios combined.

Changing the probability of scenarios	31 December 2023	31 December 2022
Baseline scenario	(233)	(212)
Positive scenario	(891)	(911)
Negative scenario	310	295

Alior Bank

For Alior Bank portfolio exposures, expected credit losses are determined by considering three scenarios for the macroeconomic situation – baseline (with a realization probability of 50%), optimistic (assuming positive changes in the quality of the portfolio in subsequent years relative to the baseline scenario, with a realization probability of 25%) and pessimistic (assuming negative changes in the situation in subsequent years relative to the baseline scenario, with a realization probability of 25%).

The baseline scenario assumes GDP growth of 3.3%, average annual inflation of 4.8% and a year-end NBP base rate of 5%.

For the regular portfolio, the PD level used in the calculation of expected credit losses was 2.89% as at 31 December 2023 (as at 31 December 2022: 3.87%).

The sensitivities of the expected loss estimates for the credit exposure portfolio, when stress scenarios are assumed with 100% probability, are presented below.

Changing the probability of scenarios	positive scenario	negative scenario
Difference in share of Stage 2 in regular portfolio	-0.19 p.p.	+0.34 p.p.
Impact on expected losses due to:		
PD	(63)	146
LGD for regular portfolio	(14)	22
LGD for default portfolio	(5)	8

Key statutory client support tools available due to the macroeconomic situation, among others, include the Borrower Support Fund, moratoria available to clients who have lost their source of income, and memorandum periods. Exposures covered by the Borrower Support Fund or moratoria for clients who have lost their source of income are classified into forbearance and, consequently, into Stage 2 (unless they meet the grounds for impairment that would result in classification into Stage 3).

Mortgage exposures subject to payment moratoria are subject to general classification rules, where the fact of using moratoria does not meet the conditions of a concession offered due to deteriorated financial situation, as it is not a criterion for using the concession. During periods of suspended maturity, arrears/overdue accruals are suspended, returning to continued accruals on the date the suspension period ends.

38.1.1. Calculation of PD and LGD parameters

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

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

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

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

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

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

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

38.1.2. Change in credit risk since initial recognition

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

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

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

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

- the criteria allow for identification of a significant increase in credit risk before the impairment of the exposure occurs;
- the average time between identifying a significant increase in credit risk and impairment is reasonable;
- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

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

38.1.3. Identified impaired financial assets (stage 3)

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

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

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

POCI assets arise from:

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

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

38.1.5. Receivables from policyholders

For policyholders' receivables that do not have a significant financing component, an aggregate assessment of the impairment is carried out and impairment losses are estimated.

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

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

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38.2 Quantitative data

Loan receivables from clients measured at amortized cost	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	185,358	24,135	12,167	5,154	226,814	182,578	28,470	11,239	5,307	227,594
Recognition of instruments at the time of acquisition, creation, granting	69,344	-	-	218	69,562	55,905	-	-	176	56,081
Changes attributable to sale, exclusion or expiration of the instrument	(45,866)	(6,464)	(2,987)	(232)	(55,549)	(42,043)	(4,988)	(1,774)	(127)	(48,932)
Assets from the statement of financial position	-	-	(2,131)	(41)	(2,172)	-	-	(2,354)	(31)	(2,385)
Reclassification to stage 1	5,770	(5,481)	(289)	-	-	11,229	(10,965)	(264)	-	-
Reclassification to stage 2	(13,079)	13,522	(443)	-	-	(13,819)	14,206	(387)	-	-
Reclassification to stage 3	(2,493)	(2,600)	5,093	-	-	(2,303)	(3,221)	5,524	-	-
Other changes, including effect of movements in exchange rates	(5,962)	(869)	1,211	(692)	(6,312)	(6,189)	633	183	(171)	(5,544)
End of the period	**193,072**	**22,243**	**12,621**	**4,407**	**232,343**	**185,358**	**24,135**	**12,167**	**5,154**	**226,814**
Expected credit losses										
Beginning of the period	(1,618)	(2,043)	(7,310)	(3,588)	(14,559)	(1,067)	(1,798)	(6,321)	(3,806)	(12,992)
Establishment of allowances for newly acquired, created, granted instruments	(794)	-	-	(162)	(956)	(666)	-	-	(47)	(713)
Changes attributable to sale, exclusion or expiration of the instrument, excluding reclassification	225	225	734	13	1,197	218	168	463	66	915
Assets from the statement of financial position	-	-	2,131	41	2,172	-	-	2,354	31	2,385
Reclassification to stage 1	(394)	362	32	-	-	(599)	481	118	-	-
Reclassification to stage 2	283	(419)	136	-	-	148	(327)	179	-	-
Reclassification to stage 3	137	409	(546)	-	-	233	420	(653)	-	-
Other changes, including effect of movements in exchange rates	820	(134)	(2,713)	306	(1,721)	115	(987)	(3,450)	168	(4,154)
End of the period	**(1,341)**	**(1,600)**	**(7,536)**	**(3,390)**	**(13,867)**	**(1,618)**	**(2,043)**	**(7,310)**	**(3,588)**	**(14,559)**
Net carrying amount at the end of the period	**191,731**	**20,643**	**5,085**	**1,017**	**218,476**	**183,740**	**22,092**	**4,857**	**1,566**	**212,255**

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Loan receivables from clients measured at fair value through other comprehensive income	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount										
Beginning of the period	254	-	-	-	254	115	131	-	-	246
Recognition of instruments at the time of acquisition, creation, granting	-	-	-	-	-	151	-	-	-	151
Changes attributable to sale, exclusion or expiration of the instrument	(175)	-	-	-	(175)	(8)	(132)	-	-	(140)
Other changes, including effect of movements in exchange rates	3	-	-	-	3	(4)	1	-	-	(3)
End of the period	**82**	**-**	**-**	**-**	82	**254**	**-**	**-**	**-**	**254**
Expected credit losses										
Beginning of the period	(4)	-	-	-	(4)	(2)	(2)	-	-	(4)
Establishment of allowances for newly acquired, created, granted instruments	-	-	-	-	-	(2)	-	-	-	(2)
Changes attributable to sale, exclusion or expiration of the instrument	2	-	-	-	2	-	2	-	-	2
Other changes, including effect of movements in exchange rates	1	-	-	-	1	-	-	-	-	-
End of the period	**(1)**	-	-	-	**(1)**	**(4)**	**-**	**-**	**-**	**(4)**

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 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	91,515	236	24	63	91,838	73,897	354	35	39	74,325
Recognition of instruments at the time of acquisition, creation, granting	305,544	-	-	-	305,544	35,051	-	-	-	35,051
Changes attributable to sale, exclusion or expiration of the instrument	(277,071)	(37)	-	-	(277,108)	(19,088)	(264)	-	-	(19,352)
Assets from the statement of financial position	-	-	(24)	-	(24)	-	-	(13)	-	(13)
Reclassification to stage 1	-	-	-	-	-	80	(80)	-	-	-
Reclassification to stage 2	(300)	300	-	-	-	(238)	238	-	-	-
Other changes, including effect of movements in exchange rates	1,496	(20)	-	33	1,509	1,813	(12)	2	24	1,827
End of the period	**121,184**	**479**	**-**	**96**	**121,759**	**91,515**	**236**	**24**	**63**	**91,838**
Expected credit losses										
Beginning of the period	(87)	(28)	(24)	(53)	(192)	(69)	(8)	(35)	(30)	(142)
Establishment of allowances for newly acquired, created, granted instruments	(28)	-	-	-	(28)	(21)	-	-	-	(21)
Changes attributable to sale, exclusion or expiration of the instrument	8	3	-	-	11	3	5	-	-	8
Assets from the statement of financial position	-	-	24	-	24	-	-	13	-	13
Reclassification to stage 2	9	(9)	-	-	-	28	(28)	-	-	-
Other changes, including effect of movements in exchange rates	9	9	-	(18)	-	(28)	3	(2)	(23)	(50)
End of the period	**(89)**	**(25)**	**-**	**(71)**	**(185)**	**(87)**	**(28)**	**(24)**	**(53)**	**(192)**
Net carrying amount at the end of the period	**121,095**	**454**	**-**	**25**	**121,574**	**91,428**	**208**	**-**	**10**	**91,646**

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Debt investment financial assets measured at fair value through other comprehensive income	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount										
Beginning of the period	38,719	237	-	-	38,956	44,788	251	-	-	45,039
Recognition of instruments at the time of acquisition, creation, granting	1,149,900	-	-	-	1,149,900	213,353	-	-	-	213,353
Changes attributable to sale, exclusion or expiration of the instrument	(1,145,600)	(103)	-	-	(1,145,703)	(219,013)	(45)	-	-	(219,058)
Reclassification to stage 1	48	(48)	-	-	-	26	(26)	-	-	-
Reclassification to stage 2	(46)	46	-	-	-	(36)	36	-	-	-
Other changes, including effect of movements in exchange rates	2,083	(13)	-	-	2,070	(399)	21	-	-	(378)
End of the period	**45,104**	**119**	**-**	**-**	**45,223**	**38,719**	**237**	**-**	**-**	**38,956**
Expected credit losses										
Beginning of the period	(45)	(21)	-	-	(66)	(54)	(26)	-	-	(80)
Establishment of allowances for newly acquired, created, granted instruments	(11)	-	-	-	(11)	(2)	-	-	-	(2)
Changes attributable to sale, exclusion or expiration of the instrument	7	12	-	-	19	8	-	-	-	8
Reclassification to stage 2	1	(1)	-	-	-	2	(2)	-	-	-
Other changes, including effect of movements in exchange rates	14	8	-	-	22	1	7	-	-	8
End of the period	**(34)**	**(2)**	**-**	**-**	**(36)**	**(45)**	**(21)**	**-**	**-**	**(66)**

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.

As at 31 December 2023 and 31 December 2022 allowances for expected credit losses in relation to buy-sell-back transactions amounted zero.

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Term deposits with credit institutions	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	2,814	140	136	-	3,090	1,385	-	-	-	1,385
Recognition of instruments at the time of acquisition, creation, granting	127,277	-	-	-	127,277	35,834	-	-	-	35,834
Changes attributable to sale, exclusion or expiration of the instrument	(128,175)	(132)	(61)	-	(128,368)	(34,057)	(71)	-	-	(34,128)
Reclassification to stage 2	(165)	165	-	-	-	(238)	238	-	-	-
Reclassification to stage 3	-	-	-	-	-	(128)	(9)	137	-	-
Change in the composition of the Group	-	-	(5)	-	(5)	-	-	-	-	-
Other changes, including effect of movements in exchange rates	(915)	(22)	(3)	-	(940)	18	(18)	(1)	-	(1)
End of the period	**836**	**151**	**67**	**-**	**1,054**	**2,814**	**140**	**136**	**-**	**3,090**
Expected credit losses										
Beginning of the period	(1)	(11)	(10)	-	(22)	(1)	-	-	-	(1)
Establishment of allowances for newly acquired, created, granted instruments	(11)	-	-	-	(11)	(17)	-	-	-	(17)
Changes attributable to sale, exclusion or expiration of the instrument	1	10	-	-	11	1	3	-	-	4
Reclassification to stage 2	11	(11)	-	-	-	37	(37)	-	-	-
Reclassification to stage 3	-	-	-	-	-	1	9	(10)	-	-
Other changes, including effect of movements in exchange rates	-	1	3	-	4	(22)	14	-	-	(8)
End of the period	**-**	**(11)**	**(7)**	**-**	**(18)**	**(1)**	**(11)**	**(10)**	**-**	**(22)**
Net carrying amount at the end of the period	**836**	**140**	**60**	**-**	**1,036**	**2,813**	**129**	**126**	**-**	**3,068**

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Loans	1 January – 31 December 2023					1 January – 31 December 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount										
Beginning of the period	4,300	-	-	-	4,300	3,522	75	-	-	3,597
Recognition of instruments at the time of acquisition, creation, granting	1,829	41	-	-	1,870	1,068	-	-	-	1,068
Changes attributable to sale, exclusion or expiration of the instrument	(1,730)	(136)	-	-	(1,866)	(436)	(4)	-	-	(440)
Reclassification to stage 1	-	-	-	-	-	74	(74)	-	-	-
Reclassification to stage 2	(931)	931	-	-	-	-	-	-	-	-
Other changes, including effect of movements in exchange rates	10	(9)	-	-	1	72	3	-	-	75
End of the period	**3,478**	**827**	**-**	**-**	**4,305**	**4,300**	**-**	**-**	**-**	**4,300**
Expected credit losses										
Beginning of the period	(31)	-	-	-	(31)	(5)	(6)	-	-	(11)
Establishment of allowances for newly acquired, created, granted instruments	(14)	-	-	-	(14)	(8)	-	-	-	(8)
Changes attributable to sale, exclusion or expiration of the instrument	11	2	-	-	13	2	-	-	-	2
Reclassification to stage 1	-	-	-	-	-	(1)	1	-	-	-
Reclassification to stage 2	28	(28)	-	-	-	-	-	-	-	-
Other changes, including effect of movements in exchange rates	(7)	(4)	-	-	(11)	(19)	5	-	-	(14)
End of the period	**(13)**	**(30)**	**-**	**-**	**(43)**	**(31)**	**-**	**-**	**-**	**(31)**
Net carrying amount at the end of the period	**3,465**	**797**	**-**	**-**	**4,262**	**4,269**	**-**	**-**	**-**	**4,269**

Other receivables	1 January – 31 December 2023	1 January – 31 December 2022 (restated)
Gross carrying amount		
Beginning of the period	9,515	7,017
Changes in the period	(3,880)	2,498
End of the period	**5,635**	**9,515**
Expected credit losses		
Beginning of the period	(407)	(461)
Changes in the period	(1)	54
End of the period	**(408)**	**(407)**
Net carrying amount at the end of the period	**5,227**	**9,108**

39. Cash and cash equivalents

39.1 Accounting policy

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

Cash is recognized at nominal value.

