Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim consolidated financial statements for Q1 2019

Table of contents

Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2018.

Parent company’s quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2019.

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

Functional and presentation currency

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

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

(in millions of PLN)

FX rates

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

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

Currency	1 January – 31 March 2019	1 January – 31 December 2018	1 January – 31 March 2018	31 March 2019	31 December 2018	31 March 2018
Euro	4.2978	4.2669	4.1784	4.3013	4.3000	4.2085
British pound	4.9733	4.8142	4.7511	4.9960	4.7895	4.7974
Ukrainian hryvnia	0.1388	0.1330	0.1257	0.1411	0.1357	0.1298

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 3-month period ended 31 March 2019, the PZU Group companies did not discontinue any type of activity.

Business seasonality or cyclicity

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

EMC – EMC Instytut Medyczny SA.

Falck CM – Falck Centra Medyczne 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. in liquidation, Alior Leasing sp. z o.o., Meritum Services ICB SA, Alior TFI SA, New Commerce Services sp. z o.o., Absource sp. z o.o., Serwis Ubezpieczeniowy sp. z o.o., Corsham sp. z o.o.

Pekao Group – Pekao with its subsidiaries: Pekao Bank Hipoteczny SA, Centralny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao Powszechne Towarzystwo Emerytalne in liquidation, Pekao Towarzystwo Funduszy Inwestycyjnych SA, Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości

Bezpośredniej sp. z o.o., Pekao Property SA in liquidation, FPB – Media sp. z o.o. in liquidation, Pekao Fundusz Kapitałowy sp. z o.o. in liquidation, Pekao Investment Management SA, Dom Inwestycyjny Xelion sp. z o.o.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń 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.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

CGU – cash generating unit.

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

WSE – Warsaw Stock Exchange.

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

PZU standalone financial statements for 2018 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2018 prepared in accordance with PAS, signed by the PZU Management Board on 12 March 2019.

KNF – Polish Financial Supervision Authority.

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

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 March 2019.

NBP – National Bank of Poland;

TG – Tax Group [Polish: Podatkowa Grupa Kapitałowa] established under an agreement signed on 20 September 2017 by and between 13 PZU Group companies: PZU, PZU Życie, Link4, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., PZU Zdrowie SA, Tulare Investments sp. z o.o., Battersby Investments SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA, Omicron Bis SA. The Tax Group has been established for a period of 3 years – from 1 January 2018 to 31 December 2020. PZU is the parent company representing the Tax Group.

POCI – Purchased or originated credit-impaired financial assets

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

IASB – International Accounting Standards Board.

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

PZU Group's consolidated financial statements for 2018 – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2018.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office of Competition and Consumer Protection.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (i.e. Journal of Laws of 2019 Item 381, as amended).

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

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 31 March 2019	m PLN 1 January – 31 March 2018	m EUR 1 January – 31 March 2019	m EUR 1 January – 31 March 2018
Gross written premiums	5,901	5,831	1,373	1,396
Net earned premium	5,592	5,458	1,301	1,306
Revenue from commissions and fees	961	997	224	239
Net investment result	3,021	2,219	703	531
Net insurance claims and benefits paid	(3,958)	(3,626)	(921)	(868)
Profit before tax	1,487	1,316	346	315
Profit attributable to equity holders of the Parent Company	747	627	174	150
Profit attributable to holders of non-controlling interests	265	349	62	84
Basic and diluted weighted average number of common shares	863,315,217	863,511,199	863,315,217	863,511,199
Basic and diluted earnings per common share (in PLN/EUR)	0.87	0.73	0.20	0.17

Data from the consolidated statement of financial position	m PLN 31 March 2019	m PLN 31 December 2018	m EUR 31 March 2019	m EUR 31 December 2018
Assets	337,625	328,554	78,494	76,408
Share capital	86	86	20	20
Equity attributable to equity holders of the parent	15,798	14,925	3,673	3,471
Non-controlling interest	22,750	22,482	5,289	5,228
Total equity	38,548	37,407	8,962	8,699
Basic and diluted number of common shares	863,315,028	863,248,013	863,315,028	863,248,013
Carrying amount per common share (in PLN/EUR)	18.30	17.29	4.25	4.02

(in millions of PLN)

Data from the consolidated cash flow statement	m PLN 1 January – 31 March 2019	m PLN 1 January – 31 March 2018	m EUR 1 January – 31 March 2019	m EUR 1 January – 31 March 2018
Net cash flows from operating activities	979	(4,693)	228	(1,123)
Net cash flows from investing activities	(7,351)	5,929	(1,710)	1,419
Net cash flows from financing activities	(411)	2,193	(96)	525
Total net cash flows	(6,783)	3,429	(1,578)	821

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 31 March 2019	m PLN 31 December 2018	m PLN 31 March 2018	m EUR 31 March 2019	m EUR 31 December 2018	m EUR 31 March 2018
Assets	46,031	43,567	43,818	10,702	10,132	10,412
Share capital	86	86	86	20	20	20
Total equity	14,668	13,925	13,790	3,410	3,238	3,277
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Carrying amount per common share (in PLN/EUR)	16.99	16.13	15.97	3.95	3.75	3.79

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 31 March 2019	m PLN 1 January – 31 March 2018	m EUR 1 January – 31 March 2019	m EUR 1 January – 31 March 2018
Gross written premiums	3,729	3,769	868	902
Technical result of non-life insurance	358	395	83	95
Net investment result [1)]	130	113	30	27
Net profit	237	246	55	59
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	0.27	0.28	0.06	0.07

[1)] Including the item “Share of the net profit (loss) of related parties measured by the equity method”.

(in millions of PLN)

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

Data from the balance sheet	m PLN 31 March 2019	m PLN 31 December 2018	m PLN 31 March 2018	m EUR 31 March 2019	m EUR 31 December 2018	m EUR 31 March 2018
Assets	28,002	27,556	28,653	6,510	6,408	6,808
Total equity	4,777	4,451	4,788	1,111	1,035	1,138

Data from the technical life insurance account and the general profit and loss account	m PLN 1 January – 31 March 2019	m PLN 1 January – 31 March 2018	m EUR 1 January – 31 March 2019	m EUR 1 January – 31 March 2018
Gross written premiums	2,070	2,079	482	498
Technical life insurance result	342	353	80	84
Net investment result	356	166	83	40
Net profit	235	269	55	64

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the 3-month period ended 31 March 2019 was PLN 1,012 million and was 3.7% higher than the net result in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders was PLN 747 million compared to PLN 627 million in 2018 (up 19.1%).

The net result declined 7.6% compared to last year, net of non-recurring events.[1]

ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2019 was 19.5%, up 2.1 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity after the 3-month period ended 31 March 2019, as compared to the corresponding period of the previous year:

- higher result on listed equities, in particular due to better conditions on the Warsaw Stock Exchange;
- growth in gross written premium in ADD insurance and motor insurance in the corporate client segment, higher sales in international companies (chiefly in motor insurance) and development of the group health products portfolio;
- decline in the underwriting result in the corporate client segment due to the higher loss ratio in the portfolio of insurance against fire and other damage to property and the dip in the profitability of motor TPL insurance;
- higher profitability in the mass insurance segment – result of the better result in motor insurance (in Q1 2018 remeasurement of the provision for general damages) partially offset by the decline in profitability in the non-life insurance group (higher level of claims caused by fires and gusty wind);
- increased profitability in group and individually continued insurance as a result of the constantly growing insurance portfolio, including health insurance and a change in the mix of individually continued products with a lower unit expense for provisioning the future disbursement of benefits;
- higher result on individual insurance due to the expanding portfolio of high margin protection insurance, including bancassurance;
- lower results in the banking segment due to higher contributions to the Bank Guarantee Fund.

[1] Non-recurring events include the non-recurring effect of the remeasurement of provisions in non-life insurance for claims for general damages due to vegetative state (in the comparable period).

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2019	1 January – 31 March 2018 (restated) [1]
Gross written premiums	8.1	5,901	5,831
Reinsurers' share in gross written premium		(102)	(51)
Net written premiums		**5,799**	**5,780**
Movement in net provision for unearned premiums		(207)	(322)
Net earned premium		**5,592**	**5,458**
Revenue from commissions and fees	8.2	961	997
Net investment income	8.3	3,053	2,669
Net result on realization of financial instruments and investments	8.4	53	62
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.5	(339)	(437)
Net movement in fair value of assets and liabilities measured at fair value	8.6	254	(75)
Other operating income	8.7	369	489
Claims, benefits and movement in technical provisions		(4,111)	(3,731)
Reinsurers' share in claims, benefits and movement in technical provisions		153	105
Net insurance claims and benefits paid	**8.8**	**(3,958)**	**(3,626)**
Fee and commission expenses	8.9	(174)	(171)
Interest expenses	8.10	(525)	(493)
Acquisition expenses	8.11	(793)	(751)
Administrative expenses	8.11	(1,620)	(1,615)
Other operating expenses	8.12	(1,384)	(1,191)
Operating profit		**1,489**	**1,316**
Share of the net financial results of entities measured by the equity method		(2)	-
Profit before tax		**1,487**	**1,316**
Income tax	8.14	(475)	(340)
Net profit, including:		**1,012**	**976**
- profit attributable to the equity holders of the Parent Company		747	627
- profit attributable to holders of non-controlling interests		265	349
Weighted average basic and diluted number of common shares	8.13	863,315,217	863,511,199
Basic and diluted profit (loss) per common share (in PLN)	8.13	0.87	0.73

[1] Information on restatement of data for the period from 1 January to 31 March 2018 is presented in section 4.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2019	1 January – 31 March 2018 (restated) [1)]
Net profit		1,012	976
Other comprehensive income	8.14	123	65
Subject to subsequent transfer to profit or loss		54	157
Valuation of debt instruments measured at fair value through other comprehensive income		(13)	138
Foreign exchange translation differences		2	11
Cash flow hedging		65	8
Not to be reclassified to profit or loss in the future		69	(92)
Valuation of equity instruments measured at fair value through other comprehensive income		68	(95)
Reclassification of real property from property, plant and equipment to investment property		1	3
Total net comprehensive income		**1,135**	**1,041**
- comprehensive income attributable to equity holders of the Parent Company		869	589
- comprehensive income attributable to holders of non-controlling interest		266	452

[1)] Information on restatement of data for the period from 1 January to 31 March 2018 is presented in section 4.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	31 March 2019	31 December 2018	1 January 2018 (restated) [1)]
Goodwill	8.15	3,875	3,871	3,830
Intangible assets	8.16	3,073	3,180	3,443
Other assets	8.17	618	562	692
Deferred acquisition expenses		1,577	1,546	1,485
Reinsurers' share in technical provisions	8.27	1,570	1,512	1,250
Property, plant and equipment	8.18	4,332	3,184	3,287
Investment property		1,773	1,697	2,355
Entities measured by the equity method		15	17	20
Loan receivables from clients	8.19	186,724	182,054	167,618
Financial derivatives	8.20	2,722	2,487	2,351
Investment financial assets	8.21	110,978	101,665	110,022
Measured at amortized cost		49,391	45,234	38,976
Measured at fair value through other comprehensive income		48,052	38,737	51,010
Measured at fair value through profit or loss		13,535	17,694	20,036
Deferred tax assets		2,297	2,234	1,943
Receivables	8.23	6,615	6,343	9,100
Cash and cash equivalents		10,294	17,055	8,239
Assets held for sale	8.24	1,162	1,147	317
Total assets		**337,625**	**328,554**	**315,952**

[1)] Information on restatement of data as at 1 January 2018 is presented in section 4.2.

Equity and liabilities	Note	31 March 2019	31 December 2018	1 January 2018 (restated) [1)]
Equity				
Equity attributable to equity holders of the parent		15,798	14,925	14,087
Share capital	8.26	86	86	86
Other capital		12,695	12,566	11,924
Retained earnings		3,017	2,273	2,077
Retained earnings		2,270	(940)	2,077
Net profit		747	3,213	-
Non-controlling interest		22,750	22,482	21,815
Total equity		**38,548**	**37,407**	**35,902**
Liabilities				
Technical provisions	8.27	46,410	45,839	44,558
Provisions for employee benefits		540	531	556
Other provisions	8.28	523	519	656
Deferred tax liability		694	486	631
Financial liabilities	8.29	241,504	236,316	224,550
Other liabilities	8.30	9,347	7,407	9,096
Liabilities related directly to assets classified as held for sale	8.24	59	49	3
Total liabilities		**299,077**	**291,147**	**280,050**
Total equity and liabilities		**337,625**	**328,554**	**315,952**

[1)] Information on restatement of data as at 1 January 2018 is presented in section 4.2.

(in millions of PLN)

4. Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	67	-	-	-	-	-	67	1	68
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	39	-	-	-	-	-	39	(52)	(13)
Cash flow hedging	-	-	-	13	-	-	-	-	-	13	52	65
Foreign exchange translation differences	-	-	-	-	-	-	2	-	-	2	-	2
Reclassification of real property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total net other comprehensive income	**-**	**-**	**-**	**120**	**-**	**-**	**2**	**-**	**-**	**122**	**1**	**123**
Net profit (loss)	-	-	-	-	-	-	-	-	747	747	265	1,012
Total comprehensive income	**-**	**-**	**-**	**120**	**-**	**-**	**2**	**-**	**747**	**869**	**266**	**1,135**
Other changes, including:	**-**	**3**	**4**	**-**	**-**	**-**	**-**	**(3)**	**-**	**4**	**2**	**6**
Distribution of financial result	-	-	3	-	-	-	-	(3)	-	-	-	-
Transactions on treasury shares	-	3	-	-	-	-	-	-	-	3	-	3
Transactions with holders of non-controlling interests	-	-	1	-	-	-	-	-	-	1	2	3
As at 31 March 2019	**86**	**(8)**	**12,664**	**55**	**18**	**-**	**(34)**	**2,270**	**747**	**15,798**	**22,750**	**38,548**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-control-ling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	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			
As at 1 January 2018	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,596**	**-**	**14,599**	**22,961**	**37,560**
Effect of the application of IFRS 9 and other changes	-	-	-	7	-	-	-	(519)	-	(512)	(1,146)	(1,658)
As at 1 January 2018 after the change of accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,077**	**-**	**14,087**	**21,815**	**35,902**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	(255)	-	-	-	-	-	(255)	8	(247)
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	9	-	-	-	-	-	9	6	15
Cash flow hedging	-	-	-	24	-	-	-	-	-	24	75	99
Foreign exchange translation differences	-	-	-	-	-	-	37	-	-	37	(1)	36
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	(4)	-	-	-	(4)	-	(4)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**-**	**(186)**	**88**	**(98)**
Net profit (loss)	-	-	-	-	-	-	-	-	3,213	3,213	2,155	5,368
Total comprehensive income	**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**3,213**	**3,027**	**2,243**	**5,270**
Other changes, including:	**-**	**(11)**	**836**	**(10)**	**13**	**-**	**-**	**(3,017)**	**-**	**(2,189)**	**(1,576)**	**(3,765)**
Distribution of financial result	-	-	848	-	14	-	-	(3,021)	-	(2,159)	(1,659)	(3,818)
Transactions on treasury shares	-	(11)	-	-	-	-	-	-	-	(11)	-	(11)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	83	64
Sale of revalued real estate and other	-	-	7	(10)	(1)	-	-	4	-	-	-	-
As at 31 December 2018	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**(940)**	**3,213**	**14,925**	**22,482**	**37,407**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-control-ling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	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			
As at 1 January 2018	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,596**	**-**	**14,599**	**22,961**	**37,560**
Effect of the application of IFRS 9 and other changes	-	-	-	7	-	-	-	(519)	-	(512)	(1,146)	(1,658)
As at 1 January 2018 after the change of accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,077**	**-**	**14,087**	**21,815**	**35,902**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	(92)	-	-	-	-	-	(92)	(3)	(95)
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	36	-	-	-	-	-	36	102	138
Cash flow hedging	-	-	-	4	-	-	-	-	-	4	4	8
Foreign exchange translation differences	-	-	-	-	-	-	11	-	-	11	-	11
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(49)**	**-**	**-**	**11**	**-**	**-**	**(38)**	**103**	**65**
Net profit (loss)	-	-	-	-	-	-	-	-	627	627	349	976
Total comprehensive income	**-**	**-**	**-**	**(49)**	**-**	**-**	**11**	**-**	**627**	**589**	**452**	**1,041**
Other changes, including:	**-**	**(1)**	**(1)**	**(1)**	**1**	**-**	**-**	**(3)**	**-**	**(5)**	**7**	**2**
Distribution of financial result	-	-	2	-	1	-	-	(3)	-	-	-	-
Transactions on treasury shares	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Transactions with holders of non-controlling interests	-	-	(4)	-	-	-	-	-	-	(4)	7	3
Sale of revalued property and other	-	-	1	(1)	-	-	-	-	-	-	-	-
As at 31 March 2018	**86**	**(1)**	**11,823**	**114**	**6**	**4**	**(62)**	**2,074**	**627**	**14,671**	**22,274**	**36,945**

[1] Information on restatement of data for the period from 1 January to 31 March 2018 is presented in section 4.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Profit before tax	1,487	1,316
Adjustments	(508)	(6,009)
Movement in loan receivables from clients	(4,963)	(2,515)
Movement in liabilities under deposits	2,997	(2,197)
Movement in the valuation of assets measured at fair value	(254)	75
Interest income and expenses	(542)	(606)
Realized gains/losses from investing activities and impairment losses	249	437
Net foreign exchange differences	(96)	42
Movement in deferred acquisition expenses	(31)	(41)
Amortization of intangible assets and depreciation of property, plant and equipment	278	269
Movement in the reinsurers' share in technical provisions	(58)	50
Movement in technical provisions	571	382
Movement in receivables	358	(26)
Movement in liabilities	942	(128)
Cash flow on investment contracts	(4)	(4)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	60	(46)
Income tax paid	(329)	(305)
Other adjustments	314	(1,396)
Net cash flows from operating activities	**979**	**(4,693)**
Cash flow from investing activities		
Proceeds	225,822	251,364
- sale of investment property	1	5
- proceeds from investment property	78	79
- sale of intangible assets and property, plant and equipment	13	47
- sale of ownership interests and shares	931	987
- realization of debt securities	71,353	74,992
- closing of buy-sell-back transactions	70,937	111,717
- closing of term deposits with credit institutions	72,919	49,890
- realization of other investments	9,402	13,471
- interest received	174	163
- dividends received	4	2
- other investment proceeds	10	11

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Expenses	(233,173)	(245,435)
- purchase of investment properties	(19)	(13)
- expenditures for the maintenance of investment property	(33)	(30)
- purchase of intangible assets and property, plant and equipment	(155)	(144)
- purchase of ownership interests and shares	(720)	(951)
- purchase of ownership interests and shares in subsidiaries	(4)	(13)
- decrease in cash due to the sale of entities and change in the scope of consolidation	(32)	-
- purchase of debt securities	(77,930)	(67,178)
- opening of buy-sell-back transactions	(70,600)	(113,580)
- purchase of term deposits with credit institutions	(74,274)	(53,729)
- purchase of other investments	(9,344)	(9,792)
- expenditures on leases	(62)	-
- other expenditures for investments	-	(5)
Net cash flows from investing activities	**(7,351)**	**5,929**
Cash flows from financing activities		
Proceeds	37,751	61,317
- proceeds from loans and borrowings	295	535
- proceeds on the issue of own debt securities	1,320	1,227
- opening of repurchase transactions	36,136	59,555
Expenses	(38,162)	(59,124)
- repayment of loans and borrowings	(918)	(345)
- redemption of own debt securities	(1,342)	(513)
- closing of repurchase transactions	(35,832)	(58,199)
- interest on loans and borrowings	(15)	(50)
- interest on outstanding debt securities	(55)	(17)
Net cash flows from financing activities	**(411)**	**2,193**
Total net cash flows	**(6,783)**	**3,429**
Cash and cash equivalents at the beginning of the period	17,055	8,239
Movement in cash due to foreign exchange differences	22	7
Cash and cash equivalents at the end of the period, including:	10,294	11,675
- restricted cash	19	78

[1)] Information on restatement of the 2018 data is presented in section 4.2.

