

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim consolidated financial statements for
the 6 months ended 30 June 2017



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Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2016.

Period covered by these condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 6 months from 1 January to 30 June 2017.

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

Functional and presentation currency

Functional and presentation currency of PZU and other Polish registered companies is the Polish zloty. The functional currency of companies with their registered office in Lithuania, Latvia and Sweden is the euro and the functional currency of companies with their registered office in Ukraine is the Ukrainian hryvnia.

Unless noted otherwise, all amounts presented in these condensed interim consolidated financial statements are stated in millions of Polish zloty.

FX rates

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

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

Currency	1 January – 30 June 2017	1 January – 30 June 2016	30 June 2017	30 June 2016
Euro	4.2474	4.3805	4.2265	4.4255
Ukrainian hryvnia	0.1459	0.1535	0.1424	0.1603

Going concern assumption

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



of 12 months after the end of the reporting period as a result of an intentional or an induced discontinuation or a material curtailment of their hitherto activity.

Discontinued operations

In the period of 6 months ended 30 June 2017, the PZU Group companies did not discontinue any type of activity.

Seasonal or cyclical business

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

Glossary of terms

Explained below are the most important terms and abbreviations used in the condensed interim consolidated financial statements.

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Bank BPH – Bank BPH SA.

Elvita – Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.

EMC – EMC Instytut Medyczny SA.

Gamma – Centrum Medyczne Gamma sp. z o.o.

Alior Bank Group – Alior Bank with its subsidiaries: Alior Services sp. z o.o., Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA, Money Makers TFI SA, New Commerce Services sp. z o.o., Absource sp. z o.o., Serwis Ubezpieczeniowy sp. z o.o.

Armatura Group – Armatura Kraków SA with its subsidiaries: Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

NZOZ Trzebinia – Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

PGAM – Pioneer Global Asset Management S.p.A.

Pioneer Pekao TFI – Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA.

Pioneer PTE – Pekao Pioneer Powszechne Towarzystwo Emerytalne SA.

Bank BPH's Core Business – organized part of the business including all of Bank BPH's assets and equity and liabilities excluding the assets and equity and liabilities that remained in Bank BPH after the demerger and which constitute Bank BPH's mortgage business.

PPIM – Pioneer Pekao Investment Management SA.

Proelmed – Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji Spółka Akcyjna.



PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

SU Krystynka – Sanatorium Uzdrawiskowe „Krystynka” sp. z o.o.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

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

Other definitions

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

CGU – cash generating unit.

MCBMOD – main corporate body responsible for making operating decisions within the meaning of IFRS 8 – Operating segments.

WSE – Warsaw Stock Exchange.

IBNR – Incurred But Not Reported or 2nd provision – provision for claims and accidents that have transpired but have not yet been reported.

Standalone financial statements of PZU for 2016 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year ended 31 December 2016, prepared in accordance with PAS, signed by the PZU Management Board on 14 March 2017.

KNF – Polish Financial Supervision Authority [Polish: *Komisja Nadzoru Finansowego*];

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2017.

NBP – National Bank of Poland;

TCG – Tax Group [Polish: *Podatkowa Grupa Kapitałowa*] established under an agreement signed on 25 September 2014 by and between 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., Ipsilon sp. z o.o., PZU Asset Management SA, TFI PZU, PZU Zdrowie SA, PZU Finanse sp. z o.o., Omicron SA, Omicron Bis SA. The Tax Group was established for a period of 3 years – from 1 January 2015 to 31 December 2017. The Tax Group is represented by PZU as its parent company.

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2016 Item 1047, as amended) and regulations issued thereunder.

Regulation on Current and Periodic Information – Finance Minister’s Regulation of 19 February 2009 on current and periodic information conveyed by securities issuers and the conditions for recognizing the information required by the legal regulations of a non-member state as equivalent (consolidated text: Journal of Laws of 2014 Item 133, as amended).

Consolidated financial statements – the PZU Group’s annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS and signed by the PZU Management Board on 14 March 2017. The consolidated financial statements are available on the PZU website at www.pzu.pl in the “Investor Relations” tab.

KNF Office – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (i.e. Journal of Laws of 2017 Item 1170).

ZUS – Social Insurance Institution [Polish: *Zakład Ubezpieczeń Społecznych*].



Interim consolidated financial statements

1. Interim consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016 (restated)	1 January – 30 June 2016 (restated)
Gross written premiums	8.1	5,838	11,606	5,061	9,862
Reinsurers' share in gross written premium		(214)	(307)	(88)	(142)
Net written premium		5,624	11,299	4,973	9,720
Movement in the net provision for unearned premiums		(349)	(952)	(304)	(734)
Net earned premium		5,275	10,347	4,669	8,986
Fees and commission income	8.2	431	702	209	395
Net investment income	8.3	1,921	3,267	949	1,879
Net result on the realization of investments and impairment charges	8.4	(88)	(301)	(379)	(470)
Net movement in the fair value of assets and liabilities measured at fair value	8.5	(460)	66	(119)	(4)
Other operating income	8.6	251	530	209	412
Claims and movement in technical provisions		(3,587)	(7,379)	(3,135)	(6,231)
Reinsurers' share in claims and movement in technical provisions		83	165	36	66
Net insurance claims and benefits	8.7	(3,504)	(7,214)	(3,099)	(6,165)
Fees and commission expenses	8.8	(123)	(204)	(75)	(127)
Interest expenses	8.9	(254)	(426)	(175)	(346)
Acquisition expenses	8.10	(718)	(1,412)	(635)	(1,252)
Administrative expenses	8.10	(1,164)	(2,025)	(648)	(1,278)
Other operating expenses	8.11	(627)	(1,131)	(572)	(980)
Operating profit		940	2,199	334	1,050
Share of the financial results of entities measured by the equity method		(1)	(1)	(1)	(1)
Profit before tax		939	2,198	333	1,049
Income tax	8.13	(213)	(465)	(102)	(259)
Net profit, including:		726	1,733	231	790
- profit attributable to the equity holders of the parent company		506	1,446	168	660
- profit attributable to holders of non-controlling interests		220	287	63	130
Basic and diluted weighted average number of ordinary shares	8.12	863,521,269	863,516,697	863,473,794	863,473,794
Basic and diluted earnings per ordinary share (in PLN)	8.12	0.59	1.67	0.19	0.76



2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016 (restated)	1 January – 30 June 2016 (restated)
Net profit		726	1,733	231	790
Other comprehensive income	8.13	1	8	(19)	(28)
Subject to subsequent transfer to the statement of profit or loss		-	7	(19)	(28)
Measurement of financial instruments available for sale		(14)	42	(62)	(70)
Foreign exchange translation differences		1	(53)	41	41
Net cash flow hedging		13	18	2	1
Not to be reclassified to the statement of profit or loss in the future		1	1	-	-
Reclassification of real property from property, plant and equipment to investment property		1	1	-	-
Total net comprehensive income		727	1,741	212	762
- comprehensive income attributed to the equity holders of the parent company		491	1,419	167	645
- comprehensive income attributed to holders of non-controlling interests		236	322	45	117

3. Interim consolidated statement of financial position

Assets	Note	30 June 2017	31 December 2016	1 January 2016 (restated)
Goodwill	8.14	3,278	1,583	1,532
Intangible assets		1,963	1,463	1,393
Other assets	8.15	892	871	813
Deferred acquisition expenses		1,473	1,407	1,154
Reinsurers' share in technical provisions	8.23	1,126	990	1,097
Property, plant and equipment		2,819	1,467	1,300
Investment properties		1,703	1,738	1,172
Entities measured by the equity method		190	37	54
Financial assets		257,125	105,300	89,229
Held to maturity	8.16.1	23,371	17,346	17,370
Available for sale	8.16.2	31,674	11,635	7,745
Measured at fair value through profit or loss	8.16.3	18,267	21,882	20,648
Hedge derivatives		298	72	140
Loans	8.16.4	183,515	54,365	43,326
Deferred tax assets		1,586	624	369
Receivables	8.18	10,222	5,703	3,338
Cash and cash equivalents		11,646	2,973	2,440
Assets held for sale	8.22	1,239	1,189	1,506
Total assets		295,262	125,345	105,397

Equity and liabilities	Note	30 June 2017	31 December 2016	1 January 2016 (restated)
Equity				
Equity attributable to the equity holders of the Parent Company		13,154	13,010	12,924
Share capital		86	86	86
Other equity		11,908	10,869	10,142
Retained earnings		1,160	2,055	2,696
Retained earnings		(286)	108	2,696
Net profit		1,446	1,947	-
Non-controlling interests		21,474	4,117	2,194
Total equity		34,628	17,127	15,118
Liabilities				
Technical provisions	8.23	43,785	42,194	41,280
Provisions for employee benefits		532	128	117
Other provisions	8.24	574	367	108
Deferred tax liability		623	469	509
Financial liabilities	8.25	204,291	60,030	44,695
Other liabilities	8.26	10,797	4,997	3,570
Liabilities related directly to assets classified as held for sale	8.22	32	33	-
Total liabilities		260,634	108,218	90,279
Equity and liabilities, total		295,262	125,345	105,397





4. Interim statement of changes in consolidated equity

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company								Non-controlling interests	Total equity	
		Other equity						Retained earnings				Total
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2017	86	(1)	10,758	106	5	3	(2)	2,055	-	13,010	4,117	17,127
Measurement of financial instruments available for sale	-	-	-	21	-	-	-	-	-	21	21	42
Cash flow hedging	-	-	-	4	-	-	-	-	-	4	14	18
Foreign exchange translation differences	-	-	-	-	-	-	(53)	-	-	(53)	-	(53)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total other net comprehensive income	-	-	-	26	-	-	(53)	-	-	(27)	35	8
Net profit (loss)	-	-	-	-	-	-	-	-	1,446	1,446	287	1,733
Total comprehensive income	-	-	-	26	-	-	(53)	-	1,446	1,419	322	1,741
Other changes, including:	-	1	1,069	(4)	-	-	-	(2,341)	-	(1,275)	17,035	15,760
Distribution of financial result	-	-	1,122	-	-	-	-	(2,330)	-	(1,208)	-	(1,208)
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Acquisition of Pekao shares	-	-	-	-	-	-	-	-	-	-	17,176	17,176
Transactions with holders of non-controlling interests	-	-	(57)	-	-	-	-	-	-	(57)	(116)	(173)
Sale of revalued real estate	-	-	4	(4)	-	-	-	-	-	-	-	-
Other equity changes ¹⁾	-	-	-	-	-	-	-	(11)	-	(11)	(25)	(36)
As at 30 June 2017:	86	-	11,827	128	5	3	(55)	(286)	1,446	13,154	21,474	34,628

¹⁾ Additional information are presented in item 1.4.1.2



Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company								Non-controlling interests	Total equity	
		Other equity						Retained earnings				Total
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2016	86	-	9,947	241	-	(4)	(42)	2,696	-	12,924	2,194	15,118
Measurement of financial instruments available for sale	-	-	-	(104)	-	-	-	-	-	(104)	(40)	(144)
Cash flow hedging	-	-	-	(9)	-	-	-	-	-	(9)	(22)	(31)
Foreign exchange translation differences	-	-	-	-	-	-	40	-	-	40	-	40
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	7	-	-	-	7	-	7
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total other net comprehensive income	-	-	-	(110)	-	7	40	-	-	(63)	(62)	(125)
Net profit (loss)	-	-	-	-	-	-	-	-	1,947	1,947	470	2,417
Total comprehensive income	-	-	-	(110)	-	7	40	-	1,947	1,884	408	2,292
Other changes, including:	-	(1)	811	(25)	5	-	-	(2,588)	-	(1,798)	1,515	(283)
Distribution of financial result	-	-	787	-	5	-	-	(2,588)	-	(1,796)	-	(1,796)
Issues of Alior Bank shares	-	-	-	-	-	-	-	-	-	-	1,528	1,528
Transactions on treasury shares	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	(13)	(14)
Sale of revalued real estate	-	-	25	(25)	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	86	(1)	10,758	106	5	3	(2)	108	1,947	13,010	4,117	17,127



Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity (restated)	Share capital	Equity attributable to the equity holders of the Parent Company								Non-controlling interests	Total equity	
		Other equity					Retained earnings		Total			
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings				Net profit
Balance as at 1 January 2016	86	-	9,947	241	-	(4)	(42)	2,696	-	12,924	2,194	15,118
Measurement of financial instruments available for sale	-	-	-	(56)	-	-	-	-	-	(56)	(14)	(70)
Cash flow hedging	-	-	-	-	-	-	-	-	-	-	1	1
Foreign exchange translation differences	-	-	-	-	-	-	41	-	-	41	-	41
Total other net comprehensive income	-	-	-	(56)	-	-	41	-	-	(15)	(13)	(28)
Net profit (loss)	-	-	-	-	-	-	-	-	660	660	130	790
Total comprehensive income	-	-	-	(56)	-	-	41	-	660	645	117	762
Other changes, including:	-	(1)	798	(11)	5	-	-	(2,588)	-	(1,797)	1,518	(279)
Distribution of financial result	-	-	787	-	5	-	-	(2,588)	-	(1,796)	-	(1,796)
Issues of Alior Bank's shares	-	-	-	-	-	-	-	-	-	-	1,518	1,518
Transactions on treasury shares	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued real estate	-	-	11	(11)	-	-	-	-	-	-	-	-
As at 30 June 2016	86	(1)	10,745	174	5	(4)	(1)	108	660	11,772	3,829	15,601

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 30 June 2017	1 January – 30 June 2016
Profit before tax	2,198	1,049
Adjustments	773	1,068
Movement in loan receivables from clients	(2,368)	(3,271)
Movement in liabilities under deposits	2,377	4,136
Movement in valuation of real properties measured at fair value	(66)	(23)
Interest income and expenses	(707)	(564)
Realized gains/losses on investment activity and impairment charges	301	470
Result on foreign exchange differences	(358)	6
Movement in deferred acquisition expenses	(66)	(104)
Amortization of intangible assets and depreciation of property, plant and equipment	271	218
Movement in reinsurers' share in technical provisions	(136)	85
Movement in technical provisions	1,591	421
Movement in receivables	(2,143)	(181)
Movement in liabilities	1,382	41
Cash flow on investment contracts	(55)	(90)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(150)	55
Income tax paid	(553)	(233)
Other adjustments	1,453	102
Net cash flow on operating activity	2,971	2,117
Cash flow on investing activity		
Proceeds	488,251	479,715
- sale of investment properties	43	40
- proceeds from investment properties	150	135
- sale of intangible assets and components of property, plant and equipment	5	10
- sale of ownership interests and shares	1,739	1,860
- realization of debt securities	111,652	63,801
- closing of buy-sell-back transactions	175,743	193,407
- closing of term deposits in credit institutions	114,140	171,324
- realization of other investments	78,937	48,406
- interest received	816	708
- dividends received	15	10
- cash acquired in business combinations and when changing the scope of consolidation	4,998	-
- other investment proceeds	13	14

Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 30 June 2017	1 January – 30 June 2016
Expenditures	(483,411)	(481,845)
- purchase of investment properties	(24)	(138)
- expenditures for the maintenance of investment properties	(90)	(80)
- purchase of intangible assets and components of property, plant and equipment	(194)	(153)
- purchase of ownership interests and shares	(932)	(1,863)
- purchase of ownership interests and shares in subsidiaries	(6,200)	(344)
- decrease in cash due to a change in the scope of consolidation	(54)	-
- purchase of debt securities	(106,503)	(67,410)
- opening of buy-sell-back transactions	(174,595)	(192,254)
- purchase of term deposits in credit institutions	(113,701)	(170,947)
- purchase of other investments	(81,113)	(48,655)
- other expenditures for investments	(6)	(1)
Net cash flow on investing activity	4,840	(2,130)
Cash flow on financing activity		
Proceeds	130,016	177,680
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)	-	1,502
- proceeds from loans	1,611	39
- proceeds from the issue of own debt securities	2,250	264
- opening of sell-buy-back transactions	126,155	175,875
Expenditures	(129,070)	(178,411)
- repayment of loans	(1,618)	(2)
- closing of sell-buy-back transactions	(127,415)	(178,388)
- interest on loans	(3)	(2)
- interest on outstanding debt securities	(34)	(19)
Net cash flow on financing activity	946	(731)
Total net cash flow	8,757	(744)
Cash and cash equivalents at the beginning of the period	2,973	2,440
Movement in cash due to foreign exchange differences	(84)	12
Cash and cash equivalents at the end of the period, including:	11,646	1,708
- restricted cash	55	67

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

According to the Polish Classification of Business Activity (PKD), the core business of PZU consists of other casualty insurance and property insurance (PKD 65.12) and according to the European Classification of Business Activity – non-life insurance (EKD 6603).



1.2 PZU Group entities

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2017	31 December 2016	
Consolidated insurance entities						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life 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 entities – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.00%	n/a	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.00%	n/a	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.00%	n/a	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.00%	n/a	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.00%	n/a	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Pioneer Powszechne Towarzystwo Emerytalne SA	Warsaw	07.06.2017	13.00% ¹⁾	n/a	Management of pension funds. https://www.pekaopte.pl/
17	Centrum Kart SA	Warsaw	07.06.2017	20.00%	n/a	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Transfer agent. http://www.pekao-fs.com.pl/pl/
19	Centrum Bankowości Bezpośredniej sp. z o.o.	Kraków	07.06.2017	20.00%	n/a	Call-center services. http://www.cbb.pl/
20	Pekao Property SA	Warsaw	07.06.2017	20.00%	n/a	Development activity.
21	FPB – Media sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Development activity.



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No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2017	31 December 2016	
Consolidated entities – Pekao Group – continued						
22	Pekao Fundusz Kapitałowy sp. z o.o. (in liquidation)	Warsaw	07.06.2017	20.00%	n/a	Business consulting
Consolidated entities – Alior Bank Group						
23	Alior Bank SA	Warsaw	18.12.2015	31.36%	29.45%	Banking services. https://www.aliorbank.pl/
24	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.36%	29.45%	Other activity supporting financial services, excluding insurance and pension funds.
25	Centrum Obrotu Wierzytelnościami sp. z o.o.	Kraków	18.12.2015	31.36%	29.45%	Debt trading.
26	Alior Leasing sp. z o.o.	Wrocław	18.12.2015	31.36%	29.45%	Lease services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	31.36%	29.45%	IT services.
28	Money Makers TFI SA	Warsaw	18.12.2015	18.87% ²⁾	17.33% ²⁾	Asset management services and management of Alior SFIO subfunds. http://www.moneymakers.pl
29	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.36%	29.45%	No business conducted.
30	Absource sp. z o.o.	Kraków	04.05.2016	31.36%	29.45%	Provision of IT services.
31	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.36%	n/a	Brokerage activity.
Consolidated entities – other companies						
32	Powszechnie Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
33	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
34	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
35	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
36	PZU Finance AB (publ.)	Stockholm, Sweden	02.06.2014	100.00%	100.00%	Financial services.
37	PZU Finanse sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and bookkeeping services.
38	Tower Inwestycje sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Other service activity.
39	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/
40	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/grupa-pzu/pzu-



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No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2017	31 December 2016	
						zdrowie-sa
Consolidated entities– other companies						
41	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
42	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
43	Sanatorium Uzdrowskie "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
44	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. http://www.elvita.pl/
45	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
46	Rezo-Medica sp. z o.o.	Płock	23.04.2015	100.00%	100.00%	Medical services. http://rezo-medica.pl/
47	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
48	Medicus w Opolu sp. z o.o.	Opole	30.09.2015	100.00%	100.00%	Medical services. http://medicus.opole.pl/
49	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
50	Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.medycynapracy.com.pl/
51	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
52	Revimed sp. z o.o.	Gdańsk	31.05.2017	100.00%	n/a	Medical services. http://www.revimed.pl/
53	Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.	Trzebinia	30.06.2017	95.25%	n/a	Medical services. http://www.nzoz.trzebinia.com/
54	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
55	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
56	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
57	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	No business conducted.
58	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
59	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
60	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
61	L4C sp. z o.o. w likwidacji ³⁾	Warsaw	15.09.2014	100.00%	100.00%	No business conducted.