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39.2 Restricted cash

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

39.3 Quantitative data

Cash and cash equivalents in the statement of financial position and cash flow statement	31 December 2023	31 December 2022
Balances with the central bank [1]	9,119	8,922
Cash at bank and in hand	8,577	7,037
Other	6	1
Total cash and cash equivalents in the statement of financial position and cash flow statement	**17,702**	**15,960**

[1] This amount pertains to the required reserve that Pekao and Alior Bank maintain on their current accounts with the National Bank of Poland, at levels consistent with decisions of the Monetary Policy Council.

40. Equity attributable to the equity holders of the parent company

40.1 Share capital

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

The nominal value of one share is PLN 0.10. All the shares have been fully paid up.

As at 31 December 2023 and 31 December 2022

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 the 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	31.03.1999	01.01.1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

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

40.2 Distribution of the parent company's profit

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

40.2.1.1. Distribution of the 2022 profit

On 7 June 2023, the PZU's Ordinary Shareholder Meeting divided the PZU's net profit for the year ended 31 December 2022 in the amount of PLN 1,637 million, increased by PLN 1,296 million moved from supplementary capital created from the net profit for the year ended 31 December 2021, i.e. in total PLN 2,933 million, by allocating:

- PLN 2,072 million (i.e. PLN 2.40 per share) to disbursement of dividends;
- PLN 854 million to the supplementary capital;
- PLN 7 million to the Company Social Benefit Fund.

The record date was set at 7 September 2023 and the dividend payout date was set for 28 September 2023.

The profit distribution is consistent with the PZU Group's Capital and Dividend Policy for 2021-2024, as adopted on 24 March 2021, and takes into account the recommendations contained in the Polish Financial Supervision Authority's (KNF) stance on the dividend policy in 2023 issued on 6 December 2022.

40.2.1.2. Distribution of the 2023 profit

As at the date of signing these consolidated financial statements, the PZU Management Board has not adopted a resolution in the matter of the proposed distribution of the 2023 profit.

40.3 Other capital

40.3.1. Accounting policy

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

The "Supplementary capital" item includes:

- the effect of distribution of profit, in accordance with the legal regulations in effect in the country of the company's domicile (in Poland under the Commercial Company Code) and the articles of association of PZU Group companies;
- the capital created upon the sale of investment property previously transferred from own property, according to the rules described in section 31;
- the difference between the change in value of non-controlling interest and fair value of payment in transactions with non-controlling interests.

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

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

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

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

"Foreign exchange translation differences" include differences resulting from translation of financial data of foreign entities using exchange rates, in accordance with the rules described in section 6.6.

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40.3.2. Quantitative data

Other capital	31 December 2023	31 December 2022 (restated)
Treasury shares	(4)	(4)
Supplementary capital	15,804	15,315
Share premium account	538	538
Distribution of results of PZU Group companies	15,066	14,709
Other	200	68
Other reserve capital	2,218	1,721
Revaluation reserve	(948)	(2,455)
Valuation of debt instruments measured at fair value through other comprehensive income	(543)	(1,525)
Valuation of equity instruments measured at fair value through other comprehensive income	(247)	(51)
Reclassification of real property from property, plant and equipment to investment property	82	58
Cash flow hedging	(240)	(937)
Finance income and expenses under insurance contracts	1,258	2,622
Finance income and expenses under reinsurance contracts	(48)	(79)
Actuarial gains and losses related to provisions for employee benefits	(8)	(6)
Foreign exchange translation differences	(47)	91
LD	20	114
Balta	6	36
PZU Ukraine	(53)	(54)
PZU Ukraine Life	(18)	(13)
Other	(2)	8
Total other capital	**18,225**	**17,205**

41. Subordinated liabilities

41.1 Accounting policy

Subordinated liabilities are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods subordinated liabilities are measured at amortized cost.

Subordinated liabilities (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

41.2 Quantitative data

	Par value	Currency	Interest rate	Issue date/Maturity date	Carrying amount 31 December 2023	Carrying amount 31 December 2022
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 / 29 July 2027	2,328	2,333
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 / 29 October 2027	1,266	1,270
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 / 16 October 2028	558	560
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 / 14 October 2033	203	204
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 / 4 June 2031	352	352
D1 series bonds	400	PLN	WIBOR 6M + margin	4 December 2019 / 4 June 2031	402	403
Liabilities classified as Alior Bank's own funds						
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 / 26 September 2024	226	229
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 / 20 October 2025	610	612
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 / 16 May 2024	71	71
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 / 29 December 2025	150	150
Subordinated liabilities					**6,166**	**6,184**

"Nominal value" is the nominal value of the whole issue. In turn, the carrying amount of subordinated liabilities corresponds to the value recognized in the consolidated statement of financial position. As a part of bonds issued by PZU Group companies was acquired or purchased by other entities, that part is eliminated from the consolidated financial statements. That is why the carrying amount of certain classes of bonds is smaller than the full nominal value of instruments issued by the Group.

Subordinated liabilities by maturity	31 December 2023	31 December 2022
Up to 1 year	297	-
1 to 5 years	4,912	4,665
Over 5 years	957	1,519
Total subordinated liabilities by maturity	**6,166**	**6,184**

42. Liabilities on the issue of own debt securities

42.1 Accounting policy

Subordinated liabilities are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods they are measured at amortized cost.

Liabilities on the issue of own debt securities (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

Consolidated financial statements in accordance with IFRS for the year ended 31 December 2023 (in millions of PLN)

42.2 Quantitative data

Liabilities on the issue of own debt securities	31 December 2023	31 December 2022
Bonds	9,691	3,488
Certificates of deposit	1,257	6,646
Covered bonds	1,055	956
Liabilities on the issue of own debt securities, total	**12,003**	**11,090**

Liabilities on the issue of own debt securities by maturity	31 December 2023	31 December 2022
Up to 1 year	6,260	9,631
1 to 5 years	5,743	1,459
Over 5 years	-	-
Liabilities on the issue of own debt securities by maturity, total	**12,003**	**11,090**

42.3 Program for the issuance of Eurobonds at Pekao

On 31 October 2023, Pekao's Management Board adopted a resolution approving the establishment by Pekao, as issuer, of a program (the “EMTN Program”) for the issuance of medium-term Eurobonds (the “Eurobonds”).

The EMTN program was established under the following conditions:

- the amount of the EMTN Program will be a maximum of EUR 5,000 million or the equivalent amount in other currencies;
- The Eurobonds issued under the EMTN Program will be offered and sold outside the United States, for the account or benefit of persons other than U.S. persons, in accordance with Regulation S issued under the U.S. Securities Act of 1933) . The Eurobonds will not be registered under the U.S. Securities Act or other state securities laws;
- The Eurobonds can be issued in euros, zlotys or other currencies in any number of tranches, with different interest and maturity structures;
- The Eurobonds can be issued as green or balanced bonds;
- The Eurobonds will be deposited with a common depositary and registered in the name of the entity designated as common depositary for Euroclear Bank SA/NV or Clearstream Banking, SA;
- Pekao will be able to apply for the admission of individual series of Eurobonds to official listing on the Luxembourg Stock Exchange, LuxSE, and admission to trading on a regulated market operated by LuxSE, Luxembourg Green Exchange; Warsaw Stock Exchange or any other entity operating a regulated market within the meaning of Directive 2014/65/EU on markets in financial instruments (as amended);
- the issuance of each series of Eurobonds under the EMTN Program will be approved by separate resolutions of the Management Board of Pekao.

In connection with the EMTN Program, Pekao drafted a base prospectus, which was approved by the Commission de Surveillance du Secteur Financier in Luxembourg on 13 November 2023.

On 16 November 2023, Pekao completed its subscription of Eurobonds. 131 investors subscribed for 1,504,642 Eurobonds. Finally, 5,000 Eurobonds were allocated to 110 investors, with a reduction rate of 66.77%. The Eurobonds were subscribed at 99.68% of their nominal value, and the total value of the subscription carried out, understood as the product of the number of Eurobonds included in the offering and the issue price, amounted to EUR 498,400 thousand. The margin, which is the basis for determining the interest rate, is 240 bps.

For three years from the date of issue, the coupon is fixed at 5.5% per year (payable annually), and in the fourth year it is variable, based on the EURIBOR 3M rate plus a margin of 2.4% (and payable every three months).

The Eurobonds were issued on 23 November 2023 for a period of four years, with an option for Pekao to redeem them early – three years after their issuance. On 23 November 2023, the Eurobonds were admitted to trading on the regulated market on the Luxembourg Stock Exchange. The Eurobonds received a BBB rating from S&P Global Ratings Europe Limited, a rating agency. The Eurobonds are governed by English law, subject to the status of Eurobonds, the set-off prohibition and the clause on recognition of the decision of the forced restructuring authority regarding redemption or conversion of the instrument, which are governed by Polish law.

42.4 Bond issues at Pekao

On 3 April 2023, Pekao issued 3-year senior non-preferred notes (“SNP bonds”) with the total nominal value of PLN 750 million. The SNP bonds have an option giving Pekao the right to redeem them early within 2 years from the date of issue, subject to approval by the BGF. SNP bonds, in accordance with Art. 97A.1.2 of the BGF Act will be Pekao's eligible liabilities. The bonds were listed on the ATS Catalyst market.

On 28 July 2023, Pekao issued:

- 4-year series SN2 senior non-preferred notes (“Series SN2 SNP Bonds”) with the total nominal value of PLN 350 million;
- 2-year series SP1 senior preferred notes (“Series SP1 SNP Bonds”) with the total nominal value of PLN 750 million.

SN2 series SNP bonds and SP1 series SP Bonds, in accordance with Art. 97A.1.2 of the BGF Act will be Pekao's eligible liabilities.

SN2 series SNP bonds have an option giving Pekao the right to redeem them early within 3 years from the date of issue, while SP1 series SP bonds have an option giving Pekao the right to redeem them early within 1 year from the date of issue, subject to BFG approval.

The nominal value of one SN2 series SNP bond and one SP1 series SP bond is PLN 500,000. The interest rate on the bonds is as follows:

- SN2 series SNP bonds – for the first 3 years – fixed – 7.5%, then – variable – WIBOR6M + 2.19% margin;
- SP1 series SP bonds – variable – WIBOR6M + 1.35% margin.

42.5 Bond issues by Alior Bank

On 26 June 2023 Alior Bank issued 3-year bonds, with a total nominal value of PLN 400 million. Liabilities resulting from those bonds constitute Alior Bank’s eligible liabilities within the meaning of Art. 97a.1.2 of the BGF Act. The bonds have an option giving Alior Bank the right to redeem them early on any business day from and including 26 June 2025. The bonds are unsecured and have been listed on the primary market on Catalyst.

The nominal value of one bond is PLN 400,000 and they bear interest at a variable rate of WIBOR 6M + 3.1% margin.

43. Liabilities to banks

43.1 Accounting policy

Liabilities to banks are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods they are measured at amortized cost.