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

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

(in millions of PLN)

1.2 PZU Group companies and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	20.03%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.03%	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.03%	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.03%	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Management of pension funds.
17	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.03%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
18	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.03%	Auxiliary financial services. http://www.centrumkart.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% [1)]	46.82% [1)]	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	07.06.2017	20.02%	20.03%	Call-center services. http://www.cbb.pl/
21	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
22	FPB – Media sp. z o.o. in liquidation [3)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Business consulting
24	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.03%	Asset management. https://www.pekaotfi.pl/tfi/welcome
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.03%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	18.12.2015	31.93%	31.93%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation	Krakow	18.12.2015	31.93%	31.93%	Trading in receivables.
29	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.93%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	18.12.2015	31.93%	31.93%	IT services.
31	Alior TFI SA	Warsaw	18.12.2015	31.93%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
32	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.93%	31.93%	The company does not conduct any activity
33	Absource sp. z o.o.	Krakow	04.05.2016	31.93%	31.93%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.93%	31.93%	Brokerage activity.
35	Corsham sp. z o.o. [4)]	Warsaw	04.02.2019	31.93%	n/a	Business consulting
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
38	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
39	Sanatorium Uzdrowiskowe “Krystynka” sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Consolidated companies – PZU Zdrowie Group – continued						
40	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/
41	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
42	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
43	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
44	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
45	Revimed sp. z o.o.	Gdańsk	31.05.2017	100.00%	100.00%	Medical services. http://www.revimed.pl/
46	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. http://www.cmlukasza.pl/
47	Specjalistyczny Zakład Opieki Zdrowotnej Multimed sp. z o.o.	Oświęcim	31.12.2018	100.00%	100.00%	Medical services. http://www.multimed.oswiecim.pl/
48	Alergo-Med Tarnów sp. z o.o. [4)]	Tarnów	31.01.2019	100.00%	n/a	Medical services. http://alergomed.tarnow.pl/
Consolidated companies – other companies						
49	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
50	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
51	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
52	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
53	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance
54	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
55	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
56	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/
57	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Consolidated companies – other companies – continued						
58	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
59	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
60	Ardea Alba SA in liquidation	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
61	PZU LAB SA	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
62	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
63	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
64	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
65	Battersby Investments SA	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
66	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
67	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
68	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
69	Aquaform Badprodukte GmbH in Liquidation [5)]	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
70	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
71	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
72	Morehome.pl sp. z o.o. in liquidation [6)]	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Consolidated companies – mutual funds						
73	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
74	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
75	PZU FIZ Sektora Nieruchomości [7)]	Warsaw	01.07.2008	n/a	n/a	as above
Consolidated companies – mutual funds – continued						
76	PZU FIZ Sektora Nieruchomości 2 [7)]	Warsaw	21.11.2011	n/a	n/a	as above
77	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
78	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
79	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
80	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
81	PZU Innowacyjnych Technologii	Warsaw	07.09.2016	n/a	n/a	as above
82	PZU Dłużny Aktywny [PZU Active Debt Fund]	Warsaw	26.10.2016	n/a	n/a	as above
83	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
84	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
85	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
86	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
87	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
88	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
89	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2019	31 December 2018	
Associates						
90	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
91	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [8)]	28.31% [8)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
92	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [9)]	8.01% [9)]	Consulting and business activity – no business conducted.
93	PayPo sp. z o.o.	Warsaw	15.11.2018	6.39% [10)]	6.39% [10)]	Financial services.

[1)] As of 4 June 2018 PZU directly holds a 33.5% equity stake in PFS while Pekao holds 66.5%.

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

[3)] As of 11 April 2019 it operates under the name of FPB – Media sp. z o.o. in bankruptcy.

[4)] Additional information is presented in item 1.4.

[5)] On 15 January 2019 the company's liquidation process was opened.

[6)] On 7 January 2019, an application was filed with KRS on the liquidation of the company.

[7)] As at 31 March 2019, 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: 18 and 18 (as at 31 December 2018: 18 and 18).

[8)] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 31 March 2019 and as at 31 December 2018 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.

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

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

(in millions of PLN)

As at 31 March 2019, 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 interest

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

Name of the entity	31 March 2019	31 December 2018
Pekao [1]	79.98%	79.97%
Alior Bank [2]	68.07%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%

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

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

Carrying amount of non-controlling interests	31 March 2019	31 December 2018
Pekao Group	18,476	18,251
Alior Bank Group	4,268	4,225
Other	6	6
Total	**22,750**	**22,482**

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 Group		Alior Bank Group	
	31 March 2019	31 December 2018	31 March 2018	31 December 2018
Goodwill	692	692	-	-
Intangible assets	1,689	1,777	653	658
Other assets	94	45	61	35
Property, plant and equipment	2,235	1,682	808	461
Investment property	13	13	-	-
Loan receivables from clients	131,945	128,242	54,779	53,811
Financial derivatives	1,967	1,765	602	579
Entities measured by the equity method	-	-	4	4
Investment financial assets	47,751	40,356	14,296	13,636
Measured at amortized cost	13,610	12,262	6,440	6,307
Measured at fair value through other comprehensive income	32,635	27,266	7,737	7,280
Measured at fair value through profit or loss	1,506	828	119	49
Deferred tax assets	1,153	1,112	1,098	1,076
Receivables	2,224	2,235	616	815
Cash and cash equivalents	6,915	13,219	1,453	2,069
Assets held for sale	-	4	-	-
Total assets	**196,678**	**191,142**	**74,370**	**73,144**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
Equity				
Equity attributable to equity holders of the parent	23,100	22,824	6,270	6,207
Share capital	262	262	1,306	1,306
Other capital	20,765	20,721	5,562	5,609
Retained earnings	2,073	1,841	(598)	(708)
Non-controlling interest	11	11	-	-
Total equity	**23,111**	**22,835**	**6,270**	**6,207**
Liabilities				
Provisions for employee benefits	398	407	31	32
Other provisions	305	297	116	119
Deferred tax liability	32	33	-	-
Financial liabilities	169,094	164,636	66,145	65,373
Other liabilities	3,738	2,934	1,808	1,413
Total liabilities	**173,567**	**168,307**	**68,100**	**66,937**
Total equity and liabilities	**196,678**	**191,142**	**74,370**	**73,144**

The table below presents consolidated data of the PZU Group with separated data of the Pekao Group and Alior Bank Group incorporating the effect of adjustments resulting from the measurement of assets and liabilities to fair value as at the date control was acquired and their subsequent amortization over time.

Consolidated profit and loss account for the period from 1 January to 31 March 2019	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	5,901	-	-	2	5,903
Reinsurers' share in gross written premium	(102)	-	-	-	(102)
Net written premiums	**5,799**	**-**	**-**	**2**	**5,801**
Movement in net provision for unearned premiums	(207)	-	-	2	(205)
Net earned premium	**5,592**	**-**	**-**	**4**	**5,596**
Revenue from commissions and fees	961	(668)	(263)	22	52
Net investment income	3,053	(1,648)	(1,092)	8	321
Net result on realization of financial instruments and investments	53	(53)	(24)	(2)	(26)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(339)	105	285	-	51
Net movement in fair value of assets and liabilities measured at fair value	254	11	59	2	326
Other operating income	369	(89)	(82)	10	208
Claims, benefits and movement in technical provisions	(4,111)	-	-	-	(4,111)
Reinsurers' share in claims, benefits and movement in technical provisions	153	-	-	-	153
Net insurance claims and benefits paid	**(3,958)**	**-**	**-**	**-**	**(3,958)**
Fee and commission expenses	(174)	84	90	-	-
Interest expenses	(525)	295	193	(4)	(41)
Acquisition expenses	(793)	-	-	(20)	(813)
Administrative expenses	(1,620)	823	391	(9)	(415)
Other operating expenses	(1,384)	713	250	(11)	(432)
Operating profit (loss)	**1,489**	**(427)**	**(193)**	**-**	**869**
Share of the net financial results of entities measured by the equity method	(2)	-	-	-	(2)

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2019	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Profit (loss) before tax	**1,487**	**(427)**	**(193)**	**-**	**867**
Income tax	(475)	191	83	-	(201)
Net profit (loss)	**1,012**	**(236)**	**(110)**	**-**	**666**

Consolidated profit and loss account for the period from 1 January to 31 March 2018 (restated)	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	5,831	-	-	-	5,831
Reinsurers' share in gross written premium	(51)	-	-	-	(51)
Net written premiums	**5,780**	**-**	**-**	**-**	**5,780**
Movement in net provision for unearned premiums	(322)	-	-	-	(322)
Net earned premium	**5,458**	**-**	**-**	**-**	**5,458**
Revenue from commissions and fees	997	(677)	(267)	4	57
Net investment income	2,669	(1,433)	(927)	4	313
Net result on realization of financial instruments and investments	62	(33)	(12)	-	17
Movement in allowances for expected credit losses and impairment losses on financial instruments	(437)	145	266	-	(26)
Net movement in fair value of assets and liabilities measured at fair value	(75)	(12)	(29)	-	(116)
Other operating income	489	(143)	(146)	-	200
Claims, benefits and movement in technical provisions	(3,731)	-	-	-	(3,731)
Reinsurers' share in claims, benefits and movement in technical provisions	105	-	-	-	105
Net insurance claims and benefits paid	**(3,626)**	**-**	**-**	**-**	**(3,626)**
Fee and commission expenses	(171)	90	80	-	(1)
Interest expenses	(493)	273	186	(4)	(38)
Acquisition expenses	(751)	-	-	(4)	(755)
Administrative expenses	(1,615)	833	403	-	(379)
Other operating expenses	(1,191)	519	214	-	(458)
Operating profit (loss)	**1,316**	**(438)**	**(232)**	**-**	**646**
Share of the net financial results of entities measured by the equity method	-	-	-	-	-
Profit (loss) before tax	**1,316**	**(438)**	**(232)**	**-**	**646**
Income tax	(340)	147	60	-	(133)
Net profit (loss)	**976**	**(291)**	**(172)**	**-**	**513**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 31 March 2019	1 January – 31 March 2018	1 January – 31 March 2019	1 January – 31 March 2018
Net profit	236	291	110	172
Other comprehensive income	41	74	(48)	65
Valuation of debt instruments measured at fair value through other comprehensive income	(15)	85	(59)	51
Valuation of equity instruments measured at fair value through other comprehensive income	1	(4)	11	-
Net cash flow hedges	55	(7)	-	15
Foreign exchange differences	-	-	-	(1)
Total net comprehensive income	**277**	**365**	**62**	**237**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 31 March 2019	1 January – 31 March 2018	1 January – 31 March 2019	1 January – 31 March 2018
Net cash flows from operating activities	452	(4,475)	(390)	556
Net cash flows from investing activities	(5,118)	7,665	(33)	(16)
Net cash flows from financing activities	(499)	898	(13)	(18)
Total net cash flows	**(5,165)**	**4,088**	**(436)**	**522**

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 31 March 2019 or from 1 January to 31 March 2018.

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

Alergo-Med Tarnów sp. z o.o.

On 31 January 2019, PZU Zdrowie acquired 1,432 shares in Alergo – Med Tarnów sp. z o.o. representing 100% of the share capital and 100% of the votes at the shareholder meeting with a par value of PLN 500 each.

Since the date of obtaining control, i.e. 31 January 2019, Alergo – Med sp. z o.o. has been consolidated.

Corsham sp. z o.o

On 4 February 2019 Alior Bank acquired 100 shares in Corsham sp. z o.o. representing 100% of the share capital and 100% of votes at the shareholder meeting with a par value of PLN 50 each.

Since the date of obtaining control, i.e. 4 February 2019, Corsham sp. z o.o. has been consolidated.

Consolidated mutual funds

On account of losing control, as of 31 March 2019 the following mutual funds are no longer subject to consolidation: PZU Akcji Spółek Dywidendowych, PZU FIZ Akcji Focus, PZU FIZ Forte.

(in millions of PLN)

2. Shareholder structure

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

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny	43,825,000	5.0751%
3	Other shareholders	524,480,700	60.7374%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 21/2018 on the list of shareholders holding at least 5% of the number of votes at the PZU Ordinary Shareholder Meeting that took place on 28 June 2018.

2.1 Indication of changes in the ownership structure of significant shareholdings in the issuer

In the period from 1 January 2019 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

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

As at the date of conveying this periodic report and as at the date of conveying the annual report for 2018 (i.e. 13 March 2019) PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. The other Management Board Members, Supervisory Board Members and Group Directors did not hold any PZU shares or rights to PZU shares as at the date of conveying this periodic report and as at the date of convying the annual report for 2018 (i.e. 13 March 2019).

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

3.1 Composition of the parent company's Management Board

From 1 January 2019, 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.

On 27 March 2019 the PZU Supervisory Board adopted a resolution to appoint Paweł Surówka to the PZU Management Board for the new term of office and entrusted him with discharging the function of CEO of PZU SA.

The appointment of Paweł Surówka is for the joint term of office commencing as of the date on which the PZU Supervisory Board resolution on his appointment was adopted and will span three full financial years from 2020-2022.

On 28 March 2019, the PZU Supervisory Board adopted resolutions to appoint the following persons to the PZU Management Board for its new term of office:

- Tomasz Kulik, entrusting him with discharging the function of PZU Management Board member,
- Maciej Rapkiewicz, entrusting him with discharging the function of PZU Management Board member,
- Małgorzata Sadurska, entrusting her with discharging the function of PZU Management Board member,

- Marcin Eckert, entrusting him with discharging the function of PZU Management Board member,
- Adam Brzozowski, entrusting him with discharging the function of PZU Management Board member,
- Elżbieta Häuser-Schöneich, entrusting her with discharging the function of PZU Management Board member.

Adam Brzozowski and Elżbieta Häuser-Schöneich will be appointed on the day following the day of holding the PZU Ordinary Shareholder Meeting approving the financial statements for the 2018 financial year for a joint term of office commencing at the time of appointing the President of the PZU Management Board and spanning the three full financial years from 2020 to 2022.

The other persons were appointed on 28 March 2019 for a joint term of office commencing at the time of appointing the President of the PZU SA Management Board and spanning the three full financial years from 2020 to 2022.

Current PZU Management Board Member, Roger Hodgkiss will serve in the capacity of PZU Management Board Member until PZU's upcoming Ordinary Shareholder Meeting under the principle of discharging his mandate according to Article 369 § 4 of the Commercial Company Code.

As at the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Marcin Eckert – Member 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.

3.2 Composition of the parent company's Supervisory Board

From 1 January 2019, the PZU Supervisory Board consisted of the following persons:

- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

No changes in the composition of the PZU Supervisory Board have occurred up to the date of conveying this periodic report.

3.3 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 2019, the following persons were PZU Group Directors:

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

(in millions of PLN)

Tomasz Karusewicz was dismissed from serving in his capacity of a PZU Group Director as of 30 April 2019. As at the date of conveying this periodic report the following persons were PZU Group Directors:

- Aleksandra Agatowska;
- Bartłomiej Litwińczuk;
- Dorota Macieja;
- Roman Pałac.

4. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements.

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

4.1.1. Amendments to the applied IFRS

4.1.1.1. Standards, interpretations and amended standards effective from 1 January 2019

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

Standard/interpretation	Approving regulation	Comments
IFRS 16 – Leases	1986/2017	The effect of the application of IFRS 16 is described in section 4.1.2.
Amendment to IFRS 9 – prepayments with negative compensation	498/2018	Certain options, which force a lender to accept reduced compensation for granting financing (in the case of negative compensation) failed to pass the SPPI test; accordingly any instruments containing such options could not be classified as measured at amortized cost or at fair value through other comprehensive income. According to the amendment, the positive or negative sign of the prepayment amount will not be important; this means that, depending on the interest rate in effect when the agreement is terminated, payment can be made to a party resulting in prepayment. This compensation must be calculated in the same manner for both a penalty for prepayment and also for a gain earned on prepayment. The change did not affect the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	1595/2018	The interpretation is applied when there is uncertainty to the determination of taxable profit, tax losses, taxable income, outstanding tax losses, unused tax credits and tax rates under IAS 12. The interpretation had no effect on the PZU Group's consolidated financial statements.
Amendment to IAS 28 – Long-term interests in associates and joint ventures	237/2019	According to the amended IAS 28, long-term interests in associates and joint ventures for which the company does not apply the equity method, the applicable standard is IFRS 9, also with regard to impairment. The change did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Approving regulation	Comments
Amendments to IAS 19 Employee Benefits	402/2019	The amendment contains clarifications for the guidelines in case of a plan amendment, curtailment or settlement during the reporting period. The amendments require entities, after such an event, to use updated actuarial assumptions to calculate current service cost and net interest for the remaining part of the reporting period. The amendments also clarify how requirements concerning the plan's amendment, curtailment or settlement affect asset threshold requirements. The IASB has decided that the scope of these amendments does not cover the settlement of "significant market fluctuation" (in euro). The amendments apply to plan amendments, curtailments or settlements that will take place on or after 1 January 2019, with the possibility of earlier application. The change did not affect the PZU Group's consolidated financial statements.
Annual improvements to IFRS 2015-2017	412/2019	The amendments pertain to: 1st IFRS 3 - the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2nd IFRS 11 - the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3rd IAS 12 - the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4th IAS 23 - the amendments clarify that if any specific borrowings remain outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds which an entity generally borrows when calculating the capitalization rate on general borrowings. The amendments did not affect the PZU Group's consolidated financial statements.

4.1.2. IFRS 16 – Leases

IFRS 16 has replaced IAS 17 *Leases* and any interpretations related to this standard and has introduced a full model of identification and settlement of leases in the lessors' and lessees' financial statements. The most important change pertains to lessees, for which the new standard eliminates the distinction between financial leases and operating leases.

The recognition of operating leases in the statement of financial position has resulted in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of remitting lease payments).

Recognition of leases on the lessor's side has in most cases remained unchanged due to the maintenance of the breakdown between operating leases and financial leases.

Applying IFRS 16 the PZU Group made the following assumptions:

- As at 1 January 2019 a simplified approach has been applied in accordance with paragraph C5(b). Comparative data were not transformed, and the total effect of the first application of IFRS 16 was recognized as an adjustment to the opening balance of retained earnings on the first application date.
- In the case of leases previously classified as operating leases in accordance with IAS 17 lease assets and liabilities were measured at present value of the remaining lease payments, discounted by the lessee's marginal interest rate.
- The lessee's marginal rate has been calculated as the sum of the risk-free rate and fixed risk spread. For all contracts ending on the same date and with a fixed amount of monthly payments (this group includes most lease contracts in the PZU Group) a fixed contract discount rate has been calculated.
- In accordance with section 5 the PZU Group has taken advantage of the exemptions of short-term leases and for leases for which the underlying asset has a low value. Low value assets were deemed to be assets with a value equal to or lower than PLN 20 thousand. Pursuant to item C10(c), for operating leases whose lease term ends within 12 months of the day of first application of IFRS 16, the PZU Group has applied rules concerning short-term leases.
- Pursuant to item 4, the PZU Group does not apply IFRS 16 to intangible assets.

- The PZU Group recognized assets and liabilities in respect of lease at a net amount. The VAT amount shall be recognized in expenses of the current period.

The recognition of assets and liabilities in respect of lease is based on a subjective evaluation of the Management Board, taking into account interpretations related to the application of IFRS 16. The subjective evaluation and the effects of the application of the new standard as presented below may change as a result of new interpretations of IFRS 16 or changes to the general practice of application of new accounting standards.

In the consolidated profit and loss account for 2019, fees related to lease and rental were replaced by the amortization of the right to use the leased object and by interest expenses on lease liabilities.

As a result of the application of IFRS 16, new assets were recognized in respect of the right to use:

- Property, plant and equipment – PLN 1,242 million;
- Investment properties – PLN 50 million;

The value of the recognized lease liabilities was PLN 1,292 million.

Assets in respect of the right to use have been recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities were carried as financial liabilities.

4.1.3. Standards, interpretations and amended standards not yet effective

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
IFRS 17 – Insurance contracts	18 May 2017	1 January 2022	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account; • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions. IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or, if possible, by the PAA method. Modifications of the GMM method arise

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. In mid 2018 PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group works, among others, on: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17. Despite publishing the content of IFRS 17, IASB continues the works on its final wording. For this reason, the standard version which will be finally approved by a European Commission Regulation will differ from the present text. The IFRS 17 implementation will have a fundamental impact on the processes in insurance entities and on the financial reporting of the PZU Group. At the present stage of the IFRS 17 implementation project and due to the potential changes in its content, it is not possible to estimate the effect of applying IFRS 17 to the PZU Group's comprehensive income and equity.
Amendment to IFRS 3 – Business combinations	22 October 2018	1 January 2020	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments will not affect the PZU Group's consolidated financial statements.
Amendments to IAS 1 and IAS 8 – definition of materiality	31 October 2018	1 January 2020	According to the new definition, information is material if one may justifiably expect that if it is overlooked, distorted or concealed this may affect the decisions made by the main users of financial statements on the basis of these financial statements. The change will not exert a significant influence on the PZU Group's consolidated financial statements.
Amendments to the framework	29 March 2018	1 January 2020	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Additionally, they contain explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements. The amendments will not have a significant influence on the PZU Group's consolidated financial statements.

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 applied by the PZU Group, except for IFRS 17.

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

4.2.1. Change in the presentation of the result on the sale of accounts receivable

To reflect better the economic nature of transactions, the result on the sale of accounts receivable was shifted from "Movement in allowances for expected credit losses and impairment losses on financial instruments" to the "Net result on realization of financial instruments and investments".

4.2.2. Change in the presentation of recoveries from credit receivables transferred off-balance sheet

The value of recoveries was transferred from "Other operating income" to "Movement in allowances for expected credit losses and impairment losses on financial instruments" as this is a component of ordinary activity in managing irregular accounts receivable.