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No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2017	31 December 2016	
Consolidated entities – Armatura Group						
62	Armatura Kraków SA ⁴⁾	Kraków	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
63	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
64	Aquaform Badprodukte GmbH	Anhausen, Germany	15.01.2015	100.00%	100.00%	Wholesale trade.
65	Aquaform Ukraine TOW	Zhytomyr, Ukraine	15.01.2015	100.00%	100.00%	Wholesale trade.
66	Aquaform Romania SRL	Prejmer, Romania	15.01.2015	100.00%	100.00%	Wholesale trade.
67	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated entities – mutual funds						
68	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
69	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
70	PZU FIZ Sektora Nieruchomości ⁵⁾	Warsaw	01.07.2008	n/a	n/a	as above
71	PZU FIZ Sektora Nieruchomości 2 ⁵⁾	Warsaw	21.11.2011	n/a	n/a	as above
72	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
73	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
74	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
75	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
76	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	as above
77	PZU Telekomunikacja Media Technologia	Warsaw	07.09.2016	n/a	n/a	as above
78	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	as above
79	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	as above
80	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above



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No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2017	31 December 2016	
Associates						
81	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration.
82	EMC Instytut Medyczny SA	Wrocław	18.06.2013	28.31% ⁶⁾	28.31% ⁶⁾	Human health protection, research and development in the medical sciences and pharmaceutical practice.
83	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	07.06.2017	10.00% ⁷⁾	n/a	Financial intermediation. https://www.xelion.pl/
84	Pioneer Pekao Investment Management SA	Warsaw	07.06.2017	9.80% ⁷⁾	n/a	Asset management. http://www.pioneer.com.pl/
85	Pioneer Pekao TFI SA	Warsaw	07.06.2017	9.80% ⁷⁾	n/a	Creation, representing and management of mutual funds. http://www.pioneer.com.pl/
86	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.00% ⁷⁾	n/a	Consulting and business activity – no business conducted.

¹⁾ Direct subsidiary of Pekao, in which it holds a 65.00% stake. As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.

²⁾ Direct subsidiary of Alior Bank, in which Alior Bank holds a 60.16% stake. As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.

³⁾ On 16 May 2017, the shareholder meeting adopted a resolution to open the company's liquidation process.

⁴⁾ On 30 June 2017, Armatura Kraków SA merged with Armatoora SA. The merger was effected by the transfer to Armatura Kraków SA of the entire property of Armatoora SA without a simultaneous increase of the acquiring company's share capital and without an exchange of the acquired company's shares to the acquiring company shares and without amending the acquiring company's articles of association. The transaction had no impact on the condensed interim consolidated financial statements.

⁵⁾ As at 30 June 2017, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles whose number in the respective funds was: 15 and 20 (as at 31 December 2016: 24 and 11, respectively).

⁶⁾ The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 30 June 2017 and as at 31 December 2016 it was 25.44%. The difference between the percentage of votes and the stake in the share capital results from the fact that holders of non-controlling interests hold certain shares preferred as to the voting rights.

⁷⁾ Associates of Pekao that holds 50,00% (Xelion), 49,00% (PPIM and Pioneer Pekao TFI) and 40,00% of shares respectively. Consequently the Management Board of PZU presumes that the PZU Group imposes significant influence over these entities.

As at 30 June 2017, besides the companies listed in the table the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

1.3 Non-controlling interests

The following table presents current and past subsidiaries with non-controlling interests:

Name of the company	30 June 2017	31 December 2016
Pekao	80.00%	n/a
Alior Bank	68.64%	70.55%
Gamma	39.54%	39.54%
Proelmed	43.00%	43.00%
NZOZ Trzebinia sp. z o.o.	4.75%	n/a
SU Krystynka	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%

Carrying amount non-controlling interests	30 June 2017	31 December 2016
Pekao	17,326	n/a
Alior Bank	4,144	4,111
Other	4	6
Total	21,474	4,117

Presented below is condensed financial information for the Pekao Group and the Alior Bank Group included in the condensed interim consolidated financial statements.

Assets	Pekao		Alior Bank	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Intangible assets	537	n/a	677 ²⁾	666 ²⁾
Other assets	188	n/a	94	73
Property, plant and equipment	1,400	n/a	476	486
Investment properties	23	n/a	-	-
Entities measured by the equity method	157	n/a	-	-
Financial assets	157,697	n/a	56,152	57,092
Held to maturity	4,384	n/a	223	220
Available for sale	22,453	n/a	6,757	9,505
Measured at fair value through profit or loss	3,571	n/a	421	419
Hedge derivatives	259	n/a	46	72
Loans	127,030	n/a	48,705 ²⁾	46,876 ²⁾
Deferred tax assets	921	n/a	608 ²⁾	594 ²⁾
Receivables	2,560	n/a	748	815
Cash and cash equivalents	6,943	n/a	2,744	1,126
Assets held for sale	48	n/a	-	1
Total assets	170,474 ¹⁾	n/a	61,499	60,853



Equity and liabilities	Pekao		Alior Bank	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Equity				
Equity attributable to the equity holders of the Parent Company	21,638	n/a	6,036	5,827
Share capital	262	n/a	1,293	1,293
Other equity	20,578	n/a	4,972	4,298
Retained earnings	798	n/a	(229) ²⁾	236 ²⁾
Non-controlling interests	15	n/a	1	1
Total equity	21,653	n/a	6,037	5,828¹⁾
Liabilities				
Provisions for employee benefits	383	n/a	46	43
Other provisions	248	n/a	174	276
Deferred tax liability	5	n/a	-	-
Financial liabilities	142,846	n/a	54,091	53,266
Other liabilities	5,339	n/a	1,151 ²⁾	1,440 ²⁾
Total liabilities	148,821	n/a	55,462	55,025
Equity and liabilities, total	170,474¹⁾	n/a	61,499	60,853

¹⁾ Since the settlement of the acquisition of Pekao shares presented in these condensed interim consolidated financial statements is provisional in nature, the data presented do not include the effect of the fair value measurement of the balance sheet items and the possible intangible assets that may be identified in the purchase price allocation process.

²⁾ Including the effect of the adjustment to the measurement of balance sheet items at fair value as at the consolidation date and their further measurement and the amortization of intangible assets identified in the acquisition of Alior Bank.

Statement of profit or loss	Pekao		Alior Bank	
	1 June – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Fees and commission income	185	n/a	412	279
Net investment income	495	n/a	2,051 ¹⁾	1,319
Net result on the realization of investments and impairment charges	(45)	n/a	(449)	(323)
Net movement in the fair value of assets and liabilities measured at fair value	8	n/a	(150)	18
Other operating income	16	n/a	82	44
Fees and commission expenses	(25)	n/a	(169)	(112)
Interest expenses	(83)	n/a	(308)	(300)
Administrative expenses	(266)	n/a	(957) ²⁾	(520)
Other operating expenses	(58)	n/a	(226) ³⁾	(159)
Operating profit	227	n/a	286^{1) 2) 3)}	246
Share of the profit of entities measured by the equity method	3	n/a	-	-
Profit before tax	230	n/a	286^{1) 2) 3)}	246
Income tax	(52)	n/a	(80)	(62)
Net profit	178	n/a	206^{1) 2) 3)}	184

¹⁾ Including PLN 42 million (in H1 2016: PLN 50 million) of positive impact from the differences in interest income on the loan portfolio carried at fair value as at the date of acquisition of Alior Bank.

²⁾ Including PLN 4 million (in H1 2016: PLN 7 million) due to the settlement of a liability arising from unfavorable (liability-generating) real property lease agreements recognized as a result of the acquisition of Alior Bank.

³⁾ Including PLN 18 million (in H1 2016: PLN 23 million) of costs resulting from amortization of intangible assets (relations with clients holding current accounts) resulting from the acquisition of Alior Bank.



Statement of comprehensive income	Pekao		Alior Bank	
	1 June – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Net profit	178	n/a	206	184
Other comprehensive income – subject to subsequent transfer to the statement of profit or loss	7	n/a	40	(18)
Measurement of financial instruments available for sale	(5)	n/a	34	(19)
Net cash flow hedging	12	n/a	6	1
Total net comprehensive income	185	n/a	246	166

Cash flow statement	Pekao		Alior Bank	
	1 June – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Net cash flow on operating activity	3,596	n/a	(1,979)	1,532
Net cash flow on investing activity	(396)	n/a	3,639	(5,141)
Net cash flow on financing activity	(1,244)	n/a	14	2,406
Total net cash flow	1,956	n/a	1,674	(1,203)

On 19 April 2017, the Ordinary Shareholder Meeting of Pekao adopted a resolution to pay out a dividend of PLN 2,278 million (PLN 8.68 per share).

The table below presents additionally the PZU Group's statement of profit or loss presenting the effect of excluding Alior Bank and Pekao as consolidated subsidiaries.

Consolidated statement of profit or loss for the period from 1 January to 30 June 2017	PZU Group	Exclusion of Alior Bank data	Exclusion of Pekao data	Elimination of consolidation adjustments	Group without Alior Bank and Pekao
Gross written premiums	11,606	-	-	-	11,606
Reinsurers' share in gross written premium	(307)	-	-	-	(307)
Net written premium	11,299	-	-	-	11,299
Movement in the net provision for unearned premiums	(952)	-	-	-	(952)
Net earned premium	10,347	-	-	-	10,347
Fees and commission income	702	(412)	(185)	6	111
Net investment income	3,267	(2,051)	(495)	6	727
Net result on the realization of investments and impairment charges	(301)	449	45	-	193
Net movement in the fair value of assets and liabilities measured at fair value	66	150	(8)	-	208
Other operating income	530	(82)	(16)	-	432
Claims and movement in technical provisions	(7,379)	-	-	-	(7,379)
Reinsurers' share in claims and movement in technical provisions	165	-	-	-	165
Net insurance claims and benefits	(7,214)	-	-	-	(7,214)
Fees and commission expenses	(204)	169	25	-	(10)
Interest expenses	(426)	308	83	(6)	(41)
Acquisition expenses	(1,412)	-	-	(6)	(1,418)
Administrative expenses	(2,025)	957	266	(8)	(810)
Other operating expenses	(1,131)	226	58	8	(839)
Operating profit (loss)	2,199	(286)	(227)	-	1,686
Share of the financial results of entities measured by the equity method	(1)	-	(3)	-	(4)
Profit (loss) before tax	2,198	(286)	(230)	-	1,682
Income tax	(465)	80	52	-	(333)
Net profit (loss)	1,733	(206)	(178)	-	1,349

Consolidated statement of profit or loss for the period from 1 January to 30 June 2016	PZU Group	Exclusion of Alior Bank data	Elimination of consolidation adjustments	Group without Alior Bank
Gross written premiums	9,862	-	60	9,922
Reinsurers' share in gross written premium	(142)	-	-	(142)
Net written premium	9,720	-	60	9,780
Movement in the net provision for unearned premiums	(734)	-	(40)	(774)
Net earned premium	8,986	-	20	9,006
Fees and commission income	395	(279)	-	116
Net investment income	1,879	(1,319)	5	565
Net result on the realization of investments and impairment charges	(470)	323	-	(147)
Net movement in the fair value of assets and liabilities measured at fair value	(4)	(18)	-	(22)
Other operating income	412	(44)	-	368
Claims and movement in technical provisions	(6,231)	-	-	(6,231)
Reinsurers' share in claims and movement in technical provisions	66	-	-	66
Net insurance claims and benefits	(6,165)	-	-	(6,165)
Fees and commission expenses	(127)	112	-	(15)
Interest expenses	(346)	300	(5)	(51)
Acquisition expenses	(1,252)	-	-	(1,252)
Administrative expenses	(1,278)	520	(20)	(778)
Other operating expenses	(980)	159	-	(821)
Operating profit (loss)	1,050	(246)	-	804
Share of the financial results of entities measured by the equity method	(1)	-	-	(1)
Profit (loss) before tax	1,049	(246)	-	803
Income tax	(259)	62	-	(197)
Net profit (loss)	790	(184)	-	606

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

1.4.1. Business combination transactions

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 "Business combinations". Its application requires, among others, identifying the acquiring entity, determining the acquisition date, recognizing and measuring identifiable acquired assets, acquired liabilities measured at fair value as at the acquisition date and all non-controlling interests in the acquired entity as well as recognizing and measuring goodwill.

By purchasing the stake in Pekao, the PZU Group implements its strategic goal of increasing exposure to the banking sector. The goodwill recognized in the condensed interim consolidated financial statements is due to the fact that Pekao is the leading financial institution in Poland having a significant potential for paying out dividends and the ability to improve its market position even further. Integration of the PZU Group and Pekao should bring about an extension of the product offering, optimization of the sales network and a number of revenue and cost synergies, which will affect value creation for the PZU Group and for Pekao.

1.4.1.1. Acquisition of shares in Pekao

On 28 September 2016, negotiations were launched to conclude a transaction for PZU acting in a consortium with Polski Fundusz Rozwoju S.A. ("PFR") to acquire a significant equity stake in Pekao from UniCredit S.p.A. ("Seller", "UniCredit"; PZU, PFR and the Seller are collectively referred to as the "Parties"), which ended on 8 December 2016.



The PZU Management Board and the PZU Supervisory Board expressed their consent for the execution of a share purchase agreement with UniCredit for a stake in Pekao ("SPA") and other agreements necessary for the scheduled transaction.

On 8 December 2016, PZU and PFR signed the SPA with UniCredit.

The essence of the transaction arising from the SPA is the acquisition, by PZU acting in a consortium with PFR, of a significant (ultimately approx. 32.8% of the total number of votes) equity stake in Pekao ("Transaction").

On 29 March 2017, the PZU Management Board and the PZU Supervisory Board agreed to enter into an annex to the SPA with UniCredit and PFR and to enter into annexes to the consortium agreement and the shareholder agreement with PFR. Then, on 29 March 2017, PZU, PFR and UniCredit signed an annex to the SPA, which was to simplify the structure of the transaction, consisting primarily of replacing an indirect acquisition of the equity stake in PZU (acquisition of a special purpose vehicle from UniCredit) with a direct acquisition. The transaction was not conducted in two stages, as was originally assumed, and will be executed by applying a structure involving a direct acquisition by PZU and PFR of all Pekao shares forming the subject matter of the Transaction in one tranche on the Transaction closing date, i.e. 7 June 2017. PZU directly acquired a stake in Pekao representing approximately 20% of the total number of votes and at the same time PFR directly acquired a stake in Pekao representing approximately 12.8% of the total number of votes.

The price agreed by the parties is PLN 123 per share, which implies the total price of PLN 10,589 million for the whole stake to be acquired by PZU and PFR, of which the price for the stake to be acquired by PZU is PLN 6,457 million. The price also included payment for the acquired right to the dividend of PLN 8.68 per share, or PLN 456 million in total, in accordance with the 19 April 2017 resolution adopted by the Pekao Ordinary Shareholder Meeting. The SPA does not provide for the possibility of an adjustment of the purchase price.

The execution of the Transaction was contingent on the fulfillment of the conditions precedent specified in the SPA, which included in particular:

- (i) obtaining the consents of anti-monopoly authorities in Poland (the consent was issued on 6 April 2017) and Ukraine (PZU was informed of the granting of consent on 27 March 2017), and
- (ii) obtaining by the Seller, PZU SA and PFR the relevant consents or decisions of the Polish Financial Supervision Authority (KNF) (the consent was issued on 4 May 2017).

The SPA contains a full list of representations and warranties by the Seller regarding the stake to be purchased and the business standing and condition of Pekao and other members of the Pekao Group. Moreover, the SPA provides for a waiver of liability in favor of PZU and PFR for any losses resulting from regulatory changes affecting Pekao's existing Swiss franc-denominated loan portfolio. The parties agreed that the said waiver of liability will not exceed the agreed amount and will be available to PZU and PFR in principle for a period of 3 years after the acquisition by PZU and PFR of the stake in Pekao.

Under the SPA, PZU and PFR agreed with the Seller on the rules of non-competition applicable to the Seller and members of its group as well as the rules prohibiting the solicitation of key Pekao staff.

Due to the need to ensure a proper spin-off of Pekao from the Seller's group, the Parties executed a contract governing the basic rules for the spin-off (in the IT context) of Pekao from the Seller's group. The contract in particular sets forth the rules for ensuring the continuity of provision of process support services based on the IT systems in place in Pekao and governs the rules and costs associated with securing Pekao's self-sufficiency following the execution of the Transaction in the context of access to services and rights to software.

Furthermore, the Parties agreed that their intention is for PPIM (and hence, indirectly, Pioneer Pekao TFI), Pioneer PTE and Xelion to be full members of the Pekao Group.

On 1 June 2017, Pekao signed a preliminary agreement with PGAM to sell 14,746 PPIM shares, which represented 51% of PPIM's shares and offering 51% in PPIM's share capital and in all the votes at the Shareholder Meeting. PPIM holds 100% of the share capital of Pioneer Pekao TFI with its registered office in Warsaw.

The total amount to be paid to PGAM is EUR 140 million and constitutes also the price for 35% of Pioneer PTE's shares. As at 30 June 2017, Pioneer PTE is a subsidiary of PZU (Pekao holds 65% shares of Pioneer PTE), while PPIM and Pioneer Pekao TFI are associates.

On 1 June 2017, Pekao signed a preliminary agreement to purchase a 50% stake in Xelion from UniCredit.

Execution of the final sales agreements, whose terms and conditions were agreed in the preliminary agreement, is conditional upon the receipt of a relevant regulatory approval for each transaction.

Following the purchase of the above Pekao shares, it will hold 100% of the share capital and all the votes at the Shareholder Meetings of PPIM, Pioneer PTE and Xelion.

Shareholder agreement between PZU and PFR

In connection with the SPA, PZU and PFR also entered into a consortium agreement on 8 December 2016. The consortium agreement defines the mutual rights and obligations of PZU and PFR in respect of the execution and closing of the Transaction and the mutual cooperation between PZU and PFR in connection with the SPA and the Transaction ("Consortium Agreement").

On 23 January 2017, PZU and PFR signed a shareholder agreement ("Shareholder Agreement") forming part of the documentation of the acquisition of a significant stake in Pekao, as described above.

The governing law for the SPA, the Consortium Agreement and the Shareholder Agreement is Polish law.

On 29 March 2017, PZU and PFR signed an annex to the Shareholder Agreement to be aimed at customizing it to the new Transaction's structure.

The Shareholder Agreement was entered into because PZU and PFR intend to: build Pekao's long-term value, implement a policy aimed at ensuring Pekao's development, financial stability and effective and prudent management following the closing of the share purchase transaction and ensure the application of proper corporate governance standards by Pekao.

The essence of the Shareholder Agreement is to define the rules of cooperation between PZU and PFR following the acquisition of the equity stake in Pekao and the rights and obligations of the parties as Pekao shareholders, in particular pertaining to agreeing on the manner of joint exercise of voting rights from the shares held and the implementation of a common long-term policy for Pekao's business aimed at attaining the said objectives.