Liabilities to banks (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

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43.2 Quantitative data

Liabilities to banks	31 December 2023	31 December 2022
Current deposits	696	855
One-day deposits	314	868
Term deposits	292	508
Loans received	5,424	5,271
Other liabilities	321	218
Liabilities to banks, total	**7,047**	**7,720**

Liabilities to banks by maturity	31 December 2023	31 December 2022
Up to 1 year	2,526	3,700
1 to 5 years	4,088	2,696
Over 5 years	433	1,324
Liabilities to banks by maturity, total	**7,047**	**7,720**

44. Liabilities to clients under deposits

44.1 Accounting policy

Liabilities to clients under deposits are recognized in the statement of financial position when the PZU Group company becomes a party to a binding contract in which it assumes the risk associated with the financial instrument.

In the next periods they are measured at amortized cost.

Liabilities to clients under deposits (or parts thereof) are excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

44.2 Quantitative data

Liabilities to clients under deposits	31 December 2023	31 December 2022
Current deposits	221,140	206,298
Term deposits	81,511	70,655
Other liabilities	1,130	1,105
Liabilities to clients under deposits, total	**303,781**	**278,058**

Liabilities to clients under deposits by maturity	31 December 2023	31 December 2022
Up to 1 year	293,668	268,781
1 to 5 years	3,672	3,809
Over 5 years	6,441	5,468
Liabilities to clients under deposits by maturity, total	**303,781**	**278,058**

45. Other liabilities

45.1 Accounting policy

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

A financial liability (or part thereof) is excluded from the consolidated statement of financial position when the obligation specified in the contract is discharged or canceled or expires.

Financial liabilities measured at fair value through profit or loss included in particular:

- liabilities on borrowed securities (short sale);
- investment contracts for the client's account and risk (unit-linked);
- liabilities to members of consolidated mutual funds.

Financial liabilities measured at amortized cost included in particular liabilities on account of repurchase transactions.

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

Accrued expenses resulting from benefits provided for PZU Group companies by external business partners or from an obligation to provide benefits whose value can be estimated, despite the fact that the date when the liability is created is not yet known, is measured at the amount of estimated future cash flows.

The costs of holiday leaves is recognized on the accrual basis using the liability method. The liability on account of employee vacation time is determined based on the difference between the actual amount of vacation time used by employees and the amount that would have been used if the vacation time had been taken pro rata to the elapse of time in the period when the employees are entitled to their vacation time.

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45.2 Quantitative data

Other liabilities	31 December 2023	31 December 2022 (restated)
Liabilities measured at fair value	**1,592**	**1,418**
Liabilities on borrowed securities (short sale)	813	875
Investment contracts for the client's account and risk (unit-linked)	294	238
Liabilities to members of consolidated mutual funds	485	305
Accrued expenses	**1,485**	**1,240**
Accrued payroll expenses	822	726
Other	663	514
Deferred revenue	**344**	**345**
Other liabilities	**13,559**	**11,298**
Liabilities on account of repurchase transactions	1,623	931
Lease liabilities	1,594	1,296
Liabilities due under transactions on financial instruments	2,074	2,283
Liabilities to banks for payment documents cleared in interbank clearing systems	3,192	2,331
Liabilities on direct insurance	557	524
Liabilities on account of payment card settlements	1,275	923
Regulatory settlements	629	573
Liabilities for contributions to the Bank Guarantee Fund	738	738
Estimated non-insurance liabilities	154	162
Liabilities to employees	149	116
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	34	27
Trade liabilities	549	486
Liabilities on account of employee leaves	172	162
Liabilities to the state budget other than for income tax	150	153
Liabilities on account of donations	10	13
The PZU Group banks' liabilities for insurance of bank products offered to the bank's clients	27	14
Insurance Guarantee Fund	15	14
Liability for the refund of loan costs	16	132
Liabilities for direct claims handling	37	32
Investment contracts with guaranteed and fixed terms – measured at amortized cost	142	-
Other	422	388
Other liabilities, total	**16,980**	**14,301**

As at 31 December 2023 and 31 December 2022, the fair value of other liabilities did not differ significantly from their carrying amount, primarily due to the fact that more than 68% were short-term liabilities.

Other liabilities by maturity	31 December 2023	31 December 2022 (restated)
Up to 1 year	11,548	12,056
1 to 5 years	4,446	1,829
Over 5 years	986	416
Total other liabilities by maturity	**16,980**	**14,301**

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46. Provisions

46.1 Accounting policy

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

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

The provision for restructuring costs is recognized only if, in addition to the general criteria for recognizing provisions, also the specific criteria pertaining to provisions for restructuring costs are satisfied. These include holding a detailed, formal restructuring plan and evoking a justified expectation of the parties to which the plan pertains that restructuring actions will be taken (through commencement of implementation of the plan or announcement of its key elements).

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

Defined contribution plans include the costs of contributions constituting statutory charges on employee salaries incurred by the employer. They include part of the contributions for retirement and disability pension insurance, Labor Fund, Guaranteed Employee Benefit Fund and the charge for the Company Social Benefit Fund. The costs of defined contribution plans are charged to the profit and loss account in the period to which they pertain.

Defined benefit plans include the costs of retirement severance pays and post-mortem benefits. The costs of defined benefit plans estimated using actuarial methods are recognized on an accrual basis by applying the forecast specific entitlements method.

Actuarial gains and losses are recognized in full in the period in which they occurred, in the line item “Actuarial gains and losses related to provisions for employee benefits” in other comprehensive income. More information is presented in section 40.3.1.

46.2 Estimates and assumptions

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

Detailed descriptions and provision amounts are presented in section 54.

The provisions for retirement severance pays and post-mortem benefits are estimated with actuarial methods using appropriate actuarial techniques and assumptions – discount rates, consistent with the zero-coupon Treasury bond yield curve, mortality rate adopted at the level specified in the PLET, expected salary increase rate in individual PZU Group companies, employee turnover rate (diversified in terms of, among others, the employee’s age, years in service and gender) and the disability rate (disability pensions) adopted as an appropriate percentage of the mortality rate.

46.3 Quantitative data

Provisions	31 December 2023	31 December 2022
Short-term	522	436
Long-term	1,785	1,275
Total provisions	**2,307**	**1,711**

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Movement in provisions in the period ended 31 December 2023	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	514	568	-	(494)	(10)	578
Provision for retirement severance pays	265	83	(24)	(1)	-	323
Provision for disputed claims and potential liabilities	88	99	(22)	(25)	-	140
Provision for potential refunds of borrowing costs	127	-	(44)	(2)	-	81
Provision for legal risk pertaining to mortgage loans in Swiss francs	479	645	(60)	(117)	-	947
Provisions for refunds to clients of increased mortgage loan margins before the mortgage is established	123	-	(12)	(19)	-	92
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	12	-	-	-	51
Provision for restructuring costs	21	-	(4)	-	-	17
Provision for post-mortem benefits	25	3	-	-	-	28
Other	30	27	-	(7)	-	50
Total provisions	**1,711**	**1,437**	**(166)**	**(665)**	**(10)**	**2,307**

Movement in provisions in the period ended 31 December 2022	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provisions for guarantees and sureties given	496	443	-	(432)	7	514
Provision for retirement severance pays	267	34	(43)	(3)	10	265
Provision for disputed claims and potential liabilities	69	60	(14)	(29)	2	88
Provision for potential refunds of borrowing costs	120	55	(48)	-	-	127
Provision for legal risk pertaining to mortgage loans in Swiss francs	132	502	(9)	(146)	-	479
Provisions for refunds to clients of increased mortgage loan margins before the mortgage is established	-	129	(6)	-	-	123
Provision for penalties imposed by the Office of Competition and Consumer Protection	39	-	-	-	-	39
Provision for restructuring costs	28	1	(8)	-	-	21
Provision for post-mortem benefits	25	2	-	(2)	-	25
Other	30	6	(4)	(2)	-	30
Total provisions	**1,206**	**1,232**	**(132)**	**(614)**	**19**	**1,711**

Provision for potential refunds of borrowing costs

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

Based on the legal interpretations in its possession, for the settlement of credit costs with borrowers the PZU Group applied the linear formula whereby a pro rata approach is adopted based on the period between the actual loan repayment date and the repayment date specified in the loan agreement and requires that any non-recurring cost be broken down on a pro rata basis across all payment periods.

In the case of early repayments of consumer and mortgage loans made before the date of the CJEU judgment, the PZU Group estimates the amount of expected disbursements pursuant to IAS 37 and recognizes a provision for this purpose which is charged to other operating expenses.

In 2023, PLN 44 million of the provision was utilized and its amount as at 31 December 2023 was PLN 81 million (as at 31 December 2022: PLN 127 million). Its value is the best possible estimate based on the historically observed trend of the amount of loan cost refunds arising from reported complaints and takes into account the scenario of a possible evolution of market practice or the regulator's views. The estimates required the adoption of expert assumptions and are affected by uncertainty. For this reason, the provision amount will be subject to updates in the next periods, depending on the number of complaints and amounts to be refunded.

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

Impact of the change in the rate of decline in the amounts of refunds on the value of the provision	31 December 2023	31 December 2022
+10%	(2)	(4)
-10%	2	4

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 ("Directive 93/13") in the context of the Swiss franc-indexed loan agreement. CJEU specified the effects of declaring the possible abusiveness of the conversion clauses by the national court, without analyzing at all the possible abusiveness of the contractual provisions. The 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 the CJEU did not rule out the possibility of supplementing the gap resulting from the abusiveness of the conversion clauses using national supplementary provisions. However, subsequent CJEU rulings have ruled out the permissibility of supplementing the gap after eliminating the prohibited provision by national law, with the consequence that national courts find loan agreements unenforceable after removing the abusive provision (the conversion clause) and declare the agreement unenforceable, with the result that courts determine the invalidity of the loan agreement.

An important ruling on Swiss franc mortgages is the CJEU's judgment of 8 September 2022 in the combined cases C-80/21 to C-82/21, in which the CJEU answered the requests for a preliminary ruling questions made by the Warsaw-Śródmieście District Court in Warsaw. The CJEU stated:

- a national court may not declare unfair not the entirety of a contract term, but only its element that make it unfair, if such removal would amount to a change of the content of the term that would affect its essence. This means that, in principle, the national court is limited to determining the unfairness of the entire contract term;
- if the national court determines that a contract term is unfair, which in a given case results in the possibility of continuing to maintain the validity of the entire contract despite the exclusion of the unfair terms, the national court may not replace these terms with a supplementary provision of national law. This means that in such a case the national court cannot apply the provisions of the Civil Code on converting installments using the average exchange rate of the National Bank of Poland;
- the national court, having found a contract term to be unfair, is not authorized to change the content of the term in order to maintain the validity of the contract, which cannot remain in force after the removal of the term, if the consumer in question has been informed of the consequences of the invalidity of the contract and has agreed to the consequences thereof. This means that if the consumer has agreed to the consequences of the invalidity of the contract (having been informed of them), the national court by a ruling cannot change the content of such a term, but must declare it invalid;
- the running of the 10-year statute of limitations for a consumer's claim for repayment of paid installments cannot begin from the time of delivery of each performance under the contract (repayment of each installment), even if the consumer was not able to assess the unfairness of the contract term on his own or did not become aware of the unfairness of the term, and without taking into account that the loan agreement provided for a much longer (30-year) repayment period. This means that the running of the 10-year statute of limitations for a consumer's claim for repayment of instalments does not start from the date of repayment of each instalment. In practice, it should be assumed that no consumer's claims for refund of paid instalments are time-barred.

On 15 June 2023, the CJEU announced its ruling in Case C-520/21, in which it resolved a preliminary question from the District Court for Warsaw-Śródmieście, stating in the operative part that in the context of declaring a mortgage loan contract invalid in its entirety on the grounds that it cannot continue to be in force after the unfair terms have been removed from it, Articles 6(1) and 7(1) of the Directive 93/13 must be interpreted as follows:

- these articles do not preclude the judicial interpretation of national law, according to which the consumer is entitled to demand compensation from the credit institution beyond the reimbursement of monthly installments and costs paid for the execution of this contract and beyond the payment of statutory default interest from the date of the demand for payment, provided that the objectives of the Directive 93/13 and the principle of proportionality are respected, and
- these articles preclude the judicial interpretation of national law, according to which a credit institution has the right to demand compensation from a consumer beyond the return of the principal paid for the performance of that contract and beyond the payment of statutory interest for late payment from the date of the demand for payment.