4.2.3. Adjustments to the PZU Group's consolidated financial statements for 2018

In 2018 Alior Bank made corrections regarding a change in corporate income tax from 2012 to 2017, the result on structured products and corrections to the recognition of the cost for the contribution to the Bank Guarantee Fund in respect of a part of the contribution in the form of freezing securities that exerted an impact on the PZU Group's consolidated financial statements for 2018 and they have been described there in detail in item 5.3.3. The data for Q1 2018 have been transformed accordingly.

4.2.4. Margin on foreign exchange transactions

To reflect better the economic nature of revenue generated on the margin on foreign exchange transactions, it has been moved from "Net investment income" to "Revenue from commissions and fees".

4.2.5. Changes stemming from the application of IFRS 9

Changes were made to the PZU Group's consolidated financial statements for 2018 in terms of how the allowances for expected credit losses are calculated and how the assets acquired in transactions to take over banks are allocated to baskets at the PZU Group level. The data for Q1 2018 were transformed in accordance with the methodology applied in the PZU Group's consolidated financial statements for 2018 and in the data for Q1 2019.

4.2.6. Changes stemming from the final settlement of the acquisition of shares in Pekao

As a result of the final settlement of the acquisition of shares in Pekao as described in the PZU Group's consolidated financial statements for 2018 in section 2.4.1, a correction was made to the costs of depreciation of fixed assets for Q1 2018.

(in millions of PLN)

4.2.7. Changes stemming from the presentation of other operating income and expenses

To reflect better the economic nature of Alior Bank's transactions, some of the other operating income and expenses have been netted.

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

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

Consolidated profit and loss account	1 January – 31 March 2018 *(historical)*	Adjustment	1 January – 31 March 2018 *(restated)*
Revenue from commissions and fees	830	(5) [3] 172 [4]	997
Net investment income	2,893	(52) [5] (172) [4]	2,669
Net result on realization of financial instruments and investments	65	(3) [1]	62
Movement in allowances for expected credit losses and impairment losses on financial instruments	(421)	3 [1] 1 [2] (20) [5]	(437)
Net movement in fair value of assets and liabilities measured at fair value	(63)	(12) [3]	(75)
Other operating income	495	(1) [2] (5) [7]	489
Interest expenses	(499)	6 [3]	(493)
Administrative expenses	(1,615)	2 [3] (2) [6]	(1,615)
Other operating expenses	(1,196)	5 [7]	(1,191)
Profit before tax	1,399	(83)	1,316
Income tax	(356)	2 [3] 14 [5]	(340)
Net profit	**1,043**	**(67)**	**976**
- profit attributable to the equity holders of the Parent Company	640	(13)	627
- profit attributable to holders of non-controlling interests	403	(54)	349

[1] Change described in section 4.2.1.
[2] Change described in section 4.2.2.
[3] Change described in section 4.2.3.
[4] Change described in section 4.2.4.
[5] Change described in section 4.2.5.
[6] Change described in section 4.2.6.
[7] Change described in section 4.2.7.

Consolidated statement of comprehensive income	1 January – 31 March 2018 *(historical)*	Adjustment	1 January – 31 March 2018 *(restated)*
Net profit	1,043	(67)	976
Other comprehensive income	65	-	65
Total net comprehensive income	**1,108**	**(67)**	**1,041**
- comprehensive income attributable to equity holders of the Parent Company	602	(13)	589
- comprehensive income attributable to holders of non-controlling interest	506	(54)	452

(in millions of PLN)

Consolidated cash flow statement	1 January – 31 March 2018 *(historical)*	Adjustment	1 January – 31 March 2018 *(restated)*
Profit before tax	1,399	(83)	1,316
Adjustments	(6,092)	83	(6,009)
Movement in loan receivables from clients	(2,394)	(121)	(2,515)
Movement in the valuation of assets measured at fair value	63	12	75
Interest income and expenses	(618)	12	(606)
Realized gains/losses from investing activities and impairment losses	421	16	437
Net foreign exchange differences	(130)	172	42
Amortization of intangible assets and depreciation of property, plant and equipment	267	2	269
Movement in liabilities	(108)	(20)	(128)
Income tax paid	(301)	(4)	(305)
Other adjustments	(1,410)	14	(1,396)
Net cash flows from operating activities	**(4,693)**	-	**(4,693)**

5. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2019, no corrections were made of errors from previous years.

6. Material events after the end of the reporting period

No material events transpired after the end of the reporting period save for the issues described below.

6.1 Execution of a memorandum of agreement with the trade unions on group layoffs in Pekao

The Pekao Management Board reported that on 4 April 2019, in accordance with the provisions of the Act of 13 March 2003 on the Special Rules for Terminating Employment Relationships with Employees for Reasons Not Attributable to Employees (consolidated text in the Journal of Laws of 2018, item 1969), it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

On 4 April 2019 the Pekao Management Board notified the company's trade union organizations of the reasons for the planned group layoff and requested that the trade union organizations engage in consultation. Moreover, the Pekao Management Board notified the labor office of its intention to conduct group layoffs in Pekao.

On 25 April 2019 the Pekao Management Board reported that on 25 April 2019 Pekao had entered into a memorandum of agreement with all the trade union organizations operating in Pekao to specify the rules for group layoffs.

The parties to this memorandum of agreement agreed among other things on the criteria for selecting employees whose employment contracts will be terminated and whose employment conditions will be modified under group layoffs, the conditions for severance pay and additional benefits as well as the scope of the program to assist the employees who are being dismissed. It was also agreed that the group layoffs will be administered in the period from 26 April 2019 to 31 October 2019 and the termination of employment contracts will apply to a maximum of 900 employees and the modification of employment conditions will apply to a maximum of 620 employees of Pekao.

Pekao estimates that the total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs will be approximately PLN 70-90 million, and the pertinent provision will be established for this purpose.

6.2 Execution of a memorandum of agreement pertaining to the terms and conditions for the transaction involving RUCH Spółka Akcyjna in restructuring

A memorandum of agreement was executed on 11 April 2019 by and between Alior Bank, Polski Koncern Naftowy Orlen SA ("PKN Orlen") and PZU concerning the terms and conditions for a transaction involving RUCH SA in restructuring ("Ruch"). In accordance with this memorandum of agreement Alior Bank intends to take over a 100% equity stake in Ruch (in the manner agreed by and between Alior Bank and PKN Orlen after the arrangement is approved with legally binding force under the accelerated arrangement proceedings) for the purpose of reselling it to PKN Orlen.

PKN Orlen's acquisition of the shares in Ruch will take place after the fulfillment of the conditions contemplated by the executed memorandum of agreement, i.e. among others:

- asserting with legally binding force the performance of the arrangements executed in the accelerated arrangement proceedings concerning Ruch;
- the parties to the memorandum of agreement obtain corporate consents and
- the UOKiK President or the European Commission give their consent for PKN Orlen to acquire shares in Ruch.

6.3 The Pekao Management Board consent to the non-public issue of subordinated bonds

On 9 May 2019 the Pekao Management Board adopted a resolution approving the issue of subordinated bonds with a total nominal value not exceeding PLN 750 million. After obtaining the approval of KNF, the bonds will be classified as Tier II capital instruments.

The nominal value of one bond will be PLN 0,5 million. The detailed terms and conditions of the issue and the exact size of the issue of the bonds will be determined at a later date, taking into account inter alia results of the book-building process among investors and the situation on the bond market.

The bonds may be issued in one or more series. The offer of the Bonds will be carried out exclusively on the territory of Poland. The bonds will be issued in accordance with Article 33 point 2 of the Act on Bonds dated 15 January 2015, and proposals for the purchase of the bonds will be directed to no more than 149 individually defined addressees.

The considered time of the Bonds issue is the second quarter of 2019, subject to bond market conditions.

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

In the 3-month period ended 31 March 2019, there were no material events that resulted in any significant change to the structure of financial statement line items.

(in millions of PLN)

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 January – 31 March 2019	1 January – 31 March 2018
Gross written premiums in non-life insurance	3,809	3,737
In direct insurance	3,803	3,724
In indirect insurance	6	13
Gross written premiums in life insurance	2,092	2,094
Individual insurance premiums	359	372
Individually continued insurance premiums	505	499
Group insurance premiums	1,228	1,223
Total gross written premiums	**5,901**	**5,831**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2019	1 January – 31 March 2018
Accident and sickness insurance (group 1 and 2)	182	161
Motor third party liability insurance (group 10)	1,435	1,454
Other motor insurance (group 3)	1,005	976
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	20	17
Insurance against fire and other property damage (groups 8 and 9)	740	722
TPL insurance (groups 11, 12, 13)	238	231
Credit and suretyship (groups 14, 15)	20	23
Assistance (group 18)	126	114
Legal protection (group 17)	3	3
Other (group 16)	34	23
Total	**3,803**	**3,724**

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Banking activity	803	820
Margin on foreign exchange transactions with clients	184	172
Brokerage fees	26	48
Fiduciary activity	15	16
Payment card and credit card services	207	192
Fees on account of insurance intermediacy activities	19	32
Credits and loans	94	101
Bank account-related services	101	108
Transfers	75	75
Cash operations	23	24
Receivables purchased	10	9
Suretyship, letters of credit, collections, promises	20	18
Other commission	29	25
Revenue and payments received from funds and mutual fund companies	124	136
Pension insurance	34	40
Other	-	1
Total revenue from commissions and fees	**961**	**997**

(in millions of PLN)

8.3 Net investment income

Net investment income	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Interest income, including:	2,918	2,671
Loan receivables from clients	2,233	1,943
Debt securities measured at fair value through other comprehensive income	206	248
Debt securities measured at amortized cost	265	314
Buy-sell-back transactions	15	17
Term deposits with credit institutions	28	31
Loans	66	41
Receivables purchased	34	35
Hedge derivatives	59	30
Receivables	1	1
Cash and cash equivalents	11	11
Dividend income, including:	1	1
Investment financial assets measured at fair value through profit or loss	1	1
Income on investment property	65	64
Foreign exchange differences	96	(40)
Investment activity expenses	(6)	(7)
Investment property maintenance expenses	(27)	(27)
Other	6	7
Total net investment income	**3,053**	**2,669**

8.4 Net result on realization of financial instruments and investments

Net result on realization of financial instruments and investments	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Investment financial assets	90	34
Debt instruments measured at fair value through other comprehensive income	30	33
Financial instruments measured at fair value through profit or loss	51	(1)
Equity instruments	4	11
Participation units and investment certificates	20	2
Debt instruments	27	(14)
Instruments measured at amortized cost	9	2
Loan receivables from clients measured at amortized cost	7	-
Derivatives	2	40
Short sale	(2)	2
Receivables	(44)	(14)
Net result on realization of financial instruments and investments	**53**	**62**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Investment financial assets	41	16
Debt instruments measured at fair value through other comprehensive income	7	3
Instruments measured at amortized cost	34	13
- debt instruments	4	8
- loans	30	5
Loan receivables from clients	(397)	(415)
Measured at amortized cost	(377)	(420)
Measured at fair value through other comprehensive income	(20)	5
Receivables	17	(38)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(339)**	**(437)**

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

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Investment financial instruments measured at fair value through profit or loss	373	(111)
Equity instruments	96	(154)
Debt securities	137	105
Participation units and investment certificates	140	(62)
Derivatives	(94)	29
Measurement of liabilities to members of consolidated mutual funds	(3)	6
Investment contracts for the client's account and risk (unit-linked)	(5)	10
Investment property	(12)	(7)
Loan receivables from clients	(5)	(2)
Net movement in fair value of assets and liabilities measured at fair value, total	**254**	**(75)**

8.7 Other operating income

Other operating income	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	145	164
Revenues from direct claims handling on behalf of other insurance undertakings	51	53
Reversal of provisions [1]	95	185
Reimbursement of the costs of pursuit of claims	11	6
Reinsurance commissions and profit participation	15	9
Indemnity received	8	4
Interest for late payment of amounts due under direct insurance and outward reinsurance	7	9
Other	37	59
Other operating income, total	**369**	**489**

[1] Including a reversal of PLN 95 million by the banks of a provision for guarantees and sureties given (1 January - 31 March 2018: PLN 182 million).

(in millions of PLN)

8.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 January – 31 March 2019	1 January – 31 March 2018
Claims, benefits and movement in technical provisions	**4,111**	**3,731**
In non-life insurance	2,323	2,153
- claims and benefits	1,841	1,779
- movement in technical provisions	282	179
- claims handling expenses	200	195
In life insurance	1,788	1,578
- claims and benefits	1,616	1,592
- movement in technical provisions	139	(48)
- claims handling expenses	33	34
Reinsurers' share in claims, benefits and movement in technical provisions	**(153)**	**(105)**
In non-life insurance	(153)	(105)
Total net insurance claims and benefits	**3,958**	**3,626**

8.9 Fee and commission expenses

Fee and commission expenses	1 January – 31 March 2019	1 January – 31 March 2018
Costs of card and ATM transactions, including card issue costs	100	88
Commissions on acquisition of banking clients	19	16
Fees for the provision of ATMs	10	22
Costs of awards to banking clients	4	3
Costs of bank transfers and remittances	10	9
Additional services attached to banking products	6	7
Brokerage fees	4	5
Costs of administration of bank accounts	1	1
Costs of banknote operations	4	3
Fiduciary activity expenses	5	4
Other commission	11	13
Total fee and commission expenses	**174**	**171**

8.10 Interest expenses

Interest expenses	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Term deposits	249	273
Current deposits	133	98
Outstanding own debt securities	109	96
Hedge derivatives	1	2
Loans	2	2
Repurchase transactions	10	14
Bank loans contracted by PZU Group companies	7	2
Leases	7	-
Other	7	6
Total interest expenses	**525**	**493**

(in millions of PLN)

8.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2019	1 January – 31 March 2018
Consumption of materials and energy	58	74
Third party services	371	402
Taxes and charges	28	26
Employee expenses	1,174	1,169
Depreciation of property, plant and equipment	154	94
Amortization of intangible assets	94	88
Other, including:	798	783
- commissions in insurance activities	622	595
- advertising	62	58
- remuneration of group insurance administrators in work establishments	51	52
- other	63	78
Movement in deferred acquisition expenses	(31)	(41)
Administrative, acquisition and claims handling expenses, total	**2,646**	**2,595**

8.12 Other operating expenses

Other operating expenses	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Levy on financial institutions	285	269
Expenses of the core business of non-insurance and non-banking companies	170	178
Direct claims handling expenses on behalf of other insurance undertakings	53	53
Compulsory payments to insurance market institutions and banking market institutions	47	33
Bank Guarantee Fund	515	230
Insurance Indemnity Fund	17	17
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	18	20
Expenditures for prevention activity	13	9
Establishment of provisions [1)]	108	160
Amortization of intangible assets purchased in company acquisition transactions	58	80
Recognition of impairment losses for non-financial assets	2	10
Donations	23	24
Costs of pursuit of claims	19	15
Other	56	93
Other operating expenses, total	**1,384**	**1,191**

[1)] Including the establishment of a provision of PLN 98 million by the banks for guarantees and sureties given (1 January - 31 March 2018: PLN 153 million).

8.13 Earnings per share

Earnings per share	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Net profit attributable to the equity holders of the parent company	747	627
Weighted average basic and diluted number of common shares	863,315,217	863,511,199
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(207,783)	(11,801)
Basic and diluted earnings (losses) per common share (in PLN)	0.87	0.73

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

(in millions of PLN)

8.14 Income tax

Total amount of current and deferred tax	1 January – 31 March 2019	1 January – 31 March 2018 (restated)
Recognized through profit or loss	(475)	(340)
- current tax	(354)	(333)
- deferred tax	(121)	(7)
Recognized in other comprehensive income (deferred tax)	(28)	(14)
Total amount of current and deferred tax	**(503)**	**(354)**

Income tax on other comprehensive income items	1 January – 31 March 2019	1 January – 31 March 2018
Gross other comprehensive income	151	79
Income tax	(28)	(14)
Investment financial instruments measured at fair value through other comprehensive income	(11)	(4)
Measurment of loan receivables from clients	(2)	(9)
Cash flow hedging transactions	(15)	(1)
Net other comprehensive income	**123**	**65**

8.15 Goodwill

Goodwill	31 March 2019	31 December 2018
Pekao [1)]	2,269	2,269
Alior Bank	746	746
Lietuvos Draudimas AB [2)]	476	476
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	39	39
Medical companies	119	115
Other	5	5
Total goodwill	**3,875**	**3,871**

[1)] Includes goodwill on the acquisition of Pekao Investment Management SA.
[2)] Includes goodwill on acquisition of the Lietuvos Draudimas branch in Estonia.

8.16 Intangible assets

Intangible assets by type groups	31 March 2019	31 December 2018
Software, licenses and similar assets	1,247	1,250
Trademarks	611	611
Client relations	895	953
Intangible assets under development	308	354
Other intangible assets	12	12
Total intangible assets	**3,073**	**3,180**

(in millions of PLN)

8.17 Other assets

Other assets	31 March 2019	31 December 2018
Reinsurance settlements	75	105
Estimated salvage and subrogation	174	183
Deferred IT expenses	79	72
Accrued direct claims handling receivables	56	56
Inventories	50	51
Payments for taxes on property, means of transport and land	26	3
Payments for the costs of the allowance to the Company Social Benefit Fund	36	-
Accrued commissions	10	6
Other assets	112	86
Total other assets	**618**	**562**

8.18 Property, plant and equipment

Property, plant and equipment by groups by type	31 March 2019	31 December 2018
Plant and machinery	611	529
Means of transport	177	138
Property, plant and equipment under construction	142	198
Real property	3,164	2,078
Other property, plant and equipment	238	241
Total property, plant and equipment	**4,332**	**3,184**

8.19 Loan receivables from clients

Loan receivables from clients	31 March 2019	31 December 2018
Measured at amortized cost	184,789	180,240
Measured at fair value through other comprehensive income	1,651	1,511
Measured at fair value through profit or loss	284	303
Total loan receivables from clients	**186,724**	**182,054**

Loan receivables from clients – measured at amortized cost	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	162,870	17,259	8,678	6,744	195,551	159,612	16,069	7,855	7,165	190,701
Expected credit losses	(897)	(1,174)	(4,207)	(4,484)	(10,762)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Net carrying amount	**161,973**	**16,085**	**4,471**	**2,260**	**184,789**	**158,742**	**14,880**	**4,254**	**2,364**	**180,240**

(in millions of PLN)

Loan receivables from clients – measured at fair value through other comprehensive income	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Carrying amount	1,037	614	-	-	1,651	1,511	-	-	-	1,511
Expected credit losses	(8)	(27)	-	-	(35)	(14)	-	-	-	(14)

The allowance for expected credit losses pertains to loan receivables from clients measured at fair value through other comprehensive income is recognized in the line item "Revaluation reserve" and it does not lower the carrying amount of assets.