In particular, the provisions of the Shareholder Agreement cover the following issues:

- PZU and PFR have undertaken to each other to vote in favor of resolutions on the distribution of profit and the disbursement of dividends, in accordance with the rules and within the boundaries set by the applicable provisions of law and KNF's recommendations and in accordance with Pekao's existing practice;
- subject to certain explicit exceptions, in situations where PZU and PFR are unable to reach an agreement on how to exercise their voting rights, PZU will determine the manner of voting and PFR will be required to vote in accordance with PZU's decision;
- mutual undertakings of PZU and PFR aimed at curtailing each party's ability to dispose of their Pekao shares as well as a contractual right of priority in the event that either party intends to sell all or any of its Pekao shares;
- the right of either party to execute the repurchase of shares held by the other party in the event of its termination of the Shareholder Agreement;
- the rules of cooperation and mutual relations between PZU and PFR on one side and the entity providing PFR with financing for the purpose of acquiring the stake in Pekao. PZU and PFR signed an additional trilateral agreement with the said entity in order to clarify the parties' mutual relationships in the context of the wording of the Shareholder Agreement and the financing documentation for PFR;
- the manner of conduct by the parties aimed at monitoring the parties' performance of the obligations arising from the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies (Journal of Laws of 2016 Item 1639) and preventing the obligation to announce a tender offer to subscribe for Pekao shares in accordance with the provisions of the said Act.

The Shareholder Agreement came into force on the date of execution of the Transaction to acquire Pekao shares by PZU and PFR.

The Shareholder Agreement was concluded for a definite period of 5 years from its entry into force and cannot be terminated by any of the parties within 12 months from its entry into force.



Tentative settlement of the acquisition of Pekao

The provisional settlement of the Pekao share purchase as at the date of the assumption of control was based on data as at 31 May 2017. There were no significant differences in accounting data between 31 May 2017 and 7 June 2017 (date of the assumption of control).

In the settlement of the acquisition, the PZU Group reduced the price paid by PLN 456 million, which was the price for the right to receive a dividend payable from profits earned by Pekao before the date of the assumption of control, that was recognized as receivables.

By the publication date of the condensed interim consolidated financial statements, the process of settling the acquisition of Pekao has not been completed. A credible and reliable calculation of the fair value of acquired assets and liabilities requires a large amount of data to be collected and processed in order to make appropriate calculations. Consequently, this process could not be completed between the date of assumption of control and the publication date of the condensed interim consolidated financial statements. The PZU Group decided to prepare a provisional settlement of the acquisition transaction, in which:

- the goodwill shown in Pekao's financial statements was written off;
- the intangible assets not included in Pekao's financial statements were not recognized;
- the analysis of the potential fair value measurement of assets and liabilities adjustment presented in Pekao's financial statements has not been completed;
- the measurement of contingent liabilities was not taken into account;
- the potential indemnification assets have not been identified and measured.

The final settlement will be presented after the process of identifying and calculating fair value of the acquired assets, liabilities and off-balance sheet liabilities is completed; this should take place no later than by the publication date of the PZU Group's consolidated financial statements for the year ended 31 December 2017.



Tentative fair value of acquired assets and liabilities as at the date of the assumption of control	Value in PLN million
Intangible assets	544
Other assets	166
Property, plant and equipment	1,429
Investment properties	25
Entities measured by the equity method	154
Financial assets	157,634
Held to maturity	4,507
Available for sale	22,168
Measured at fair value through profit or loss	2,886
Hedge derivatives	325
Loans	127,748
Deferred tax assets	867
Receivables	2,542
Cash	4,981
Assets held for sale	48
Total assets	168,390
Financial liabilities	141,297
Other liabilities and provisions	5,625
Non-controlling interests ¹⁾	15
Tentative fair value of net assets acquired	21,453

¹⁾ measured as the percentage of the fair value of identifiable net assets

Calculation of goodwill	Value in PLN million
Consideration transferred	6,001
Cash transferred	6,457
Adjustment for the amount equal to the price for the right to receive dividend	(456)
Value of non-controlling interests (80.00% share in the fair value of Pekao's net assets)	17,163
Tentative fair value of Pekao's identifiable net assets	(21,453)
Goodwill	1,711

1.4.1.2. Information on the settlement of the acquisition of Bank BPH's Core Business

As at the date of conveying this periodic report, Alior Bank and GE Investment Poland sp. z o.o. (GEIP), DRB Holdings B.V. and Selective American Financial Enterprises, LLC (collectively, the "Bank BPH Sellers") did not reach an agreement as to the determination of the final purchase price for Bank BPH's Core Business. The difference of opinions between Alior Bank and the Bank BPH Sellers will be resolved by an expert, i.e. an auditor firm appointed in accordance with the provisions of the agreement for the purchase of Bank BPH's Core Business. As at 30 June 2017, the amount of receivables on account of the settlement of the purchase price was revised by reducing it by PLN 30 million. The effect of the adjustment to the purchase price was recognized in retained earnings.

1.4.1.3. Purchase of shares in Revimed sp. z o.o.

On 31 May 2017, PZU Zdrowie SA acquired 100 shares in Revimed sp. z o.o. representing 100% of the share capital of Revimed sp. z o.o. and 100% of votes at the company's shareholder meeting with a par value of PLN 50 each.

Revimed sp. z o.o. has been consolidated since the date of the assumption of control, i.e. since 31 May 2017.



1.4.1.4. Purchase of shares in NZOZ Trzebinia

On 30 June 2017, PZU Zdrowie SA acquired 381 shares in NZOZ Trzebinia representing 95.25% of the share capital and 95.25% of votes at the shareholder meeting with a par value of PLN 1,000 each.

Since the date of the assumption of control, i.e. 30 June 2017, NZOZ Trzebinia has been consolidated.

1.4.1.5. Consolidated statement of profit or loss including acquired entities

The table below presents the amounts of PZU Group's revenues and profits, including financial data of acquired subsidiaries, calculated as if the acquisition date for all the mergers conducted during the year was the beginning of the year.

Consolidated statement of profit or loss	1 January – 30 June 2017
Gross written premiums	11,606
Reinsurers' share in gross written premium	(307)
Net written premium	11,299
Movement in the net provision for unearned premiums	(952)
Net earned premium	10,347
Fees and commission income	1,602
Net investment income	5,744
Net result on the realization of investments and impairment charges	(510)
Net movement in the fair value of assets and liabilities measured at fair value	127
Other operating income	678
Claims and movement in technical provisions	(7,379)
Reinsurers' share in claims and movement in technical provisions	165
Net insurance claims and benefits	(7,214)
Fees and commission expenses	(329)
Interest expenses	(859)
Acquisition expenses	(1,412)
Administrative expenses	(3,323)
Other operating expenses	(1,700)
Operating profit	3,149
Share of the financial results of entities measured by the equity method	17
Profit before tax	3,166
Income tax	(725)
Net profit, including:	2,441
- profit attributable to the equity holders of the parent company	1,588
- profit attributable to holders of non-controlling interests	853

1.4.2. Changes to the consolidation of mutual funds

On account of assuming control over the PZU Energia Medycyna Ekologia fund, as of 1 January 2017, this fund was included under consolidation.

On 9 March 2017 the newly-established PZU FIZ Akcji Combo fund was included under consolidation.

Because of the loss of control over mutual funds, they were no longer consolidated: PZU Akcji Spółek Dywidendowych from 1 January 2017, PZU Energia Medycyna Ekologia from 31 May 2017, PZU Dłużny Rynków Wschodzących, PZU FIO Gotówkowy, PZU Sejf+ - from 30 June 2017.



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

2.1 Composition of the parent company's Management Board

From 1 January 2017, the PZU Management Board consisted of the following persons:

- Michał Krupiński – President of the PZU Management Board;
- Roger Hodgkiss – Member of the PZU Management Board;
- Andrzej Jaworski – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board.

On 22 March 2017 PZU's Supervisory Board dismissed, effective as of 22 March 2017, Michał Krupiński from the function of President of the PZU Management Board.

On 23 March 2017 PZU's Supervisory Board delegated PZU Supervisory Board Member Marcin Chludziński to temporarily act as the President of the PZU Management Board until the President of the PZU Management Board is appointed.

On 13 April 2017 the PZU Supervisory Board appointed Paweł Surówka, effective as of 13 April 2017, to the PZU Management Board and entrusted him with acting in the capacity of President of the PZU Management Board. This appointment is for the joint term of office that commenced on 1 July 2015 and encompasses three consecutive full financial years. 2016 was the first full financial year of this term of office.

On 29 May 2017, Andrzej Jaworski tendered his resignation from the function of Member of the PZU Management Board. The mandate expired upon resignation.

On 12 June 2017, the PZU Supervisory Board appointed, effective as of 13 June 2017, Ms. Małgorzata Sadurska to the PZU SA Management Board and entrusted her with acting in the capacity of a PZU Management Board Member.

From 13 June 2017 to the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Roger Hodgkiss – Member of the PZU Management Board;
- Tomasz Kulik – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board;
- Małgorzata Sadurska – Member of the PZU Management Board.

2.2 Composition of the parent company's Supervisory Board

From 1 January 2017, the PZU Supervisory Board consisted of the following persons:

- Paweł Kaczmarek – Supervisory Board Chairman;
- Marcin Gargas – Supervisory Board Deputy Chairman;
- Maciej Zaborowski – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member (in the period 23 March – 12 April 2017 delegated to temporarily act as the President of the PZU Management Board);
- Eligiusz Krześniak – Supervisory Board Member;
- Alojzy Nowak – Supervisory Board Member;
- Jerzy Paluchniak – Supervisory Board Member;
- Piotr Paszko – Supervisory Board Member;



- Radosław Potrzezszcz – Supervisory Board Member.

On 8 February 2017, Eligiusz Krześniak tendered his resignation from being a PZU Supervisory Board Member as of 8 February 2017.

On 8 February 2017 the PZU ESM dismissed Marcin Gargas, Piotr Paszko and Radosław Potrzezszcz from the PZU Supervisory Board. On the same day the ESM appointed Bogusław Banaszak, Paweł Górecki, Agata Górnicka and Łukasz Świerżewski to the PZU Supervisory Board.

On 14 March 2017 Paweł Kaczmarek and Maciej Zaborowski tendered their resignations from the functions in the presidium of the PZU Supervisory Board and, on the same day, Paweł Górecki assumed the function of Chairman of the PZU Supervisory Board, Łukasz Świerżewski assumed the function of the Deputy Chairman of the PZU Supervisory Board, and Alojzy Nowak assumed the function of the Secretary.

On 12 April 2017, Łukasz Świerżewski tendered his resignation from being a PZU Supervisory Board Member as of 12 April 2017.

On 12 April 2017 the Minister of Development and Finance, acting on behalf of the State Treasury, dismissed Jerzy Paluchniak from the PZU Supervisory Board and at the same time appointed Ms. Aneta Fałek as a PZU Supervisory Board Member.

On 12 April 2017 the PZU ESM dismissed Paweł Kaczmarek from the PZU Supervisory Board. On the same day the ESM appointed Katarzyna Lewandowska and Robert Śnitko to the PZU Supervisory Board. On 13 April 2017 the Supervisory Board entrusted the function of Chairperson of the PZU Supervisory Board to Katarzyna Lewandowska, and Deputy Chairperson of the PZU Supervisory Board to Aneta Fałek.

From 12 April 2017 to the date of conveying this periodic report, the PZU Supervisory Board consisted of the following persons:

- Katarzyna Lewandowska – Chairperson of the Supervisory Board;
- Aneta Fałek – Deputy Chairperson of the Supervisory Board;
- Alojzy Nowak – Secretary of the Supervisory Board;
- Bogusław Banaszak – Member of the Supervisory Board;
- Marcin Chludziński – Supervisory Board Member;
- Paweł Górecki – Member of the Supervisory Board;
- Agata Górnicka – Member of the Supervisory Board;
- Robert Śnitko – Member of the Supervisory Board;
- Maciej Zaborowski – Member of the Supervisory Board.

2.3 PZU Group Directors

Apart from Management Board Members, key managers in the PZU Group also comprise PZU Group Directors who generally also sit on the Management Board of PZU Życie.

From 1 January 2017, the following persons were PZU Group Directors:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Sławomir Niemierka;
- Roman Pałac;
- Paweł Surówka.

On 15 March 2017 Dorota Macieja was appointed to the position of PZU Group Director.



From the date of appointing Paweł Surówka to the position of President of the PZU Management Board to the date of conveying this periodic report, the following persons were PZU Group Directors:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Sławomir Niemierka;
- Dorota Macieja;
- Roman Pałac.

3. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the consolidated financial statements.

3.1 Changes in accounting principles, estimates, previous years' errors



3.1.1. Amendments to the applied IFRS

3.1.1.1. Standards, interpretations and amended standards effective from 1 January 2017

No new standards or interpretations were used from 1 January 2017.

3.1.1.2. Standards, interpretations and amended standards not yet effective

The following standards, interpretations and amended standards have been issued but have not come into effect:

- Approved by the European Commission:

Name of standard/interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	1905/2016	<p>IFRS 15 specifies how and when to recognize revenues and requires the presentation of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of interpretations related to revenue recognition. The standard applies to almost all agreements with customers (the main exceptions concern lease agreements, financial instruments and insurance agreements). The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of goods or services to customers and in an amount that reflects the value of consideration (i.e. the payment) which the company expects to obtain in exchange for the goods or services. The standard also provides guidelines for recognizing transactions that were not regulated in detail in previous standards (e.g. revenues from services or modification of agreements) and contains more comprehensive explanations on the recognition of agreements with multiple deliverables.</p> <p>Due to the inapplicability to the PZU Group's insurance companies, the effect of application of the new standard on the PZU Group's comprehensive income and equity has not been estimated.</p>



Name of standard/interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
IFRS 9 – Financial Instruments	1 January 2018	2067/2016	<p>This standard replaces IAS 39 and specifies the requirements for recognition and measurement of impairment, derecognition of financial instruments and hedge accounting.</p> <p>The standard introduces a new approach to the classification of financial assets, based on the nature of cash flows and the business model associated with the relevant assets. The standard also unifies the impairment model for all financial instruments. The new model of expected loss from impairment requires a quicker recognition of expected credit losses.</p> <p>The standard introduces a reformed hedge accounting model with enhanced requirements concerning disclosures of risk management activities.</p> <p>Classification and valuation According to IFRS 9 financial assets are classified for valuation at:</p> <ul style="list-style-type: none"> • amortized cost; • fair value through profit or loss; • fair value through other comprehensive income. <p>The instruments are classified as at the time of application of IFRS 9 for the first time or at the time of recognition of the instrument. Changes of classification are possible only in very rare cases when the business model changes.</p> <p>Debt instruments Classification of assets follows from the business model and the description of the cash flows generated by individual assets. The business model defines the purpose of holding the given financial instrument (obtaining contractual cash flows or realizing changes of fair value). The description of the cash flows defines whether these are solely principal and interest – SPPI payments.</p> <p>If the instrument passes the SPPI test and the business model assumes that the instrument is held to obtain contractual cash flows, the debt instrument qualifies for valuation at amortized cost. The entity may choose measurement at fair value through profit or loss if this eliminates inconsistencies in the valuation methods. The measurement at fair value through other comprehensive income includes those instruments, where the business model assumes acquisition of contractual cash flows as well as realization of profit through the sale of the instrument. The option is available only for instruments passing the SPPI test. If this option is selected all changes to the fair value are posted in other comprehensive income and impairment charges, interest income and foreign exchange differences are presented in the statement of profit or loss.</p> <p>Equity-based assets Equity-based assets are measured at fair value through profit or loss or other comprehensive income. If the latter option is selected, the fair values are posted in other comprehensive income and are never transferred to the statement of profit or loss. Dividends and impairment charges on such assets are recognized in the statement of profit or loss.</p>



Name of standard/interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
			<p>Financial liabilities Valuation of financial liabilities does change significantly, except for the necessity to recognize changes in the fair value resulting from changes of own credit risk in other comprehensive income.</p> <p>Impairment IFRS 9 introduces an obligation to recognize not only incurred losses, as in the case of IAS 39, but also expected losses. Debt assets carried at amortized cost and fair value through other comprehensive income, impairment is measured as 12-month or life-long expected credit losses. Change of the approach will have significant consequences in the case of modelling of the credit risk parameters and final amount of the charges made. The loss identification period and IBNR charge will be no longer used. The charge will be calculated in 3 categories:</p> <ul style="list-style-type: none"> • basket 1 – basket with low credit risk – 12-month expected credit loss will be recognized; • basket 2 – the portfolio in which a significant increase of credit risk occurs – a life-long expected credit loss will be recognized; • basket 3 – impaired loans – a life-long expected credit loss will be recognized. <p>The method of calculation of the impairment charge will also impact the method of recognizing the interest income – for baskets 1 and 2 it will be determined on the basis of gross exposures, and in basket 3 on the net basis. If credit risk increases significantly (basket 2) then the expected credit losses will be recognized earlier, which will contribute to higher impairment charges and consequently affect the financial result.</p> <p>Hedge accounting On the date of implementation of IFRS 9 it is possible to opt to continue application of the hedge accounting requirements in accordance with IAS 39. In such a case, consistency of the applied hedging links with the risk management strategy should be ensured. Additionally, IFRS 9 increases the range of the positions that can be defined as hedged positions, makes it possible to determine financial assets or liabilities carried at fair value through profit or loss as a hedging instrument, waives the obligation to retrospectively measure the effectiveness of the hedging, increases the scope of the required disclosures pertaining to the strategy for management of the risk of cash flows following from hedging transactions and impact of the hedge accounting on the financial statements.</p> <p>The PZU Group reviews the financial assets and their allocation to the appropriate business model and estimates that:</p> <ul style="list-style-type: none"> • receivables from banks, loans and debt securities classified in the loans portfolio in accordance with IAS 39 will be measured primarily at amortized cost under IFRS 9, except for the assets that do not satisfy the SPPI criterion; • debt securities classified as held to maturity are held in order to collect contractual cash flows and will be measured at amortized cost under IFRS 9; • most debt securities classified as available for sale are held to both collect contractual cash flows and to be sold and will be measured at fair value through other comprehensive income under IFRS 9;



Name of standard/interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
			<ul style="list-style-type: none">• financial assets and liabilities held for trading, including assets and liabilities under derivative financial instruments will continue to be measured at fair value through profit or loss;• equity instruments classified as available for sale will be generally measured at fair value through profit or loss. For some exposures, the PZU Group is considering selection of the measurement option through other comprehensive income, however the final decision in this respect has not yet been made.• implementation of IFRS 9 may result in changes to classification of certain financial assets (in particular the necessity to carry certain financial assets (particularly loan receivables) at fair value as they do not pass the SPPI test). Introduction of the new impairment model will impact the amount of the impairment charges in the PZU Group, particularly as regards the exposures classified as basket 2. As at the date of implementation of IFRS 9, the one-off change resulting from adoption of the new models will be recognized in equity. <p>The requirements of IFRS 9 will result in a significant change of presentation of financial instrument disclosures. The PZU Group intends to take advantage of the exemption not to restate the comparative data from prior periods in respect to the changes resulting from classification and measurement (including impairment). The differences in the carrying amount of financial assets and liabilities arising from the application of IFRS 9 will be recognized in the "Retained earnings" item. At this stage, it is not possible to estimate the effect of application of IFRS 9 on the PZU Group's comprehensive income and equity. The PZU Group believes that disclosure of quantitative data that do not reflect the potential impact of all the aspects of IFRS 9 on the financial standing might adversely affect the information value of the financial statements for its readers. Accordingly, the PZU Group does not make such disclosures.</p>



- Not approved by the European Commission:

Name of standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
Amendment to IFRS 4 – Application of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts'	12 September 2016	1 January 2018	In accordance with the amendment to IFRS 4 issued by the International Accounting Standards Board on 12 September 2016, insurance companies may defer the implementation of IFRS 9 until the entry into force of IFRS 4 Phase II concerning insurance contracts, but by no later than 1 January 2021, however the PZU Group may not take advantage of this exemption due to the significant share of banking activity.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016 ¹⁾	Enabling entities applying IFRS for the first time, which currently recognize regulatory deferral account balances in accordance with their previous, generally accepted accounting standards to continue recognizing these balances after switching to IFRS. This standard does not apply to the PZU Group.
Clarifications to IFRS 15 – revenue from contracts with customers	12 April 2016	1 January 2018	The clarifications provide guidelines concerning the identification of the obligations to fulfil benefits (determining in which instances the promises set forth in a contract constitute "separate" goods or services that should be settled separately), accounting for intellectual property licenses (determining in which situations revenues from intellectual property licenses should be settled "over a certain period" and in which situations "at a given point in time") and the distinctions between a principal and an agent (stating more precisely that a principal under a given determination controls a good or service prior to turning it over to a client). Changes to the standard also include additional practical solutions facilitating the implementation of the new standard.
IFRS 16 – Leases	13 January 2016	1 January 2019	IFRS 16 replaces IAS 17 'Leases' and the interpretations related to the latter standard. In respect of lessees, the new standard eliminates the distinction between financial leases and operating leases. The recognition of current operating leases in the statement of financial position will result in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of lease payments). The rights to use the leased object will be subject to amortization and interest will be charged on the liabilities. This will generate greater costs at the initial stage of the lease, even if the parties have agreed on fixed annual payments. The recognition of lease agreements on the lessor's side will in most cases remain unchanged due to the continued existence of the distinction between operating lease agreements and financial lease agreements. Due to the remote effective date of the new standard, the effect of its application on the comprehensive income and equity has not yet been estimated.