Given the judgement, banks cannot claim any compensation for the use of principal. In turn, as regards consumer claims against banks, the CJEU referred to the national law and pointed out that the referring court had to assess, in the light of all circumstances of the dispute, whether taking consumer claims into account is consistent with the proportionality rule. At the same time, the judgment does not literally address the admissibility of the bank's claim for judicial appreciation of the amount corresponding to the loan capital.

On 7 December 2023, CJEU delivered a judgment in Case C-140/22, from which it follows that the consumer's possibility of exercising their rights may not be made conditional on the consumer making a declaration before a court that they consent to an unfair term remaining effective, that they consent to the contract being invalidated, and a declaration that they are aware of the consequences of the invalidity of the contract, and banks, in settling the invalidity of the contract, may not retain interest on principal accrued during the contract performance, thus, the court states that bank may not seek compensation from the consumer going beyond reimbursement of the capital paid.

On 11 December 2023, issued an order in Case C-756/22, stating that Articles 6(1) and 7(1) of the Directive 93/13 shall be interpreted as meaning that, in the context of the annulment in its entirety of a mortgage loan agreement concluded with a consumer by a banking institution, on the ground that the agreement contains unfair terms without which it cannot continue to exist, those provisions preclude a judicial interpretation of a Member State's law according to which that institution has the right to request the consumer to reimburse sums other than the capital paid in respect of the performance of that agreement and the default interest at the statutory rate from the date on which notice is served. The above judicial decision may, in the future, result in banks being able to claim, from franc borrowers, only the reimbursement of the loan capital with the default interest at the statutory rate from the date on which notice is served, without the compensation for the use of loan capital or capital appreciation.

On 14 December 2023, CJEU delivered a judgment stating that Articles 6(1) and 7(1) of the Directive 93/13, read together with the principle of effectiveness, must be interpreted as meaning that they preclude the judicial interpretation of national law, according to which the limitation period for professional claims arising from the invalidity of a mortgage loan agreement does not begin to run until that agreement becomes definitively unenforceable, and that they preclude the judicial interpretation of national law, according to which an objection of retention raised by a trader will result in the consumer being unable to claim default interest. Further, CJEU ruled that a credit institution was not required to ascertain whether a consumer who was a party to a loan agreement was aware of the consequences of the agreement invalidity.

To sum up a series of December judicial decisions: with regard to the issue of compensation owed to banks over the capital paid, CJEU confirmed its position expressed in its judgment of 15 June 2023. The CJEU judgments regarding the start of the statute of limitations for banks' restitution claims do not result in any change in the PZU Group's approach to such cases. In view of the unclear case law of national courts, the PZU Group considers that the statute of limitations starts at the earliest possible date, which is when the borrower files a declaration containing a demand related to the allegation of invalidating the agreement. The above December decisions may change courts' approach to awarding default interest from banks with a date earlier than the date when a consumer files a declaration that they consent to the agreement being invalidated and to the consequences of this invalidity, and they may also unify the approach on the question of whether an objection of retention raised by a credit institution results in the suspension of interest accrual for the client, which, if such a practice is adopted in common courts, may be unfavorable to banks.

By 31 December 2023, there were 5.9 individual lawsuits against the PZU Group relating to foreign currency mortgage loans (including 1 cases for contracts paid at the time of filing the lawsuit) that were granted in previous years with the total litigation value of PLN 2,030 million (as of 31 December 2022: 3,000 cases with the litigation value of PLN 998 million). The main cause of the litigation specified by plaintiffs pertains to challenging the provisions of the loan agreement as regards the application by the PZU Group of the exchange rates and results in claims to declare the loan agreements partially or fully invalid.

In 2023, the PZU Group received 1,330 unfavorable court judgments in cases filed by borrowers, including 208 final judgments, and 41 favorable judgments, including 3 final judgments (in 2022: 580 court judgements against the PZU Group were issued, including 97 valid judgements, and 24 court judgements favorable, including 5 valid judgements).

Since 2 October 2023, Pekao has been offering out-of-court settlements called "2% Safe Settlement". The program applies to borrowers who had an active Swiss-franc denominated mortgage loan agreement as at 31 March 2023, including those borrowers who are in litigation with Pekao.

As part of the settlement, a new debt balance is determined, expressed in PLN and calculated as the loan amount disbursed by Pekao, plus contractual interest calculated at a fixed interest rate of 2% per year, and minus all repayments made by the borrower up to the time of the settlement. The amount of debt remaining after the settlement bears interest at a fixed rate of 2% per year for the first 60 months, and thereafter as per Pekao's current offering. If the new debt balance turns out to be negative (i.e., there is an overpayment), Pekao reimburses the overpaid amount to the borrower.

Pekao has been sending settlement offers to the successive groups of borrowers covered by the program, starting with the oldest loans. As at 31 December 2023, about half of the borrowers responded to the settlement offer, with about 70% (1,500 clients) accepting Pekao's proposal. The program is scheduled to be completed by the end of 2024.

The calculation of the provision carried out as of 31 December 2023 was based on an estimate of the expected loss resulting from the possible materialization of legal risks. The estimate conducted includes the following key elements:

- the forecast for litigation cases – the PZU Group updated its forecasts of the expected number of future lawsuits using statistical methods and taking into account the observed trends in the number of incoming lawsuits and the issuance of loan repayment history certificates (which have the character of a leading indicator for future lawsuits). According to an external law firm, for index-linked loans originally granted by Pekao, the PZU Group assesses the likelihood of the contractual provisions being deemed abusive as negligible, since the indexation clause used was based on the average exchange rate of the National Bank of Poland, not Pekao's exchange rate table. As a result, no influx of lawsuits is expected for such contracts in the future, and no individual provision is made for existing lawsuits (9 units). At the same time, for contracts paid off 10 years ago or earlier (i.e., inactive at the end of 2013), the PZU Group accepts the possibility of successfully raising objections resulting in the dismissal of the claim, and also does not expect an influx of lawsuits for such contracts in the future. This is borne out by past practice: the scale of litigation involving the rest of the loan population is negligible. As a result, the entire forecast of future lawsuits relates to denominated loans active or fully repaid in the last 10 years;
- probability of losing a court case – according to the opinion of an external law firm, for denominated loans acquired by Pekao as a result of the acquisition (spin-off) of Bank BPH, the PZU Group estimates the probability of recognizing contractual provisions as abusive at a minimum of 95% (vs. a minimum of 95% at the end of 2022);
- financial implications of litigations – PZU Group accepts the following possible resolutions:
  - invalidating the entire foreign currency mortgage loan agreement as a result of recognizing the indexation clause as abusive – this outcome is considered the most likely (above 95%);
  - 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 SARON/LIBOR rate (the so-called currency conversion of a CHF loan agreement);
  - recognizing the indexation clause as abusive and replacing the bank's exchange rate table in it with the average NBP exchange rate;
  - dismissing the statement of claim;
- settlement program.

The PZU Group has maintained its expectations including the probability distribution of possible outcomes and the expected financial impact of losing the litigation, taking into account the statistics for the litigation cases currently pending. In particular, the share of invalidations of loan agreements in possible resolution scenarios exceeds 95% (no changes compared to 2022). The calculation also takes into account the additional costs associated with the potential loss of litigation, incurred for the entire portfolio covered by the reserve calculation: default interest and attorney fees.

PZU Group also takes into account the time value of money, according to the projected dynamics of the inflow of future lawsuits and the expected duration of the litigation, i.e. the financial effects of the litigation in an amount not exceeding the net carrying value of the agreement in question were discounted with the effective interest rate of the loan, and the rest of them, including full default interest and attorney fees, with the profitability of Polish government bonds.

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For the population of agreements covered by the settlement program, the PZU Group assumes that the borrower will accept the settlement offer with a probability of about 35%, based on empirical observations. If a settlement is reached, the PZU Group no longer expects a lawsuit on the agreement in question. Otherwise, the probability and distribution of litigation decisions are the same as described above.

Although the legal risk related to the foreign currency mortgage portfolio has been one of the key topics in the banking sector in recent years, the history of data regarding the scale of lawsuits (in particular in terms of final judgments) is not sufficient. All of the above means that the process of determining the level of the provision requires a number of expert assumptions based on professional judgment each time.

New rulings and the possible sectoral solutions which will appear in the Polish market for mortgage loans may have impact on the amount of the provision established by the PZU Group and necessitate a change of individual assumptions adopted in the calculations. In connection with this uncertainty it is possible that the provision amount will change in the future.

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

Consolidated statement of financial position line items	31 December 2023	31 December 2022
Impairment losses for loan receivables from clients	1,650	1,824
individual provision	672	394
portfolio provision	978	1,430
Other provisions	948	479
individual provision	604	182
portfolio provision	344	297
Total	**2,598**	**2,303**

Consolidated profit and loss account line items	1 January – 31 December 2023	1 January – 31 December 2022
Movement in allowances for expected credit losses and impairment losses on financial instruments	68	(1,325)
Other operating expenses	(528)	(356)
Other net investment income	27	-
Total	**(433)**	**(1,681)**

The PZU Group carried out a sensitivity analysis for the major assumptions of provision calculations, where a change of the level of individual parameters would have the following impact on the provision amount for the legal risk of foreign currency mortgage loans.

Parameter	Scenario	Impact on the amount of the provision 31 December 2023	Impact on the amount of the provision 31 December 2022
The total scale of the lawsuits	+10%	114	211
	-10%	(108)	(211)
Probability of losing the case	+5 p.p.	87	116
	-5 p.p.	(87)	(118)
Settlement probability	+5 p.p.	2	n/a
	-5 p.p.	(2)	n/a

Provision for refunds to clients of increased mortgage loan margins before the mortgage is established

The provision was established in connection with the entry into force of the Act of 5 August 2022 amending the Act on Mortgage Loan and Supervision of Mortgage Loan Intermediaries and Agents and the Act amending the Act on Personal Income Tax, the Act on Corporate Income Tax and Certain Other Acts.

Provisions for guarantees and sureties given

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

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

Information on the creation of provision related to the proceedings of the President of UOKiK on irregularities in the complaint area at Pekao is presented in section57.6.2.

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

The amount of PLN 11 million pertains to the penalty imposed by the President of the Office of Competition and Consumer Protection as a result of the decision in which he deemed that s clause used by Pekao in annexes to agreements on the rules for setting foreign exchange rates is an impermissible contractual clause. Pekao appealed the decision of the UOKiK President to the Court of Competition and Consumer Protection and received a response from the UOKiK President, in which he requested that the appeal be dismissed in its entirety.

47. Deferred tax

47.1 Accounting policy

The level of deferred tax liabilities and assets is determined using the balance sheet method using the corporate income tax rates which are expected to be in effect when the asset or liability is realized, in accordance with the provisions of tax law in the countries of domicile of the individual PZU Group companies issued by the end of the reporting period.