Loan receivables from clients	31 March 2019	31 December 2018
Retail segment	**99,350**	**97,567**
Operating loans	246	251
Consumer finance	27,546	27,380
Consumer finance loans	2,432	2,563
Loan to purchase securities	64	69
Overdrafts in credit card accounts	1,078	1,124
Loans for residential real estate	66,410	65,092
Other mortgage loans	1,308	830
Other receivables	266	258
Business segment	**87,374**	**84,487**
Operating loans	36,802	34,371
Car financing loans	29	35
Investment loans	26,336	26,166
Receivables purchased (factoring)	4,868	9,225
Overdrafts in credit card accounts	135	131
Loans for residential real estate	118	128
Other mortgage loans	8,744	8,560
Financial leases	9,358	5,327
Other receivables	984	544
Total loan receivables from clients	**186,724**	**182,054**

(in millions of PLN)

8.20 Financial derivatives

Derivatives – assets	31 March 2019	31 December 2018
Interest rate derivatives	**2,173**	**1,971**
Instruments designated as fair value hedges – unquoted instruments – SWAP transactions	16	21
Instruments designated as cash flow hedges – unquoted instruments – SWAP transactions	410	374
Instruments designated as held for trading – unquoted instruments, including:	1,747	1,576
- FRA transactions	2	2
- SWAP transactions	1,731	1,564
- call options (purchase)	8	6
- put options (sale)	4	4
- other	2	-
Total foreign exchange derivatives	**362**	**302**
Instruments designated as cash flow hedges – unquoted instruments – SWAP transactions	67	31
Instruments carried as held for trading, including:	295	271
Instruments quoted on a regulated market – forward contracts	6	4
Unquoted instruments, including:	289	267
- forward contracts	91	88
- SWAP transactions	142	115
- call options (purchase)	47	46
- put options (sale)	9	18
Derivatives related to equity prices – carried as held for trading, total	**98**	**78**
Instruments quoted on a regulated market, including:	-	11
- forward contracts	-	10
- put options (sale)	-	1
Unquoted instruments, including:	98	67
- call options (purchase)	98	66
- put options (sale)	-	1
Derivatives related to commodity prices – carried as held for trading, total	**89**	**136**
Instruments quoted on a regulated market – forward contracts	3	19
Unquoted instruments, including:	86	117
- forward contracts	23	16
- SWAP transactions	28	46
- call options (purchase)	28	21
- put options (sale)	7	34
Derivatives – assets, total	**2,722**	**2,487**

(in millions of PLN)

Derivatives – liabilities	31 March 2019	31 December 2018
Interest rate derivatives	**3,111**	**2,933**
Instruments designated as fair value hedges – unquoted instruments – SWAP transactions	138	144
Instruments designated as cash flow hedges – unquoted instruments – SWAP transactions	791	770
Instruments carried as held for trading, including:	2,182	2,019
Unquoted instruments, including:	2,182	2,019
- FRA transactions	2	2
- SWAP transactions	2,168	2,012
- call options (purchase)	1	2
- put options (sale)	9	3
- other	2	-
Total foreign exchange derivatives	**275**	**250**
Instruments designated as cash flow hedges – unquoted instruments – SWAP transactions	4	1
Instruments carried as held for trading, including:	271	249
Instruments quoted on a regulated market – forward contracts	6	3
Unquoted instruments, including:	265	246
- forward contracts	153	128
- SWAP transactions	57	54
- call options (purchase)	21	22
- put options (sale)	34	42
Derivatives related to equity prices – carried as held for trading, total	**61**	**49**
Instruments quoted on a regulated market – forward contracts	-	13
Unquoted instruments, including:	61	36
- call options (purchase)	1	2
- put options (sale)	60	34
Derivatives related to commodity prices – carried as held for trading, total	**73**	**133**
Instruments quoted on a regulated market – forward contracts	3	17
Unquoted instruments, including:	70	116
- forward contracts	14	17
- SWAP transactions	28	45
- call options (purchase)	4	5
- put options (sale)	24	49
Derivatives – liabilities, total	**3,520**	**3,365**

(in millions of PLN)

8.21 Investment financial assets

Investment financial assets	31 March 2019			31 December 2018		
	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss
Equity instruments	**n/a**	**605**	**1,042**	**n/a**	**522**	**1,220**
Quoted on a regulated market	n/a	393	958	n/a	310	1,171
Not quoted on a regulated market	n/a	212	84	n/a	212	49
Participation units and investment certificates	**n/a**	**n/a**	**4,387**	**n/a**	**n/a**	**4,298**
Quoted on a regulated market	n/a	n/a	135	n/a	n/a	110
Not quoted on a regulated market	n/a	n/a	4,252	n/a	n/a	4,188
Debt securities	**37,188**	**47,447**	**8,106**	**34,652**	**38,215**	**12,176**
Government securities	30,684	31,107	6,714	27,501	26,167	11,986
Domestic	30,519	28,475	5,725	27,349	23,419	10,793
Fixed rate	27,277	14,952	4,773	24,074	10,745	8,893
Floating rate	3,242	13,523	952	3,275	12,674	1,900
Foreign	165	2,632	989	152	2,748	1,193
Fixed rate	165	2,632	989	152	2,748	1,193
Other	6,504	16,340	1,392	7,151	12,048	190
Quoted on a regulated market	770	4,324	1,200	762	4,387	41
Fixed rate	459	1,531	1,199	454	1,515	36
Floating rate	311	2,793	1	308	2,872	5
Not quoted on a regulated market	5,734	12,016	192	6,389	7,661	149
Fixed rate	413	7,384	3	869	2,986	3
Floating rate	5,321	4,632	189	5,520	4,675	146
Other, including:	**12,203**	**-**	**-**	**10,582**	**-**	**-**
Buy-sell-back transactions	2,890	-	-	3,278	-	-
Term deposits with credit institutions	4,727	-	-	2,769	-	-
Loans	4,586	-	-	4,535	-	-
Investment financial assets, total	**49,391**	**48,052**	**13,535**	**45,234**	**38,737**	**17,694**

Debt securities – measured at amortized cost	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	37,192	36	33	-	37,261	34,657	35	33	2	34,727
Expected credit losses	(38)	(2)	(33)	-	(73)	(35)	(7)	(33)	-	(75)
Net carrying amount	**37,154**	**34**	**-**	**-**	**37,188**	**34,622**	**28**	**-**	**2**	**34,652**

(in millions of PLN)

Loans	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	4,555	61	-	-	4,616	4,595	-	-	-	4,595
Expected credit losses	(27)	(3)	-	-	(30)	(60)	-	-	-	(60)
Net carrying amount	**4,528**	**58**	**-**	**-**	**4,586**	**4,535**	**-**	**-**	**-**	**4,535**

Term deposits with credit institutions	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	4,727	1	9	-	4,737	2,770	1	9	-	2,780
Expected credit losses	(1)	-	(9)	-	(10)	(2)	-	(9)	-	(11)
Net carrying amount	**4,726**	**1**	**-**	**-**	**4,727**	**2,768**	**1**	**-**	**-**	**2,769**

Debt securities – measured at fair value through other comprehensive income	31 March 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	47,372	75	-	-	47,447	38,142	73	-	-	38,215
Expected credit losses	(30)	(3)	-	-	(33)	(37)	(3)	-	-	(40)

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

Equity instruments measured at fair value through other comprehensive income	31 March 2019	31 December 2018
Quoted on a regulated market	393	310
Grupa Azoty SA	340	257
Polimex-Mostostal SA	38	38
Other	15	15
Not quoted on a regulated market	212	212
Biuro Informacji Kredytowej SA	173	173
PSP sp. z o.o.	22	22
Krajowa Izba Rozliczeniowa SA	13	13
Other	4	4
Equity instruments measured at fair value through other comprehensive income, total	**605**	**522**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	31 March 2019	31 December 2018
Lithuania	705	638
United States	652	957
Ireland	232	233
Spain	232	232
Portugal	225	226
Latvia	151	90
Romania	131	157
Croatia	127	152
Ukraine	97	90
Hungary	95	117
Indonesia	84	71
Bulgaria	75	75
Russia	59	69
Brazil	55	57
Turkey	51	55
Other	815[1)]	874 [2)]
Total	**3,786**	**4,093**

[1)] The Other line item states the countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million: Argentina, Armenia, Australia, Azerbaijan, Bahrain, Belarus, Belgium, Bolivia, Cameroon, Chile, Columbia, Costa Rica, Denmark, Dominican Republic, Egypt, Ethiopia, France, Germany, Greece, Guatemala, Honduras, Israel, Italy, Ivory Coast (Côte d'Ivoire), Jamaica, Jordan, Katar, Kazakhstan, Kenya, Morocco, Mexico, Mongolia, Namibia, the Netherlands, Nigeria, Oman, Panama, Paraguay, Peru, Philippines, Saudia Arabia, South Africa, Senegal, Serbia, Slovenia, Sri Lanka, Sweden, Trinidad and Tobago, Uzbekistan, United Kingdom, Uruguay, Vietnam.

[2)] The Other line item states Albania, Argentina, Armenia, Australia, Azerbaijan, Belarus, Belgium, Bolivia, Cameroon, Chile, Columbia, Costa Rica, Denmark, Dominican Republic, Egypt, Ethiopia, France, Germany, Ghana, Greece, Guatemala, Honduras, India, Italy, Ivory Coast (Côte d'Ivoire), Jamaica, Jordan, Kazakhstan, Kenya, Morocco, Mexico, Mongolia, Namibia, the Netherlands, Nigeria, Oman, Panama, Paraguay, Peru, Philippines, South Africa, Senegal, Serbia, Slovenia, Sri Lanka, Sweden, Trinidad and Tobago, United Kingdom, Uruguay, Vietnam.

Exposure to debt securities issued by corporations and local government units

Carrying amount of debt securities issued by corporations and local government units	31 March 2019	31 December 2018
National Bank of Poland	7,398	2,999
Domestic local governments	6,282	5,710
Foreign banks	3,995	3,495
Companies from the WIG-Energy Index	1,210	1,183
Manufacturing	1,090	978
Financial and insurance services	933	725
Public utility services	752	759
Companies from the WIG-Banks Index	553	452
Transportation and storage	551	1,232
Companies from the energy and fuel sector	539	312
Mining and quarrying (including companies included in the WIG-Mining index)	114	130
Companies from the WIG-Fuels Index	4	748
Other	815	666
Total	**24,236**	**19,389**

8.21.1. Information on the changes in the economic situation and business conditions exerting a material effect on the fair value of financial assets and liabilities

Information on changes in the economic situation and business conditions materially affecting the fair value of financial assets and liabilities is presented in sections 16 and 18.

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

In the 3-month period ended 31 March 2019, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.22 Fair value

8.22.1. Description of valuation techniques

8.22.1.1. Debt securities and loans

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

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

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

8.22.1.2. 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.

8.22.1.3. Derivatives

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

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

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

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

8.22.1.5. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

8.22.1.6. 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 liabilities

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

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.

8.22.2. Fair value hierarchy

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

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

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

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

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

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

(in millions of PLN)

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

8.22.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2019				31 December 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	27,044	16,092	4,916	48,052	22,200	9,329	7,208	38,737
Equity instruments	392	1	212	605	309	1	212	522
Debt securities	26,652	16,091	4,704	47,447	21,891	9,328	6,996	38,215
Investment financial assets measured at fair value through profit or loss	7,591	5,689	255	13,535	12,758	4,684	252	17,694
Equity instruments	880	-	162	1,042	1,105	-	115	1,220
Participation units and investment certificates	115	4,257	15	4,387	102	4,182	14	4,298
Debt securities	6,596	1,432	78	8,106	11,551	502	123	12,176
Loan receivables from clients	-	-	1,935	1,935	-	-	1,814	1,814
Measured at fair value through other comprehensive income	-	-	1,651	1,651	-	-	1,511	1,511
Measured at fair value through profit or loss	-	-	284	284	-	-	303	303
Financial derivatives	9	2,607	106	2,722	35	2,384	68	2,487
Investment property	-	142	1,631	1,773	-	141	1,556	1,697
Liabilities								
Derivatives	9	3,443	68	3,520	34	3,295	36	3,365
Liabilities to members of consolidated mutual funds	-	73	-	73	-	266	-	266
Investment contracts for the client's account and risk *(unit-linked)*	-	267	-	267	-	266	-	266
Liabilities on borrowed securities (short sale)	854	-	-	854	120	-	-	120

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 31 March 2019	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Balance at the beginning of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**
Application of IFRS 16	-	-	-	-	-	-	-	-	-	43
Purchase/opening of the position	-	90	-	-	23	3	2	155	-	38
Reclassification from Level II	-	583 [1)]	-	-	-	1	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	-	-	-	2
Profit or loss recognized in the profit and loss account as:	-	31	47	-	3	43	36	(12)	(6)	(8)
- net investment income	-	31	-	-	1	-	-	8	-	-
- movement in allowances for expected credit losses and impairment losses on financial instruments	-	-	-	-	-	-	-	(20)	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	47	-	2	43	36	-	(6)	(8)
Profits or losses recognized in other comprehensive income	-	(9)	-	-	-	-	-	(9)	-	-
Sale and settlements	-	(151)	-	-	(70)	(9)	(6)	6	(13)	-
Reclassification to Level II	-	(2,836) [1)]	-	-	(1)	-	-	-	-	-
Foreign exchange differences	-	-	-	1	-	-	-	-	-	-
Balance at the end of the period	**212**	**4,704**	**162**	**15**	**78**	**106**	**68**	**1,651**	**284**	**1,631**

[1)] Information on reclassifications is presented in section 8.22.4.2.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 2018	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss			Derivatives – assets	Derivatives – liabilities	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Balance at the beginning of the period – classification at the time of applying IFRS 9	**221**	**4,855**	**95**	**-**	**163**	**100**	**52**	**1,556**	**365**	**2,204**
Purchase/opening of the position	-	3,034	-	14	727	16	10	409	3	139
Reclassification from Level I	-	-	2	-	-	-	-	-	-	-
Reclassification from Level II	-	190 [1)]	-	-	-	-	-	-	-	3
Reclassification from own properties	-	-	-	-	-	-	-	-	-	4
Profit or loss recognized in the profit and loss account as:	-	49	14	-	3	(30)	(9)	29	3	48
- net investment income	-	49	-	-	-	-	-	29	-	-
- net result on realization of financial instruments and properties	-	-	(2)	-	-	(3)	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	16	-	3	(27)	(9)	-	3	48
Profits or losses recognized in other comprehensive income	(9)	(12)	-	-	-	-	-	31	-	-
Sale and settlements	-	(1,056)	-	-	(756)	(18)	(17)	(514)	(68)	(11)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(831)
Reclassification to Level II	-	(64)	-	-	(14)	-	-	-	-	-
Foreign exchange differences	-	-	4	-	-	-	-	-	-	-
Balance at the end of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**

[1)] Information on reclassifications is presented in section 8.22.4.2.

(in millions of PLN)

8.22.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2019				31 December 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured by the equity method – EMC	-	-	14	14	-	-	14	14
Loan receivables from clients measured at amortized cost	-	-	185,073	185,073	-	-	181,635	181,635
Investment financial assets measured at amortized cost	27,297	3,126	21,834	52,257	24,251	2,301	21,541	48,093
Debt securities	27,297	747	11,947	39,991	24,251	1,239	11,900	37,390
Buy-sell-back transactions	-	878	2,012	2,890	-	126	3,153	3,279
Term deposits with credit institutions	-	1,501	3,227	4,728	-	936	1,830	2,766
Loans	-	-	4,648	4,648	-	-	4,658	4,658
Liabilities								
Liabilities to banks	-	1,038	6,406	7,444	-	781	5,280	6,061
Liabilities to clients under deposits	-	-	210,100	210,100	-	-	207,668	207,668
Liabilities on the issue of own debt securities [1)]	-	5,450	6,641	12,091	-	5,295	6,800	12,095
Subordinated liabilities [1)]	-	2,030	4,106	6,136	-	2,013	4,043	6,056
Liabilities on account of repurchase transactions	-	851	-	851	-	540	-	540

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

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

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

8.22.4.2. Reclassification between fair value hierarchy levels

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

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

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

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

In the 3-month period ended 31 March 2019, the following reclassifications of assets between fair value levels was made:

- reclassification from Level III to Level II was applied to municipal and corporate bonds measured using market information about prices of comparable financial instruments, corporate bonds for which the estimated credit parameters had no significant impact on their measurement and capital market transactions because the unobservable factor (correlation) had no significant impact on their measurement,

(in millions of PLN)

- corporate and municipal bonds were reclassified from Level II to Level III for which the impact exerted by the estimated credit parameters on the measurement was material and capital market derivatives for which the estimated parameter (correlation) exerted a significant impact on the measurement.

In 2018, the following transfers of assets between fair value levels were made:

- treasury bonds for which active market quotations were available were reclassified from Level II to Level I;
- reclassification from level III to level II was applied to municipal and corporate bonds measured using market information about prices of comparable financial instruments, corporate bonds for which the estimated credit parameters had no significant impact on their measurement, treasury bonds denominated in Polish zloty for which the estimated spread to benchmark bond had no significant impact on their measurement and a derivative equity market transaction because the unobservable factor (correlation) had no significant impact on their measurement;
- corporate and municipal bonds for which the impact of the estimated parameter (correlation) exerted a significant impact on their measurement were reclassified from Level II to Level III.

8.23 Receivables

Receivables – carrying amount	31 March 2019	31 December 2018
Receivables on direct insurance, including:	2,450	2,574
- receivables from policyholders	2,310	2,438
- receivables from insurance intermediaries	102	112
- other receivables	38	24
Reinsurance receivables	88	115
Other receivables	4,077	3,654
- receivables from disposal of securities and security deposits [1)]	2,253	1,632
- receivables on account of payment card settlements	724	992
- trade receivables	338	340
- receivables from the state budget, other than corporate income tax receivables	239	237
- receivables by virtue of commissions concerning off-balance sheet products	154	178
- prevention settlements	41	46
- receivables from direct claims handling on behalf of other insurance undertakings	27	27
- receivables for acting as an emergency adjuster	14	14
- receivables on account of Corporate Income Tax	12	6
- receivables from security and bid deposits	34	34
- interbank and interbranch receivables	43	7
- other	198	141
Total receivables	**6,615**	**6,343**

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

As at 31 March 2019 and 31 December 2018, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

The amount of allowances for expected credit losses as at 31 March 2018 was PLN 916 million (as at 31 December 2018: PLN 939 million).

(in millions of PLN)

8.24 Assets held for sale

Assets held for sale by classification before transfer	31 March 2019	31 December 2018
Groups held for sale	**1,032**	**1,021**
Assets	1,091	1,070
Investment property	980	973
Receivables	10	12
Deferred tax assets	5	5
Cash and cash equivalents	86	76
Other assets	10	4
Liabilities related directly to assets classified as held for sale	59	49
Deferred tax liability	27	27
Other liabilities	32	22
Other assets held for sale	**71**	**77**
Property, plant and equipment	29	34
Investment property	42	43
Assets and groups of assets held for sale	**1,162**	**1,147**
Liabilities related directly to assets classified as held for sale	**59**	**49**

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

8.25 Issued share capital and other capital attributable to equity holders of the parent

8.26 Share capital

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

All the Shares have been fully paid for.

As at 31 March 2019 and 31 December 2018

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

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

(in millions of PLN)

8.27 Technical provisions

Technical provisions	31 March 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**23,937**	**(1,570)**	**22,367**	**23,508**	**(1,512)**	**21,996**
Provision for unearned premiums	8,571	(537)	8,034	8,416	(594)	7,822
Provision for unexpired risk	8	-	8	10	-	10
Provisions for outstanding claims and benefits	9,382	(842)	8,540	9,098	(724)	8,374
- for reported claims	3,541	(756)	2,785	3,280	(603)	2,677
- for claims not reported (IBNR)	3,894	(65)	3,829	3,939	(103)	3,836
- for claims handling expenses	1,947	(21)	1,926	1,879	(18)	1,861
Provision for the capitalized value of annuities	5,973	(191)	5,782	5,981	(194)	5,787
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Technical provisions in life insurance	**22,473**	**-**	**22,473**	**22,331**	**-**	**22,331**
Provision for unearned premiums	99	-	99	99	-	99
Life insurance provision	16,249	-	16,249	16,204	-	16,204
Provisions for outstanding claims and benefits	579	-	579	592	-	592
- for reported claims	141	-	141	152	-	152
- for claims not reported (IBNR)	432	-	432	434	-	434
- for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	5	-	5	4	-	4
Other technical provisions	249	-	249	256	-	256
Unit-linked provision	5,292	-	5,292	5,176	-	5,176
Total technical provisions	**46,410**	**(1,570)**	**44,840**	**45,839**	**(1,512)**	**44,327**

8.28 Other provisions

Movement in other provisions in the period ended 31 March 2019	Balance at the beginning of the period	Increase	Utilization	Termination	Balance at the end of the period
Provisions for guarantees and sureties given	316	98	-	(95)	319
Provision for disputed claims and potential liabilities	67	10	(4)	-	73
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	-	-	-	85
Provision for restructuring expenses	20	-	(3)	-	17
Other	31	-	(2)	-	29
Total other provisions	**519**	**108**	**(9)**	**(95)**	**523**

(in millions of PLN)

Movement in other provisions in the year ended 31 December 2018	As at 31 December 2017	Application of IFRS 9	Balance at the beginning of the period	Increase	Utilization	Reversal	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	260	159	419	441	(25)	(477)	(42)	316
Provision for disputed claims and potential liabilities	82	-	82	52	(12)	(55)	-	67
Provision for penalties imposed by the Office of Competition and Consumer Protection	57	-	57	-	-	-	28	85
Provision for restructuring expenses	63	-	63	-	(36)	(7)	-	20
Other	35	-	35	10	(13)	(1)	-	31
Total other provisions	**497**	**159**	**656**	**503**	**(86)**	**(540)**	**(14)**	**519**

Provisions for guarantees and sureties given

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

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

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

Information about the penalty imposed on PZU in the proceedings of the President of the Office of Competition and Consumer Protection is presented in section 23.2.

8.29 Financial liabilities

Financial liabilities	31 March 2019	31 December 2018
Financial liabilities measured at fair value	**4,714**	**4,017**
Derivatives held for trading	2,599	2,450
Cash flow hedge derivatives	783	771
Fair value hedge derivatives	138	144
Liabilities on borrowed securities (short sale)	854	120
Investment contracts for the client's account and risk (unit-linked)	267	266
Liabilities to members of consolidated mutual funds	73	266
Financial liabilities measured at amortized cost	**236,790**	**232,299**
Liabilities to banks	7,430	6,044
Current deposits	2,446	1,058
One-day deposits	42	207
Term deposits	344	7
Loans received	3,733	4,386
Other liabilities	865	386
Liabilities to clients under deposits	209,185	207,635
Current deposits	133,729	137,559
Term deposits	74,617	69,350
Other liabilities	839	726
Liabilities on the issue of own debt securities	12,005	12,009
Subordinated liabilities	6,082	6,061
Liabilities on account of repurchase transactions	851	540
Lease liabilities	1,237	10
Total financial liabilities	**241,504**	**236,316**

8.29.1. Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 31 March 2019 (in PLN m)	Carrying amount 31 December 2018 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,258	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,267	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	558	548
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	203	196
Liabilities classified as Alior Bank's own funds						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	43	43
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	223	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	198	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	150	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	612	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68
Meritum Bank series C bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	82	81
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	43	44
P1A series bonds	150	PLN	WIBOR 6M + margin	14 April 2016 16 May 2022	153	151
P1B series bonds	70	PLN	WIBOR 6M + margin	21 April 2016 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	27 December 2017 29 December 2025	152	150
Subordinated liabilities					**6,082**	**6,061**

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

8.29.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 March 2019	31 December 2018
Bonds of PZU Finance AB (publ.)	3,691	3,676
Alior Bank series J bonds	266	268
Pekao bonds	2,087	1,978
Certificates of deposit	4,518	4,542
Covered bonds	1,443	1,545
Liabilities on the issue of own debt securities	**12,005**	**12,009**

(in millions of PLN)

	Par value	Interest rate	Issue dates	Maturity date
Bonds of PZU Finance AB (publ.)	EUR 850 million	1.375%	3 July 2014 16 October 2015	3 July 2019
Alior Bank series J bonds	PLN 250 million	WIBOR 6M + margin	11 August 2017	11 August 2020

Bonds classified as measured at amortized cost

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 amount of the guarantee in effect until the expiration of the bondholders' claims against PZU Finance AB (publ.), has not been specified.