Name of standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
IFRS 17 – Insurance contracts	18 May 2017	1 January 2021	<p>The purpose of the standard is to establish the uniform accounting principles for all types of insurance contracts, including the reinsurance treaties held by the insurer. Introduction of this unified standard will ensure comparability of financial reports between different entities, states and capital markets.</p> <p>At this stage, it is not possible to estimate the effect of application of IFRS 17 on the PZU Group’s comprehensive income and equity.</p>
Amendment to IAS 7 – Disclosure Initiative	29 January 2016	1 January 2017	<p>The amendment results in the presentation of disclosures enabling an assessment of changes in the value of liabilities created as part of financial activity (resulting from either cash flows or changes of a non-cash flow nature). The application of these requirements will require the inclusion of additional disclosures in the PZU Group’s consolidated financial statements.</p>
Amendment to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	<p>The amendment clarifies, among others, that unrealized losses related to debt instruments measured at fair value for which the tax value is their initial cost may give rise to negative temporary differences.</p> <p>The change will not affect the PZU Group’s consolidated financial statements.</p>
Amendment to IFRS 2 – Classification and valuation of share-based payment	20 June 2016	1 January 2018	<p>The amendment provides guidance harmonizing accounting requirements for share-based payments settled in cash which adopt the same approach as that applied in the case of share-based payments settled in equity instruments, and contains an exception to IFRS 2 and clarification of situations where share-based payments settled in cash are changed to share-based payments settled in equity instruments due to changes in contractual provisions.</p> <p>The Group is currently analyzing the impact of these changes on its consolidated financial statements.</p>
Amendments to IFRS 10 and IFRS 28 – Sale or transfer of assets between the investor and an associate or a joint venture	11 September 2014	Deferred indefinitely	<p>The main consequence of the amendment is the recognition of the whole profit or loss in a situation where the transaction concerns an organized business (regardless of whether or not it is located in a subsidiary), whereas partial profits or losses are recognized in the transaction concerns separate assets that do not form an organized business, even if they are located in a subsidiary.</p> <p>The amendments did not affect the PZU Group’s consolidated financial statements.</p>



Name of standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
Amendment to IAS 40 – Transfers of Investment Property	8 December 2016	1 January 2018	The amendment clarifies when the entity should transfer properties under construction to or from the investment property category in the event of change of the nature of the use of such property in situations other than specifically listed in IAS 40. The change will not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2014-2016	8 December 2016	1 January 2017 1 January 2018	The amendments pertain to: 1. IFRS 1 – waiver of exemptions for first time adopters as regards certain disclosures; 2. IFRS 12 – disclosures pertaining to assets classified as held for sale or discontinued operations in accordance with IFRS 5; 3. IAS 28 – as regards the election by specified entities to measure at fair value through profit or loss interests in associates and joint ventures in accordance with IFRS 9. The amendments did not affect the PZU Group's consolidated financial statements.
IFRIC interpretation 22 – Foreign Currency Transactions and Advance Consideration	8 December 2016	1 January 2018	The interpretation clarifies that the exchange rate should be applied in recognising a transaction denominated in a foreign currency in accordance with IAS 21 if the client makes a non-refundable payment of an advance consideration for delivery of goods or services. The interpretation will not affect the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	7 June 2017	1 January 2019	The interpretation is to be applied to the determination of taxable profit, tax loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation will not affect the PZU Group's consolidated financial statements.

¹⁾ The European Commission suspended the process of approval until the time of publishing the final version of the standard.

In summary, in the opinion of the PZU Group, the introduction of the above standards and interpretations will have no material effect on the accounting principles followed by the PZU Group, except for IFRS 9 and IFRS 15 whose impact on the accounting principles applied by the PZU Group is yet to be assessed.

3.2 Explanation of the differences between the previously published statements and these condensed interim consolidated financial statements

3.2.1. Changes in relation to the annual consolidated financial statements introduced in 2017

3.2.1.1. Change in presentation of revenues earned by Money Makers TFI SA

In order to unify the presentation of revenues earned by mutual fund companies in the PZU Group, the revenues earned by Money Makers TFI SA (Alior Bank's subsidiary) from other operating income to fees and commission income.

3.2.1.2. Change of presentation of interest income and expenses for derivative instruments

To ensure better reflection of the economic nature of the transactions in derivative instruments, the presentation of interest income and expenses has been changed for those instruments.

3.2.1.3. Change of presentation of Alior Bank's IT costs in the consolidated statement of profit or loss

To unify the presentation of IT costs, the costs incurred by Alior Bank were transferred from other operating expenses to administrative expenses.

3.2.2. Changes recognised in the annual consolidated financial statements introduced in 2016

The changes described in this item were taken into consideration in the consolidated financial statements. To ensure comparability, in the interim consolidated financial the data for the 6 months ended 30 June 2016 were restated accordingly.

3.2.2.1. Change of presentation of amounts in the condensed interim consolidated financial statements

To improve the clarity of the condensed interim consolidated financial statements, all amounts were presented in millions of PLN, instead of in thousands of PLN, as has been done so far. As a consequence of conversion of thousands into millions of PLN some amounts may differ from the amounts presented in the condensed interim consolidated financial statements for the 6 months ended 30 June 2016 due to rounding.

3.2.2.2. Change of the segment reporting presentation method

To increase transparency, changes were made to the segment reporting presentation.



3.2.2.3. Deletion of the items in the consolidated statement of financial position

Due to immateriality of the amounts, to increase the clarity of the consolidated statement of financial position in the assets the line items "Estimated salvage and subrogation" and "Current income tax receivables" were deleted. The amounts presented in them were shifted to "Other assets" and "Receivables" respectively. In liabilities, the line item "Current income tax liabilities" was deleted and the amounts presented in "Other liabilities".

3.2.2.4. Change of presentation of interest received in the consolidated cash flow statement

In the consolidated financial statements, the presentation of interest received on debt instruments as part of investing activity of the consolidated cash flow statement was changed by moving the proceeds from such interest from the item "Realization of debt securities" to item "Interest received".

3.2.3. Impact of differences on the condensed interim consolidated financial statements

Assets	1 January 2016 <i>(historical)</i>	Adjustment	1 January 2016 <i>(restated)</i>
Other assets	699	114 ¹⁾	813
Estimated salvage and subrogation	114	(114) ¹⁾	item deleted
Receivables	3,271	67 ¹⁾	3,338
Current income tax receivables	67	(67) ¹⁾	item deleted
Total assets	105,397	-	105,397

¹⁾ Change described in item 3.2.2.3.

Equity and liabilities	1 January 2016 <i>(historical)</i>	Adjustment	1 January 2016 <i>(restated)</i>
Other liabilities	3,501	69 ¹⁾	3,570
Current income tax liabilities	69	(69) ¹⁾	item deleted
Total liabilities	90,279	-	90,279
Equity and liabilities, total	105,397	-	105,397

¹⁾ Change described in item 3.2.2.3.



Consolidated statement of profit or loss	1 January – 30 June 2016 (historical)	Adjustment	1 January – 30 June 2016 (restated)
Fees and commission income	391	4 ¹⁾	395
Net investment income	1,903	(24) ²⁾	1,879
Net movement in the fair value of assets and liabilities measured at fair value	23	(27) ²⁾	(4)
Other operating income	416	(4) ¹⁾	412
Interest expenses	(397)	51 ²⁾	(346)
Administrative expenses	(1,253)	(25) ³⁾	(1,278)
Other operating expenses	(1,005)	25 ³⁾	(980)
Net profit	790	-	790

¹⁾ Change described in item 3.2.1.1.

²⁾ Change described in item 3.2.1.2.

³⁾ Change described in item 3.2.1.3.

Consolidated cash flow statement	1 January – 30 June 2016 (historical)	Adjustment	1 January – 30 June 2016 (restated)
Profit before tax	1,049	-	1,049
Reinsurers' share in gross written premium	142	(142)	-
Other adjustments	(40)	142	102
Net cash flow on operating activity	2,117		2,117
Realization of debt securities	64,001	(200) ¹⁾	63,801
Interest received	508	200 ¹⁾	708
Cash inflows on investing activity	479,715	-	479,715

²⁾ Change described in item 3.2.2.4.

4. Key estimates and judgments

The critical estimates and judgments were presented in the consolidated financial statements.

5. Corrections of errors from previous years

During the 6-month period from 1 January to 30 June 2017, no corrections of errors from previous years were made.

6. Significant events materially affecting the structure of line items in the financial statements

6.1 Acquisition of Pekao

On 7 June 2017, the acquisition of a stake in Pekao was finalized, as a result of which Pekao was consolidated. More information on the transaction is presented in item 1.4.1.1.



6.2 Distribution of PZU's 2016 financial result

On 29 June 2017, the PZU Ordinary Shareholder Meeting adopted a resolution on distribution of net profit for 2016. This matter is described in item 15,

6.3 Key dividends paid between PZU Group companies

6.3.1. Dividend from PZU Życie to PZU

On 28 June 2017, the Ordinary Shareholder Meeting of PZU Życie ("PZU Życie OSM") adopted a resolution on distribution of PZU Życie's net profit for the 2016 financial year in the amount of PLN 1,434 million as follows:

- designate PLN 1,429 million as a dividend for its sole shareholder, i.e. PZU;
- designate PLN 5 million for the Company Social Benefit Fund.

The record date was set for the date on which the PZU Życie OSM was held and the dividend payment date was set for 17 October 2017.

6.3.2. Dividend from Pekao to PZU

On 19 April 2017, the Ordinary Shareholder Meeting of PEKAO adopted a resolution on distribution of PEKAO's net profit for the 2016 financial year, designating the amount of PLN 2,278 million as a dividend, i.e. PLN 8.68 per share.

The record date was set for 21 June 2017 and the dividend payment date was set for 6 July 2017. PZU received dividend in the amount of PLN 456 million.

6.3.3. Dividend from PTE PZU to PZU Życie

On 24 April 2017, the Ordinary Shareholder Meeting of PTE PZU adopted a resolution to pay a dividend of PLN 60 million. The dividend was paid out on 28 April 2017.

7. Material events after the end of the reporting period

7.1 Alior Bank's bond issue

On 11 August 2017, Alior Bank issued bonds with the nominal value of PLN 250 million in a private issue of common bonds. The bonds are unsecured and bear interest at a floating interest rate based on WIBOR 6M plus a margin of 1.19%. The final maturity of the bonds will be 11 August 2020.

7.2 Second Alior Bank's Bond Public Issue Program

On 23 August 2017 the Supervisory Board of Alior Bank approved commencement of the Second Alior Bank's Bond Public Issue Program. Total amount of bonds issued under the Program will not exceed 12 million bonds, while total nominal value of bonds can not exceed PLN 1,200 million. The bonds will be issued and offered in series in period no longer than 12 months starting from the date of the prospectus approval by the Polish Financial Supervision Authority. Maximum maturity will be 10 years since an issue date of specific series. The bonds may be issued as a common or subordinated



and the issue conditions will be provided resolution for their classification as a part of own funds according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. Alior Bank will apply for introducing the bonds to trade on the regulated market or in the alternative trading system run by Warsaw Stock Exchange or BondSpot SA within Catalyst system.



8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross written premiums in non-life insurance	3,716	7,338	3,048	5,893
In direct insurance	3,734	7,349	3,037	5,876
In indirect insurance	(18)	(11)	11	17
Gross written premiums in life insurance	2,122	4,268	2,013	3,969
Individual insurance premiums	407	838	311	578
Individually continued insurance premiums	494	985	490	974
Group insurance premiums	1,221	2,445	1,212	2,417
Gross written premiums, total	5,838	11,606	5,061	9,862

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Accident and sickness insurance (class 1 and 2)	141	295	133	273
Motor third party liability insurance (class 10)	1,517	2,891	1,134	2,059
Other motor insurance (class 3)	931	1,880	821	1,573
Marine, air and cargo insurance (classes 4, 5, 6, 7)	21	39	18	55
Insurance against fire and other property damage (classes 8 and 9)	763	1,519	611	1,262
TPL insurance (classes 11, 12, 13)	192	411	175	387
Credit and guarantee insurance (classes 14, 15)	28	46	18	34
Assistance (class 18)	104	209	96	182
Legal protection (class 17)	2	5	1	3
Other (class 16)	35	54	30	48
Total	3,734	7,349	3,037	5,876



8.2 Fees and commission income

Fees and commission income	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Banking activity	344	560	137	275
Brokerage commissions	38	69	12	30
Administration of payment cards and credit cards	92	147	25	49
Intermediary fees on insurance sold	20	38	29	50
Loans	57	80	14	28
Administration of bank accounts	56	99	27	52
Transfers	30	48	9	18
Cash operations	15	25	6	11
Purchased receivables	5	9	2	4
Guarantees, letters of credit, collection, commitment letters	8	11	3	7
Other commissions	23	34	10	26
Pension insurance	35	63	33	57
Commissions on distribution fees	2	3	2	3
Commissions on asset management in an open-end pension fund	29	56	23	46
Other	4	4	8	8
Revenues from fees relating to investment contracts for the client's account and risk	2	3	2	3
Revenues and payments received from funds and mutual fund companies	50	76	37	60
Fees and commission income, total	431	702	209	395

8.3 Net investment income

Net investment income	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Interest income	1,710	2,822	910	1,779
Bank loans	1,227	1,975	564	1,099
Available for sale financial assets	91	139	43	78
Financial assets held to maturity	232	446	204	404
Loans	110	182	78	157
Purchased receivables	16	21	6	12
Hedge derivatives	18	29	6	13
Receivables, including receivables due under insurance contracts	9	15	4	6
Cash and cash equivalents	7	15	5	10
Dividend income	15	16	36	37
Financial assets classified for measurement at fair value through profit or loss upon first recognition	11	11	25	25
Financial assets held for trading	2	2	10	10
Available for sale financial assets	2	3	1	2
Income on investment properties	64	125	61	117
Foreign exchange differences	156	358	(12)	21
Other	(24)	(54)	(46)	(75)
Investment activity expenses	(5)	(16)	(4)	(13)
Investment property maintenance expenses	(26)	(50)	(32)	(59)
Other	7	12	(10)	(3)
Net investment income, total	1,921	3,267	949	1,879



8.4 Net result on the realization of investments and impairment charges

Net result on the realization of investments and impairment charges	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Net result on the realization of investments	228	238	(154)	(66)
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	91	50	(2)	(22)
Equity instruments	47	14	37	(35)
Debt securities	44	36	(39)	13
Financial assets held for trading:	111	197	(180)	(118)
Equity instruments	7	40	2	(39)
Debt securities	(44)	(79)	1	32
Derivatives	148	236	(183)	(111)
Available for sale financial assets	13	(10)	13	63
Equity instruments	13	(9)	-	-
Debt securities	-	(1)	13	63
Loans	21	22	19	20
Receivables	(16)	(29)	(13)	(19)
Investment properties	7	7	8	9
Other	1	1	1	1
Impairment charges	(316)	(539)	(225)	(404)
Available for sale financial assets	-	-	-	(7)
Debt instruments	-	-	-	(7)
Loans	(289)	(498)	(190)	(350)
Debt securities	7	7	(23)	(23)
Loan receivables from clients	(296)	(505)	(167)	(327)
Receivables	(27)	(41)	(27)	(39)
Goodwill of acquired credit unions	-	-	(8)	(8)
Net result on the realization of investments and impairment charges, total	(88)	(301)	(379)	(470)



8.5 Net movement in the fair value of assets and liabilities measured at fair value

Net movement in the fair value of assets and liabilities measured at fair value	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	(185)	168	(177)	(38)
Equity instruments	(190)	222	(281)	(213)
Debt securities	-	(1)	100	178
Measurement of liabilities to members of consolidated mutual funds	7	(34)	(1)	(7)
Investment contracts for the client's account and risk (<i>unit-linked</i>)	(2)	(19)	5	4
Financial instruments held for trading	(116)	63	(20)	(40)
Equity instruments	(23)	149	(118)	(95)
Debt securities	103	76	108	135
Derivatives	(186)	(152)	(10)	(80)
Financial liabilities	(10)	(10)	-	-
Investment properties	(168)	(170)	76	72
Other	9	5	2	2
Net movement in the fair value of assets and liabilities measured at fair value, total	(460)	66	(119)	(4)

8.6 Other operating income

Other operating income	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Revenues on the sales of products, merchandise and services by non-insurance companies	124	217	113	206
Revenues from direct claims handling on behalf of other insurance undertakings	51	107	54	107
Reversal of provisions	30	36	6	9
Reimbursement of the costs of pursuit of claims	11	20	6	11
Reinsurance commissions and profit-sharing	9	18	3	16
Reversal of impairment charges on non-financial assets	-	17	-	5
Interest on late payment of amounts due under direct insurance and outward reinsurance contracts	6	8	5	13
Commissions for acting as an emergency adjuster	1	3	2	4
Revenues for managing third party assets	2	2	1	3
Written off liabilities on account of premium refunds and payment surpluses	(9)	48	2	4
Other	26	54	17	34
Other operating income, total	251	530	209	412

8.7 Claims and movement in technical provisions

Claims and movement in technical provisions	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Claims and movement in technical provisions	3,587	7,379	3,135	6,231
In non-life insurance	2,029	3,868	1,716	3,315
- claims in non-life insurance	1,597	3,259	1,629	3,236
- movement in technical provisions in non-life insurance	245	235	(89)	(274)
- claims handling expenses in non-life insurance	187	374	176	353
In life insurance	1,558	3,511	1,419	2,916
- claims in life insurance	1,431	3,059	1,426	2,949
- movement in technical provisions in life insurance	95	387	(42)	(106)
- claims handling expenses in life insurance	32	65	35	73
Reinsurers' share in claims and movement in technical provisions	(83)	(165)	(36)	(66)
In non-life insurance	(83)	(165)	(36)	(66)
Total net insurance claims and benefits	3,504	7,214	3,099	6,165

8.8 Fees and commission expenses

Fees and commission expenses	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Costs of card and ATM transactions, including costs of card issuance	47	79	17	33
Commissions paid to agents in banking activity	11	17	8	13
Commissions under agreements to perform certain actions	12	16	3	5
Commissions for the availability of ATMs	8	13	5	10
Costs of compensations and awards to banking clients	5	12	6	11
Costs of bank transfers and remittances	6	11	3	6
Insurance of banking products	5	9	6	12
Brokerage commissions	3	4	1	2
Other commissions	26	43	26	35
Fees and commission expenses, total	123	204	75	127



8.9 Interest expenses

Interest expenses	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Term deposits	138	222	107	213
Current deposits	40	64	8	16
Own debt securities issued	46	91	43	85
Hedge derivatives	8	16	1	1
Sell-buy-back transactions	14	20	11	22
Bank loans contracted by PZU Group companies	2	3	1	2
Investment contracts with guaranteed and fixed terms and conditions	-	-	1	2
Other	6	10	3	5
Interest expenses, total	254	426	175	346

8.10 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016 (restated)	1 January – 30 June 2016 (restated)
Consumption of materials and energy	70	141	42	96
Third party services	311	560	157	346
Taxes and fees	21	41	15	30
Employee expenses	846	1,531	587	1,151
Depreciation of property, plant and equipment	61	111	36	73
Amortization of intangible assets	62	112	36	75
Other, including:	747	1,452	647	1,290
- commissions on direct insurance business	576	1,137	480	978
- advertising	48	75	46	69
- remuneration of persons handling group insurance in companies	52	105	(3)	50
- other	71	135	124	193
Movement in capitalized acquisition expenses	(16)	(72)	(37)	(105)
Administrative, acquisition and claims handling expenses, total	2,102	3,876	1,483	2,956



8.11 Other operating expenses

Other operating expenses	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016 (restated)	1 January – 30 June 2016 (restated)
Tax on certain financial institutions	169	293	103	170
Expenses of the core business of non-insurance companies and non-banking companies	151	273	132	246
Direct claims handling expenses on behalf of other insurance undertakings	54	110	55	111
Compulsory payments to insurance market institutions and banking market institutions	18	38	19	41
Bank Guarantee Fund	15	37	18	37
Insurance Indemnity Fund	18	35	14	28
Fee for the National Fire Brigade Headquarters and the Association of Voluntary Fire Brigades	1	21	1	22
Expenditures for prevention activity	4	21	26	47
Recognition of provisions	89	96	3	12
Amortization of intangible assets purchased in company acquisition transactions	21	41	22	45
Establishing charges for non-financial assets	8	33	57	64
Donations	12	13	1	2
Other	67	120	121	155
Other operating expenses, total	627	1,131	572	980

8.12 Earnings per share

Earnings per share	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Net profit attributable to the equity holders of the parent company	506	1,446	168	660
Basic and diluted weighted average number of ordinary shares	863,521,269	863,516,697	863,473,794	863,473,794
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Amount of treasury shares (held by PZU's subsidiaries)	(1,731)	(6,303)	(49,206)	(49,206)
Basic and diluted earnings (losses) per ordinary share (in PLN)	0.59	1.67	0.19	0.76

In the 6-month period ended 30 June 2017, there were no transactions or events resulting in the dilution of earnings per share.