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

47.2 Estimates and assumptions

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

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47.3 Quantitative data

47.3.1. Deferred tax assets

Value of the unrecognized deferred tax assets resulting from the negative temporary differences and the tax loss according to legally permissible realization term	31 December 2023		31 December 2022	
	Negative temporary differences / tax loss	Deferred tax assets	Negative temporary differences / tax loss	Deferred tax assets
Negative temporary differences	98	17	21	2
Term unlimited by law	98	17	21	2
Unused tax losses	243	39	292	48
Up to 1 year	3	-	67	13
1 to 5 years	34	6	11	1
Over 5 years	203	32	201	32
Term unlimited by law	3	1	13	2
Total	**341**	**56**	**313**	**50**

Movement in deferred tax assets in the year ended 31 December 2023	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes	End of the period
Loan receivables from clients	1,434	(310)	(1)	-	1,123
Assets and liabilities under insurance contracts	15	(8)	10	-	17
Assets and liabilities under reinsurance contracts	8	33	(1)	-	40
Bank commissions collected in advance	434	(68)	-	-	366
Liabilities to clients under deposits	138	43	-	-	181
Intangible assets – trademarks and client relations	(205)	(4)	-	1	(208)
Financial instruments	465	178	(839)	(1)	(197)
Real property	(22)	5	-	-	(17)
Provisions for employee benefits	52	-	6	-	58
Provisions for bonuses	92	16	-	-	108
Other provisions and liabilities	683	42	-	(1)	724
Tax losses to be used in subsequent years	3	3	-	-	6
Tax allowance for activities conducted in a special economic zone	4	1	-	-	5
Provision for restructuring costs	2	(1)	-	-	1
Total deferred tax assets	**3,103**	**(70)**	**(825)**	**(1)**	**2,207**

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Movement in deferred tax assets in the year ended 31 December 2022 (restated)	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes	End of the period
Loan receivables from clients	1,262	171	1	-	1,434
Assets and liabilities under insurance contracts	20	2	(6)	(1)	15
Assets and liabilities under reinsurance contracts	20	(11)	(1)	-	8
Bank commissions collected in advance	531	(97)	-	-	434
Liabilities to clients under deposits	11	127	-	-	138
Intangible assets – trademarks and client relations	(196)	(9)	-	-	(205)
Financial instruments	754	(802)	513	-	465
Real property	(40)	15	-	3	(22)
Provisions for employee benefits	56	(6)	2	-	52
Provisions for bonuses	77	15	-	-	92
Other provisions and liabilities	565	118	-	-	683
Tax losses to be used in subsequent years	5	(2)	-	-	3
Tax allowance for activities conducted in a special economic zone	9	(3)	-	(2)	4
Provision for restructuring costs	4	(2)	-	-	2
Total deferred tax assets	**3,078**	**(484)**	**509**	**-**	**3,103**

47.3.2. Deferred tax liability

Movement in deferred tax liabilities in the year ended 31 December 2023	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes	End of the period
Financial instruments	325	503	121	(1)	948
Assets and liabilities under insurance contracts	2,614	32	(304)	-	2,342
Assets and liabilities under reinsurance contracts	(306)	(43)	6	-	(343)
Loan receivables from clients	97	2	-	-	99
Real property	188	(46)	1	5	148
Intangible assets – trademarks and customer relations	44	(5)	-	-	39
Provisions for employee benefits	(14)	(4)	-	-	(18)
Provision for bonuses	(50)	(4)	-	-	(54)
Liabilities due but not paid to natural persons (under mandate, agency contracts, etc.)	(83)	(13)	-	-	(96)
Other provisions and liabilities	(115)	1	-	-	(114)
Prevention fund	15	(1)	-	-	14
Tax losses to be used in subsequent years	(10)	(2)	-	-	(12)
Other differences	126	10	-	(1)	135
Total deferred tax liabilities	**2,831**	**430**	**(176)**	**3**	**3,088**

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Movement in deferred tax liabilities in the year ended 31 December 2022 (restated)	**Beginning of the period**	**Changes recognized in profit or loss**	**Changes recognized in other comprehensive income**	**Other changes**	**End of the period**
Financial instruments	346	132	(153)	-	325
Assets and liabilities under insurance contracts	1,604	246	764	-	2,614
Assets and liabilities under reinsurance contracts	(187)	(97)	(22)	-	(306)
Loan receivables from clients	92	5	-	-	97
Real property	156	35	-	(3)	188
Intangible assets – trademarks and customer relations	63	(20)	-	1	44
Provisions for employee benefits	(20)	8	(2)	-	(14)
Provision for bonuses	(62)	12	-	-	(50)
Liabilities due but not paid to natural persons (under mandate, agency contracts, etc.)	(77)	(6)	-	-	(83)
Other provisions and liabilities	(92)	(23)	-	-	(115)
Prevention fund	12	3	-	-	15
Tax losses to be used in subsequent years	(24)	16	-	(2)	(10)
Other differences	122	4	-	-	126
Total deferred tax liabilities	**1,933**	**315**	**587**	**(4)**	**2,831**

48. Assets and liabilities held for sale

48.1 Accounting policy

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

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

48.2 Quantitative data

Assets held for sale by classification before transfer	**31 December 2023**	**31 December 2022**
Groups held for sale	**277**	**302**
Assets	309	335
Investment property	287	316
Receivables	7	4
Cash and cash equivalents	15	15
Liabilities related directly to assets classified as held for sale	32	33
Other liabilities	18	15
Deferred tax liability	14	18
Other assets held for sale	**312**	**319**
Property, plant and equipment	35	18
Investment property	277	301
Assets and groups of assets held for sale	**621**	**654**
Liabilities related directly to assets classified as held for sale	**32**	**33**

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

Data took into account in the measurement of investment properties presented as held for sale are presented in section 10.2.1.2.

49. Leases

49.1 Accounting policy

PZU Group companies are parties to lease contracts both as lessors and as lessees.

An agreement is a lease or comprises a lease if it transfers the right to control the use of an identified asset for the given period in return for a fee.

49.1.1. PZU Group as the lessee

On the date when the leased asset is available for use, the PZU Group recognizes the right-of-use asset and the lease liability.

Pursuant to item 4 of IFRS 16, the PZU Group does not apply this standard to intangible assets.

The lease period is an irrevocable period of use of an asset, determined taking into consideration:

- the options of extending or shortening, if they are in principle certain;
- material investments in the leased item undertaken during the term of the agreement which are expected to bring significant economic benefits for the PZU Group company, on the basis of which decisions will be taken on extending or terminating the agreement;
- the costs associated with termination of the lease, such as costs of negotiation, costs of relocation, costs of search for different premises/property adequate to the company's business needs, termination penalty and costs associated with adaptation of the subject matter of the agreement being returned to a specific condition;
- the significance of the asset for the activity of the PZU Group company, considering the specialization of the asset, its location and availability of relevant alternative solutions;
- conditions associated with exercising the option (i.e. if the option can be exercised when one or more conditions have been satisfied) and the probability of fulfillment of such conditions.

Assessing the probability of exercise of the aforementioned options, the company takes into account all material facts and circumstances which constitute an economic incentive to exercise the option to extend the lease and or not to exercise the option to terminate the lease.

The PZU Group determines the lease period for agreements for an indefinite term taking into account the economic factors, the existing practice and the available information which may be helpful in determining the period of use of the asset. To determine the lease period, the PZU Group uses professional judgment. In particular, for the perpetual usufruct right to land, the lease period is determined as the time remaining from the date of implementation of IFRS 16 or from the date of purchase of the perpetual usufruct right to land (of acquired after 1 January 2019) until the date of expiry of such right.

On initial recognition:

- the lease liability is measured at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available;
- right-of-use assets are measured at cost, which includes the initial lease liability amount, any lease payments paid on or before the commencement date, less any lease incentives received, all initial costs incurred by the lessee, and an estimate of the costs to be incurred in disassembling and removing the asset, renovating the site where it was located, if the lease contract so requires.

The PZU Group recognizes assets and liabilities in respect of lease at a net amount. The VAT amount is recognized in expenses of the current period.

Lease payments are discounted using the interest rate implicit in the lease, if it can be easily determined, or the lessee's marginal interest rate.

The lessee's marginal interest rate is determined on the basis of current valuations of financial instruments issued by PZU Group and other PZU Group entities, coming from an active market. If there are no such instruments, or there is no active market, the marginal interest rate is determined on the basis of valuations of the financial instruments issued by other entities with similar business profiles and credit risk level. For all contracts ending on the same date and with a fixed amount of monthly payments (this group includes most lease contracts in the PZU Group) a fixed contract discount rate has been calculated.

In subsequent periods:

- the right-of-use asset is measured using the cost less depreciation and impairment model or at fair value (in the case of assets being investment properties);
- the liability is measured at amortized cost.

Right-of-use assets are depreciated using the straight-line method from the lease commencement date to the earlier of the end of the useful life or the end of the lease period.

Right-of-use assets are recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities as financial liabilities.

Changes in lease payments (resulting from, among others, changes in the index, rate, lease period) are taken into account, updating the valuation of lease liabilities and an appropriate adjustment of the right-of-use assets. The lease period is updated in the case of:

- occurrence of a significant event or significant change in the circumstances which the PZU Group controls and as a result of which it is possible to assume with sufficient certainty that the PZU Group will exercise an option which has not been previously taken into consideration in the determination regarding the lease period, or that it will not exercise an option which has been previously taken into consideration in such determinations;
- change of the irrevocable period of lease or new determination of the lease period in the case of amendment of the agreement, if such change has not been recognized as a separate lease.

Short-term lease and low-value asset lease

The PZU Group does not recognize right-of-use assets for short-term leases and for leases for which the underlying asset has a low value. Low value assets were deemed to be assets with a value equal to or lower than PLN 20 thousand. In such a case the PZU Group recognizes lease payments as a cost in the consolidated profit and loss account during the lease period.

49.1.2. PZU Group as the lessor

On the date of commencement of the lease, the PZU Group classifies the given lease agreement as:

- finance lease – if substantially all of the risks and benefits following from the holding of the underlying asset are transferred or as
- operating lease – if the above conditions are not satisfied.

Classifying the given lease agreement, the PZU Group takes into account, among others, the fact whether the lease period constitutes a larger part of the economic useful life of the asset.

Finance lease

On the lease commencement date, the PZU Group recognizes the receivable in the amount of the net lease investment, i.e. the current value of minimum lease payments and unguaranteed residual value, if any, ascribed to the PZU Group. During the lease period the PZU Group recognizes interest income on the lease receivables.

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Operating leases

Operating lease contracts apply mainly to properties.

Operating lease payments are recognized in the profit and loss account as revenue on a straight-line basis over the term of the lease.

49.2 Quantitative data

49.2.1. PZU Group as the lessor

49.2.1.1. Finance lease

Leasing investments	31 December 2023	31 December 2022
Undiscounted lease payments	18,742	17,228
Up to 1 year	6,736	6,055
From 1 year to 2 years	4,730	4,454
From 2 to 3 years	3,422	3,186
From 3 to 4 years	1,953	1,769
From 4 to 5 years	972	858
Over 5 years	929	906
Unrealized financial income	(2,310)	(2,256)
Discounted unguaranteed residual values	-	-
Net lease investments	**16,432**	**14,972**

49.2.1.2. Operating leases

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

Future minimum receivables under lease payments	31 December 2023	31 December 2022
Up to 1 year	226	305
From 1 year to 2 years	179	268
From 2 to 3 years	158	176
From 3 to 4 years	109	135
From 4 to 5 years	61	98
Over 5 years	88	179
Total future minimum receivables under lease payments	**821**	**1,161**

49.2.2. PZU Group as the lessee

Right-of-use assets carried as property, plant and equipment	31 December 2023	31 December 2022
Means of transport	81	77
Other property, plant and equipment and machinery	16	5
Real property	1,410	1,079
Total right-of-use assets	**1,507**	**1,161**

Movement in right-of-use assets used for own needs is presented together with the movement in property, plant and equipment in section 30.2.

Lease-related costs	1 January – 31 December 2023	1 January – 31 December 2022

Depreciation of right-of-use assets	313	311
Means of transport	18	17
Other property, plant and equipment	2	1
Real property	293	293
Interest on lease liabilities	61	46
Short-term lease-related costs	1	1
Low-value asset lease-related costs	1	2
Costs of variable lease payments not carried in valuation of lease liabilities	-	-

50. Assets securing receivables, liabilities and contingent liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 December 2023	31 December 2022
Carrying amount of financial assets pledged as collateral for liabilities	14,658	13,267
Repurchase transactions	1,662	931
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	910	962
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	414	415
Coverage of liabilities to be paid to the resolution fund (BFG)	748	739
Lombard and technical credit	8,424	6,483
Other loans	108	317
Issue of covered bonds	1,440	1,262
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	53	36
Derivative transactions	872	2,094
Blockage of assets in connection with the agreement on the technical credit limit in the Clearing House – Derivative transactions	27	28
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**14,658**	**13,267**

51. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2023	31 December 2022
Contingent assets, including:	5	6
- guarantees and sureties received	5	6
Contingent liabilities	80,673	80,676
- for renewable limits in settlement accounts and credit cards	5,137	4,829
- for loans in tranches	53,822	53,634
- guarantees and sureties given	9,313	8,521
- disputed insurance claims	1,505	933
- other disputed claims	391	187
- other, including:	10,505	12,572
- guaranteeing securities issues	2,185	4,158
- factoring	6,627	7,192
- intra-day limit	436	449
- letters of credit and commitment letters	1,192	688
– other	65	85

52. Offsetting financial assets and financial liabilities

52.1 Accounting policy

The offsetting agreements entered into by the Group include:

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- International Swaps and Derivatives Association (ISDA) Master Agreements and other master agreements pertaining to derivatives;
- Global Master Repurchase Agreement (GMRA) pertaining to securities purchase/sale and repurchase transactions.

The offsetting agreements entered into by the PZU Group do not satisfy the offsetting criteria in the statement of financial position. For the provisions of such agreements provide for the right to offset the recognized amounts which is exercisable only in the case of occurrence of a specific event (breach of the agreement).