8.30 Other liabilities

Other liabilities	31 March 2019	31 December 2018
Accrued expenses	**1,517**	**1,578**
Accrued expenses of agency commissions	354	361
Accrued sales commission expenses in group insurance	2	2
Accrued payroll expenses	213	192
Accrued reinsurance expenses	230	373
Accrued employee bonuses	419	345
Other	299	305
Deferred revenue	**304**	**282**
Other liabilities	**7,526**	**5,547**
Liabilities due under transactions on financial instruments	1,901	909
Liabilities to banks for payment documents cleared in interbank clearing systems	1,341	934
Liabilities on direct insurance	858	835
Liabilities on account of payment card settlements	501	419
Regulatory settlements	174	165
Liabilities for contributions to the Bank Guarantee Fund	649	182
Reinsurance liabilities	300	269
Estimated non-insurance liabilities	74	157
Liabilities to employees	155	141
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	89	98
Trade liabilities	339	367
Current income tax liabilities	601	570
Liabilities to the state budget other than for income tax	115	111
Liabilities on account of donations	23	25
Banks' liabilities for insurance of bank products offered to their clients	13	20
Insurance Indemnity Fund	14	15
Liabilities for direct claims handling	28	30
Other	351	300
Other liabilities, total	**9,347**	**7,407**

(in millions of PLN)

9. Financial assets securing liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2019	31 December 2018
Carrying amount of financial assets pledged as collateral for liabilities	9,977	8,254
Repurchase transactions	853	543
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,027	1,043
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	105	95
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	131	133
Lombard and technical credit	5,117	3,700
Other loans	572	569
Issue of covered bonds	1,462	1,462
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	57	54
Derivative transactions	653	655
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**9,977**	**8,254**

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2019	31 December 2018
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	56,951	57,667
- for renewable limits in settlement accounts and credit cards	12,817	13,211
- for loans in tranches	26,830	28,523
- guarantees and sureties given	7,358	7,682
- disputed insurance claims	623	576
- other disputed claims	218	231
- other, including:	9,105	7,444
- guaranteeing securities issues	5,551	4,470
- factoring	2,205	1,275
- intra-day limit	355	755
- letters of credit and commitment letters	729	822
- other	232	122

11. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2019, gross written premium was PLN 5,901 million compared to PLN 5,831 million in the corresponding period of the previous year (+1.2%). The increase in sales applied above all to the following:

- growth of sales in foreign companies (+PLN 60 million), mainly motor insurance in the Baltic states segment;
- to ADD and other insurance in the corporate client segment, mainly as a result of developing the GAP financial loss insurance portfolio;
- motor insurance in the corporate client segment offered to lease companies and fleet insurance;
- growth of the group health product portfolio.

The increases have been partially offset by the lower premiums in the individual insurance segment (-PLN 19 million), which was driven mainly by lower contributions to unit-linked products in the bancassurance channel. Additionally, a decline in motor TPL insurance premium was posted in the mass client segment – the effect of the dip in the number of insurance policies.

Investment income including interest expenses in Q1 2019 and Q1 2018 was PLN 2,496 million and PLN 1,726 million, respectively. Growth was posted in investment income in banking activity and net of banking activity. The growth in the result in banking activity was driven in particular by the development in the sales of credit products at Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates.

Income on investing activity, excluding banking business, rose mainly due to better performance on listed equities, in particular by the improvement in market conditions on the Warsaw Stock Exchange – the WIG index rose 3.4% in Q1 2019 versus a decrease of 8.4% in the corresponding period of the previous year, translating among others into investment performance in the portfolio of assets to cover investment products that have no effect on the PZU Group's overall net result.

Net claims and benefits (including the movement in technical provisions) reached PLN 3,958 million and were 9.2% higher than in the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- in life insurance, the positive investment result on most unit-linked product portfolios compared to the negative results produced last year;
- the occurrence of several high value events in other non-life insurance.

On the other hand, a decrease in the net claims and benefits category was recorded in connection with remeasurement, in the corresponding period of the previous year in the motor insurance group in the corporate client segment and the mass client segment, of the provision for claims for general damages for the pain caused by a relative being in a vegetative state because of being injured in an accident.

In Q1 2019 acquisition expenses rose PLN 42 million compared to the corresponding period of the previous year, driven mainly by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from the expanding portfolio and the change of the product and sales channel mix.

PZU Group's administrative expenses in Q1 2019 totaled PLN 1,620 million compared to PLN 1,615 million in the corresponding period of 2018, or they were PLN 5 million higher than in the previous year. This growth pertained mainly to the insurance activity segments in Poland (+ PLN 29 million above the corresponding period of the previous year), which largely stemmed from higher personnel costs in conjunction with wage pressure on the market. At the same time, the bank activity segment's administrative expenses dropped PLN 25 million y/y – an effect i.a. of the voluntary redundancy program administered in 2018 in Pekao and maintaining cost discipline in both banks.

In Q1 2019, the balance of other net operating income and expenses was negative at PLN 1,015 million compared to the similarly negative balance of PLN 702 million in 2018. The change resulted among other things from the higher charges to the Bank Guarantee Fund and the higher levy on financial institutions. The charges to the Bank Guarantee Fund rose from PLN 230 million in Q1 2018 to PLN 515 million in Q1 2019, while the PZU Group's liabilities (on insurance and banking business alike) on account of the levy on financial institutions in Q1 2019 was PLN 285 million versus PLN 269 million in the corresponding period of 2018.

In Q1 2019 operating profit hit PLN 1,489 million, up by PLN 173 million (+13.1%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- higher investment income as a result of the increase in the result on listed equities in connection with better economic conditions on the Warsaw Stock Exchange;
- higher profitability in the mass insurance segment versus the corresponding period of 2018 (+PLN 5 million) – result of the better result in motor insurance (in Q1 2018 remeasurement of the provision for general damages) partially offset by the decline in profitability in the non-life insurance group (higher level of claims caused by fires and gusty wind);
- decline in the result in the corporate insurance segment (-PLN 55 million) due to the higher loss ratio in the portfolio of insurance against fire and other damage to property (including the occurrence of several high value claims) and the dip in the profitability of motor TPL insurance;
- increased profitability in group and individually continued insurance (+PLN 6 million) as a result of the constantly growing insurance portfolio, including health insurance and a change in the mix of individually continued products with a lower unit expense for provisioning the future disbursement of benefits;
- higher result on individual insurance (+PLN 16 million) due to the expanding portfolio of high margin protection insurance, including bancassurance;

- lower result of the bank segment (-PLN 156 million) in connection with higher charges to the Bank Guarantee Fund (up PLN 285 million y/y). Net of this effect the bank segment posted a result up by PLN 129 million in connection with the higher level of sales of credit products supported by persistently favorable economic conditions.

Net profit grew in comparison to Q1 2018 by PLN 36 million (+3.7%) to PLN 1,012 million. Net profit attributable to the parent company's shareholders was PLN 747 million compared to PLN 627 million in 2018 (up 19.1%).

As at 31 March 2019, consolidated equity according to IFRS was PLN 38,548 million compared to PLN 36,945 million as at 31 March 2018. Growth pertained to the equity attributable to the parent company's shareholders and non-controlling interests in connection with the profit generated by the PZU Group in the period under analysis partially offset by the dividend paid in 2018. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2019 to 31 March 2019 was 19.5%, up 2.1 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2018, equity climbed PLN 1,141 million.The change pertained to the equity attributable to the parent company's shareholders and non-controlling interests that grew in connection with the profit generated by the PZU Group in Q1 2019.

Total equity and liabilities as at 31 March 2019 increased compared to 31 December 2018 by PLN 9,071 to PLN 337,625 million. The increase pertained mainly to financial liabilities (+PLN 5,188 million) and other liabilities (+PLN 1,940 million).

The investment portfolio[3] as at 31 March 2019 and 31 December 2018, excluding the impact of the banking business, was PLN 51,720 million and PLN 50,270 million, respectively. The PLN 1,450 million increase was related mainly to non-treasury debt market instruments. Loan receivables as at 31 March 2019 were PLN 186,724 million compared to PLN 182,054 million as at 31 December 2018.

The largest component of equity and liabilities at the end of Q1 2019 were financial liabilities accounting for 71.5%. Liabilities to clients and banks in banking activity and the PZU Group's lease liabilities in conjunction with the implementation of IFRS 16 as of 1 January 2019 mainly contributed to the growth in the balance thereof.

The value of technical provisions at the end of Q1 2019 was PLN 46,410 million and accounted for 13.7% of total equity and liabilities. Compared to 31 December 2018, provisions rose by PLN 571 million. This change resulted primarily from the following:

- an increase in the provision for unearned premiums in non-life insurance resulting from expanding insurance sales;
- higher claims provisions in non-life insurance due to the notification of several high value claims;
- higher provisions in unit-linked life insurance products due to the high positive result on investment activity.

12. Equity management

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

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

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

---

[2] Annualized ratio.

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

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

Pursuant to 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 2017 report published on 14 June 2018 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. For the 2018 report, the publication deadline is no later than 22 weeks after the year end, i.e. in practice until 3 June 2019. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

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

The PZU Group's solvency ratio as at 31 December 2017 published in the PZU Group's 2017 solvency and financial condition report was 208%. In 2018 the solvency ratio (standalone and consolidated alike) reported to KNF and not subject to verification by an audit firm as at the end of each quarter stayed above the level of 200%. As at the date of conveying this periodic report the PZU Group's estimated solvency ratio as at 31 December 2018, which is being audited by an audit firm is 222%.

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

13. Segment reporting

13.1 Reportable segments

13.1.1. Key classification criterion

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

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by 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.	

13.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

13.2 Inter-segment settlements

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

13.3 Segment’s measure of profit

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

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

13.4 Accounting policies applied according to PAS

13.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2018.

PZU's 2018 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

13.4.2. PZU Życie

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

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

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

13.5 Simplifications in the segmental note

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

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

(in millions of PLN)

13.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2019	1 January – 31 March 2018
Gross written premium – external	670	627
Gross written premium – cross-segment	1	(1)
Gross written premiums	**671**	**626**
Movement in provision for unearned premiums and gross provision for unexpired risks	55	50
Gross earned premium	**726**	**676**
Reinsurers' share in gross written premium	(49)	(39)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(76)	(59)
Net earned premium	**601**	**578**
Investment income, including:	25	29
external operations	25	29
intersegment operations	-	-
Other net technical income	9	20
Income	**635**	**627**
Net insurance claims and benefits	(382)	(329)
Acquisition expenses	(125)	(113)
Administrative expenses	(30)	(30)
Reinsurance commissions and profit participation	10	9
Other	(23)	(24)
Insurance result	**85**	**140**

Mass insurance (non-life insurance)	1 January – 31 March 2019	1 January – 31 March 2018
Gross written premium – external	2,683	2,711
Gross written premium – cross-segment	4	18
Gross written premiums	**2,687**	**2,729**
Movement in provision for unearned premiums and gross provision for unexpired risks	(161)	(260)
Gross earned premium	**2,526**	**2,469**
Reinsurers' share in gross written premium	(35)	(3)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	13	(21)
Net earned premium	**2,504**	**2,445**
Investment income, including:	120	134
external operations	120	134
intersegment operations	-	-
Other net technical income	48	35
Income	**2,672**	**2,614**
Net insurance claims and benefits	(1,548)	(1,532)
Acquisition expenses	(475)	(451)
Administrative expenses	(152)	(130)
Reinsurance commissions and profit participation	-	(3)
Other	(107)	(113)
Insurance result	**390**	**385**

(in millions of PLN)

Group and individually continued insurance (life insurance)	**1 January – 31 March 2019**	**1 January – 31 March 2018**
Gross written premium – external	1,733	1,722
Gross written premium – cross-segment	-	-
Gross written premiums	**1,733**	**1,722**
Movement in the provision for unearned premiums	(1)	(1)
Gross earned premium	**1,732**	**1,721**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**1,732**	**1,721**
Investment income, including:	176	122
external operations	176	122
intersegment operations	-	-
Other net technical income	1	-
Income	**1,909**	**1,843**
Net insurance claims and benefits and movement in other net technical provisions	(1,364)	(1,314)
Acquisition expenses	(90)	(84)
Administrative expenses	(151)	(143)
Other	(8)	(12)
Insurance result	**296**	**290**

Individual insurance (life insurance)	**1 January – 31 March 2019**	**1 January – 31 March 2018**
Gross written premium – external	327	346
Gross written premium – cross-segment	-	-
Gross written premiums	**327**	**346**
Movement in the provision for unearned premiums	3	2
Gross earned premium	**330**	**348**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**330**	**348**
Investment income, including:	192	15
external operations	192	15
intersegment operations	-	-
Income	**522**	**363**
Net insurance claims and benefits and movement in other net technical provisions	(406)	(260)
Acquisition expenses	(31)	(33)
Administrative expenses	(17)	(18)
Other	(1)	(1)
Insurance result	**67**	**51**

Investments	**1 January – 31 March 2019**	**1 January – 31 March 2018** (restated)
Investment income, including:	157	(85)
- external operations	140	(107)
- intersegment operations	17	22
Operating result	**157**	**(85)**

(in millions of PLN)

Banking activity	**1 January – 31 March 2019**	**1 January – 31 March 2018 (restated)**
Revenue from commissions and fees	932	927
Investment income, including:	2,300	2,084
- external operations	2,300	2,084
- intersegment operations	-	-
Income	**3,232**	**3,011**
Fee and commission expenses	(175)	(170)
Interest expenses	(490)	(459)
Administrative expenses	(1,213)	(1,238)
Other	(733)	(367)
Operating result	**621**	**777**

Pension insurance	**1 January – 31 March 2019**	**1 January – 31 March 2018**
Investment income, including:	1	2
external operations	1	2
intersegment operations	-	-
Other income	32	36
Income	**33**	**38**
Administrative expenses	(12)	(8)
Other	(1)	(2)
Operating result	**20**	**28**

Insurance - Baltic States	**1 January – 31 March 2019**	**1 January – 31 March 2018**
Gross written premium – external	416	375
Gross written premium – cross-segment	-	-
Gross written premiums	**416**	**375**
Movement in provision for unearned premiums and gross provision for unexpired risks	(16)	(24)
Gross earned premium	**400**	**351**
Reinsurers' share in gross written premium	(28)	(20)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	14	9
Net earned premium	**386**	**340**
Investment income, including:	14	3
external operations	14	3
intersegment operations	-	-
Income	**400**	**343**
Net insurance claims and benefits paid	(247)	(211)
Acquisition expenses	(81)	(75)
Administrative expenses	(31)	(29)
Other	1	1
Insurance result	**42**	**29**

(in millions of PLN)

Insurance – Ukraine	1 January – 31 March 2019	1 January – 31 March 2018
Gross written premium – external	71	52
Gross written premium – cross-segment	-	-
Gross written premiums	**71**	**52**
Movement in provision for unearned premiums and gross provision for unexpired risks	(7)	(1)
Gross earned premium	**64**	**51**
Reinsurers' share in gross written premium	(20)	(18)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	(1)
Net earned premium	**42**	**32**
Investment income, including:	8	2
external operations	8	2
intersegment operations	-	-
Income	**50**	**34**
Net insurance claims and benefits paid	(19)	(13)
Acquisition expenses	(25)	(19)
Administrative expenses	(7)	(5)
Other	6	6
Insurance result	**5**	**3**

Investment contracts	1 January – 31 March 2019	1 January – 31 March 2018
Gross written premium	10	12
Movement in the provision for unearned premiums	-	-
Gross earned premium	**10**	**12**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**10**	**12**
Investment income, including:	8	(7)
external operations	8	(7)
intersegment operations	-	-
Other income	-	-
Income	**18**	**5**
Net insurance claims and benefits and movement in other net technical provisions	(16)	(2)
Acquisition expenses	-	-
Administrative expenses	(1)	(2)
Operating result	**1**	**1**

Other segments	1 January – 31 March 2019	1 January – 31 March 2018
Investment income, including:	-	-
- external operations	-	-
- intersegment operations	-	-
Other income	264	245
Income	**264**	**245**
Expenses	(276)	(262)
Other	3	6
Operating result	**(9)**	**(11)**

(in millions of PLN)

Reconciliations 1 January 2019 - 31 March 2019	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	601	25	(382)	(125)	(30)	85
Mass insurance	2,504	120	(1,548)	(475)	(152)	390
Group and individually continued insurance	1,732	176	(1,364)	(90)	(151)	296
Individual insurance	330	192	(406)	(31)	(17)	67
Investments	-	157	-	-	-	157
Banking activity	-	2,300	-	-	(1,213)	621
Pension insurance	-	1	-	(1)	(12)	20
Insurance - Baltic States	386	14	(247)	(81)	(31)	42
Insurance – Ukraine	42	8	(19)	(25)	(7)	5
Investment contracts	10	8	(16)	-	(1)	1
Other segments	-	-	-	-	-	(9)
Total segments	**5,605**	**3,001**	**(3,982)**	**(828)**	**(1,614)**	**1,675**
Presentation of investment contracts	(11)	(5)	16	-	-	-
Estimated salvage and subrogation	-	-	(1)	-	-	(1)
Valuation of equity instruments	-	4	-	-	-	4
Measurement of properties	-	-	-	-	(1)	-
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(13)
Consolidation adjustments [1]	(2)	21	9	35	(5)	(178)
Consolidated data	**5,592**	**3,021[2]**	**(3,958)**	**(793)**	**(1,620)**	**1,487**

Reconciliations 1 January 2018 - 31 March 2018 (restated data)	Net earned premium	Investment income	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	578	29	(329)	(113)	(30)	140
Mass insurance	2,445	134	(1,532)	(451)	(130)	385
Group and individually continued insurance	1,721	122	(1,314)	(84)	(143)	290
Individual insurance	348	15	(260)	(33)	(18)	51
Investments	-	(85)	-	-	-	(85)
Banking activity	-	2,084	-	-	(1,238)	777
Pension insurance	-	2	-	(2)	(8)	28
Insurance - Baltic States	340	3	(211)	(75)	(29)	29
Insurance – Ukraine	32	2	(13)	(19)	(5)	3
Investment contracts	12	(7)	(2)	-	(2)	1
Other segments	-	-	-	-	-	(11)
Total segments	**5,476**	**2,299**	**(3,661)**	**(777)**	**(1,603)**	**1,608**
Presentation of investment contracts	(12)	9	2	-	-	-
Estimated salvage and subrogation	-	-	(3)	-	-	(3)
Valuation of equity instruments	-	15	-	-	-	15
Measurement of properties	-	(1)	-	-	-	(1)
Elimination of the equalization provision and prevention fund	-	-		-	-	2
Consolidation adjustments [1]	(6)	(103)	36	26	(12)	(305)
Consolidated data	**5,458**	**2,219[2]**	**(3,626)**	**(751)**	**(1,615)**	**1,316**

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

[2] The sum of the following line items in the consolidated profit and loss account: “Net investment income”, “Net result on realization of financial instruments and investments”, “Movement in allowances for expected credit losses and impairment losses on financial instruments” and “Net movement in fair value of assets and liabilities measured at fair value”.

(in millions of PLN)

Geographic breakdown

	1 January – 31 March 2019					1 January – 31 March 2018 (restated)				
	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value
Gross written premium – external	5,414	416	71	-	5,901	5,404	375	52	-	5,831
Gross written premium – cross-segment	3	-	-	(3)	-	16	-	-	(16)	-
Revenue from commissions and fees	961	-	-	-	961	997	-	-	-	997
Investment income [1)]	2,999	14	8	-	3,021	2,214	3	2	-	2,219

[1)] The sum of the following line items in the consolidated profit and loss account: "Net investment income", "Net result on realization of financial instruments and investments", "Movement in allowances for expected credit losses and impairment losses on financial instruments" and "Net movement in fair value of assets and liabilities measured at fair value".