8.13 Income tax

Total amount of current and deferred tax	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Recognized through profit or loss	(213)	(465)	(102)	(259)
- current tax	(412)	(441)	(210)	(270)
- deferred tax	199	(24)	108	11
Recognized in other comprehensive income (deferred tax)	(2)	(16)	14	14
Total amount of current and deferred tax	(215)	(481)	(88)	(245)



Income tax pertaining to components of other comprehensive income	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross other comprehensive income	3	24	(33)	(42)
Income tax	(2)	(16)	14	14
Measurement of financial instruments available for sale and cash flow hedging transactions	(2)	(16)	14	14
Other net comprehensive income	1	8	(19)	(28)

8.14 Goodwill

Goodwill	30 June 2017	31 December 2016
Pekao	1,711	-
Alior Bank	746	746
Lietuvos Draudimas AB ¹⁾	467	489
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	38	40
Medical companies	90	82
Other	5	5
Goodwill, total	3,278	1,583

¹⁾ Includes goodwill on acquisition of the Lietuvos Draudimas branch in Estonia.

In the 6-month period ended 30 June 2017, there were no premises justifying carrying out impairment tests. As a consequence, just like in 2016, there were no impairment charges related to goodwill.

8.15 Other assets

Other assets	30 June 2017	31 December 2016
Reinsurance settlements	205	403
Estimated salvage and subrogation	172	161
Deferred IT expenses	47	41
Posted direct claims handling receivables	47	49
Inventories	169	114
Other assets	252	103
Other assets, total	892	871

8.16 Financial assets

In the 6-month period ended 30 June 2017 there was no reclassification of financial assets between the groups measured at fair value and the groups measured at cost or amortized cost.

Due to a change in the purpose of use of certain assets, from 1 January 2015 some of the assets were reclassified from assets available for sale to assets held to maturity. The carrying amount of the assets at the time of reclassification was PLN 84 million. The carrying amount as at 30 June 2017 was PLN 81 million.

The aforementioned transfer was the only reclassification of this type effected since 2015.



8.16.1. Financial instruments held to maturity

Financial instruments held to maturity	30 June 2017	31 December 2016
Debt securities	23,371	17,346
Government securities	23,151	17,117
Domestic	22,785	16,741
Fixed rate	21,176	15,793
Floating rate	1,609	948
Foreign	366	376
Fixed rate	366	376
Other	220	229
Listed on a regulated market	98	103
Fixed rate	98	103
Not listed on a regulated market	122	126
Floating rate	122	126
Financial instruments held to maturity, total	23,371	17,346

8.16.2. Financial instruments available for sale

Financial instruments available for sale	30 June 2017	31 December 2016
Equity instruments	554	417
Listed on a regulated market	299	132
Not listed on a regulated market	255	285
Debt instruments	31,120	11,218
Government securities	29,938	7,981
Domestic	29,298	7,592
Fixed rate	20,146	5,144
Floating rate	9,152	2,448
Foreign	640	389
Fixed rate	640	389
Other	1,182	3,237
Listed on a regulated market	36	37
Fixed rate	36	37
Not listed on a regulated market	1,146	3,200
Fixed rate	675	2,611 ¹⁾
Floating rate	471	589
Financial instruments available for sale, total	31,674	11,635

¹⁾ including NBP money bills in the amount of PLN 2,600 million.



8.16.3. Financial instruments measured at fair value through profit or loss

Financial instruments measured at fair value through profit or loss	30 June 2017	31 December 2016
Instruments classified into this category upon first recognition	4,865	14,479
Equity instruments	2,339	2,951
Listed on a regulated market	2,201	2,830
Not listed on a regulated market	138	121
Debt instruments	2,526	11,528
Government securities	2,488	11,437
Domestic	2,009	9,686
Fixed rate	1,976	8,257
Floating rate	33	1,429
Foreign	479	1,751
Fixed rate	479	1,674
Floating rate	-	77
Other	38	91
Listed on a regulated market	38	91
Fixed rate	38	91
Instruments held for trading	13,402	7,403
Equity instruments	4,295	4,066
Listed on a regulated market	548	744
Not listed on a regulated market	3,747	3,322
Debt instruments	7,044	2,456
Government securities	6,973	2,383
Domestic	5,705	1,416
Fixed rate	4,912	1,384
Floating rate	793	32
Foreign	1,268	967
Fixed rate	1,262	967
Floating rate	6	-
Other	71	73
Not listed on a regulated market	71	73
Floating rate	71	73
Derivatives	2,063	881
Financial instruments measured at fair value through profit or loss, total	18,267	21,882



8.16.4. Loans

Loans	30 June 2017	31 December 2016
Debt securities	13,417	2,463
Government securities	34	2
Foreign	34	2
Fixed rate	34	2
Other	13,383	2,461
Not listed on a regulated market	13,383	2,461
Fixed rate	1,102	-
Floating rate	12,281	2,461
Other	170,098	51,902
Loan receivables from clients	162,062	45,029
Buy-sell-back transactions	2,238	2,880
Term deposits in credit institutions	2,127 ¹⁾	2,285
Loans ²⁾	3,671	1,708
Loans, total	183,515	54,365

¹⁾ PLN deposits represent over 64% of term deposits in credit institutions. Over 87% of term deposits will mature before 30 September 2017.

²⁾ 100% of loans are loans secured by pledges on shares, sureties, guarantees or material securities.

Loan receivables from clients	30 June 2017	31 December 2016
Retail segment	85,987	25,309
Operating loans	278	294
Consumer loans	24,764	13,865
Consumer finance loans	1,426	1,222
Loans to purchase securities	108	125
Credit card account credit	1,296	970
Housing loans	56,881	7,969
Other mortgage loans	1,119	813
Other receivables	115	51
Business segment	76,075	19,720
Operating loans	33,804	10,838
Car loans	116	132
Investment loans	24,513	7,493
Purchased receivables (factoring)	3,506	794
Credit card account credit	177	-
Housing loans	26	-
Other mortgage loans	8,391	-
Financial lease	4,774	281
Other receivables	768	182
Total loan receivables from clients	162,062	45,029



8.16.5. Exposure to debt securities issued by governments other than the Polish Government, by corporations and local government units

Debt securities issued by governments other than the Polish government

As at 30 June 2017:

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Argentina	USD	45	46	46	-
Brazil	USD	71	72	72	-
Bulgaria	EUR	195	205	207	-
Chile	EUR/USD	38	38	38	-
Croatia	EUR/USD	95	92	93	-
Cyprus	EUR	24	26	26	-
Czechia	CZK	222	221	221	-
Spain	EUR	93	92	92	-
Indonesia	EUR/USD	42	44	44	-
Lithuania	EUR	382	396	399	-
Latvia	EUR	62	65	66	-
Mexico	EUR/USD/MXN	35	35	35	-
Germany	EUR	307	299	299	-
South Africa	ZAR	51	49	49	-
Romania	EUR/RON	141	146	146	-
Slovakia	EUR	22	20	20	-
Slovenia	EUR	77	77	77	-
Sri Lanka	USD	17	17	17	-
United States	USD	464	452	452	-
Turkey	EUR/TRY	78	78	78	-
Ukraine	EUR/USD/UAH	68 ¹⁾	61 ¹⁾	62 ¹⁾	-
Hungary	EUR/USD/HUF	217	208	210	-
Italy	EUR	26	26	26	-
other	EUR/USD/GBP	23	22	22	-
Total		2,795	2,787	2,797	-

¹⁾ In the case of these bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of one bond). The purchase price shows the actual price paid and does not take into account any repayments of the par value.



Balance as at 31 December 2016

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Argentina	USD	70	80	80	-
Brazil	USD	69	79	79	-
Bulgaria	EUR	235	259	261	-
Croatia	EUR/USD	53	57	58	-
Cyprus	EUR	24	25	25	-
Czechia	CZK	337	345	345	-
Spain	EUR	40	39	39	-
Indonesia	EUR/USD	40	44	44	-
Lithuania	EUR/USD	459	485	491	-
Latvia	EUR/USD	91	110	110	-
Mexico	EUR/USD	33	33	33	-
Portugal	EUR	58	60	60	-
South Africa	EUR/ZAR	68	73	73	-
Romania	EUR/USD/RON	397	422	423	-
Slovakia	EUR	164	162	162	-
Slovenia	EUR	132	138	138	-
Sri Lanka	USD	42	45	45	-
United States	USD	148	149	149	-
Turkey	EUR/USD/TRY	324	345	345	-
Ukraine	EUR/USD/UAH	69 ¹⁾	68 ¹⁾	68 ¹⁾	-
Hungary	EUR/USD/HUF	399	423	424	-
other	EUR/USD/GBP	43	44	44	-
Total		3,295	3,485	3,496	-

¹⁾ In the case of these bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of one bond). The purchase price shows the actual price paid and does not take into account any repayments of the par value.

Debt securities issued by corporations and local government units

As at 30 June 2017:

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	1,265	1,287	1,317	-
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	1,649	1,650	1,650	5
Companies from the WIG-Fuels Index	335	338	341	-
Mining and quarrying (including companies included in the WIG-Mining index)	680	635	635	53
Manufacturing	1,124	1,123	1,120	-
Transportation and storage	1,883	1,877	1,871	-
Public utility services	526	522	525	-
Privately held domestic banks	20	20	22	-
Foreign banks	74	75	77	1
Domestic local governments	6,055	6,159	6,334	8
Other	1,263	1,199	1,198	84
Total	14,883	14,894	15,099	151



Balance as at 31 December 2016

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	1,299	1,320	1,327	-
Companies from the WIG-Fuels Index	995	1,007	1,009	-
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	315	316	316	-
Privately held domestic banks	20	20	21	-
Foreign banks	74	78	81	1
Domestic local governments	96	102	105	-
Companies from the WIG-Mining Index	293	254	250	61
National Bank of Poland	2,600	2,600	2,600	-
Other	425	385	385	17
Total	6,126	6,091	6,103	79



8.16.6. Derivatives

Derivatives – assets	30 June 2017	31 December 2016
Interest rate derivatives	1,765	702
Instruments designated as fair value hedging transactions – unlisted instruments, including:	15	-
- SWAP transactions	15	-
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	214	72
- SWAP transactions	214	72
Instruments recognized as held for trading, including:	1,536	630
Instruments listed on a regulated market, including:	-	7
- futures contracts	-	7
Unlisted (OTC) instruments, including:	1,536	623
- forward contracts	1	-
- SWAP transactions	1,513	597
- call options	5	4
- put options	3	-
- other	14	22
Foreign exchange derivatives	467	202
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	69	-
- SWAP transactions	69	-
Instruments recognized as held for trading, including:	398	202
Instruments listed on a regulated market, including:	14	3
- futures contracts	14	3
Unlisted (OTC) instruments, including:	384	199
- forward contracts	157	62
- SWAP transactions	184	115
- call options	29	22
- put options	14	-
Derivatives related to equity and commodity prices – recognized as held for trading	129	49
Listed instruments, including:	1	-
- put options	1	-
Unlisted (OTC) instruments, including:	128	49
- forward contracts	34	-
- call options	91	48
- put options	3	1
Derivatives – assets, total	2,361	953



Derivatives – liabilities	30 June 2017	31 December 2016
Interest rate derivatives	2,908	639
Instruments designated as fair value hedging transactions – unlisted instruments, including:	188	-
- SWAP transactions	188	-
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	1,124	6
- SWAP transactions	1,124	6
Instruments recognized as held for trading, including:	1,596	633
Listed instruments, including:	7	19
- futures contracts	7	19
Unlisted (OTC) instruments, including:	1,589	614
- forward contracts	1	-
- SWAP transactions	1,569	586
- call options	1	-
- put options	3	6
- other	15	22
Foreign exchange derivatives	496	125
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	3	-
- SWAP transactions	3	-
Instruments recognized as held for trading, including:	493	125
Unlisted (OTC) instruments, including:	493	125
- forward contracts	195	25
- SWAP transactions	257	77
- call options	8	-
- put options	33	23
Derivatives related to equity and commodity prices – recognized as held for trading	87	23
Unlisted (OTC) instruments, including:	87	23
- forward contracts	34	-
- call options	11	1
- put options	42	22
Derivatives – liabilities, total	3,491	787

8.16.7. Information on changes in the economic situation and business conditions materially affecting the fair value of financial assets and liabilities

8.16.7.1. Capital market

The rapid growth of Polish stock market indices that started at the time of the 2016 US presidential election continued in early 2017. It was accompanied by robust economic data from Poland and the Euro zone that also translated into the financial performance of the companies listed on the Warsaw Stock Exchange. The cautious declarations made by the European Central Bank and the Federal Reserve in respect to the pace of tightening monetary policy also supported the equity market. However, the interest rate hike orchestrated by the Federal Reserve in March contributed to a certain slowing down of the upward trend in stock prices. Ultimately, between the end of December 2016 and the end of June of this year, the WIG and WIG20 indices surged upward by approximately 18%.



8.16.7.2. Interest rates and inflation

In H1 2017, the prices of consumer goods and services measured by CPI were up 1.9% y/y, compared to a 0.3% drop y/y in H2 2016. At the outset of the year, inflation visibly increased in connection with the hike in energy commodities on global markets and domestic fuel prices. Inflation subsequently stabilized after the impact of the global commodity price hike subsided, with increasing food prices and gradually rising base inflation associated with economic recovery. Base inflation (net of food and energy prices) in H1 2017 was 0.6% y/y compared to -0.2% y/y in H2 2016.

In the period from January to August 2017, the interest rates of the National Bank of Poland did not change. The reference interest rate remains at the level of 1.5% as set in March 2015. The members of the Monetary Policy Council believe that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and allows it to preserve macroeconomic balance.

In Q1 2017, yields on 10-year treasury bonds in Poland were temporarily at a relatively high level of 3.90% that was last recorded in 2014. However, in subsequent months, diminishing political risk in Europe following the elections in the Netherlands and France, accelerating economic growth in Poland and the ensuing conducive fiscal position contributed to a gradual decline in treasury bond yields in Poland. The Polish yield curve from the end of December 2016 to the end of June 2017 clearly shifted downward for longer maturities by about 20 bps for 5-year treasury bonds and by about 30 bps for 10-year treasury bonds (down to about 3.30%). The yield on 2-year bonds fell by roughly 10 bps, while yields of annual treasury securities rose by almost 20 basis points (to about 1.60%). Since May, the difference between yields offered by Polish and German 10-year treasury bonds has been under 300 basis points. According to our estimates, Poland's risk premium declined in H1 2017.

8.16.7.3. FX rates

The evolution of FX rates in recent months, including PLN rates, was affected by changes in market expectations concerning the future monetary policy in the US and in the Euro zone. In H1 2017, the US dollar clearly weakened vs. the Euro, which may be attributed to disappointment with the direction of President D. Trump's policies. The EUR/USD rate rose from about 1.05 to about 1.14, which is approximately 8%. The Polish zloty appreciated vs. the major global currencies. The Polish currency was supported by diminishing political risk in Europe, the robust pace of economic growth in Poland and the Euro zone and the good condition of the Polish state budget. The USD/PLN rate fell by as much as 11% at the end of June of this year compared to the end of 2016. The EUR/PLN and CHF/PLN rates fell in the period under analysis by about 4% and 6%, respectively. The Swiss franc exchange rate has remained under PLN 4 since the end of March.

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

Information on changes to the classification of financial assets is presented in item 8.16.



8.17 Fair value

8.17.1. Description of valuation techniques

8.17.1.1. Debt securities

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

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

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

8.17.1.2. Equity-based financial assets

Fair values of equity-based financial assets are determined on the basis of quotations publicly available on an active market.

Fair values of participation units and investment certificates of mutual funds are measured using the value of the participation units and investment certificates published by the mutual fund companies. Such valuation reflects the PZU Group's share in net assets of these funds. The PZU Group conducts reviews to ensure that there is no material difference between the net asset value determined as above and the fair value.

8.17.1.3. Derivatives

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

The fair value of derivatives not listed on an active market, including forward contracts and interest rate swaps is measured using the discounted future cash flow method. For the discounting of cash flows, interest rates are used from the yield curves assigned to the relevant type of financial instrument and currency, construed on the basis of available market data.

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



8.17.1.4. Loan receivables from clients

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

Loan receivables from clients have been classified in full to level 3 of the fair value hierarchy due to the use of a valuation model with material unobserved input data, i.e. current margins earned on newly granted loans.

8.17.1.5. Financial liabilities

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.

Liabilities on the issue of own debt securities and subordinated debt

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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



8.17.2. 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 listed prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
 - liquid listed debt securities;
 - listed shares and investment certificates;
 - listed derivatives;
- Level II – assets and liabilities whose measurement is based on input data other than listed prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
 - listed debt securities carried on the basis of the valuations published by an authorized information service;
 - derivatives, including, among other things, FX Swap, FX Forward, IRS, CIRS, FRA;
 - participation units in mutual funds;
 - 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:
 - unlisted debt securities and non-liquid listed debt securities (including non-treasury debt securities issued by financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
 - loan receivables from clients and liabilities to clients under deposits;
 - options embedded in deposit certificates issued by Alior Bank 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
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.