The PZU Group received and submitted collateral in the form of margins and liquid securities for transactions on derivatives.

These collaterals are established on standard industry terms. Collaterals in the form of margin follow from, e.g. the Credit Support Annex (CSA) – constituting an annex to ISDA master agreements.

52.2 Quantitative data

The disclosures in the tables below apply to financial assets and liabilities that are subject to enforceable netting master agreements or similar agreements, irrespective of whether they are set off in the statement of financial position.

Financial assets and liabilities subject to offset, if any	31 December 2023	31 December 2022
Financial assets		
Financial derivatives		
Carrying amount of the items from the statement of financial position	11,396	16,197
Carrying amount of the items not subject to offset, if any	256	277
Net carrying amount – subject to offset, if any	11,140	15,920
Potential offset amounts	10,742	15,923
– financial instruments (includes received collateral on securities)	9,695	14,848
– received cash collateral	1,047	1,075
Net value	398	(3)
Financial liabilities		
Financial derivatives		
Carrying amount of the items from the statement of financial position	11,656	20,957
Carrying amount of the items not subject to offset, if any	191	458
Net carrying amount – subject to offset, if any	11,465	20,499
Potential offset amounts	10,619	18,865
– financial instruments (includes received collateral on securities)	9,685	14,891
– deposited cash collateral	934	3,974
Net value	846	1,634

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53. Notes to the consolidated cash flow statement

Movement in liabilities attributable to financial activities in the period ended 31 December 2023	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Effect of movements in exchange rates	Change in the composition of the Group	Other changes	End of the period
Loans received	5,271	344	12	(214)	-	11	5,424
Liabilities on the issue of debt securities	11,090	868	328	(254)	-	(29)	12,003
Bonds	3,488	6,182	255	(229)	-	(5)	9,691
Certificates of deposit	6,646	(5,338)	(27)	(19)	-	(5)	1,257
Covered bonds	956	24	100	(6)	-	(19)	1,055
Subordinated liabilities	6,184	(314)	296	-	-	-	6,166
Liabilities on account of repurchase transactions	931	688	109	-	-	(105)	1,623
Lease liabilities	1,296	(298)	12	(2)	7	579	1,594
Total	**24,772**	**1,288**	**757**	**(470)**	**7**	**456**	**26,810**

Movement in liabilities attributable to financial activities in the period ended 31 December 2022	Beginning of the period	Changes resulting from cash flows	Interest accruals and payments as well as settlements of discount and premium	Effect of movements in exchange rates	Change in the composition of the Group	Other changes	End of the period
Loans received	4,658	581	4	28	-	-	5,271
Liabilities on the issue of debt securities	5,940	5,047	(1)	13	-	91	11,090
Bonds	4,154	(673)	(6)	12	-	1	3,488
Certificates of deposit	695	5,886	5	(1)	-	61	6,646
Covered bonds	1,091	(166)	-	2	-	29	956
Subordinated liabilities	6,274	(319)	230	(1)	-	-	6,184
Liabilities on account of repurchase transactions	1,207	(321)	123	-	-	(78)	931
Lease liabilities	992	(296)	291	44	5	260	1,296
Total	**19,071**	**4,692**	**647**	**84**	**5**	**273**	**24,772**

54. Disputes

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

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

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

As at 31 December 2023, the total value of disputes in all 243,153 cases (31 December 2022: 265,937) pending before courts, arbitration bodies and public administration authorities in which PZU Group entities take part, was PLN 12,461 million (31 December 2022: PLN 9,033 million). This amount included PLN 8,055 million (as at 31 December 2022: PLN 5,586 million) relates to liabilities and PLN 4,406 million (31 December 2022: PLN 3,447 million) to receivables of PZU Group companies.

In 2023 and by the date of signing the consolidated financial statements, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the sections below.

54.1 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 Annual General 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 Social Benefit Fund.

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

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

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

On 20 August 2012, a copy of a statement of claim filed by MSC with the Regional Court in Warsaw was delivered to PZU. In the statement of claim, the Manchester Securities Corporation demanded that the resolution on the distribution of profit for the financial year 2006 adopted on 30 May 2012 by the PZU Annual 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. MSC challenged the Appellate Court's judgment in its entirety in a cassation appeal of 9 June 2015. PZU filed its reply to the cassation appeal. By decision of 19 April 2016, the Supreme Court refused to review MSC's cassation appeal. According to the provisions of the Code of Civil Procedure, the Supreme Court's ruling is final non-appealable and ends the proceedings in the case.

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

On 23 September 2015, a copy of the statement of claim with attachments was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment and the costs of the trial. The lawsuit includes a claim for damages for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P.. Morgan), as minority shareholders of PZU, a share in the profit for the 2006 financial year, following the adoption of Resolution No. 8/2007 by the PZU Ordinary Shareholder Meeting on 30 June 2007. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU's attorney submitted a statement of defense, requesting to dismiss the claim it in its entirety. On 1 April 2016, MSC filed a pleading in which it responded to PZU's assertions, allegations and petitions and raised new arguments in the case. On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In its decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, evidentiary hearings have taken place. On 6 April 2022, the Regional Court in Warsaw issued a decision admitting evidence in the form of an opinion of a scientific institute to determine the amount of the damage sustained by MSC and J.P Morgan, in the form of loss of profit, as a result of the adoption of Resolution No. 8/2007 by the PZU Ordinary Shareholder Meeting on 30 June 2007, excluding from distribution the profit for the 2006 financial year and the non-payment of this profit in 2007.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 December 2023, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Annual General Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

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

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

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

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

PBG's bankruptcy proceedings ended on 20 July 2016 with a final decision of the Bankruptcy Court.

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million. Accordingly, the total value of claims pursued by PZU on this account was PLN 32 million. In respect of claims for the amount of over PLN 66 million, on 24 October 2018 PZU filed an objection to the judge commissioner against the refusal to accept the submitted claim. With the decision of 23 January 2020 the Court accepted PZU's objection and increased PZU's claim on the fourth supplementary list of claims to PLN 83 million. On 8 September 2022, the trustee in bankruptcy requested a statement regarding the possible disposal of the reported claim and an indication of the amount of repayments to satisfy it. PZU provided the relevant statement. The consequence of the above was an amendment to the fourth supplementary list of claims, based on a court order of 4 September 2023, reducing PZU's claim to PLN 70 million.

According to the partial distribution plan as announced on 23 November 2023, PZU is to receive 4% of the claims, that is the amount of about PLN 3.4 million. Several creditors (other than PZU) have filed objections to the distribution plan, which are pending before the court. The distribution plan has not been implemented yet, and by the date of signing the consolidated financial statements, PZU has not received the above amount.

54.3 Lawsuits against Alior Bank

54.3.1. Class action

Alior Bank is a defendant in one class action case (suit was filed on 5 March 2018) brought by an individual representing a group of 320 natural and legal persons and 4 individual cases to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland (Funds). On 8 March 2023 the Regional Court in Warsaw decided to define the composition of the group. This decision was not final as at the date of signing the consolidated financial statements. The value of the extended lawsuit is around PLN 104 million.

The lawsuits were filed to establish liability (not for payment, i.e. damages), so the PZU Group does not expect any cash outflow from these proceedings other than litigation costs, which it estimates at PLN 600,000.

54.3.2. Other lawsuits

Alior Bank is also a defendant in 162 cases brought by purchasers of the Funds' investment certificates for payment (damages). The total value of the subject matter of litigation in these cases is PLN 53 million.

According to the PZU Group, each payment case requires an individual approach. The final value of the investment certificates will be determined upon completion of the liquidation. After analysis and selection of cases, those were singled out in which certain risk factors justify the establishment of a provision. Its calculation also took into account an expected increase in the scale of lawsuits. The total value of the provision as at 31 December 2023 was PLN 82 million (as at 31 December 2022: PLN 20 million).

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

On 6 August 2019, KNF issued a decision pursuant to Article 167(2)(1) in conjunction with Article 167(1)(1) of the Act on Trading in Financial Instruments imposing a fine of PLN 10 million on Alior Bank (Alior Bank has paid the fine). The proceedings concerned the operation of Alior Bank and its Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. After reexamining the case (at Alior Bank's request), on 3 December 2019, KNF upheld the original decision, which Alior Bank challenged on 3 January 2020 with the Voivodship Administrative Court in Warsaw. On 17 June 2020, the Voivodship Administrative Court in Warsaw issued a judgment repealing the 3 December 2019 decision of the Polish Financial Supervision Authority, which upheld the earlier 6 August 2019 decision of the Polish Financial Supervision Authority, and discontinued the proceedings conducted by the KNF in the case. KNF lodged a cassation appeal to the Supreme Court of Administration. On 29 November 2023, the Supreme Administrative Court delivered a judgment which finally overturned the fine imposed by KNF in 2019.

55. Related party transactions

55.1 Key management

The PZU Management Board Members and PZU Group Directors are assumed to be the key management of the PZU Group.

Both in 2023 and in 2022, the PZU Group companies did not grant any loans or similar benefits to members of their key management.

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

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2023	including part of variable compensation for 2019-2022	1 January – 31 December 2022	including part of variable compensation for 2017-2021
Management Board:	**17,413**	**7,761**	**15,462**	**7,084**
Beata Kozłowska-Chyła	2,148	905	1,823	712
Ernest Bejda	2,059	858	1,744	670
Małgorzata Kot	2,015	814	1,701	626
Krzysztof Kozłowski	1,900	698	1,317	243
Tomasz Kulik	2,211	1,010	2,036	962
Piotr Nowak	1,640	438	731	-
Maciej Rapkiewicz	2,211	1,010	2,036	962
Małgorzata Sadurska	2,211	1,010	2,050	976
Aleksandra Agatowska	38	38	38	38
Adam Brzozowski	154	154	154	154
Marcin Eckert	268	268	466	466
Elżbieta Häuser-Schöneich	154	154	154	154
Roger Hodgkiss	40	40	179	179
Paweł Surówka	140	140	316	316
Krzysztof Szypuła	224	224	717	626
High-level managers (PZU Group Directors)	**5,654**	**1,716**	**3,288**	**1,286**
Aleksandra Agatowska	896	399	799	354
Andrzej Jaworski	665	185	308	-
Bartłomiej Litwińczuk	884	404	804	375
Dorota Macieja	884	404	804	375
Sylwia Matusiak	750 [1]	-	n/a	n/a
Małgorzata Skibińska	495 [2]	-	n/a	n/a
Dominik Witek	432 [3]	-	n/a	n/a
Małgorzata Kot	20	20	20	20
Krzysztof Szypuła	559 [4]	235	391	-
Roman Pałac	56	56	103	103
Tomasz Karusewicz	13	13	59	59

[1] Including annual bonus, compensation for holiday leave and special award for the position of Managing Director for Marketing, Sponsorship and Prevention held in 2022.

[2] Including fixed compensation and annual bonus for the position of Managing Director for Product Development and Maintenance held until 31 January 2023.

[3] Including fixed compensation, annual bonus and compensation for holiday leave for the position of Director of the Office of Medical Services held until 6 June 2023.

[4] Including a non-competition fee of PLN 216 thousand and a severance pay of PLN 108 thousand.

In 2023, PZU Management Board Members were paid part of the benefits for 2019-2022 under the variable compensation system. The payout of the remaining part of the bonus for 2020-2023 may be made in subsequent periods. For these benefits, the PZU Group has a liability with the total amount of PLN 23,971 thousand as at 31 December 2023 (including the employer's burdens, as at 31 December 2022: PLN 19,948 thousand).

Compensation and other short-term employee benefits paid by other PZU Group entities	**1 January – 31 December 2023** (PLN 000s)		**1 January – 31 December 2022** (PLN 000s)	
		including part of variable compensation for 2019-2022		including part of variable compensation for 2017-2021
Management Board, of which:	**27**	**27**	**27**	**27**
Małgorzata Kot	27	27	27	27
High-level managers (PZU Group Directors), including:	**7,927**	**2,523**	**4,897**	**1,892**
Aleksandra Agatowska	1,338	593	1,194	527
Andrzej Jaworski	998	277	462	-
Bartłomiej Litwińczuk	1,320	599	1,203	558
Dorota Macieja	1,320	599	1,203	558
Sylwia Matusiak	841 [1)]	-	n/a	n/a
Małgorzata Skibińska	495 [2)]	-	n/a	n/a
Dominik Witek	673 [3)]	-	n/a	n/a
Krzysztof Szypuła	839 [4)]	352	586	-
Roman Pałac	83	83	157	157
Tomasz Karusewicz	20	20	92	92

[1)] Including annual bonus, compensation for holiday leave for the position of Managing Director for Marketing, Sponsorship and Prevention held in 2022.
[2)] Including fixed compensation and annual bonus for the position of Managing Director for Product Development and Maintenance held until 31 January 2023.
[3)] Including fixed compensation, annual bonus and compensation for holiday leave for the position of Director of the Office of Medical Services held until 6 June 2023.
[4)] Including a non-competition fee of PLN 325 thousand and a severance pay of PLN 162 thousand.