	31 March 2019					31 December 2018				
	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value	Poland	Baltic States	Ukraine	Unallo-cated	Consoli-dated value
Non-current assets, other than financial assets [1)]	7,150	251	4	-	7,405	6,122	238	4	-	6,364
Deferred tax assets	2,294	-	3	-	2,297	2,231	-	3	-	2,234
Assets	335,793	2,827	426	(1,410)	337,636	326,874	2,704	409	(1,433)	328,554

[1)] Applies to intangible assets and property, plant and equipment.

13.7 Information on key customers

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

14. Commentary to segment reporting and investing activity

14.1 Corporate insurance – non-life insurance

In Q1 2019 gross written premium in the corporate insurance segment increased from Q1 2018 by PLN 45 million (+7.2% y/y). The following factors were recorded concerning premiums:

- upswing in the premium for ADD and other insurance (+48.8% y/y), mainly as a result of developing the GAP financial loss insurance portfolio;
- growth in the sales of motor insurance (+3.7% y/y) offered to leasing companies and in fleet insurance (chiefly TPL insurance) as a consequence of the higher number of insurance products and the dip in the average premium;
- development of the general third party liability insurance portfolio (+6.2% y/y) as a result of signing several high value contracts and the development of the insurance portfolio for medical entities and cyber risks in TUW PZUW.

(in millions of PLN)

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	671	626	7.2%
Net earned premium	601	578	4.0%
Investment income	25	29	(13.8%)
Net insurance claims and benefits paid	(382)	(329)	16.1%
Acquisition expenses	(125)	(113)	10.6%
Administrative expenses	(30)	(30)	0.0%
Reinsurance commissions and profit-sharing	10	9	11.1%
Other	(14)	(4)	250.0%
Insurance result	**85**	**140**	**(39.3%)**
acquisition expenses ratio (including reinsurance commission)[1)]	19.1%	18.0%	1.1 p.p.
administrative expense ratio [1)]	5.0%	5.2%	(0.2) p.p.
loss ratio [1)]	63.6%	56.9%	6.7 p.p.
combined ratio (COR) [1)]	87.7%	80.1%	7.6 p.p.

[1)] Ratios calculated using net earned premium

Net insurance claims and benefits surged 16.1% while net earned premium edged up by 4.0%, translating into deterioration in the loss ratio by 6.7 percentage points. A higher loss ratio was recorded chiefly in the following:

- motor TPL as a consequence of rising annuity benefits, the observed increase in the average payout and the higher level of international claims; a slight decline of profitability in the MOD insurance class accompanied this effect;
- insurance against fire and other damage to property as a result of more high value claims.

These changes were partially offset by a decrease in claims and benefits in general TPL insurance.

The 13.8% y/y decline in investment income allocated to the corporate insurance segment ensued chiefly from smaller depreciation in the PLN/EUR exchange rate compared to the corresponding period of the previous year.

Acquisition expenses in the corporate insurance segment increased by PLN 12 million, or 10.6% as compared to Q1 2018, mainly due to higher direct acquisition expenses. This was driven mainly by portfolio growth and a change in the sales channel mix (increased percentage of premiums originating from insurance offered by leasing companies in the portfolio).

Administrative expenses did not change y/y, which when coupled with net earned premium up by 4.0% signifies a 0.2 p.p. improvement in the administrative expense ratio.

In Q1 2019, the corporate insurance segment generated an underwriting result of PLN 85 million, signifying a 39.3% decline compared to the corresponding period of the previous year. This decline stemmed chiefly from the higher loss ratio in the portfolio of insurance against fire and other damage to property (including the occurrence of several high value claims) and the dip in the profitability of motor TPL insurance.

14.2 Mass insurance – non-life insurance

In Q1 2019 gross written premium in the mass insurance segment fell PLN 42 million (-1.5% y/y) compared to the corresponding period of 2018. This growth resulted primarily from:

- lower gross written premium in motor insurance (-2.3% y/y) as the outcome of the 4.5% y/y decline in motor TPL sales (lower number of insurance contracts coupled with slight growth in the average premium) and increase in gross written premium in motor own damage (+1.7%);
- decline in the premium for insurance against fire and other damage to property (-0.7% y/y), including agricultural insurance - the effect of lower sales of farm buildings insurance.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	2,687	2,729	(1.5%)
Net earned premium	2,504	2,445	2.4%
Investment income	120	134	(10.4%)
Net insurance claims and benefits paid	(1,548)	(1,532)	1.0%
Acquisition expenses	(475)	(451)	5.3%
Administrative expenses	(152)	(130)	16.9%
Reinsurance commissions and profit-sharing	-	(3)	-
Other	(59)	(78)	(24.4%)
Insurance result	390	385	1.3%
acquisition expenses ratio (including reinsurance commission) [1]	19.0%	18.6%	0.4 p.p.
administrative expense ratio [1]	6.1%	5.3%	0.8 p.p.
loss ratio [1]	61.8%	62.7%	(0.9) p.p.
combined ratio (COR) [1]	86.9%	86.5%	0.4 p.p.

[1] Ratios calculated using net earned premium

Net insurance claims and benefits in Q1 2019 rose 1.0%, which when coupled with net earned premium being up 2.4%, translates into the loss ratio improving by 0.9 percentage points.

The change in this ratio is the outcome of the following factors:

- improvement in the loss ratio in motor insurance, in motor TPL and motor own damage alike (in the corresponding period of last year the remeasurement of the provision for claims for general damages due to being in a vegatative state);
- higher loss ratio in the class of insurance for claims caused by natural calamities, mostly due to the occurrence of numerous claims caused by fires and gusty wind.

The 10.4% y/y decline in investment income allocated to the mass insurance segment ensued chiefly from smaller depreciation in the PLN/EUR exchange rate compared to the corresponding period of the previous year.

In Q1 2019, acquisition expenses in the mass insurance segment were PLN 475 million, up PLN 24 million (+5.3%) from the corresponding period last year, which considering the increase in net earned premium by 2.4%, represented a 0.4 p.p. deterioration in the acquisition expense ratio. The driver of this change in the level of acquisition expenses was the higher level of direct acquisition expenses due to the shift in the mix of products and sales channels and the increase in indirect costs due to higher payroll costs (including the change in the remuneration system) and higher costs of sales contests.

The PLN 22 million (i.e. 16.9%) growth in administrative expenses versus Q1 2018 was above all the outcome of higher personnel, IT and project-related costs while observing cost discipline in other areas of current business activity.

The improvement in profitability in motor insurance versus Q1 2018 made the major contribution to the improvement in the underwriting result in the mass insurance segment of PLN 5 million (+1.3%) (in Q1 2018 remeasurement of the provision for general damages) partially offset by the decline in profitability in the non-life insurance group (higher level of claims caused by fires and gusty wind).

14.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 11 million (0.6%) higher than in the corresponding period last, which resulted primarily from the following:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of March 2019, PZU Życie had more than 1.9 million in force contracts of this type. A new rider to continued insurance under the name “PZU Uraz ortopedyczny [PZU orthopedic injury]” has enjoyed particular success in recent months. In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist.

(in millions of PLN)

The insured will also be able to use rehabilitation procedures in private medical centers across Poland. The insurance garnered excellent response from the clients – three out of four clients enrolling in individual continuation selected this rider as well;

- active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and simultaneously the increase of sums insured during the terms of the agreements;

At the same time, revenues from group protection products still remained under pressure posed by higher attrition in groups (work establishments).

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	1,733	1,722	0.6%
Group insurance (periodic premium)	1,228	1,223	0.4%
Individually continued insurance (periodic premium)	505	499	1.2%
Net earned premium	1,732	1,721	0.6%
Investment income	176	122	44.3%
Net insurance claims and benefits and movement in other net technical provisions	(1,364)	(1,314)	3.8%
Acquisition expenses	(90)	(84)	7.1%
Administrative expenses	(151)	(143)	5.6%
Other	(7)	(12)	(41.7)%
Insurance result	**296**	**290**	**2.1%**
Insurance result net of the conversion effect	**291**	**286**	**1.7%**
acquisition expense ratio [1)]	5.2%	4.9%	0.3 p.p.
administrative expense ratio [1)]	8.7%	8.3%	0.4 p.p.
insurance margin net of the conversion effect [1)]	16.8%	16.6%	0.2 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income rose PLN 54 million year on year mainly due to improvement in the income on unit-linked products (especially employee pension schemes (EPS)) as a result of better conditions on the equity market – the WIG index climbed 3.4% compared to the 8.4% decline in the corresponding period of last year. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 1,364 million, which signifies a y/y increase of PLN 50 million, or 3.8%. This change was driven by the following factor in particular:

- an increase in technical provisions in Employee Pension Schemes (EPS, a third pillar retirement security product) compared to a decrease in the previous year, where this was caused by higher investment results this year, coupled with a stable level of client contributions to and withdrawals from unit-linked insurance accounts;
- the rising level of medical benefits under health products following the dynamic growth of this portfolio.

The foregoing effects were partially offset by the following:

- lower than last year increase in mathematical provisions in continued products as a result of the change in the percentage of “old” and “new” continuation among the persons joining and remaining in the insured portfolio – in “new” continuation the unit cost of setting up mathematical provisions for future benefit payments is lower;
- lower death-related and childbirth benefits, which is correlated to the frequency of these events in the overall population according to the data published by the Central Statistical Office (GUS);
- the disbursements of benefits in the portfolio of bank protection products is limited this year (the portfel containing high individual benefits is dwindling);

(in millions of PLN)

- the slightly higher pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, provisions were released for PLN 5 million, some PLN 1 million more than in the corresponding period of 2018.

Acquisition expenses in the group and individually continued insurance segment in the first 3 months of 2019 were PLN 90 million, increasing by PLN 6 million (7.1%) compared to the corresponding period of last year. The factor driving the upward movement in this reporting line item was the increasing remuneration for insurance intermediaries, especially for selling health and protection products as this portfolio developed, and also the modification made to the remuneration system in the agent network.

In Q1 2019 administrative expenses totaled PLN 151 million. The PLN 8 million (5.6%) year on year increase was caused by the ongoing expenditures related to organizational changes in sales divisions and the increase in personnel costs ensuing from wage pressure on the market.

Operating profit in the group and individually continued insurance segment in Q1 2019 climbed compared to the corresponding period of 2018 by PLN 6 million (2.1%) to PLN 296 million. Operating profit after excluding the effect related to conversion of long-term contracts into renewable contracts in type P group insurance improved by PLN 5 million y/y (1.7%) - driven mainly by the steadily growing insurance portfolio, including health insurance, lower loss ratio, especially on risks involving insureds' deaths and births of children and the lower than last year increase in mathematical provisions in continued products as a result of the changes in the percentage of “old” and “new” continuation among persons joining and remaining in the insured portfolio.

14.4 Individual insurance - life insurance

The decline in gross written premium versus Q1 2018 by PLN 19 million (5.5%) to PLN 327 million resulted chiefly from lower contributions to unit-linked accounts in unit-linked products with a single premium offered jointly with banks. This is consistent with the trend prevailing on the overall market for this type of premium. At the same time, positive factors were also at play, such as:

- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales exceeds the value of attrition in the existing portfolio;
- growth of the insured portfolio in protection products in the bancassurance channel, especially in cooperation with the banks from the PZU Group.

Data from the profit and loss account – individual insurance	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	327	346	(5.5)%
Net earned premium	330	348	(5.2)%
Investment income	192	15	1180.0%
Net insurance claims and benefits and movement in other net technical provisions	(406)	(260)	56.2%
Acquisition expenses	(31)	(33)	(6.1)%
Administrative expenses	(17)	(18)	(5.6)%
Other	(1)	(1)	-
Insurance result	**67**	**51**	**31.4%**
acquisition expense ratio [1)]	9.5%	9.5%	-
administrative expense ratio [1)]	5.2%	5.2%	-
insurance margin [1)]	20.5%	14.7%	5.8 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it climbed y/y by PLN 177 million mainly due to the improvement in the investment result on investment products as a result of better conditions on the equity market – the WIG index expanded by 3.4% compared to the 8.4% decline in the corresponding period of last year. At the same time, the segment's income from the management fee charged on assets accumulated in unit-linked products fell PLN 1 million year on year (it fell due to negative investment performance last year and the payouts from client accounts outpacing the dwindling contributions – negative net contributions). Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

(in millions of PLN)

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 406 million, reflecting an increase in costs by PLN 146 million compared to the corresponding period of 2018. The change in the result generated on funds in investment products made the major contribution, while to a lesser extent this was caused by lower client contributions to fund accounts in the bank channel. From the operational point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account.

In Q1 2019, a decrease in acquisition expenses was posted in the individual insurance segment by PLN 2 million, i.e. 6.1% to PLN 31 million. Lower commissions on the sale of unit-linked products in the bancassurance channel (lower sales than one year ago) were partly offset by the increasing remuneration paid to intermediaries for selling protection products, chiefly in the bank channel, while additionally there were additional costs of sales support in its own network.

Administrative expenses in the first 3 months of 2019 stayed at a level close to last year's, i.e. PLN 17 million (down by PLN 1 million). The stabilization in the volume of investments made in the sales network to continue improving the quality of service provided to the portfolio of contracts in this segment contributed to this outcome.

The segment's operating result rose in comparison to last year by PLN 16 million to PLN 67 million. The major driver was the growing portfolio of high-margin protection insurance, including bancassurance and lower acquisition expenses in unit-linked products. Moreover, the growth in the protection products segment's percentage of revenue contributed to the improvement in the margin as these products command a much higher margin than investment products.

14.5 Bank segment

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

In Q1 2019, the banking activity segment generated PLN 621 million in operating profit (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies a decrease of PLN 156 million compared to Q1 2018. The lower result is precipitated above all by the higher y/y burden in the form of the contribution to the Bank Guarantee Fund into the fund for the forced restructuring of banks. Net of the costs taking the form of the contributions to the Bank Guarantee Fund, the result is up by more than 10% y/y.

Banking activity (m PLN)	1 January – 31 March 2019	1 January – 31 March 2018	% change
Revenues and expenses on account of fees and commissions	757	757	0.0%
Investment income	2,300	2,084	10.4%
Interest expenses	(490)	(459)	6.8%
Administrative expenses	(1,213)	(1,238)	(2.0)%
Other	(733)	(367)	99.7%
Total	621	777	(20.1)%

In 2019, Pekao contributed PLN 436 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao S.A. acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 185 million.

Investment income, which increased to PLN 2,300 million y/y in Q1 2019 (or 10.4% y/y) is the key component of the segment's revenue. Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges. In Q1 2019, growth was posted in the level of sales of credit products y/y in Pekao and Alior Bank, among others, as a result of good business conditions and the low interest rate levels.

Banks posted an increase in their net interest income (interest income less interest expenses), mainly due to the expansion in the volume of loans to clients. At the end of Q1 2019, the customer loan portfolio in both banks together increased 2.5% compared to the end of 2018.

The profitability of the banks in the PZU Group in Q1 2018 measured by the net interest margin was 2.8% in Pekao and 4.7% in Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio.

The net fee and commission income in the banking activity segment was PLN 757 million and remained unchanged y/y. Administrative expenses in the segment totaled PLN 1,213 million, with Pekao's costs accounting for PLN 822 million and Alior Bank's costs accounting for PLN 391 million. The 2% y/y dip in costs follows, among other things, from the voluntary redundancy program administered in 2018 by Pekao and the maintenance of cost discipline in both banks.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 515 million) and the levy on other financial institutions (PLN 203 million).

As a result, the Cost/Income[4] ratio stood at 41% for both banks. On a separate basis, this ratio was 43% for Pekao and 38% for Alior Bank.

14.6 Investments

Net investment result and interest expenses

After Q1 2019 the net investment result[5], including interest expenses, was PLN 2,496 million compared to PLN 1,726 million in the corresponding period of 2018. After the contribution of banking activity is netted out, the net investment result after factoring in interest expenses[6] was PLN 627 million and was PLN 477 million higher than in the previous year. The following factors made the largest contribution:

- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index went up 3.4% in Q1 2019 compared to the 8.4% decline in the corresponding period of the previous year;
- higher investment income in the portfolio of assets to cover investment products, even though it does not affect the PZU Group's overall net result because it is offset by the higher level of net insurance claims and benefits;
- stabilization of income in the foreign treasury bonds portfolios (EM) and the PL MTM treasury bonds portfolio chiefly by altering the management strategy from being short-term to long-term and setting up FVOCI portfolios;
- limitation of volatility in the results of the PZU Global Macro EUR instrument portfolio in connection with the purchase of bonds aligned to the portfolio's investment horizon, mostly to cover the liabilities on own bonds denominated in EUR that will mature in the middle of this year.

The foregoing growth was partially offset by the lower result on the Polish treasury bonds portfolio due to the softer debt market.

Operating income of the investment segment (based exclusively on external transactions) was up PLN 247 million above the corresponding period of 2018, primarily due to the better conditions on the Warsaw Stock Exchange.

At the end of March 2019 the value of the PZU Group's investment portfolio[7], net of the impact exerted by banking activity was PLN 51,720 million versus PLN 50,270 million at the end of 2018.

[4] Cost/Income ratio (C/I; banking segment) – quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments

[5] The net investment result includes net investment income, net result on realization of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value.

[6] PZU Group net of Pekao and Alior Bank

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

(in millions of PLN)

The growth of the investment portfolio was related to higher receipts from premiums due to business growth and investment performance. The increase in the percentage of non-treasury debt market instruments is the result of the consistently implemented investment policy to ensure greater diversification of the investment portfolio and curtailment of volatility in results.

Structure of the investment portfolio

Investment portfolio	31 March 2019	31 December 2018
Equity instruments, including:	5,641	5,684
Equity instruments - quoted	1,338	1,474
Equity instruments - unquoted	4,303	4,210
Debt instruments, including:	43,290	41,989
Debt market instruments - treasury	31,710	31,108
Debt market instruments - non-treasury	2,444	1,433
Reverse repo transactions and term deposits with credit institutions	4,550	4,913
Loans	4,586	4,535
Investment property	2,782	2,700
Derivatives (net value)	7	22
Liabilities on account of repurchase transactions	-	(125)
Total investment portfolio	**51,720**	**50,270**

14.7 Pension insurance

Pension insurance	1 January – 31 March 2019	1 January – 31 March 2018	% change
Investment income	1	2	(50.0)%
Other income	32	36	(11.1)%
Income	**33**	**38**	**(13.2)%**
Administrative expenses	(12)	(8)	50.0%
Other	(1)	(2)	(50.0)%
Operating result	**20**	**28**	**(28.6)%**

Revenue on core business in the pension insurance segment in Q1 2019 and Q1 2018 was PLN 20 million and PLN 28 million, respectively. The change of -PLN 8 million (-28.6%) was mainly due to a refund from the Insurance Guarantee Fund (PLN 6.2 million) in 2018 on account of the decline in net asset value under management. Fund management revenue rose y/y by nearly PLN 1 million due to the takeover of PEKAO DFE's asset management as of May 2018.

PTE PZU's administrative expenses climbed PLN 4 million y/y (+50.0%). The main contributing factor was the surcharge to the Insurance Guarantee Fund in 2019 due to the rapid growth of net asset value in the PZU Złota Jesień open-end pension fund (OFE PZU).

At the end of Q1 2019 the total net asset value of all open-end pension funds (OFEs) on the market was PLN 161.7 billion, down 2.4% from the end of March 2018. In this period OFE PZU's assets grew 7.1% to PLN 22.9 billion, chiefly on account of taking over asset management from PEKAO OFE. In the period from January to March 2019 OFE PZU's rate of return was +4.5%.

(in millions of PLN)

14.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	416	375	10.9%
Net earned premium	386	340	13.5%
Investment income	14	3	366.7%
Net insurance claims and benefits paid	(247)	(211)	17.1%
Acquisition expenses	(81)	(75)	8.0%
Administrative expenses	(31)	(29)	6.9%
Other	1	1	0.0%
Insurance result	**42**	**29**	**44.8%**
EUR exchange rate in PLN	4.2978	4.1784	2.9%
acquisition expense ratio [1)]	21.0%	22.1%	(1.1 p.p.)
administrative expense ratio [1)]	8.0%	8.5%	(0.5 p.p.)

[1)] Ratios calculated using net earned premium

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

The Lithuanian non-life insurance market share at the end of February 2019 was 26.6%; the life insurance market share was 6.5%. At the end of Q1 the market share in the Estonian market was 15.7%. As at the end of December 2018, the market share in the Latvian market reached 27.7%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q1 2019 an insurance result of PLN 42 million compared to PLN 29 million in the corresponding period last year.