Assets and liabilities measured at fair value as at 30 June 2017	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	26,044	5,016	614	31,674
Equity instruments	236	201	117	554
Debt securities	25,808	4,815	497	31,120
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	4,178	643	44	4,865
Equity instruments	2,201	120	18	2,339
Debt securities	1,977	523	26	2,526
Financial instruments measured at fair value through profit or loss – held for trading	5,811	7,261	330	13,402
Equity instruments	548	3,747	-	4,295
Debt securities	5,244	1,548	252	7,044
Derivatives	19	1,966	78	2,063
Hedge derivatives	-	298	-	298
Liabilities				
Derivatives	17	2,121	38	2,176
Hedge derivatives	-	1,315	-	1,315
Liabilities to members of consolidated mutual funds	-	385	-	385
Investment contracts for the client's account and risk (<i>unit-linked</i>)	-	323	-	323
Liabilities on borrowed securities (short sale)	803	-	-	803

Assets and liabilities measured at fair value as at 31 December 2016	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	8,113	2,887	635	11,635
Equity instruments	132	264	21	417
Debt securities	7,981	2,623	614	11,218
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	12,555	1,882	42	14,479
Equity instruments	2,837	97	17	2,951
Debt securities	9,718	1,785	25	11,528
Financial instruments measured at fair value through profit or loss – held for trading	1,882	5,333	188	7,403
Equity instruments	745	3,321	-	4,066
Debt securities	1,119	1,202	135	2,456
Derivatives	18	810	53	881
Hedge derivatives	-	72	-	72
Liabilities				
Derivatives	31	724	26	781
Hedge derivatives	-	6	-	6
Liabilities to members of consolidated mutual funds	-	1,544	-	1,544
Investment contracts for the client's account and risk (<i>unit-linked</i>)	-	329	-	329
Liabilities on borrowed securities (short sale)	654	-	-	654



Fair value of assets and liabilities for which it is only disclosed as at 30 June 2017	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	19,881	40	5,758	25,679
Loans				
Debt securities	-	6,048	7,568	13,616
Loan receivables from clients	-	-	159,486	159,486
Buy-sell-back transactions	-	-	2,238	2,238
Term deposits in credit institutions	-	-	2,131	2,131
Loans	-	-	3,690	3,690
Liabilities				
Liabilities to banks	-	788	4,430	5,218
Liabilities to clients	-	-	185,800	185,800
Liabilities on the issue of own debt securities	-	1,351	3,641	4,992
Subordinated debt	-	-	3,273	3,273

Fair value of assets and liabilities for which it is only disclosed as at 31 December 2016	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	15,531	15	3,520	19,066
Loans				
Debt securities	1	1	2,467	2,469
Loan receivables from clients	-	-	44,897	44,897
Buy-sell-back transactions	-	-	2,879	2,879
Term deposits in credit institutions	-	-	2,281	2,281
Loans	-	-	1,705	1,705
Liabilities				
Liabilities to banks	-	399	124	523
Liabilities to clients	-	-	51,364	51,364
Liabilities on the issue of own debt securities	-	-	3,761	3,761
Subordinated debt	-	-	1,027	1,027

8.17.3. Shifts between different levels of the fair value hierarchy

In the event of a change in the method of measurement of assets or liabilities resulting, for instance, from losing (or gaining) access to quotations observed on the active market, such assets or liabilities are shifted between Levels I and II.

Assets or liabilities are shifted between Levels II and III (or, as appropriate, between Levels III and II) when:

- there is a change in the measurement model resulting from the application of new unobservable factors (or observable ones, respectively); or
- the previously used factors which had a significant impact on the measurement cease to be (or become, respectively) observable on the active market.

Shifts 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 2017, there were no significant transfers between Levels I and II (between Levels II and I, respectively).

In 2016, the following reclassifications of assets between fair value levels were made:

- On 30 June 2016 some financial assets were transferred from Level I to Level II; on the transfer date, their fair value was PLN 2,600 million.
- On 30 September 2016 one bond classified in the portfolio of assets available for sale with a carrying amount of PLN 46 million was transferred from Level III to Level I in connection with the emergence of quotations on an active market.



8.17.4. Changes in the fair value measurement methodology for financial instruments measured at fair value

In the 6-month period ended 30 June 2017, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

8.18 Receivables

Receivables – carrying amount	30 June 2017	31 December 2016
Receivables on direct insurance, including:	2,461	2,233
- receivables from policyholders	2,209	1,996
- receivables from insurance intermediaries	106	213
- other receivables	146	24
Reinsurance receivables	88	76
Other receivables	7,673	3,394
- receivables from transactions on securities and security deposits ¹⁾	6,024	2,401
- receivables on account of payment card settlements	454	202
- trade receivables	212	148
Receivables from the state budget, other than corporate income tax receivables	173	55
- prevention settlements	44	47
- receivables from banks	34	12
- receivables from direct claims handling on behalf of other insurance undertakings	29	40
- disputed settlements	29	-
- receivables for acting as an emergency adjuster	11	11
- receivables on account of Corporate Income Tax	36	16
- receivables from settlement of the acquisition of Bank BPH's Core Business	115	145
- other	512	317
Total receivables	10,222	5,703

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

As at 30 June 2017 and 31 December 2016, 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 charges.



8.19 Impairment of financial assets and receivables

Movement in impairment charges for financial asset in the period of 1 January – 30 June 2017	Balance at the beginning of the period	Recognition through profit or loss	Reversal through profit or loss	Derecognition (sale, write-down etc.)	Change in the composition of the Group	Other changes	Balance at the end of the period
Financial assets held to maturity	1	-	-	-	-	-	1
Debt instruments	1	-	-	-	-	-	1
Available for sale financial assets	54	-	-	-	-	-	54
Equity instruments	47	-	-	-	-	-	47
Debt securities	7	-	-	-	-	-	7
Loans	3,124	2,005	(1,507)	(137)	5,788	50	9,323
Debt securities	71	-	(7)	(25)	104	-	143
Loan receivables from clients	3,037	2,005	(1,500)	(97)	5,667	50	9,162
Term deposits in credit institutions	1	-	-	-	17	-	18
Loans	15	-	-	(15)	-	-	-
Receivables	591	89	(48)	(3)	-	-	629
Receivables on direct insurance	562	86	(44)	(2)	-	-	602
Reinsurance receivables	8	1	(3)	(1)	-	-	5
Other receivables	21	2	(1)	-	-	-	22
Reinsurers' share in technical provisions	9	6	(4)	-	-	-	11
Cash and cash equivalents	1	-	-	-	-	-	1
Total	3,780	2,100	(1,559)	(140)	5,788	50	10,019



Movement in impairment charges for financial assets in the year ended 31 December 2016	Balance at the beginning of the period	Recognition through profit or loss	Reversal through profit or loss	Derecognition (sale, write-down etc.)	Change in the composition of the Group	Balance at the end of the period
Financial assets held to maturity	1	-	-	-	-	1
Debt instruments	1	-	-	-	-	1
Available for sale financial assets	46	8	-	-	-	54
Equity instruments	46	1	-	-	-	47
Debt securities	-	7	-	-	-	7
Loans	2,015	1,896	(1,095)	(514)	822	3,124
Debt securities	43	33	-	(5)	-	71
Loan receivables from clients	1,938	1,863	(1,095)	(491)	822	3,037
Term deposits in credit institutions	1	-	-	-	-	1
Loans	33	-	-	(18)	-	15
Receivables	588	63	(54)	(6)	-	591
Receivables on direct insurance	562	56	(50)	(6)	-	562
Reinsurance receivables	6	5	(3)	-	-	8
Other receivables	20	2	(1)	-	-	21
Reinsurers' share in technical provisions	11	25	(27)	-	-	9
Cash and cash equivalents	1	-	-	-	-	1
Total	2,662	1,992	(1,176)	(520)	822	3,780

Movement in impairment charges for financial asset in the period of 1 January – 30 June 2016	Balance at the beginning of the period	Recognition through profit or loss	Reversal through profit or loss	Derecognition (sale, write-down etc.)	Change in the composition of the Group	Balance at the end of the period
Financial assets held to maturity	1	-	-	-	-	1
Debt instruments	1	-	-	-	-	1
Available for sale financial assets	46	7	-	-	-	53
Equity instruments	46	-	-	-	-	46
Debt securities	-	7	-	-	-	7
Loans	2,015	971	(621)	(22)	32	2,375
Debt securities	43	23	-	-	-	66
Loan receivables from clients	1,938	948	(621)	(4)	32	2,293
Term deposits in credit institutions	1	-	-	-	-	1
Loans	33	-	-	(18)	-	15
Receivables	588	70	(31)	(1)	-	626
Receivables on direct insurance	562	67	(28)	(1)	-	600
Reinsurance receivables	6	1	(2)	-	-	5
Other receivables	20	2	(1)	-	-	21
Reinsurers' share in technical provisions	11	13	(2)	-	-	22
Cash and cash equivalents	1	-	-	-	-	1
Total	2,662	1,061	(654)	(23)	32	3,078

8.20 Degree of exposure to credit risk in investment activity

The tables below present the credit risk exposure of credit risk-based assets in the individual Fitch rating categories (if a Fitch rating was missing, it was substituted by a Standard&Poor's or Moody's rating). The credit risk exposure arising from conditional transactions was presented as an exposure to the issuer of the underlying securities.

The tables do not include loan receivables due under insurance contracts. This was mainly because of the fact that this asset portfolio is very dispersed and contains a significant percentage of receivables from small entities and natural persons, which are not rated.





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Credit risk-based assets as at 30 June 2017	AAA	AA	A	BBB	BB	Unrated	Assets at client's risk	Total
Debt securities	453	297	60,462	2,948	224	11,847	1,247	77,478
- held to maturity	-	-	23,102	124	7	138	-	23,371
- available for sale	-	297	29,600	302	-	921	-	31,120
- at fair value	453	-	6,901	648	217	104	1,247	9,570
- loans	-	-	859	1,874	-	10,684	-	13,417
Term deposits in credit institutions and buy-sell-back transactions	-	490	2,366	390	134	851	134	4,365
Other loans	-	-	16	-	617	3,038	-	3,671
Derivatives	-	49	1,178	100	-	1,002	37	2,366 ¹⁾
Reinsurers' share in claims provisions	-	179	386	-	-	98	-	663
Reinsurance receivables	-	16	49	-	-	23	-	88
Total	453	1,031	64,457	3,438	975	16,859	1,418	88,631

¹⁾ including derivatives of PLN 298 million designated as cash flow and fair value hedges and derivatives of PLN 5 million presented as assets held for sale.

Credit risk-based assets as at 31 December 2016	AAA	AA	A	BBB	BB	Unrated	Assets at client's risk	Total
Debt securities	149	5	39,100	2,930	583	1,005	1,239	45,011
- held to maturity	-	-	16,991	206	49	100	-	17,346
- available for sale	-	5	10,552	297	11	353	-	11,218
- at fair value	149	-	10,728	1,207	523	138	1,239	13,984
- loans	-	-	829	1,220	-	414	-	2,463
Term deposits in credit institutions and buy-sell-back transactions	-	-	4,330	519	-	99	217	5,165
Other loans	-	-	33	-	76	1,599	-	1,708
Derivatives	-	10	505	62	-	354	22	953 ¹⁾
Reinsurers' share in claims provisions	-	304	231	1	-	77	-	613
Reinsurance receivables	-	25	31	-	-	20	-	76
Total	149	344	44,230	3,512	659	3,154	1,478	53,526

¹⁾ including derivatives of PLN 72 million designated as cash flow hedges.

The table below presents credit risk coefficients used by the PZU Group to measure credit risk:

Standard&Poor's ratings	AAA	AA	A	BBB	BB	Unrated ¹⁾
Coefficient (%) 30 June 2017	0.72%	0.77%	1.41%	3.76%	13.33%	25.43%
Coefficient (%) 31 December 2016	0.72%	0.79%	1.48%	3.89%	13.45%	25.37%

¹⁾ In the case of exposure to unrated mortgage loans, a 2% coefficient was assumed, which corresponds to the lowest investment grade rating of BBB+.

The credit risk level attributable to the assets where the risk is carried by the PZU Group as at 30 June 2017 was PLN 5,467 million (as at 31 December 2016 it was PLN 1,684 million; if the coefficients of 30 June 2017 were used, the value would be PLN 1,649 million).

8.21 Degree of exposure to credit risk in banking activity

Loan receivables from clients - regular	30 June 2017	31 December 2016
Unimpaired receivables	149,402	39,961
Retail segment	80,692	22,440
Business segment	68,710	17,521
Impaired receivables	1,576	523
Total	150,978	40,484

Past due receivables	30 June 2017	31 December 2016
Unimpaired receivables	7,352	2,977
Up to 30 days	5,168	2,187
30-60 days	596	227
Over 60 days	1,588	563
Impaired receivables	3,732	1,568
Up to 30 days	203	173
1 to 3 months	176	137
3 to 12 months	907	522
1 to 5 years	1,772	722
Over 5 years	674	14
Total	11,084	4,545



8.22 Assets held for sale

Assets held for sale before reclassification	30 June 2017	31 December 2016
Groups held for sale	1,059	1,027
Assets	1,091	1,060
Investment properties	922	1,002
Financial assets	5	-
Receivables	80	12
Deferred tax assets	7	2
Cash and cash equivalents	71	42
Other assets	6	2
Liabilities related directly to assets classified as held for sale	32	33
Deferred tax liability	6	15
Other liabilities	26	18
Other assets held for sale	148	129
Property, plant and equipment	89	39
Investment properties	59	90
Assets and groups of assets held for sale	1,239	1,189
Liabilities related directly to assets classified as held for sale	32	33

As at 30 June 2017 and 31 December 2016 the "Groups held for sale" section presented primarily real estate held for sale on account of reaching the anticipated investment horizon.





8.23 Technical provisions

Technical provisions	30 June 2017			31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	21,601	(1,126)	20,475	20,388	(990)	19,398
Provision for unearned premiums	7,963	(446)	7,517	6,957	(377)	6,580
Provision for unexpired risk	10	-	10	26	-	26
Provision for outstanding claims	7,927	(480)	7,447	7,730	(421)	7,309
- for reported claims	2,940	(441)	2,499	2,992	(371)	2,621
- for claims incurred but not reported (<i>IBNR</i>)	3,169	(25)	3,144	2,979	(29)	2,950
- for claims handling costs	1,818	(14)	1,804	1,759	(21)	1,738
Provision for capitalized value of annuities	5,680	(183)	5,497	5,673	(192)	5,481
Provisions for bonuses and discounts for insureds	21	(17)	4	2	-	2
Technical provisions in life insurance	22,184	-	22,184	21,806	-	21,806
Provision for unearned premiums	94	-	94	93	-	93
Provision for life insurance	15,969	-	15,969	15,928	-	15,928
Provision for outstanding claims	544	-	544	542	-	542
- for reported claims	152	-	152	156	-	156
- for claims incurred but not reported (<i>IBNR</i>)	386	-	386	380	-	380
- for claims handling costs	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Other technical provisions	303	-	303	323	-	323
Technical provisions for life insurance if the policyholder bears the investment risk	5,271	-	5,271	4,917	-	4,917
Technical provisions, total	43,785	(1,126)	42,659	42,194	(990)	41,204



Movement in technical provisions in non-life insurance

Movement in provision for unearned premiums	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	6,957	(377)	6,580	5,643	(339)	5,304	5,643	(339)	5,304
Increase in provisions relating to policies signed in the current year	5,454	(277)	5,177	6,552	(194)	6,358	4,567	(139)	4,428
Decrease in provisions relating to policies signed in previous years	(4,418)	208	(4,210)	(5,255)	156	(5,099)	(3,819)	165	(3,654)
Foreign exchange differences in the period	(30)	-	(30)	17	-	17	19	-	19
Balance at the end of the period	7,963	(446)	7,517	6,957	(377)	6,580	6,410	(313)	6,097

Movement in provision for unexpired risk	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	Gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	26	-	26	119	-	119	119	-	119
Increase in provisions relating to policies signed in the current year	4	-	4	23	-	23	110	-	110
Decrease in provisions relating to policies signed in previous years	(20)	-	(20)	(116)	-	(116)	(87)	-	(87)
Balance at the end of the period	10	-	10	26	-	26	142	-	142



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Movement in the gross provision for outstanding claims in non-life insurance	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period, including:	7,730	(421)	7,309	7,706	(580)	7,126	7,706	(580)	7,126
Claims paid for losses incurred in previous years, including:	(1,782)	67	(1,715)	(2,502)	247	(2,255)	(1,680)	120	(1,560)
- claims paid	(1,540)	63	(1,477)	(2,133)	241	(1,892)	(1,456)	116	(1,340)
- claims handling costs	(242)	4	(238)	(369)	6	(363)	(224)	4	(220)
Increase (decrease) in provisions, including:	1,990	(128)	1,862	2,539	(87)	2,452	1,476	(71)	1,405
- relating to losses incurred in current year	2,047	(77)	1,970	2,751	(66)	2,685	1,675	(18)	1,657
- relating to losses incurred in previous years	(57)	(51)	(108)	(212)	(21)	(233)	(199)	(53)	(252)
Other changes	6	2	8	(24)	(1)	(25)	-	8	8
Foreign exchange differences in the period	(17)	-	(17)	11	-	11	12	(1)	11
Balance at the end of the period	7,927	(480)	7,447	7,730	(421)	7,309	7,514	(524)	6,990

Movement in provision for capitalized value of annuities in non-life insurance	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	Gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	5,673	(192)	5,481	5,808	(178)	5,630	5,808	(178)	5,630
Claims paid for losses incurred in previous years	(173)	7	(166)	(325)	9	(316)	(145)	4	(141)
Increase (decrease) in provisions relating losses incurred in previous years	72	4	76	13	(22)	(9)	9	(1)	8
Settlement of discount over time	(7)	-	(7)	(15)	-	(15)	(7)	-	(7)
Increase in provisions relating to losses incurred in current year	117	(2)	115	168	-	168	71	(2)	69
Other changes	-	-	-	24	(1)	23	-	3	3
Foreign exchange differences in the period	(2)	-	(2)	-	-	-	-	-	-
Balance at the end of the period	5,680	(183)	5,497	5,673	(192)	5,481	5,736	(174)	5,562



Movement in technical provisions in life insurance

Movement in the life insurance provision, provision for bonuses and discounts and other technical provisions - insurance contracts	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	Gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	16,254	-	16,254	16,606	-	16,606	16,606	-	16,606
Increase (decrease) in provisions relating to policies signed in the current year	150	-	150	316	-	316	175	-	175
Increase (decrease) in provisions relating to policies signed in previous years	(121)	-	(121)	(668)	-	(668)	(243)	-	(243)
Foreign exchange differences	(8)	-	(8)	-	-	-	1	-	1
Balance at the end of the period	16,275	-	16,275	16,254	-	16,254	16,539	-	16,539

Movement in gross provisions for life insurance – unit-linked contracts	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	4,917	-	4,917	4,744	-	4,744	4,744	-	4,744
Increases in the fund on account of premiums	682	-	682	956	-	956	434	-	434
Fees collected	(60)	-	(60)	(91)	-	(91)	(46)	-	(46)
Fund's investment income	217	-	217	131	-	131	(44)	-	(44)
Decreases in the fund on account of claims, surrenders, etc.	(556)	-	(556)	(799)	-	(799)	(366)	-	(366)
Other changes	71	-	71	(24)	-	(24)	(19)	-	(19)
Balance at the end of the period	5,271	-	5,271	4,917	-	4,917	4,703	-	4,703

Movement in claims provisions	1 January – 30 June 2017			1 January – 31 December 2016			1 January – 30 June 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period	542	-	542	558	-	558	558	-	558
Utilization of claims provisions during the year	(485)	-	(485)	(562)	-	(562)	(467)	-	(467)
Recognition of claims provisions during the year	487	-	487	546	-	546	473	-	473
Balance at the end of the period	544	-	544	542	-	542	564	-	564

8.24 Other provisions

Movement in other provisions in the period 1 January – 30 June 2017	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combinations	Other changes	Balance at the end of the period
Provisions for restructuring expenses	252	61	(102)	(9)	-	-	202
Provision for disputed claims and potential liabilities	11	1	-	(2)	9	2	21
Provision for penalties imposed by the Office of Competition and Consumer Protection ¹⁾	58	-	-	(1)	-	-	57
Provision for guarantees and sureties extended	18	26	-	(21)	215	-	238
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	-	-	9
Other	13	8	(1)	(3)	24	-	41
Other provisions, total	367	96	(103)	(36)	248	2	574

Movement in other provisions in the year ended 31 December 2016	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combinations	Balance at the end of the period
Provisions for restructuring expenses	3	200	(6)	-	55	252
Provision for disputed claims and potential liabilities	4	3	(1)	-	5	11
Provision for penalties imposed by the Office of Competition and Consumer Protection ¹⁾	58	-	-	-	-	58
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	6
Provision for guarantees and sureties extended	5	19	-	(16)	10	18
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	-	9
Other	23	7	(8)	(9)	-	13
Other provisions, total	108	229	(15)	(25)	70	367

Movement in other provisions in the period 1 January – 30 June 2016	Balance at the beginning of the period	Increase	Utilization	Reversal	Balance at the end of the period
Provisions for restructuring expenses	3	-	(2)	-	1
Provision for disputed claims and potential liabilities	4	1	-	-	5
Provision for penalties imposed by the Office of Competition and Consumer Protection ¹⁾	58	-	-	-	58
Provision for guarantees and sureties extended	5	10	-	(8)	7
Provision for the costs of closing the Graphtalk project	6	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	9
Other	23	1	(3)	(1)	20
Other provisions, total	108	12	(5)	(9)	106

¹⁾ The most significant item of this amount is explained in item 16.2.