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	**1 January – 31 December 2023** (PLN 000s)	**1 January – 31 December 2022** (PLN 000s)
Management Board, of which:	**2,043**	**1,785**
Beata Kozłowska-Chyła	276	265
Ernest Bejda	233	193
Małgorzata Kot	270	224
Krzysztof Kozłowski	233	189
Tomasz Kulik	238	273
Piotr Nowak	231	110
Maciej Rapkiewicz	243	211
Małgorzata Sadurska	319	312
Krzysztof Szypuła	n/a	8
High-level managers (PZU Group Directors), including:	**1,549**	**942**
Aleksandra Agatowska	322	270
Andrzej Jaworski	233	74
Bartłomiej Litwińczuk	281	238
Dorota Macieja	219	200
Sylwia Matusiak	195	n/a
Małgorzata Skibińska	105	n/a
Dominik Witek	135	n/a
Krzysztof Szypuła	59 [1)]	160

[1)] Benefits financed by PZU under the agreement termination of management services.

55.2 PZU Supervisory Board

The tables show the remuneration of PZU Supervisory Board members. The figures are presented in thousands of PLN.

Remunerations and other short-term employee benefits paid to the Supervisory Board by PZU and PZU subsidiaries	1 January – 31 December 2023 (PLN 000s)	1 January – 31 December 2022 (PLN 000s)
Robert Jastrzębski	252	224
Paweł Górecki	250	224
Agata Górnicka	236	205
Marcin Chludziński	230	205
Marcin Kubicza	142	n/a
Krzysztof Opolski	250	224
Radosław Sierpiński	245 [1]	241 [2]
Józef Wierzbowski	230	205
Maciej Zaborowski	230	205
Elżbieta Mączyńska-Ziemacka	161	205
Robert Śnitko	109	224
Piotr Wachowiak	100	68
Paweł Mucha	n/a	151
Total	**2,435**	**2,381**

[1] Including PLN 15 thousand for serving as a member of the Scientific Council at PZU Zdrowie SA.
[2] Including PLN 36 thousand for serving as a member of the Scientific Council at PZU Zdrowie SA.

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

In 2023, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on non-arm's length conditions.

55.4 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 December 2023		1 January – 31 December 2022	
	Key management	Other related parties [1]	Key management	Other related parties [1]
Insurance revenue	-	-	-	2
Other income	-	1	-	1
Costs	-	57	-	44

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	31 December 2023		31 December 2022	
	Key management	Other related parties [1]	Key management	Other related parties [1]
Loan receivables from clients	1	-	-	-
Other receivables	-	1	-	1
Liabilities under deposits	4	42	4	41
Other liabilities	-	6	-	4
Contingent assets	-	-	-	-
Contingent liabilities	-	2	-	2

[1] Associates accounted for using the equity method.

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

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

55.5 Transactions with State Treasury's related parties

Transactions with subsidiaries, joint ventures and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and investment contracts and banking services. Such transactions are concluded and settled on terms and conditions available to customers, who are not related parties. Receivables from and liabilities to parties related to the State Treasury under insurance contracts are usually short-term.

56. Headcount

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

Item	1 January – 31 December 2023	1 January – 31 December 2022
Management Boards (number of persons at the end of the reporting period)	151	149
Management	3,682	3,610
Other employees	34,905	34,520
Total	**38,738**	**38,279**

57. Other information

57.1 Audit fee payable to the audit firm auditing the financial statements

The table below presents the amounts due to the PZU Group's audit firm (KPMG Audyt sp. z ograniczoną odpowiedzialnością sp. k. – "KPMG Audyt", and members of the KPMG network) for the audit of financial statements of the consolidated PZU Group companies performed by KPMG, paid or payable for the period, plus VAT.

Item	1 January – 31 December 2023 (PLN 000s)	1 January – 31 December 2022 (PLN 000s)
Audit of financial statements	12,582	10,487
Other assurance services	8,720	6,383
Total	**21,302**	**16,870**

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors in the list of audit firms under no. 3546 as an entity auditing financial statements for the years 2014-2016, and on 27 April 2017, the PZU Supervisory Board exercised the option of extending this cooperation to include the years 2017-2018. On 23 May 2019, after KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt to audit PZU's standalone and consolidated financial statements, the PZU Supervisory Board made the decision to select KPMG Audyt again as the audit firm to audit the 2019-2020 financial statements.

In connection with Article 49 of the Act of 31 March 2020 amending the Act on special solutions connected with preventing, counteracting and combating COVID-19, other infectious diseases and crises caused by them and certain other acts ("Act"), which extended the maximum period of uninterrupted engagement to carry out statutory audit to ten years by abolishing the limit set forth in Article 134 sec. 1 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, on 28 May 2020, the PZU Supervisory Board gave its consent to renew the engagement for KPMG Audyt for reviews and audits of the standalone financial statements of PZU and the consolidated financial statements of the PZU Group for years 2021–2022 with an extension option to 2023. On 7 April 2021, the PZU Supervisory Board agreed to exercise the option and extend the order to 2023.

To enable performance of the work described above, relevant annexes to the previously signed agreements were concluded.

The existing cooperation with KPMG Audyt, pertaining to the reviews and audits of the standalone financial statements of PZU and consolidated financial statements of the PZU Group has continued without interruption since 2014.

57.2 Selection of a new audit firm to conduct financial statement audits

On 24 August 2022, the Supervisory Board of PZU passed a resolution on the selection of PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. ("PWC") as the audit firm to conduct audits and reviews of financial statements and audits of reports on the solvency and financial condition of PZU and the PZU Group for the five fiscal years, ending on 31 December 2024, 31 December 2025, 31 December 2026, 31 December 2027 and 31 December 2028, respectively, with an option to extend the contract for two more years, ending on 31 December 2029 and 31 December 2030.

On 15 December 2023, PZU signed a contract with PWC to carry out the above work.

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

In 2023 and in 2022, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant, with the exception of the question described below.

On 26 October 2023, PZU concluded with Alior Bank Annex No. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time, and concluded with the Counterparty Annex No. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time defines the rules for PZU to issue insurance guarantees for unfunded credit protection within an exposure limit under instructions from, and in favor of, Alior Bank.

The maximum exposure limit for the guarantees issued pursuant to Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is PLN 4,000 million. The limit is in force for a period of 3 years and is a revolving limit, meaning that the expiry of a guarantee makes the “freed up” amount available within the limit minus any possible disbursements under a guarantee.

The fee for extending the guarantee will depend, among other things, on portfolio amortization. In addition, a counter-guarantee premium may be included in the remuneration, the issuance of which PZU may instruct the Counterparty to issue.

At present, it is not possible to state the amount of the fee for a guarantee since it will depend on the amount of the guaranteed sum and the quality of the portfolio collateralizing the guarantee. The issuance of every guarantee will be preceded by an application from Alior Bank and an evaluation and valuation of the portfolio presented for that guarantee.

Details of individual guarantees issued by PZU under Annex No. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time will be made public separately by PZU.

Alior Bank will present a declaration of voluntary submission to enforcement in the form of a notary deed to collateralize the payment of the fee for a guarantee under the executed Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time.

The maximum term of the guarantees issued under Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time is 5 years. Alior Bank’s share of the due and payable receivables by virtue of the accounts receivable is 10%.

Annex no. 2 to the Mandate Agreement to Provide Unfunded Credit Protection from Time to Time contemplates contractual penalties that may be due to PZU from Alior Bank if Alior Bank breaches certain obligations stemming from Annex no. 2 to the Agreement. The total maximum amount of contractual penalties cannot exceed PLN 3 million. Annex no. 2 to the Agreement does not rule out the possibility of pursuing damages exceeding the sum total of the contractual penalties.

Annex no. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time.

Annex no. 2 to the Master Agreement to Provide Counter Guarantees from Time to Time defines the rules for the Counterparty to provide counter guarantees under instructions from PZU issued in favor of Alior Bank. The available counter guarantee limit is PLN 3,200 million. The available limit will be reduced each time when each counter guarantee is extended, by the guaranteed amount specified in the counter-guarantee; the available counter-guarantee limit is renewable, which means that the limit is renewed when a counter-guarantee expires.

57.4 Inspections by the KNF Office

57.4.1. PZU

During the period from 11 January to 10 March 2022 KNF conducted an inspection of PZU’s operations and assets in the solvency capital requirement area. On 4 April 2022, PZU received the inspection report, to which it submitted objections, additional explanations and documents on 15 April 2022. On 8 June 2022 PZU received 2 post-inspection recommendations, which were implemented starting from statements prepared as at 31 December 2022, which PZU communicated on 6 February 2023.

In the period from 12 June to 10 August 2023, the PFSA carried out an inspection of claim handling procedures at PZU. On 1 December 2023, PZU received an inspection report and submitted its related comments on 15 December 2023. On 3 January 2024, PZU received KNF’s response to these objections, and on 12 January 2024, PZU provided additional clarifications to the report. On 2 February 2024, the PFSA issued 8 audit recommendations with a deadline of 31 March 2024. PZU is engaged in a dialogue with the PFSA regarding the implementation of the recommendations.

On 11 March 2024, the PFSA initiated an inspection of PZU’s compliance with selected requirements for management of information technology areas and security of the ICT environment. The expected date for completion of the inspection is 19 April 2024.

57.4.2. PZU Życie

In the period from 22 August to 21 October 2022, KNF inspected PZU Życie's compliance with the law in terms of the use of insurance agents and agents offering supplementary insurance. On 22 December 2022, PZU Życie submitted comments on the KNF's protocol after the 13 December 2022 inspection. Following the KNF's 4 January 2023 response, PZU Życie provided additional clarification on 20 January, 22 and 23 February 2023. On 20 March 2023, PZU Życie received a recommendation on PZU Życie's supervision of agent activities in the process of determining client needs and requirements. The deadline for implementing the recommendation was 31 December 2023. At PZU Życie's request, KNF agreed to postpone the implementation of the recommendation until 30 June 2024.

In the period from 10 January to 10 March 2023 KNF carried out an inspection in PZU Życie regarding the preparation of financial statements for solvency purposes and the valuation of assets and liabilities for solvency purposes. On 4 May 2023 PZU Życie received an inspection report and submitted its related comments on 17 May 2023.

57.5 Tax liability in Sweden

In 2014-2015 PZU Finance AB, a subsidiary of PZU, issued 5-year bonds of a nominal amount of EUR 850 million, which matured in July 2019. Inflows from the issue were transferred to PZU in the form of two borrowings of EUR 850 million in total. Payment due dates and amounts of the borrowings were adjusted to payments related to the bonds. PZU repaid the borrowings 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 foreign exchange differences in the situation where Euro is a reporting currency, PZU Finance AB applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019 PZU Finance AB received the interpretation, based on which foreign exchange gains and losses resulting from the repayment of the borrowing are subject, while foreign exchange gains and losses resulting from the repayment of bonds, are not subject to taxation. In the opinion of the PZU Group, the Council's interpretation means that a different approach would be applied in the territory of Sweden in relation to companies reporting in euro than to companies reporting in Swedish crowns, which would be contrary to the assumptions of the above act and Art. 63 of the Treaty on the Functioning of the European Union (TFEU) concerning a need to ensure free capital flow in the EU or Art. 49 and 54 of the TFEU concerning the freedom of establishment).

On 3 April 2019 PZU Finance AB challenged the individual tax interpretation of the Swedish Council for Tax Interpretation before the Supreme Administrative Court (Högsta förvaltningsdomstolen). On 4 May 2020 the Supreme Administrative Court rejected the request of PZU Finance AB and annulled the individual interpretation as not providing for a sufficient basis for the individual tax interpretation, which meant that the interpretation should not have been issued.