This result was driven by the following factors:

- an increase in gross written premium. It totaled PLN 416 million, up PLN 41 million compared to the corresponding period of the previous year. Non-life insurance posted an increase of PLN 39 million, in particular in motor insurance driven by maintaining high insurance rates and concluding many new large contracts in non-life insurance. In life insurance gross written premium rose PLN 2 million (or 10.8%). The rate of growth in gross written premium in the Baltic states segment stood at 10.9%;
- higher investment income. In Q1 2019, the investment result was PLN 14 million, up PLN 11 million versus the corresponding period of the past year;
- increase the value of net claims and benefits. It totaled PLN 247 million, up 17.1% versus the corresponding period of the previous year. The loss ratio in non-life insurance stood at 61.8%, down 0.4 p.p. from the corresponding period of the previous year: this resulted from reversing provisions and a lower frequency of claims in motor insurance. In life insurance, the value of benefits was PLN 19 million, up PLN 11 million compared to Q1 2018, in particular due to incremental growth of provisions for client risk;
- higher acquisition expenses. The segment’s expenditures for this purpose were PLN 81 million, up 8.0% from the corresponding period of the previous year. In turn, the acquisition expense ratio calculated based on net earned premium declined 1.1 p.p. compared to the end of Q1 of the previous year;
- increase in administrative expenses. They were PLN 31 million, up 6.9% from the comparable period last year. At the same time, a decrease in the administrative expense ratio was recorded; it was 8.0%, down 0.5 p.p. relative to the corresponding period of the previous year.

(in millions of PLN)

14.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	71	52	36.5%
Net earned premium	42	32	31.3%
Investment income	8	2	300.0%
Net insurance claims and benefits paid	(19)	(13)	46.2%
Acquisition expenses	(25)	(19)	31.6%
Administrative expenses	(7)	(5)	40.0%
Other	6	6	0.0%
Insurance result	5	3	66.7%
exchange rate UAH/PLN	0.1388	0.1257	10.4%
acquisition expense ratio [1)]	59.5%	59.4%	0.1 p.p.
administrative expense ratio [1)]	16.7%	15.6%	1.1 p.p.

[1)] Ratios calculated using net earned premium

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

The Ukrainian non-life insurance market share at the end of 2018 was 3.3%, while the life insurance market share was 10.6%.

The Ukraine segment finished off Q1 2019 with an underwriting result of PLN 5 million versus PLN 3 million in the corresponding period of the previous year.

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

- an increase in gross written premium. It totaled PLN 71 million, up PLN 19 million (or 36.5%) compared to the corresponding period of the previous year. The gross written premium in non-life insurance climbed PLN 16 million; in turn, life insurance posted growth of PLN 4 million. Gross written premium in the functional currency expanded 25.5% y/y (i.e. UAH 82 million hryvnia);
- higher investment income. It was PLN 8 million, up 6% from the corresponding period of the previous year;
- increase in net costs of claims and benefits. It was PLN 19 million, up 46.2% from the corresponding period of the previous year. Claims paid in non-life insurance increased PLN 5 million as a consequence of the occurrence of large losses. In life insurance benefits rose PLN 3 million;
- higher acquisition expenses. They stood at PLN 25 million compared to PLN 19 million in Q1 2018. The growth in non-life insurance was equal to PLN 4 million, while in life insurance it was PLN 2 million.
- increase in administrative expenses. They stood at PLN 7 million. For comparison: they were PLN 5 million in the corresponding period of the previous year. The segment's administrative expense ratio edged up 1.1 p.p. to 16.7%.

14.10 Investment contracts

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

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

Gross written premium generated on investment contracts in Q1 2019 decreased by PLN 2 million (-16.7%) to PLN 10 million, compared to the corresponding period in 2018. The changes in gross written premium were caused mainly by modification of the IKZE product at the end of 2017, which allowed newly-signed contracts to be signed as insurance contracts and transferred to the individual insurance segment.

(in millions of PLN)

Data from the profit and loss account – investment contracts	1 January – 31 March 2019	1 January – 31 March 2018	% change
Gross written premiums	10	12	(16.7)%
Group insurance	-	1	x
Individual insurance	10	11	(9.1)%
Net earned premium	10	12	(16.7)%
Investment income	8	(7)	x
Net insurance claims and benefits and movement in other net technical provisions	(16)	(2)	700.0%
Acquisition expenses	-	-	x
Administrative expenses	(1)	(2)	(50.0)%
Other	-	-	x
Operating result	1	1	-
operating profit margin	10.0%	8.3%	1.7 p.p.

Result on investing activity in the investment contracts segment improved by PLN 15 million vis-à-vis the previous year, mainly as a result of a better rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel.

The cost of insurance claims and benefits together with the movement in other net technical provisions increased PLN 14 million y/y to PLN 16 million, mostly due to the difference in investment income in unit-linked products described above.

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

Administrative expenses were PLN 1 million, down from the previous year as a consequence of the decreasing portfolio of contracts in this segment.

The segment's operating result was PLN 1 million, unchanged from the first 3 months of 2018.

15. Impact of non-recurring events on operating results

In Q1 2018, a non-recurring effect of remeasurement of provisions was recognized, mainly in motor insurance, for claims for general damages due to being in a vegetative state, totaling PLN 148 million.

16. Macroeconomic environment

Main trends in the economy and the pace of economic growth

GDP in constant prices in Q4 2018 increased by 4.9% y/y compared to 5.2% y/y in the previous quarter. The impact exerted by household consumption on GDP growth in real terms (it added 2.1 p.p. to the rate of GDP growth) was only slightly larger than the impact exerted by investments in fixed assets (they added 1.9 p.p.). The rate of growth in consumption softened slightly in comparison with the previous quarter (4.2% y/y versus 4.4% y/y) while the growth in investments on an annual basis (8.2% y/y) and versus the previous quarter (0.4% q/q) was markedly lower. The rate of growth in domestic demand also slackened in this situation (4.8% y/y versus 6.1% y/y in Q3), to which inventory also contributed. The economic growth in Q4 was supported this time by net exports - their contribution to GDP growth in Q4 2018 was 0.3 p.p.

The monthly economic activity data signal that the deceleration in GDP growth in Q1 was probably inconsequential – we estimate the pace of GDP growth to be roughly 4.5% y/y in real terms. For the growth rate in industrial sold production astonishingly accelerated in this period: to 6.1% y/y from 5.5% y/y in Q4 2018. At the same time, the pace of growth in construction and assembly production slowed to a lesser extent than one could fear (to 9.4% y/y), coupled with the softening rate of growth in retail sales in constant prices to 4.1% y/y from 5.8% y/y.

The economic growth outlook in 2019 is coming together more optimistically than one could have assessed one quarter ago. Household consumption supported by the ongoing robust circumstances on the labor market continues to be an important GDP growth driver. The announced increase in social spending should add more dynamism to consumption. At the same time, the initially estimated GDP growth in the eurozone in Q1 proved to be larger than in Q4 2018, while the monetary policy administered by the major central banks has been modified recently in a manner to support economic growth. The risk of a disorderly Brexit has been pushed back in parallel. Trade negotiations are underway between the US and China – if they strike an agreement, this would augment the outlook for global market conditions. It is possible to perceive the first effects of the policy of stimulating domestic demand in China's economy. The risk of major deceleration in global GDP growth in 2019 appears to be falling of late.

Labor market and consumption

In Q1 of this year the average employment in the business sector rose 3.1% y/y, and thus at a pace similar to the one posted in the previous quarter (3.0%), albeit slower than one year ago (3.7% y/y). Simultaneously, the demand for labor has remained at a high level while the labor supply has faced constraints - as evidenced among other things by the high percentage (surpassing 40%) of businesses declaring that they have unstaffed positions.

The registered unemployment rate at the end of March of this year was 5.9%, meaning it was below last year's level (6.6%) and the level from one month ago (6.1%).

The rate of growth in the average gross monthly salary in businesses has slipped a bit in Q1 to 6.7% y/y compared to 7.0% y/y in Q4. Wages in real terms were rising slightly more slowly than in Q4 of last year. The increase in the average salary in businesses on an annual basis adjusted for inflation was 5.3% (compared to 5.5% y/y one quarter ago). Solid growth of real income in a very good labor market environment contributed to the optimism of consumers – consumer economic indicators have continued to stay close to their record-breaking high level.

The timing of holiday shopping, which was later than in 2018 contributed to the deceleration in the pace of retail sales in Q1. We are of the opinion that the rate of growth of consumption in Q1 could have fallen off only slightly.

Monetary policy, interest rates and inflation

In Q1 2019 the consumer price index was 1.2% per annum versus 1.4% y/y in Q4 of last year. The softening of the pace of growth in the prices for goods and services related to transport, residential occupancy and energy carriers contributed the most to the slight stepback in CPI. The annual rate of growth in the prices for food and non-alcoholic beverages was higher than in Q4 of last year. In turn, the net core inflation rate (excluding food and energy prices) edged up to 1.1% y/y in Q1 of this year (from 0.7% y/y one quarter ago), thereby signaling growth in inflationary pressure as expected in connection with the persisting dynamic GDP growth. The price growth pressure, however, continued to be moderate the entire time. No marked intensification in terms of manufacturers' prices was visible. In Q1 of this year the pace of growth in manufacturers' prices in industry was slightly softer than in the previous two quarters.

The interest rates of the National Bank of Poland remained unchanged in Q1 and in April 2019. The reference interest rate has remained at 1.5% since March 2015. According to the Monetary Policy Board, the current level of interest rates supports the maintenance of the Polish economy on a sustainable growth path and enables it to maintain the macroeconomic equilibrium.

Public finance

The Central Statistical Office (GUS) announced that in 2018 the deficit of the general government sector was PLN 8.0 billion, or 0.4% of GDP, while this sector's debt totaled PLN 1,034.4 billion, or 48.9% of GDP. Poland's Long-Term Financial Plan for 2019-2022 assumes a decline in the general government sector's debt to 40.6% of GDP in 2022. Further efforts to seal the tax system and strengthen the collection of social insurance contributions are supposed to help achieve this purpose.

The state budget deficit in March of this year totaled PLN 4.5 billion. This result is worse than one year ago when in the corresponding period the budget had a surplus of PLN 3.1 billion. The emergence of this deficit is the outcome of the slower pace of growth in income and the faster pace of incremental growth in expenditures. The major categories of indirect taxes, i.e. VAT and excise tax demonstrated negative growth rates among the sources of income. The pace of growth in personal income tax proceeds was also low in comparison with previous quarters. The higer pace of expenditures was, among others, the consequence of faster settlement with the EU budget early in the year.

The borrowing needs for 2019 were financed at about 64% in March.

Situation on the financial markets

In Q1 2019, we observed a decrease in the yields of 10-year treasury bonds in the US and Germany. In the US yields slid from 2.69% at the outset of the year to 2.41% at the end of the quarter. In Germany yields fell below zero and at the end of the quarter they were -0.07% while at the beginning of the year they were 0.25%. In both cases the yield curve flattened. At the end of March, the yield curve temporarily reversed in the US and the interest rate on 3-month treasury bills was higher than the yield on 10-year bonds. In the past that type of situation ordinarily preceded a recession. Responding to the risk of economic slowdown and lower prices on the financial markets, the American Central Bank (Fed) at the beginning of the quarter did an about-face in monetary policy, signaling the suspension of further interest rate hikes and making the decision to bring to an early conclusion the process of shrinking its balance sheet. The European Central Bank (ECB) also reacted to the soft data concerning economic growth by announcing the extension of its policy of stable interest rates until at least the end of 2019 and the introduction of a new TLTRO program as of September of this year. The ECB is also giving consideration to the possibility of differentiating interest rates depending by the liquidity surpluses deposited by banks. This solution should serve to counteract the adverse consequences of negative interest rates on banks' profitability.

The yield on Poland's 10-year treasury bonds was 2.84% at the end of Q1, remaining virtually unchanged compared to the level at the outset of the year. Their yields slumped in January and February but the announcement of higher budgetary expenditures subsequently contributed to their significant upward movement. The spread versus 10-year German bonds that at the beginning of the quarter was 260 basis points had already bumped up to 291 basis points at the end of the quarter. At the same time, the yield curve flattened. The yield on one-year treasury bonds grew from 0.90% to 1.57%.

The euro to US dollar exchange rate was fairly stable throughout the quarter and at the end of March 2019 it was 1.12 versus 1.14 at the beginning of the quarter. Similarly, the Polish zloty exchange rates in pairs with the other major currencies experienced only minor changes. The euro to PLN exchange rate was 4.30 at the end of the quarter, while it was at the same level as at the beginning of the quarter. In turn, the US dollar to PLN exchange rate at the end of March 2019 was 3.84, while at the beginning of the quarter it was 3.76.

In Q1 2019 we observed a sharp rebound on global equity markets from the declines at the end of 2018. The about-face in the policy pursued by the major central banks and the higher probability of the US and China striking an agreement on trade were conducive to rapid growth in equity prices. In Q1 the American S&P500 stock index shot up 13.0% while the German DAX index climbed 9.2%.

Polish equities, especially mid-caps and smaller caps also moved up in Q1. The WIG index rose 3.4%, the WIG20 index rose by 1.6%, the mWIG40 rose by 6.1% while the sWIG80 surged upward 12.5%. The softer performance of the WIG20 index against the backdrop of the other indices ensues from the poorer earnings of power and fuel sector companies that are overrepresented in this index.

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

PZU did not publish any standalone or consolidated result forecasts.

18. Risk factors that may affect financial results in the subsequent quarters

Apart from chance events (such as floods, cyclones, drought), the main factors that may affect the PZU Group's standing in the following quarter of 2019 include the following:

- difficulties in filling vacancies and salary pressures due to the currently low unemployment levels;
- possible slowdown in economic growth in Poland, and consequently:

- cuts in household and corporate spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for other non-life insurance products;
- a poorer financial standing of companies would result in an elevated credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
- a slump in the rate of growth in new mortgage loans and a slower pace of growth in consumer loans;

- the anticipated downturn in global market conditions, including a slower pace of demand growth on the major export markets. The major risks are associated with the United Kingdom leaving the European Union (Brexit) and greater trade tensions from the United States (trade wars);
- unfavorable situation on the capital markets resulting in the following: declining value of the investment portfolio, assets under management (TFI, OFE) and lower attractiveness of products, especially unit-linked products;
- an increase in bond yields, resulting in lower valuation of coupon-based securities market to market;
- judicial decisions of the Supreme Courts regarding the amounts of monetary compensation for general damages disbursed from third-party liability insurance of motor vehicle owners to relatives of the injured person for harm resulting from a breach of the relative's personal rights (impact on the mass and corporate insurance segments);
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro (impact on the mass and corporate insurance segments);
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- administrative decisions issued by the Office for Competition and Consumer Protection (UOKiK) and social pressures on the prices of motor insurance products forcing insurance companies to modify their pricing policy (impact on the mass and corporate insurance segments);
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially lifestyle diseases (with an impact being exerted in particular on the group and individually continued insurance segment);
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and fostering entry and exit obstacles for clients to overcome with independent intermediaries (with an impact being exerted in particular on the group and individually continued insurance segment);
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and rivalry to attract clients (with an impact exerted on the mass and corporate insurance segments);
- further consequences of the entry into force of the insurance distribution act in 2018, referred to as the Insurance Distribution Directive (IDD): Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution and the MIFID II Directive;
- preparation of pension fund companies for potential organizational and legal changes arising from the transformation of open-end pension funds into mutual funds and of pension fund companies into mutual fund companies (impact on the pension segment);
- impact of the introduction of a new pension security system (Employee Capital Schemes) on the shape and operation of life insurance and on the third pension pillar products functioning thus far (the level of clients' contributions to the EPS programs and IRA policies currently held in the PZU Group's portfolio and on the level of results generated in these lines of business for the PZU Group).

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

In the 3-month period ended 31 March 2019, neither PZU nor its subsidiaries issued, redeemed or repaid to a material extent any debt securities or equity securities.

20. Default or breach of material provisions of loan agreements

During the 3-month period ended 31 March 2019, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

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

22. Dividends

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

On 16 April 2019 the PZU Management Board decided to submit a motion to PZU's Ordinary Shareholder Meeting to distribute PZU's net profit for the year ended 31 December 2018 in the amount of PLN 2,712 million as follows:

- designate PLN 2,418 million, i.e. PLN 2.80 per share, to pay a dividend;
- designate PLN 7 million to the Company Social Benefit Fund;
- designate PLN 287 million to supplementary capital.

Moreover, the Management Board resolved to submit a motion to PZU's Ordinary Shareholder Meeting to transfer PLN 20 million to supplementary capital from retained earnings resulting from the purchase price allocation of the acquisition of an organized part of Bank BPH SA by Alior Bank SA.

The PZU Supervisory Board endorsed the PZU Management Board's motion on that very same day.

The proposed record date is 14 August 2019 and the dividend payment date is 5 September 2019.

23. Disputes

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

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

PZU and PZU Życie take disputed claims into account in the process of establishing 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 3-month period ended 31 March 2019 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described below.

As at 31 March 2019, the value of the subject matter of the litigation in all the 220,346 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 7,958 million. PLN 4,159 million of that amount pertains to liabilities and PLN 3,799 million to the accounts receivable of PZU Group companies.

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.

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2019, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

On 13 November 2018 the Regional Court in Warsaw served a copy of the statement of claim lodged by Wspólna Reprezentacja SA in restructuring, which pertained to a claim against PZU for payment of PLN 34 million with statutory interest from 1 October 2015 to the payment date with court expenses. The claim comprises a claim for payment of damages for depriving the shareholders of their share of profits for the 2006 financial year. The plaintiff claims that the claims for damages were transferred by the shareholders to the plaintiff based on mandate agreements together with a fiduciary transfer of receivables and the claim pursued by the statement of claim is the total damage caused to the shareholders. PZU does not accept the claims as unjustified and submitted its statement of defense, requesting the claim to be dismissed it in its entirety. PZU did not consent to mediation. The hearing date has been set for 16 October 2019.

Additionally, shareholders or their legal successors sent to PZU demands for payment based on the facts presented above. Some of them did not indicate any specific amounts but the number of shares or demanded a payment only. PZU gave its replies in writing, stating that their claims are non-existent and that they will not be accepted.

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

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

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

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

- no agreement (other than a brokerage agreement) was entered into between PZU and Maximus Broker;

- the President of the Office of Competition and Consumer Protection misunderstands the principles of execution of insurance agreements involving a broker;
- the majority of insurance agreements involving Maximus Broker were entered into with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not in the past conduct competitive activity in the markets in which they operate.

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

PZU held a provision for this fine, which amounted to PLN 57 million as at 31 December 2018 and 31 December 2017.

23.3 Proceedings conducted by the President of the Office of Competition and Consumer Protection 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 the Office of Competition and Consumer Protection 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 or with the legal arguments set out in the decision. It filed an appeal with the District Court in Warsaw, raising 38 formal and substantial objections against the decision made by the UOKiK President. The Management Board of PZU Życie is of the opinion that, in its decision, UOKiK failed to consider all the evidence, made an incorrect legal qualification, and, as a consequence, groundlessly assumed that PZU Życie has a dominating position on the market.

After many 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. During the hearing held on 26 September 2017, the Supreme Court decided to refer the case for resolution to the Court of Justice of the European Union in Luxembourg, which through its judgment on 3 April 2019 ruled on this question. The Supreme Court set the hearing date for 22 May 2019.

Since the fine has already been paid by PZU Życie in 2015, no additional provision for this purpose had to be maintained.

23.4 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 companies with registered offices in Wysogotowo near Poznań, on account of insurance guarantees (contractual guarantees) issued and paid out.

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported receivables, PZU received 206,139 PBG bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 March 2019 was PLN 3 million (PLN 2 million as at 31 December 2018). Bonds – on 31 March 2019 and on 31 December 2018, they were recognized in off-balance sheet records only, and their carrying amount was zero.

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

23.5 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. The plaintiffs believe that Alior Bank failed to provide clients with information on the actual risk of investing in investment products, by which it exposed the clients to a loss resulting from the loss of value of investment certificates and loss of guaranteed profits. The PZU Management Board believes that the class action has no justified factual or legal grounds and therefore it should not be resolved favorably to the clients. As at the date of preparing the condensed interim consolidated financial statements, the court with which the class action was filed has not issued a decision on the admissibility of the class action. Additionally, the PZU Group posits that the risk of this action being resolved unfavorably to Alior Bank and the risk of incurring material loss on this account is at a level below average; accordingly, as at 31 March 2019, the PZU Group has not recognized any provisions in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

24. Other information

24.1 Evaluation of the PZU Group companies' standing by rating agencies

Issuer rating

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

Current rating

PZU and PZU Życie hold an S&PGR rating of A- with a stable outlook. This rating was affirmed on 31 October 2018. The agency's analysts drew attention to PZU's very strong position as the insurance market leader generating a higher profitability than that of its Polish and international competitors and assessed PZU's solvency at the highest possible level of AAA.

(in millions of PLN)

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

Company name	Rating and outlook	Date of award/update	Previous rating and outlook	Date of award/update
PZU				
Financial strength rating	A /Stable/	27 October 2017	A- /negative/	31 October 2016
Credit rating	A /Stable/	27 October 2017	A- /negative/	31 October 2016
PZU Życie				
Financial strength rating	A /Stable/	27 October 2017	A- /negative/	31 October 2016
Credit rating	A /Stable/	27 October 2017	A- /negative/	31 October 2016

Poland's credit rating

On 12 April 2019, S&P affirmed Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

24.2 Related party transactions

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

In the 3-month period ended 31 March 2019, neither PZU nor its subsidiaries executed any single or multiple transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on the arm's length principle.