8.25 Financial liabilities

Financial liabilities	30 June 2017	31 December 2016
Financial liabilities carried at fair value	5,002	3,314
Derivatives held for trading	2,176	781
Cash flow hedge derivatives	1,127	6
Fair value hedge derivatives	188	-
Liabilities on borrowed securities (short sale)	803	654
Investment contracts for the client's account and risk (<i>unit-linked</i>)	323	329
Liabilities to members of consolidated mutual funds	385	1,544
Financial liabilities measured at amortized cost	199,289	56,716
Liabilities to banks	4,990	523
Current deposits	685	32
Overnight deposits	336	1
Term deposits	365	-
Bank securities	-	20
Loans received	3,412	305
Other liabilities	192	165
Liabilities to clients	185,376	51,241
Current deposits	105,929	25,791
Term deposits	75,963	22,160
Bank securities	2,698	2,769
Other liabilities	786	521
Liabilities on the issue of own debt securities	4,859	3,680
Subordinated debt	3,267	1,027
Liabilities under sell-buy-back transactions	752	178
Finance lease liabilities	11	-
Investment contracts with guaranteed and fixed terms and conditions	34	67
Total financial liabilities	204,291	60,030

8.25.1. Subordinated debt

	Par value	Interest rate	Issue / receipt of loan date	Maturity / loan repayment date
Liabilities classified as PZU's own funds				
PZU's subordinated loan	2,250	WIBOR 6M+ margin	30 June 2017	29 July 2027
Liabilities classified as Alior Bank's own funds				
Subordinated loan (in EUR million)	10	EURIBOR 3M + margin	12 October 2011	12 October 2019
Series F bonds (PLN million)	322	WIBOR 6M+ margin	26 September 2014	26 September 2024
Series G bonds (PLN million)	193	WIBOR 6M + margin	31 March 2015	31 March 2021
Series I and I1 bonds (PLN million)	183	WIBOR 6M+ margin	4 December 2015	6 December 2021
Meritum Bank bonds (PLN million)	67	WIBOR 6M+ margin	29 April 2013	29 April 2021
Meritum Bank bonds (PLN million)	80	WIBOR 6M+ margin	21 October 2014	21 October 2022
Series EUR001 bonds (EUR million)	10	LIBOR 6M+ margin	4 February 2016	4 February 2022
Series P1A bonds (PLN million)	150	WIBOR 6M+ margin	27 April 2016	16 May 2022
Series P1B bonds (PLN million)	70	WIBOR 6M+ margin	29 April 2016	16 May 2024

Additional information on the PZU's subordinated bond issue is presented in item 12.



Subordinated debt, carrying amount	30 June 2017	31 December 2016
PZU's subordinated bonds	2,244	-
Subordinated debt of Alior Bank	1,023	1,027
Subordinated loan	42	44
Series F bonds	225	225
Series G bonds	196	196
Series I bonds	114	114
Series I1 bonds	33	33
Meritum Bank bonds	148	148
Series EUR001 bonds	43	45
Series P1A bonds	151	151
Series P1B bonds	71	71
Subordinated debt	3,267	1,027

The lower carrying amount of subordinated debt in relation to the par value presented above results from the fact that some of the bonds issued by Alior Bank have been taken up by consolidated mutual funds and are subject to elimination in consolidation.

8.25.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 June 2017	31 December 2016
PZU Finance AB (publ.) bonds	3,544	3,680
Certificates of deposit	86	-
Covered bonds	1,229	-
Liabilities on the issue of own debt securities	4,859	3,680

	Par value (EUR million)	Interest rate	Issue dates	Maturity date
PZU Finance AB (publ.) bonds	850	1.375%	3 July 2014 16 October 2015	3 July 2019

The liabilities of PZU Finance AB (publ.) arising from the bonds are secured by a guarantee granted by PZU which covers all issue-related liabilities of the issuer (including the obligation to pay the par value of the bonds and interest on the bonds) in favor of all bondholders. The maximum value of the guarantee prevailing until expiration of the bondholders' claims against PZU Finance AB (publ.) has not been specified.

The lower carrying amount of liabilities on account of the issue of own debt securities in relation to the par value presented above results from the fact that some of the bonds issued by PZU Finance AB (publ.) have been taken up by consolidated PZU Group entities and are eliminated in consolidation.



8.26 Other liabilities

Other liabilities	30 June 2017	31 December 2016
Accrued expenses	1,250	1,182
Accrued expenses of agency commissions	318	301
Accrued sales commission expenses in group insurance	8	10
Accrued payroll expenses	130	170
Accrued reinsurance expenses	308	432
Accrued employee bonuses	195	149
Other	291	120
Deferred revenue	274	152
Other liabilities	9,273	3,663
Liabilities for transactions on financial instruments	1,926	932
Liabilities to minority shareholders in subsidiaries for dividends	1,822	-
Liabilities to PZU shareholders for dividends	1,213	3
Liabilities to banks on account of payment documents settled in interbank settlement systems	977	593
Liabilities on direct insurance	800	849
Liabilities on account of payment card settlements	568	65
Regulatory settlements:	259	67
Liabilities on account of contributions to BFG	214	10
Reinsurance liabilities	211	133
Estimated non-insurance liabilities	161	119
Liabilities to employees	157	165
Estimate fee refunds in connection with withdrawals or terminations, by banks' clients, of insurance policies concluded at the sale of credit products	151	71
Trade payables	141	91
Current income tax liabilities	133	225
Liabilities to the state budget other than for income tax	59	56
Liabilities on account of donations	28	34
Liabilities on account of leases concluded not on an arm's length basis	28	38
Alior Bank's liabilities on account of insurance of bank products offered to the bank's clients	22	23
Insurance Indemnity Fund	16	16
Liabilities on account of direct claims handling	13	13
Other	374	160
Other liabilities, total	10,797	4,997



9. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2017	31 December 2016
Contingent assets	6	40
- guarantees and sureties received	6	40
Contingent liabilities	58,518	16,364
- on account of financing	44,956	12,979
- guarantees and sureties given	7,038	1,514
- disputed insurance claims	774	429
- other disputed claims	207	195
- other, including:	5,543	1,247
- underwriting of securities issues	3,458	-
letters of credit and commitment letters	949	-
- liabilities for tranches of loans not used by borrowers up to the balance sheet date	213	1,195
- potential liabilities under loan agreements concluded by the Armatura Group	30	27

10. Capital management

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

Introduction of the Policy follows from implementation, as of 1 January 2016, of the Insurance and Reinsurance Activity Act implementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance ("Solvency II"), as amended, Insurance and Reinsurance Activity Act, and expiry of the PZU Group's Capital and Dividend Policy for 2013-2015 updated in May 2014.

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

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

The capital management policy rests on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

The PZU Group and PZU dividend policy assumes that:

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



subject to the items below;

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

External capital requirements

According to the Insurance Activity Act implementing Solvency II into Polish legal regime, 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.

Pursuant to art. 412 section 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2016 report published on 30 June 2017 is available online at <https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe>.

Additionally, the PZU Group insurance companies are obligated to observe separate capital requirements defined in the Solvency II regime; other PZU Group companies providing financial services are obligated to observe their own capital requirements as defined in their sector regulations.

11. Segment reporting

11.1 Reportable segments

11.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU, Link4, TUW PZUW.	As above.



Segment	Accounting standards	Segment description	Aggregation criteria
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by Pekao and Alior Bank.	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.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life insurance and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	



11.1.2. Information relating to geographical areas

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

- Poland;
- Baltic States;
- Ukraine.

11.2 Inter-segment settlements

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

11.3 Segment's measure of profit

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

- in the case of corporate, mass, group, individually continued and individual insurance segments – insurance result, which is the financial result before tax and other operating income and expenses (including costs of financing), however including investment income (corresponding to the value of technical provisions) determined using the risk-free rate. The insurance result is a measure approximately equivalent to the technical result defined in PAS, taking into account the difference in the recognition of the net result on investments as described in the previous sentence;
- in the case of the investment segment – the investment result of PZU Group companies minus the result allocated to insurance segments;
- in the case of investment contracts – the operating result, calculated in the manner approximately equivalent to the technical result in accordance with PAS;
- in the case of banking activity and foreign insurance activity – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax.

11.4 Accounting standards employed according to PAS

11.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting have been portrayed in detail in PZU's standalone financial statements for 2016.

PZU's standalone financial statements for 2016 are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.



11.4.2. PZU Życie

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

What is unique to PZU Życie is the rules of accounting for insurance agreements and investment contracts according to IFRS. Detailed information on this issue is presented in the consolidated financial statements.

The fundamental difference between PAS and IFRS in respect of accounting for insurance agreements and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance agreements. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 on the classification of products as insurance agreements (subject to IFRS 4) or investment contracts (measured according to IAS 39). In the case of the latter the written premium is not recognized.

11.5 Simplifications in the segmental note

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

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

11.6 Information on key customers

Due to the nature of the activities of PZU Group companies, there are no business partners bringing revenues which would constitute 10% or more of the PZU Group’s total revenues (understood as gross written premium).



11.7 Quantitative data

Corporate insurance (non-life insurance)	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	753	1,379	552	966
Gross premium written between segments	(2)	2	3	64
Gross written premiums	751	1,381	555	1,030
Movement in provision for unearned premiums and gross provision for unexpired risks	(158)	(247)	(76)	(120)
Gross earned premium	593	1,134	479	910
Reinsurers' share in the gross written premium	(171)	(250)	(79)	(105)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	84	83	27	(13)
Net earned premium	506	967	427	792
Investment income, including:	26	40	36	64
external operations	26	40	36	64
intersegment operations	-	-	-	-
Other net technical income	12	36	17	27
Income	544	1,043	480	883
Net insurance claims	(275)	(572)	(268)	(439)
Acquisition expenses	(104)	(204)	(92)	(168)
Administrative expenses	(32)	(64)	(29)	(55)
Reinsurance commissions and profit-sharing	7	13	3	8
Other	(24)	(49)	(4)	(27)
Insurance result	116	167	90	202

Mass insurance (non-life insurance)	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	2,564	5,217	2,158	4,277
Gross premium written between segments	1	1	-	28
Gross written premiums	2,565	5,218	2,158	4,305
Movement in provision for unearned premiums and gross provision for unexpired risks	(204)	(656)	(235)	(635)
Gross earned premium	2,361	4,562	1,923	3,670
Reinsurers' share in the gross written premium	(23)	(24)	(4)	(8)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	(22)	(9)	(20)
Net earned premium	2,338	4,516	1,910	3,642
Investment income, including:	134	228	148	275
external operations	134	228	148	275
intersegment operations	-	-	-	-
Other net technical income	18	88	13	33
Income	2,490	4,832	2,071	3,950
Net insurance claims	(1,498)	(2,790)	(1,218)	(2,442)
Acquisition expenses	(432)	(847)	(377)	(736)
Administrative expenses	(138)	(280)	(148)	(294)
Reinsurance commissions and profit-sharing	1	-	(6)	(3)
Other	(94)	(191)	(83)	(168)
Insurance result	329	724	239	307



Group and individually continued insurance (life insurance)	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	1,715	3,429	1,701	3,390
Gross premium written between segments	-	-	-	-
Gross written premiums	1,715	3,429	1,701	3,390
Movement in the provision for unearned premiums	(3)	(3)	-	-
Gross earned premium	1,712	3,426	1,701	3,390
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	1,712	3,426	1,701	3,390
Investment income, including:	163	393	101	291
external operations	163	393	101	291
intersegment operations	-	-	-	-
Other net technical income	1	1	-	-
Income	1,876	3,820	1,802	3,681
Net insurance claims and benefits and movement in other net technical provisions	(1,196)	(2,648)	(1,148)	(2,463)
Acquisition expenses	(85)	(167)	(79)	(167)
Administrative expenses	(143)	(292)	(142)	(286)
Other	(25)	(31)	(21)	(38)
Insurance result	427	682	412	727

Individual insurance (life insurance)	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	384	792	292	538
Gross premium written between segments	-	-	-	-
Gross written premiums	384	792	292	538
Movement in the provision for unearned premiums	(1)	1	(1)	2
Gross earned premium	383	793	291	540
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	383	793	291	540
Investment income, including:	71	251	66	78
external operations	71	251	66	78
intersegment operations	-	-	-	-
Income	454	1,044	357	618
Net insurance claims and benefits and movement in other net technical provisions	(358)	(850)	(257)	(421)
Acquisition expenses	(33)	(67)	(24)	(49)
Administrative expenses	(15)	(30)	(15)	(30)
Other	(2)	(2)	(3)	(5)
Insurance result	46	95	58	113



Investments	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Investment income, including:	1,352	1,684	433	558
- external operations	(200)	126	(520)	(401)
- intersegment operations	1,552	1,558	953	959
Operating result	1,352	1,684	433	558

Banking activity	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Fees and commission income	382	597	140	279
Investment income, including:	1,193	1,868	407	972
- external operations	1,193	1,868	407	972
- intersegment operations	-	-	-	-
Income	1,575	2,465	547	1,251
Fees and commission expenses	(116)	(194)	(61)	(112)
Interest expenses	(220)	(391)	(49)	(300)
Administrative expenses	(760)	(1,227)	(258)	(527)
Other	(112)	(168)	(68)	(95)
Operating result	367	485	111	217

Pension insurance	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Investment income, including:	2	3	1	2
external operations	2	3	1	2
intersegment operations	-	-	-	-
Other income	33	61	32	56
Income	35	64	33	58
Administrative expenses	(11)	(24)	(8)	(17)
Other	-	(1)	(2)	-
Operating result	24	39	23	41

Insurance - Baltic States	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	358	673	311	585
Gross premium written between segments	-	-	-	-
Gross written premiums	358	673	311	585
Movement in provision for unearned premiums and gross provision for unexpired risks	(51)	(72)	(35)	(40)
Gross earned premium	307	601	276	545
Reinsurers' share in the gross written premium	(6)	(22)	(6)	(18)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	5	(1)	4
Net earned premium	299	584	269	531
Investment income, including:	1	9	5	9
external operations	1	9	5	9
intersegment operations	-	-	-	-
Income	300	593	274	540
Net insurance claims and benefits	(181)	(366)	(165)	(332)
Acquisition expenses	(66)	(130)	(60)	(121)
Administrative expenses	(28)	(55)	(31)	(61)
Other	-	-	(1)	(1)
Insurance result	25	42	17	25

Insurance - Ukraine	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Gross premium written externally	63	115	48	106
Gross premium written between segments	-	-	-	-
Gross written premiums	63	115	48	106
Movement in provision for unearned premiums and gross provision for unexpired risks	(11)	(14)	(1)	(17)
Gross earned premium	52	101	47	89
Reinsurers' share in the gross written premium	(30)	(51)	(16)	(48)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	9	9	(5)	9
Net earned premium	31	59	26	50
Investment income, including:	3	7	3	11
external operations	3	7	3	11
intersegment operations	-	-	-	-
Income	34	66	29	61
Net insurance claims and benefits	(16)	(26)	(7)	(25)
Acquisition expenses	(16)	(32)	(15)	(27)
Administrative expenses	(6)	(12)	(6)	(10)
Other	5	11	6	10
Insurance result	1	7	7	9



	1 April – 30 June 2017	1 January – 30 June 2017	1 April – 30 June 2016	1 January – 30 June 2016
Investment contracts				
Gross written premium	8	21	14	61
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	8	21	14	61
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	8	21	14	61
Investment income, including:	2	21	(4)	2
external operations	2	21	(4)	2
intersegment operations	-	-	-	-
Income	10	42	10	63
Net insurance claims and benefits and movement in other net technical provisions	(9)	(38)	(7)	(56)
Acquisition expenses	(1)	(1)	(1)	(2)
Administrative expenses	(1)	(3)	(2)	(5)
Operating result	(1)	-	-	-
Other segments				
Investment income, including:	4	4	3	2
- external operations	4	4	3	2
- intersegment operations	-	-	-	-
Other income	241	454	222	366
Income	245	458	225	368
Costs	(248)	(484)	(223)	(375)
Other	6	23	3	7
Operating result	3	(3)	5	-



Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group
Condensed interim consolidated financial statements for the 6 months ended 30 June 2017 according to IFRS
(in millions of PLN)

Reconciliations 1 January 2017 – 30 June 2017	Net earned premium	Investment income ²⁾	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	967	40	(572)	(204)	(64)	167
Mass insurance	4,516	228	(2,790)	(847)	(280)	724
Group and individually continued insurance	3,426	393	(2,648)	(167)	(292)	682
Individual insurance	793	251	(850)	(67)	(30)	95
Investments	-	1,684	-	-	-	1,684
Banking activity	-	1,868	-	-	(1,227)	485
Pension insurance	-	3	-	(1)	(24)	39
Insurance - Baltic States	584	9	(366)	(130)	(55)	42
Insurance - Ukraine	59	7	(26)	(32)	(12)	7
Investment contracts	21	21	(38)	(1)	(3)	-
Other segments	-	4	-	-	-	(3)
Total segments	10,366	4,508	(7,290)	(1,449)	(1,987)	3,922
Presentation of investment contracts	(21)	(19)	38	-	-	-
Estimated salvage and subrogation	-	-	6	-	-	6
Valuation of equity instruments	-	36	-	-	-	36
Elimination of the loss ratio equalization provision and prevention fund	-	-	-	-	-	(2)
Charges to the Company Social Benefit Fund (ZFSS) and actuarial costs	-	-	-	-	(20)	(20)
Consolidation adjustments ¹⁾	2	(1,493)	32	37	(18)	(1,743)
Consolidated data	10,347	3,032	(7,214)	(1,412)	(2,025)	2,199

¹⁾ Consolidated adjustments follow primarily from the dividends paid between individual segments and from different accounting standards in which individual reportable segments (PAS and IFRS) and consolidated data (IFRS) are reported.