At the same time, on 27 August 2020, PZU Finance AB filed its tax return during the disclosure procedure for 2019, where it presented the above situation and calculated its tax liabilities on the assumption that foreign exchange gains and losses resulting from the repayment of bonds constituted its deductible expenses. On 22 December 2020 PZU Finance AB received the tax office's tax decision confirming that the tax had been calculated correctly. The decision was not binding and final. Given duties for the purpose of which the company was established, on 4 May 2021 the Meeting of Shareholders decided to start liquidation procedures in relation to PZU Finance AB. On 23 June 2021 PZU Finance AB received a preliminary, and on 21 December 2021 a binding negative, decision concerning the correction of its tax obligations for 2019 from the tax office. Accordingly, the PZU Group recognized, as at 31 December 2021, a current income tax liability of PLN 72 million (SEK 159 million). On 21 January 2022 PZU paid SEK 159 million (SEK 155 million of the principal amount + SEK 4 million of interest) directly to the tax office in Sweden. On 10 November 2022 PZU Finance AB appealed against the tax decision and filed its lawsuit concerning the determination of tax for 2019 with the Administrative Court in Stockholm. The court proceedings are ongoing.

57.6 UOKiK proceedings

57.6.1. Alior Bank

On 27 September 2019, the President of the Office of Competition and Consumer Protection (UOKiK) issued a decision to initiate proceedings against Alior Bank for recognizing the provisions of a contract template as abusive (ref. no. RPZ.611.4.2019.PG) pertaining to 11 clauses (the so-called modification clauses) included in the contract templates used by Alior Bank on the basis of which Alior Bank made unilateral changes to the contracts concluded with consumers. The UOKiK President questioned those regulations and claimed that they were, among others, imprecise and made it impossible for consumers to verify the premises for an amendment. Alior Bank exchanged correspondence concerning that case with the UOKiK President and presented a schedule based on which pending consequences of the violation would be removed from contracts entered into with customers. In its letter dated 20 October 2023, UOKiK informed Alior Bank that the deadline for completing the proceedings had been extended to 31 March 2024.

As at 31 December 2023, the PZU Group did not identify any reasons to create provisions for the above case as the PZU Group believes that a cash outflow on this account is unlikely. Further, the PZU Group is unable to reliably estimate the value of the contingent liability due to the impossibility of estimating potential effects of the violation and the amount of the potential fine that may be imposed by the UOKiK. The maximum amount of a fine is 10% of Alior Bank's turnover achieved in the fiscal year preceding the year in which the fine was imposed.

UOKiK is conducting proceedings (reference no.: RWR.610.3.2024.KŚ) for practices that violate the collective interests of consumers and involve:

- failure to – after the client has reported the transaction as unauthorized – reimburse the amount of the unauthorized payment transaction or restore the debited payment account to the state it would have been in had the unauthorized payment transaction not taken place, in the manner and within the time limit as specified in Article 46(1) of the Payment Services Act, despite the absence of reasons authorizing Alior Bank not perform the above actions;
- providing a consumer who is an Alior Bank's client with conditional reimbursement of the amount of the payment transaction reported by the consumer as unauthorized, only for the time of Alior Bank's consideration of the complaint, and then, if Alior Bank finds in the complaint procedure that the transaction was authorized by the consumer or that the consumer is responsible for the unauthorized payment transaction, withdrawing the conditional reimbursement and taking that amount from the consumer's savings and checking account or credit card account, except in situations where there was a simultaneous reimbursement of that amount to the consumer under chargeback or withdrawal of the compliant by the consumer;
- providing consumers – in responses to their reports of unauthorized payment transactions – with information that the transaction was authorized correctly when this was determined only after the payment service provider had verified the correct use of the payment instrument with individual credentials, with the manner of providing such information suggesting that Alior Bank's demonstration of correct authentication excludes Alior Bank's obligation to reimburse the amount of the unauthorized transaction, which may mislead consumers regarding Alior Bank's obligations under Article 46(1) of the Payment Services Act and regarding apportionment of the burden of proving that the payment transaction was authorized;
- providing consumers – in responses to their reports of unauthorized payment transactions – with information that the transaction was authenticated correctly by the user and that Alior Bank bears no responsibility for that transaction as it was made as a result of the consumer's violation of the terms of the agreement with Alior Bank, which may mislead consumers regarding Alior Bank's obligations under Article 46(1) of the Payment Services Act and regarding apportionment of the burden of proof to the extent that Alior Bank should prove that the consumer led to the transaction in question by the intentional or grossly negligent violation of one or more obligations referred to in Article 42 of the Payment Service Act;
- providing consumers – in responses to their reports of unauthorized payment transactions – with information that card transactions reported after 120 days from the transaction date may not be considered unauthorized payment transactions and that no more than 15 transactions may be complaint about;

which, in the opinion of the President of UOKiK, may go against the collective interests of consumers, and consequently, constitute practices that violate the collective interests of consumers, as referred to in the Competition and Consumer Protection Act.

Currently, proceedings for practices that violate the collective interests of consumers are ongoing for 15 other banks, whose practices were verified in investigations similar to the one conducted against Alior Bank. UOKiKs allegations raise questions throughout the banking sector about their compliance with European law. The provisions of the Payment Services Act cited by UOKiK in the context of these allegations do not fully reflect the Directive they implement. This has resulted in numerous appeals to UOKiK from the Polish Bank Association. The Ministry of Finance put forward a proposal to bring these provisions into line with this Directive in the draft amendment to the Payment Services Act.

As at 31 December 2023, the value of complaints about unauthorized transactions is PLN 43 million. The maximum amount of a fine is 10% of Alior Bank's turnover achieved in the fiscal year preceding the year in which the fine was imposed.

As at 31 December 2023, Alior Bank did not identify any reasons to create provisions for this case.

57.6.2. Pekao

Proceedings of the President of UOKiK on irregularities in the complaint area at Pekao

Through its letter dated 10 November 2023, the President of UOKiK initiated proceedings against Pekao for using practices that violate the collective interests of consumers and involve:

- failure to respond to consumer complaints without undue delay, no later than within 30 days, and in particularly complex cases – within 60 days;
- failure to specify – in the information provided to the client making the complaint – the reason for the delay that prevents considering the complaint and responding without undue delay, no later than within 30 days, and to specify the circumstances that need to be determined for the case to be considered.

In December 2023, Pekao submitted a request to the President of UOKiK for a so-called commitment decision. Pekao is waiting for the decision of the President of the UOKiK on this matter. As at 31 December 2023, the PZU Group created a provision of PLN 12 million for the implementation of the commitment proposed to the President of UOKiK by Pekao.

Investigation of the President of UOKiK into unauthorized payment transactions

On 23 June 2021, the President of UOKiK launched an investigation to initially identify whether actions taken by Pekao after unauthorized payment transactions had been reported by consumers can constitute the basis for initiating proceedings for practices that violate collective consumer interests or proceedings aimed at recognizing the agreement forms as impermissible. The court investigation is ongoing.

On 8 February 2024, the President of UOKiK initiated proceedings for practices that violate collective consumer interests with regard to unauthorized payment transactions. The charges are as follows:

- failure to reimburse the unauthorized payment transaction to the client within the time limit of d+1, despite the absence of grounds for such refusal;
- misleading consumers about the bank's obligations and apportionment of the burden of proving that the payment transaction was authorized;

As at 31 December 2023, the PZU Group did not identify any reasons to create provisions on this account.

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

In December 2021 Alior Bank and Alior Leasing sp. z o.o. received from the former members of the Alior Leasing sp. z o.o. management board summons to an ad hoc arbitration court. On 1 March 2024, Alior Bank received a partial judgment dismissing claims under the management program in their entirety. As at 31 December 2023, the PZU Group had no provision on this account.

Alior Leasing sp. z o.o. has identified the risk of possible claims against Alior Leasing sp. z o.o. filed by third parties, which may result from actions of some employees and associates of Alior Leasing sp. z o.o. As at the date of signing the consolidated financial statements, no claims have been filed on this account. In the opinion of the PZU Group, there are no reasons for establishing a provision for that purpose.

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.

57.8 Conflict in Ukraine

Due to the Russian Federation's invasion of Ukraine and the armed conflict lasting since 24 February 2022, PZU's Management Board assessed the impact of this situation on the PZU Group's operations, business continuity, financial position and going concern.

As at 31 December 2023, total net assets (assets deducted by liabilities and adjusted by mutual shares between PZU Ukraina and PZU Ukraina Życie) of three companies operating in Ukraine (PZU Ukraina, PZU Ukraina Życie and LLC SOS Services Ukraine) amounted to PLN 46 million (as of 31 December 2022: PLN 25 million).

The assets (net of the shares held mutually between PZU Ukraina and PZU Ukraina Życie) of these companies subject to consolidation totaled PLN 365 million (as of 31 December 2022: PLN 357 million), including, without limitation:

- investment financial assets of PLN 239 million (31 December 2022: PLN 207 million), including PLN 99 million (31 December 2022: PLN 78 million) of instruments issued by the government of Ukraine and PLN 140 million (31 December 2022: PLN 129 million) of term deposits);
- assets under reinsurance contracts of PLN 36 million (31 December 2022: PLN 42 million), including PLN 26 million (31 December 2022: PLN 31 million) of PZU's share.

Liabilities of the companies amounted PLN 320 million (31 December 2022: PLN 332 million), including liabilities under insurance contracts of PLN 296 million (31 December 2022: PLN 322 million).

Due to the martial law, which has been in force in the whole territory of Ukraine since 24 February 2022 (extended till 13 May 2024) and active military actions in the eastern and southern regions, as well as air attacks all over the country, Ukrainian companies of the PZU Group operate under war restrictions and legal conditions stemming from so called "war regulations".

One of such war regulations enforced by the NBU on 24 February 2022 provided for a ban on international cash transfers from Ukraine, as a result of which insurance undertakings are not able to make international reinsurance payments to non-residents.

On 14 February 2023 the NBU's resolution of 10 February 2023 came into force. On the basis of that resolution insurers can pay international reinsurance liabilities (except mandatory motor liability insurance) provided that they are prior verified and recorded in the list of insurers authorized to make reinsurance operations with foreign reinsurers. On the basis of the NBU's decision, since 13 March 2023 PZU Ukraina has been recorded in the list of authorized insurers.

A new Ukrainian law – "On Insurance" – came into force on 1 January 2024. The law changed requirements for licensing insurers, assessing their solvency and liquidity, corporate governance and risk management, termination of the insurer's business, and insurance portfolio transfer. Insurance companies must adapt to these new requirements by 1 July 2024.

In the last days of 2023, NBU adopted and published more than 20 resolutions that contain implementing regulations related to the "On Insurance" law coming into force.

The insurance market regulations, introduced by the law and NBU's resolutions, increase the security of the financial and capital market, implementing solutions from developed European markets.

Both companies meet the new minimum share capital requirement (min. UAH 48 million), as defined in the "On Insurance" law.

As at the date of signing the consolidated financial statements, the going concern assumption for Ukrainian companies of the PZU Group is uncertain (there is a risk that the companies will lose all of their operating capacities) due to, among others:

- long-lasting military actions and their escalation;
- continuation of long-range weapons fire on civilian and military facilities, including critical infrastructure facilities, leading to significant losses among the population and disruptions in the supply of utility services such as energy, heating and water supply;
- lack of access to key systems, including by destroying the companies' physical infrastructure;
- unavailability of employees.

The PZU Group analyzes the developments on an ongoing basis and examines forward-looking scenarios for the run of events. Given the situation in Ukraine, the measurement of assets and liabilities (in particular assets and liabilities under insurance and reinsurance contracts) of Ukrainian companies is subject to a number of assumptions and is highly uncertain.

57.9 Subsequent events

There were no significant events after the end of the reporting period requiring disclosure in the consolidated financial statements.

Signatures of the PZU Management Board Members:

Name	Function	
Anita Elżanowska	Member of the Supervisory Board delegated to temporarily perform the function of the President of the PZU Management Board	signed with a qualified electronic signature
Michał Bernaczyk	Member of the Supervisory Board delegated to temporarily perform the function of the Member of the PZU Management Board	signed with a qualified electronic signature
Tomasz Kulik	Member of the PZU Management Board	signed with a qualified electronic signature
Maciej Rapkiewicz	Member of the PZU Management Board	signed with a qualified electronic signature

Person responsible for drawing up the consolidated financial statements:

Katarzyna Łubkowska	Director of the Accounting Department	signed with a qualified electronic signature

Warsaw, March 20, 2024