²⁾ The sum of the following line items in the consolidated statement of profit or loss: "Net investment income", "Net realized result and impairment charges on investments" and "Net movement in the fair value of assets and liabilities measured at fair value".

Reconciliations 1 January 2016 – 30 June 2016	Net earned premium	Investment income ²⁾	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	792	64	(439)	(168)	(55)	202
Mass insurance	3,642	275	(2,442)	(736)	(294)	307
Group and individually continued insurance	3,390	291	(2,463)	(167)	(286)	727
Individual insurance	540	78	(421)	(49)	(30)	113
Investments	-	558	-	-	-	558
Banking activity	-	972	-	-	(527)	217
Pension insurance	-	2	-	(2)	(17)	41
Insurance - Baltic States	531	9	(332)	(121)	(61)	25
Insurance - Ukraine	50	11	(25)	(27)	(10)	9
Investment contracts	61	2	(56)	(2)	(5)	-
Other segments	-	2	-	-	-	-
Total segments	9,006	2,264	(6,178)	(1,272)	(1,285)	2,199
Presentation of investment contracts	(61)	4	56	-	-	-
Valuation of equity instruments	-	67	-	-	-	67
Valuation of properties	-	(15)	-	-	-	(15)
Elimination of the loss ratio equalization provision and prevention fund	-	-	-	-	-	(9)
Charges to the Company Social Benefit Fund (ZFSS) and actuarial costs	-	-	-	-	(15)	(15)
Consolidation adjustments ¹⁾	41	(915)	(43)	20	22	(1,177)
Consolidated data	8,986	1,405	(6,165)	(1,252)	(1,278)	1,050



¹⁾ Consolidated adjustments follow primarily from the dividends paid between individual segments and from different accounting standards in which individual reportable segments (PAS and IFRS) and consolidated data (IFRS) are reported.

²⁾ The sum of the following line items in the consolidated statement of profit or loss: "Net investment income", "Net realized result and impairment charges on investments" and "Net movement in the fair value of assets and liabilities measured at fair value".



Geographic breakdown 1 January – 30 June 2017 and as at 30 June 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	10,818	673	115	-	11,606
Gross written premium - cross-segment	-	-	-	-	-
Fees and commission income	519	-	-	183	702
Net investment income	3,252	8	7	-	3,267
Net result on the realization of investments and impairment charges	(300)	(1)	-	-	(301)
Net movement in the fair value of assets and liabilities measured at fair value	64	2	-	-	66
Non-current assets other than financial instruments ¹⁾	4,526	252	4	-	4,782
Deferred tax assets	663	-	2	921	1,586
Assets	294,251	2,132	272	(1,393)	295,262

¹⁾ applies to intangible assets and property, plant and equipment

Geographic breakdown 31 December 2016	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Non-current assets other than financial instruments ¹⁾	2,650	276	4	-	2,930
Deferred tax assets	622	-	2	-	624
Assets	124,510	2,021	262	(1,448)	125,345

¹⁾ applies to intangible assets and property, plant and equipment

Geographic breakdown 1 January – 30 June 2016 and as at 30 June 2016	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	9,171	585	106	-	9,862
Gross written premium - cross-segment	29	-	-	(29)	-
Fees and commission income	395	-	-	-	395
Net investment income	1,861	7	11	-	1,879
Net result on the realization of investments and impairment charges	(469)	(1)	-	-	(470)
Net movement in the fair value of assets and liabilities measured at fair value	(7)	3	-	-	(4)
Non-current assets other than financial instruments ¹⁾	2,258	295	4	-	2,557
Deferred tax assets	443	-	2	-	445
Assets	112,096	1,951	262	(1,364)	112,945

¹⁾ applies to intangible assets and property, plant and equipment



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

On 30 June 2017, PZU issued subordinated bonds with the following parameters:

Parameter	Value
Total nominal value of the bonds	PLN 2,250 million
Nominal value and issue price of one bond	PLN 100,000
Date of bond maturity	29 July 2027
Interest rate	WIBOR 6M + 1.80% margin
Interest payment days	29 January and 29 July each year, from 29 January 2018 until 29 July 2027
Possibility of redeeming bonds before maturity	29 July 2022
Security	None

The bonds are not in the form of documents and are registered in the securities depository maintained by Krajowy Depozyt Papierów Wartościowych SA [National Depository of Securities] and listed in alternative trading systems run by BondSpot SA and the Warsaw Stock Exchange.

As at 30 June 2017, liabilities under the bonds were classified as PZU's category 2 own funds in accordance with art. 245 of the Insurance Activity Act and art. 72 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

13. Default or breach of material provisions of loan agreements

During the 6 months ended 30 June 2017, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no remedial actions were taken until the end of the reporting period.

14. Granting of loan sureties or guarantees by PZU or its subsidiaries

In the 6-month period ended 30 June 2017, neither PZU nor its subsidiaries granted any loan sureties or guarantees to any single entity or any subsidiary of such an entity where the total amount of such sureties or guarantees would be the equivalent to at least 10% of PZU's equity.

15. Dividends

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

On 29 May 2017 the PZU Management Board decided to file a motion with the Ordinary Shareholder Meeting of PZU to distribute PZU's net profit for the year ended 31 December 2016 in the amount of PLN 1,593 million as follows:

- designate PLN 1,209 million, i.e. PLN 1.40 per share, for a dividend payment;
- designate PLN 369 million for supplementary capital;
- designate PLN 15 million for the Company Social Benefit Fund.

On 29 June 2017, the Ordinary Shareholder Meeting of PZU adopted a resolution on distribution of net profit for the year ended 31 December 2016, in accordance with the motion submitted by the PZU Management Board.

The record date was set at 29 September 2017 and the dividend payment date was set for 19 October 2017.



16. Disputes

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

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

PZU and PZU Życie take disputed claims into account in the process of recognizing their technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount. In the case of disputed claims pertaining to restatement of annuities in PZU Życie, the claims are carried in other technical provisions at the annual value of annuities above the corresponding amount of provision set within the framework of mathematical life provisions.

During the 6 months ended 30 June 2017 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries, the unit value of which was at least 10% of PZU's equity.

As at 30 June 2017, the value of the subject matter of the litigation in all the 188,686 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 178,070 million. Out of this amount, PLN 175,344 million relates to liabilities and PLN 2,726 million to receivables of PZU Group companies.

The substantial change in the value of litigation against the PZU Group in H1 2017 resulted from the fact that Pekao received a lawsuit from Pekao's minority shareholder for annulment and possibly repealing Resolutions no. 5 and no. 21 adopted by Pekao's Ordinary Shareholder Meeting on 19 April 2017 to approve Pekao's financial statements for 2016 and to grant a discharge to a Member of Pekao's Management Board on the performance of duties in 2016. The value of the dispute in those proceedings was specified by the plaintiff as PLN 170,989 million. Pekao believes that the lawsuit is groundless and the value of the dispute specified by the plaintiff is incorrect (Pekao has petitioned for a review and determination of the value of the dispute).

Estimates of the provision amounts for individual cases take into account all information available on the date of publishing this periodic report; however, this figure may change in the future.

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

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

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

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

In its judgment of 22 January 2010 the Regional Court in Warsaw repealed the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting in its entirety. PZU has used all the available appeal measures, including a cassation



appeal to the Supreme Court which, on 27 March 2013, dismissed the cassation appeal. The judgment is final and not subject to further appeal.

In PZU's opinion, the rescission of the above resolution of the Ordinary Shareholder Meeting of PZU will not lead to a claim on the part of PZU's shareholders for payment of a dividend.

As the judgment repealing resolution no. 8/2007 became final, on 30 May 2012, the PZU Ordinary Shareholder Meeting adopted a resolution to distribute the profit for the financial year 2006 in a way reflecting the distribution of profit effected by virtue of the repealed resolution no. 8/2007. MSC filed an objection against the resolution of 30 May 2012 and the objection was recorded in the minutes.

On 20 August 2012, a copy of a statement of claim filed by MSC with the Regional Court in Warsaw was delivered to PZU. In the statement of claim, the Manchester Securities Corporation demanded that the resolution on the distribution of profit for the financial year 2006 adopted on 30 May 2012 by the PZU Ordinary Shareholder Meeting be repealed. According to the plaintiff, the value of the litigation is PLN 5 million. PZU has submitted a rejoinder to the statement of claim 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. In its judgment of 11 February 2015, the Appellate Court in Warsaw 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 a response to cassation appeal. With its 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 and not subject to further appeal and ends the proceedings in this case.

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

On 23 September 2015, a copy of the statement of claim with enclosures was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with adoption of resolution no. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU replied to the statement of claim requesting to dismiss the suit 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 a decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, the hearing of evidence will take place.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 June 2017, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

In the letters of 17 December 2014, Wspólna Reprezentacja SA summoned PZU to pay the amount of PLN 56 million and PLN 1 million as claims for damages acquired from shareholders resulting from their deprivation of the right to participate in PZU's profit. PZU refused to effect the performance, indicating the lack of grounds.

Apart from the aforementioned letters, shareholders, former shareholders or their legal successors sent to PZU demands for payment based on the facts presented above. Rather than indicating any specific amounts, some of them provided



only the number of shares or merely submitted a demand for payment. PZU replied them in writing, stating that their claims are not existent and that they will not be accepted.

16.1.2. Other court proceedings pertaining to distribution of PZU SA's profit earned in the financial year 2006

On 19 January 2015, the District Court for the Capital City of Warsaw delivered a copy of a petition, together with attachments, in the case filed by the company operating under the business name of Wspólna Reprezentacja SA, calling for a settlement for the amount of PLN 56 million. At the hearing on 19 February 2015 PZU refused to conclude a settlement.

PZU received copies of other calls for a settlement with demands to conclude settlements through payment of amounts on account of participation in the profits for the financial year 2006. The proceedings have already been completed.

PZU refused to conclude the settlements stating that the claims are not existent and that they will not be accepted.

7 lawsuits for payment of dividend or compensation have been launched against PZU. PZU answers to such statements of claim consistently demanding their dismissal in entirety. In six cases, District Courts in Warsaw dismissed the claims in their entirety (in five cases, the rulings are final and in one case the plaintiff filed an appeal to which PZU replied by petitioning for the dismissal of the appeal in its entirety). In one case, the District Court discontinued the proceedings after the statement of claim was withdrawn (the decision is final).

16.2 Proceedings conducted by President of UOKiK against PZU

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

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

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

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

On 22 October 2012, PZU received a response on its appeal from the UOKiK President, to which PZU replied on 5 November 2012. On 27 March 2015, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. On 21 May 2015, the UOKiK President filed an appeal. By judgment of 6 December 2016, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. On 31 July 2017, the Regional Court issued a judgment in which it repealed the



decision of the UOKiK President of 30 December 2011. The judgment is not final. The UOKiK President may appeal against the judgment to the Appellate Court in Warsaw.

PZU established a provision for this fine, which amounted to PLN 57 million as at 30 June 2017 and 31 December 2016.

16.3 Proceedings conducted by UOKiK President against PZU Życie

On 1 June 2005, the President of the Office of Competition and Consumer Protection launched, at the request of several applicants, an anti-monopoly procedure in the matter of a suspicion of PZU Życie's abuse of its dominating position in the group employee insurance market, which could constitute a breach of Article 8 of the Competition and Consumer Protection Act and Article 82 of the Treaty establishing the European Community. As a result of the procedure, on 25 October 2007 the President of UOKiK imposed a fine on PZU Życie in the amount of PLN 50 million for hindering clients from taking advantage of the offers of the company's competitors.

The PZU Życie Management Board did not concur with the findings concerning the facts or the legal argumentation set forth in the decision and filed an appeal to the Court of Competition and Consumer Protection, in which it included 38 substantive and formal pleas in respect to the decision issued by the President of UOKiK. According to the PZU Życie Management Board, not all the evidence was taken into account when making the decision and an erroneous legal qualification was made and in effect it was groundlessly assumed that PZU Życie has a dominating position on the market.

After a number of years of proceedings, on 30 September 2015, PZU Życie paid the imposed fine of PLN 50 million and the awarded costs of proceedings. On 18 March 2016, PZU Życie filed a cassation appeal with the Supreme Court. By decision of 6 April 2017, the Supreme Court accepted the cassation appeal for examination at the hearing. The cassation appeal is being heard on 26 September 2017.

Since the fine has already been paid PZU Życie, neither on 30 June 2017 nor 31 December 2016 was it necessary to maintain an additional provision for this purpose.

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. Neither the bonds nor the shares were recognized in the consolidated financial statements since their fair value has been recognized to be zero, but they were recognized in off-balance sheet records.

In the first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner, PZU SA's receivables amounted to PLN 16 million. The final list of claims submitted against the bankruptcy estate of Hydrobudowa has not been determined yet. While bankruptcy proceedings against Hydrobudowa are pending, the determination of the final list of claims is merely an initial step in these proceedings that precedes the drafting of the distribution plan (after the liquidation of the bankruptcy estate).

16.5 Lawsuit against Pekao and Centralny Dom Maklerski Pekao SA



There is a pending lawsuit against Pekao and its subsidiary Centralny Dom Maklerski Pekao SA filed by natural persons for payment of compensation for the loss incurred in connection with the purchase of shares and monetary compensation for the injustice caused by the launch of enforcement proceedings. The value of the dispute as at 30 June 2017 was PLN 206 million. In a judgment handed down in H1 2015, the lawsuit was dismissed. The plaintiffs appealed against the judgment, challenging its part referring to the amount of PLN 206 million. In Q3 2016, the appeal was dismissed. The judgment of the 2nd instance court was challenged by the plaintiffs in a cassation appeal. As at 30 June 2017, no provision has been recognized for this case, since the risk of a cash payment is deemed to be low.



17. Other information

17.1 Related party transactions

17.1.1. Execution, by PZU or its subsidiaries, of material related party transactions on terms other than based on an arm's length principle

In the period of 6 months ended 30 June 2017, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on terms other than based on an arm's length principle, except for those described below.

Under the master agreement signed on 7 August 2013 by and between PZU and PZU Życie, cash loans in PLN for a definite term of no more than 12 months are extended between these companies. The sum of the loans granted by each of the parties cannot exceed PLN 1 billion. The purpose of the aforementioned agreement is to provide a liquidity management tool in the PZU Group. The loans are not granted on an arm's length basis - no interest is accrued on the loans, and for granting the loan the lender is entitled to a commission in the amount of PLN 100 for each concluded loan agreement; however, due to participation of both companies in the Tax Group, they are neutral from a tax perspective. In the period of 6 months ended 30 June 2017, PZU Życie granted one such loan (on 2 June 2017 in the amount of PLN 500 million, which was repaid on 27 June 2017).

17.1.2. Account activity and balances of transactions executed with related parties

Account activity and balances of commercial transactions between the PZU Group and related parties	1 January – 30 June 2017 and as at 30 June 2017		1 January – 31 December 2016 and as at 31 December 2016		1 January – 30 June 2016 and as at 30 June 2016	
	Key management staff of the main entities ¹⁾	Other related parties ²⁾	Key management staff of the main entities ¹⁾	Other related parties ²⁾	Key management staff of the main entities ¹⁾	Other related parties ²⁾
Gross written premium	-	2	-	3	-	1
in non-life insurance	-	2	-	3	-	1
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Fees and commission income	-	99	-	-	-	-
Other income	-	-	-	-	-	-
Costs	-	2	-	-	-	-
Receivables	-	16	-	-	-	-
Financial liabilities	-	315	-	-	-	-
Other liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

¹⁾ Senior level managers, data according to declarations.

²⁾ Unconsolidated companies in liquidation and associates measured by the equity method.

17.2 Headcount restructuring

On 9 March 2017, the PZU and PZU Życie Management Boards decided to continue the headcount restructuring process in PZU and PZU Życie. On 22 March 2017, PZU and PZU Życie entered into an agreement with the trade unions operating in PZU and PZU Życie to lay down the terms and conditions for group layoffs, the number of persons subject



to restructuring, the selection criteria for the layoffs, the financial package, the principles of protection of selected groups of employees and the timetable of group layoffs.

Employment restructuring in PZU and PZU Życie was slated to take place in the period from 24 March to 18 December 2017. Restructuring is to cover up to 1944 persons; it is estimated that up to 956 PZU and PZU Życie employees from different occupational groups will be laid off.

The costs associated with the payment of benefits to employees laid off in connection with headcount restructuring have been estimated in the 2017 budgets of PZU and PZU Życie and will be recognized in the PZU Group's annual consolidated financial statements for 2017.

The process is implemented in accordance with the adopted timetable. In the period of 6 months ended 30 June 2017, the costs associated with the payment of benefits to the released employees amounted to PLN 12 million. As at 30 June 2017, the remaining restructuring provision amount was PLN 61 million.

17.3 KNF Office's audit in PZU Życie

In the period from 27 September to 25 November 2016, the KNF Office carried out an audit in PZU Życie to verify the use of services rendered by insurance agents, in particular:

- the exercise of supervision by the insurance company over the activity of insurance agents;
- the proper execution of agency agreements in terms of their compliance with the applicable laws;
- the conduct of training and examinations for agents;
- the proper notification of changes to the register of insurance agents.

As at the date of this report, PZU Życie was still awaiting the receipt of the post-audit report.

17.4 Situation in Ukraine

In the period of the 6 months ended 30 June 2017, despite the increasingly noticeable signs of improvement in the economic situation and stabilization of the political situation in Ukraine, the insurance market continued to operate in challenging circumstances stemming from the country's weak economy, low client involvement, barriers to the transfer of goods and services through the Eastern border and limitations in the liquidity of the banking system. The market continued to be characterized by a high level of expenses associated with sales of insurance products. The liquidity problems affecting a portion of the banking system and linked insurance companies resulted in the deterioration of trust among the population. The cyber-attack of a computer virus named "Pety.A", which in June 2017 impacted numerous state institutions and private businesses, also in the insurance sector, became a great challenge for the Ukrainian economy. The effects of the attacks are still being estimated and in time may reach several billions of dollars, on top of the business and political consequences that have not been mentioned, such as loss of trust of investors following the theft of sensitive data.

Despite these circumstances, PZU Ukraine and PZU Ukraine Life, by diversifying their portfolios and sales channels, were able to respond with flexibility to market changes and fulfillment of their respective sales plans was 94% and 121%.

The Management Board of PZU, in cooperation with the management of PZU Ukraine and PZU Ukraine Life, monitors external risks and changes in Ukrainian legal regulations on an ongoing basis. Response scenarios have been prepared for market changes and control mechanisms. PZU does not intend to withdraw from the Ukrainian market. As at the date of signing of the condensed consolidated financial statements, the PZU Management Board assumes that further activities of PZU Ukraine and PZU Ukraine Life will be continued in accordance with the adopted assumptions. However, the economic instability in Ukraine may adversely affect the future financial standing and performance of PZU Ukraine and PZU Ukraine Life in a manner that currently cannot be reliably predicted. The consolidated financial statements reflect the current judgments of the PZU Management Board in this respect.



Signatures of the PZU Management Board Members:

First and last name	Position / Function	
Paweł Surówka	President of the PZU Management Board (signature)
Tomasz Kulik	Member of the PZU Management Board (signature)
Roger Hodgkiss	Member of the PZU Management Board (signature)
Maciej Rapkiewicz	Member of the PZU Management Board (signature)
Małgorzata Sadurska	Member of the PZU Management Board (signature)

Person responsible for drawing up the condensed interim consolidated financial statements:

Katarzyna Łubkowska	Director Accounting Department (signature)
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Warsaw, 30 August 2017