24.2.2. Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2019 and as at 31 March 2019		1 January – 31 December 2018 and as at 31 December 2018		1 January – 31 March 2018 and as at 31 March 2018	
	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	-	4	-	2
in non-life insurance	-	2	-	4	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Expenses	-	-	-	-	-	-
Receivables		1		-		1
Liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] Members of the PZU Management Board and PZU Group Directors, data based on declarations.
[2] Unconsolidated companies in liquidation and associates measured by the equity method.

24.3 KNF Office inspections in PZU and PZU Życie

Between 5 April and 4 May 2018, a supervisory visit of KNF in PZU and PZU Życie was held, focusing on the system to manage operational risk related to the distribution of insurance products, in particular on the fraud prevention measures.

In the period from 19 June 2018 to 17 August 2018, a KNF inspection was conducted in PZU pertaining to claims handling and entering into short-term insurance contracts. On 31 December 2018, the regulatory authority issued two key post-audit recommendations for the claims and benefits handling area and one recommendation regarding the execution of short-term insurance agreements with the deadline of 31 January 2019. The recommendations were fulfilled within the deadline. On 27 February 2019 KNF requested more explanations regarding the performance of the recommendations. On 21 March 2019 PZU forwarded additional evidence and a detailed set of explanations pertaining to the performance of the recommendations. Moreover, PZU undertook to convey to the regulatory authority the findings of the inspections planned in 2019 concerning claims handling and the execution of short-term contracts.

On 9 April 2019 the regulatory authority requested the provision of more evidence concerning the performance of the recommendations, inter alia, the findings of the inspections scheduled for Q1 2019. On 16 April 2019 PZU conveyed more evidence concerning the performance of the recommendations to the regulatory authority.

In the period from 7 to 25 January 2019 KNF conducted an inspection into PZU Życie's adherence to the obligations stemming from the act on counteracting money laundering and financing of terrorism. On 8 April 2019 KNF issued 5 post-inspection recommendations with execution deadlines of 30 June 2019, 31 December 2019 and 31 January 2020.

In the period from 9 January to 8 February 2019 KNF conducted a supervisory visit to PZU Życie with respect to the fulfillment of the requirements concerning the risk management system in terms of underwriting insurance risk. On 2 May 2019 PZU Życie received a written summary of the supervisory visit in which the regulatory authority identified an infringement of art. 21 of the Insurance Activity Act. By 16 May 2019 PZU Życie will convey its position to KNF and information regarding the actions taken to ensure that the insurance undertaking's business is conducted in accordance with the law.

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

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

On 14 September 2018, the KNF launched proceedings against Alior Bank to impose a fine on Alior Bank pursuant to art. 167 sec. 2 item 1 in conj. with art. 167 sec. 1 item 1 of the Financial Instruments Trading Act in connection with the irregularities found. The proceedings are related to the audit conducted by KNF from November 2017 to May 2018, which concerned the correct operation of Alior Bank and the Bank's Brokerage House in terms of distribution of investment certificates of funds previously managed by Fincrea TFI SA, and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. As at the date of signing the consolidated financial statements, the KNF has failed to end the proceedings to impose the fine.

24.5 Acquisition of Falck CM

On 13 March 2019 PZU Zdrowie SA entered into a preliminary agreement with Falck Danmark A/S to acquire a 100% equity stake in Falck CM. At the same time, PZU Zdrowie SA, and thereby also PZU, will become the indirect owner of the company doing business as Starówka sp. z o.o. in which Falck CM will hold a 100% equity stake at the time of finalizing the transaction. The execution of this transaction hinges on the materialization of the conditions precedent specified in the share purchase agreement (above all, obtaining the pertinent consent from UOKiK). In line with the intention of the parties, the transaction should be finalized at the earliest possible date, albeit no later than by 31 August 2019.

24.6 Acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno

On 31 January 2019, the KNF decided that Alior Bank would take over Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno (SKOK Jaworzno). In line with KNF's decision, starting on 1 February 2019, Alior Bank assumed management over the assets of SKOK Jaworzno and as of 1 April 2019 it was acquired by Alior Bank.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2019	31 December 2018	31 March 2018 (restated)[1]
I. Intangible assets, including:	323,428	334,945	334,099
- goodwill	-	-	-
II. Investments	38,633,760	37,570,748	37,137,308
1. Real property	343,978	347,027	365,369
2. Investments in related parties, of which:	16,440,170	16,056,769	16,271,061
- investments in related parties measured by the equity method	16,039,545	15,671,129	15,928,612
3. Other financial investments	21,849,612	21,166,952	20,500,878
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	3,037,979	2,343,246	2,698,639
1. Receivables on direct insurance	1,717,704	1,775,294	1,720,868
1.1. From related parties	1,318	1,777	2,169
1.2. From other entities	1,716,386	1,773,517	1,718,699
2. Reinsurance receivables	301,816	264,170	234,308
2.1. From related parties	242,490	176,656	136,162
2.2. From other entities	59,326	87,514	98,146
3. Other receivables	1,018,459	303,782	743,463
3.1. Receivables from the state budget	8,500	3,274	26,206
3.2. Other receivables	1,009,959	300,508	717,256
a) from related parties	38,023	46,943	39,373
b) from other entities	971,936	253,565	677,884
V. Other assets	1,518,776	1,344,267	1,108,816
1. Property, plant and equipment	114,885	122,732	110,446
2. Cash	1,403,891	1,221,535	998,370
3. Other assets	-	-	-
VI. Prepayments and accruals	2,516,937	1,973,322	2,539,050
1. Deferred tax assets	-	-	-
2. Deferred acquisition costs	1,483,779	1,326,590	1,464,975
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	1,033,158	646,732	1,074,075
VII. Unpaid share capital	-	-	-
VIII. Treasury stock	-	-	-
Total assets	**46,030,880**	**43,566,528**	**43,817,912**

[1] Information on restatement of data as at 31 March 2018 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	**31 March 2019**	**31 December 2018**	**31 March 2018** (restated)[1)]
I. Equity	14,668,437	13,924,661	13,790,262
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	5,507,577	5,507,572	5,258,695
3. Revaluation reserve	6,106,116	5,599,176	5,765,744
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	2,731,561	19,682	2,433,874
6. Net profit (loss)	236,831	2,711,879	245,597
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,257,909	2,278,509	2,257,423
III. Technical provisions	23,331,909	22,443,470	22,078,880
IV. Reinsurers' share in technical provisions (negative figure)	(1,413,502)	(1,339,666)	(1,103,772)
V. Estimated salvage and subrogation (negative figure)	(97,572)	(105,532)	(99,401)
1. Gross estimated salvage and subrogation	(99,700)	(107,466)	(100,688)
2. Reinsurers' share in estimated salvage and subrogation	2,128	1,934	1,287
VI. Other provisions	589,521	443,726	599,221
1. Provisions for pension benefits and other compulsory employee benefits	52,726	42,039	52,545
2. Deferred tax liability	447,125	319,333	460,452
3. Other provisions	89,670	82,354	86,225
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	5,718,661	4,963,058	5,437,887
1. Liabilities on direct insurance	361,992	382,261	377,093
1.1. To related parties	2,684	3,808	2,151
1.2. To other entities	359,308	378,453	374,942
2. Reinsurance liabilities	282,708	248,600	212,401
2.1. To related parties	43,736	25,837	22,616
2.2. To other entities	238,972	222,763	189,785
3. Liabilities on the issue of own debt securities and drawn loans	3,693,526	3,677,344	3,605,046
4. Liabilities to credit institutions	213	125,349	108,592
5. Other liabilities	1,275,857	421,064	994,392
5.1. Liabilities to the state budget	32,717	85,770	36,379
5.2. Other liabilities	1,243,140	335,294	958,014
a) to related parties	17,092	35,265	18,152
b) to other entities	1,226,048	300,029	939,862
6. Special-purpose funds	104,365	108,440	140,362
IX. Prepayments and accruals	975,517	958,302	857,412
1. Accrued expenses	915,722	909,084	816,484
2. Negative goodwill	-	-	-
3. Deferred income	59,795	49,218	40,928
Total equity and liabilities	**46,030,880**	**43,566,528**	**43,817,912**

[1)] Information on restatement of data as at 31 March 2018 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2019	31 December 2018	31 March 2018 (restated)[1]
Book value	14,668,437	13,924,661	13,790,262
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	16.99	16.13	15.97
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	16.99	16.13	15.97

[1] Information on restatement of data as at 31 March 2018 is presented in section 10.

2. Interim statement of off-balance sheet line items

Off-balance sheet items	**31 March 2019**	**31 December 2018**	**31 March 2018**
1. Contingent receivables, including:	3,956,832	4,489,902	3,607,136
1.1. Guarantees and sureties received	3,040	3,042	8,071
1.2. Other [1]	3,953,792	4,486,860	3,599,064
2. Contingent liabilities, including:	4,637,150	4,620,124	4,479,348
2.1. Guarantees and sureties given	3,698,447	3,685,634	3,618,007
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party assets not recognized in assets	109,557	109,782	115,923
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**8,703,539**	**9,219,808**	**8,202,407**

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

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	1 January – 31 March 2019	1 January – 31 March 2018
I. Premium income (1-2-3+4)	2,990,025	2,903,926
1. Gross written premium	3,728,963	3,769,269
2. Reinsurers' share in gross written premium	64,101	40,354
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	613,746	752,947
4. Reinsurers' share in the movement in provision for unearned premiums	(61,091)	(72,042)
II. Net investment income (including costs) transferred from the general profit and loss account	61,926	63,193
III. Other net technical income	55,718	54,906
IV. Claims and benefits (1+2)	1,871,713	1,780,976
1. Net claims and benefits paid	1,723,564	1,698,955
1.1. Gross claims and benefits paid	1,743,750	1,771,567
1.2. Reinsurers' share in claims and benefits paid	20,186	72,611
2. Movement in provision for outstanding claims and benefits, net of reinsurance	148,149	82,021
2.1. Movement in provision for outstanding claims and benefits, gross	282,881	98,124
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	134,732	16,103
V. Movement in other technical provisions, net of reinsurance	-	-
1. Movement in other technical provisions, gross	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts with the movement in provisions	63	446
VII. Insurance activity expenses	755,619	717,069
1. Acquisition expenses, including:	601,030	577,875
- movement in deferred acquisition costs	(157,189)	(179,138)
2. Administrative expenses	165,159	145,151
3. Reinsurance commissions and profit participation	10,570	5,957
VIII. Other net technical charges	122,280	128,270
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**357,994**	**395,264**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2019	1 January – 31 March 2018 (restated)[1)]
I. Technical result of non-life insurance or life insurance	357,994	395,264
II. Investment income	161,086	198,759
1. Investment income on real estate	1,478	1,664
2. Investment income from related parties	4,505	1,811
2.1. On ownership interests or shares	1,215	-
2.2. On borrowings and debt securities	3,183	1,793
2.3. On other investments	107	18
3. Other financial investment income	82,352	107,575
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	2,742	2,487
3.2. On debt securities and other fixed income securities	68,256	89,144
3.3. On term deposits with credit institutions	1,759	2,581
3.4. On other investments	9,595	13,363
4. Gain on revaluation of investments	-	795
5. Gain on realization of investments	72,751	86,914
III. Unrealized investment gains	126,218	120,921
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	61,398	76,756
1. Real estate maintenance expenses	976	788
2. Other investment activity expenses	10,959	9,376
3. Loss on revaluation of investments	-	2,703
4. Loss on realization of investments	49,463	63,889
VI. Unrealized investment losses	96,828	123,374
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	61,926	63,193
VIII. Other operating income	63,558	59,765
IX. Other operating expenses	165,533	179,821
X. Operating profit (loss)	323,171	331,565
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	870	(7,006)
XIV. Profit (loss) before tax	324,041	324,559
XV. Income tax	87,210	78,962
a) current part	(7,765)	(42,695)
b) deferred part	94,975	121,657
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**236,831**	**245,597**

(in thousands of PLN)

	1 January – 31 March 2019	1 January – 31 March 2018 (restated)[1]
Net profit (loss) (annualized) [2]	960,481	996,032
Weighted average number of common shares	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [2]	0.27	0.28
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [2]	0.27	0.28

[1] Information on restatement of data for the period from 1 January to 31 March 2018 is presented in section 10.

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

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2019	1 January – 31 December 2018	1 January – 31 March 2018 (restated)[1]
I. Equity at the beginning of the period (Opening Balance)	13,924,661	13,583,288	13,583,288
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors - result of adjustments to comparative data made by Alior Bank	-	(22,811)	(22,811)
c) result of the final settlement of the acquisition of Pekao	-	(116)	(116)
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	13,924,661	13,560,361	13,560,361
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	5,507,572	5,258,449	5,258,449
2.1. Change in supplementary capital	5	249,123	246
a) additions (by virtue of):	5	249,123	246
- distribution of profit (above the statutorily required amount)	-	248,671	-
- from revaluation reserve – by sale and liquidation of fixed assets	5	452	246
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	5,507,577	5,507,572	5,258,695
3. Revaluation reserve at the beginning of the period	5,599,176	5,824,295	5,824,295
- changes in the accepted accounting principles (policy)	-	-	-
- corrections of errors - result of adjustments to comparative data made by Alior Bank	-	(42,493)	(42,493)
- result of the final settlement of the acquisition of Pekao	-	(116)	(116)
3.a. Revaluation reserve at the beginning of the period (Opening Balance), after adjustments to ensure comparability	5,599,176	5,781,686	5,781,686

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2019	1 January – 31 December 2018	1 January – 31 March 2018 (restated)[1)]
3.1. Change in the revaluation reserve	506,940	(182,510)	(15,943)
a) additions (by virtue of):	583,312	397,654	226,266
- valuation of financial investments	583,312	392,436	222,809
- transfer of the impairment losses on investments available for sale	-	4,517	3,457
- other increases, including reversals of impairment losses for real estate	-	701	-
b) reductions (by virtue of)	76,372	580,164	242,209
- valuation of financial investments	76,367	578,474	241,963
- disposal of available for sale instruments	-	1,238	-
- sale of fixed assets	5	452	246
- other reductions, including recognition of impairment losses for real estate	-	-	-
3.2. Revaluation reserve at the end of the period	6,106,116	5,599,176	5,765,744
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	2,731,561	2,433,874	2,433,874
5.1. Retained earnings at the beginning of the period	2,731,561	2,433,874	2,433,874
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors - result of adjustments to comparative data made by Alior Bank	-	5,473	5,473
c) result of the final purchase price allocation of the acquisition of the organized part of Bank BPH SA by Alior Bank SA	-	19,682	19,682
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,731,561	2,459,029	2,459,029
a) increases	-	-	-
b) decreases	-	2,433,874	-
- transfers to supplementary capital	-	248,671	-
- disbursement of dividends	-	2,158,807	-
- coverage of retained losses resulting from the final settlement of the acquisition of the organized part of the business of Bank BPH by Alior Bank	-	19,682	-
- transfers/charges to the Company Social Benefit Fund	-	6,714	-
5.3. Retained earnings at the end of the period	2,731,561	25,155	2,459,029
5.4. Retained losses at the beginning of the period	-	25,155	25,155
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	-	25,155	25,155
a) increases	-	-	-
b) decreases	-	19,682	-
5.6. Retained losses at the end of the period	-	5,473	25,155
5.7. Retained earnings (losses) at the end of the period	2,731,561	19,682	2,433,874

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	**1 January – 31 March 2019**	**1 January – 31 December 2018**	**1 January – 31 March 2018** (restated)[1)]
6. Net result	236,831	2,711,879	245,597
a) net profit	236,831	2,711,879	245,597
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	14,668,437	13,924,661	13,790,262

[1)] Information on restatement of data for the period from 1 January to 31 March 2018 is presented in section 10.

6. Interim cash flow statement

Cash flow statement	**1 January – 31 March 2019**	**1 January – 31 December 2018**	**1 January – 31 March 2018**
A. Cash flows from operating activities			
I. Proceeds	3,650,232	14,614,281	3,815,925
1. Proceeds on direct activity and inward reinsurance	3,438,855	13,375,604	3,539,648
1.1. Proceeds on gross premiums	3,398,459	13,217,838	3,505,608
1.2. Proceeds on subrogation, salvage and claim refunds	31,428	133,370	26,029
1.3. Other proceeds on direct activity	8,968	24,396	8,010
2. Proceeds from outward reinsurance	64,397	373,382	74,582
2.1. Payments received from reinsurers for their share of claims paid	38,445	267,134	59,019
2.2. Proceeds on reinsurance commissions and profit participation	23,656	102,197	15,563
2.3. Other proceeds from outward reinsurance	2,296	4,051	-
3. Proceeds from other operating activity	146,980	865,295	201,694
3.1. Proceeds for acting as an emergency adjuster	74,112	287,012	76,837
3.2. Disposal of intangible assets and property, plant and equipment other than investments	1,554	1,971	248
3.3. Other proceeds	71,314	576,312	124,609
II. Expenses	3,100,597	12,703,438	3,142,692
1. Expenditures on direct activity and inward reinsurance	2,648,626	10,511,228	2,553,576
1.1. Gross premium refunds	75,807	319,061	64,840
1.2. Gross claims and benefits paid	1,594,058	6,398,673	1,538,958
1.3. Acquisition expenditures	444,742	1,632,359	409,763
1.4. Administrative expenditures	340,402	1,394,992	342,405
1.5. Expenditures for claims handling and pursuit of subrogation	76,273	317,272	61,980
1.6. Commissions paid and profit-sharing on inward reinsurance	81,509	303,887	102,379
1.7. Other expenditures on direct activity and inward reinsurance	35,835	144,984	33,252
2. Expenditures on outward reinsurance	157,421	510,675	149,703
2.1. Premiums paid for reinsurance	157,345	510,405	149,590
2.2. Other expenditures on outward reinsurance	76	270	114
3. Expenditures on other operating activity	294,550	1,681,535	439,413
3.1. Expenditures for acting as an emergency adjuster	39,017	209,452	156,517
3.2. Purchase of intangible assets and property, plant and equipment other than investments	30,518	101,232	30,072
3.3. Other operating expenditures	225,015	1,370,851	252,825
III. Net cash flows from operating activities (I-II)	**549,635**	**1,910,843**	**673,232**

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2019	1 January – 31 December 2018	1 January – 31 March 2018
B. Cash flow on investing activity			
I. Proceeds	59,563,267	148,405,819	37,791,368
1. Sale of real estate	-	22,531	2,820
2. Sale of ownership interests and shares in related parties	-	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	49,839	33,714	-
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	-	-
5. Realization of debt securities issued by other entities	4,267,470	11,602,126	2,769,324
6. Liquidation of term deposits with credit institutions	37,896,282	47,212,285	11,297,435
7. Realization of other investments	17,290,860	87,246,107	23,672,757
8. Proceeds from real estate	1,798	7,280	2,021
9. Interest received	50,990	538,995	40,457
10. Dividends received	165	1,725,346	-
11. Other investment proceeds	5,863	17,435	6,554
II. Expenses	59,763,030	147,944,100	38,407,801
1. Purchase of real estate	290	3,922	737
2. Purchase of ownership interests and shares in related parties	26	5,368	45
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	68,567	493,714	10,062
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	23,385	-
5. Purchase of debt securities issued by other entities	4,490,915	12,511,549	4,002,815
6. Purchase of term deposits with credit institutions	38,809,338	47,453,136	10,752,227
7. Purchase of other investments	16,365,290	87,374,494	23,619,319
8. Expenditures to maintain real estate	17,559	51,308	17,534
9. Other expenditures for investments	11,045	27,224	5,062
III. Net cash flows from investing activities (I-II)	**(199,763)**	**461,719**	**(616,433)**

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2019	1 January – 31 December 2018	1 January – 31 March 2018
C. Cash flows from financing activities			
I. Proceeds	17,415,158	58,419,387	19,436,266
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	17,415,158	58,419,387	19,436,266
3. Other financial proceeds	-	-	-
II. Expenses	17,582,733	60,596,260	19,483,700
1. Dividends	-	2,158,807	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	17,542,127	58,297,524	19,436,300
5. Interest on loans and borrowings and issued debt securities	40,606	139,929	47,400
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(167,575)**	**(2,176,873)**	**(47,434)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**182,297**	**195,689**	**9,365**
E. Balance sheet change in cash, including:	182,356	239,383	16,218
- movement in cash due to foreign exchange differences	59	43,694	6,853
F. Cash at the beginning of the period	1,221,535	982,152	982,152
G. Cash at the end of the period (F+/-E), including:	1,403,891	1,221,535	998,370
- restricted cash	43,004	43,155	69,184

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2018.

9. Changes in accounting policies

In the 3-month period ended 31 March 2019, no changes were made to the accounting principles (policy).

10. Explanation of differences between previously published quarterly financial information and data presented in the interim periodic report

The financial data presented in the quarterly standalone financial information for the 3-month period from 1 January to 31 March 2019 in comparison to the financial information for the period of the first 3 months of 2018 have undergone the following changes.

Changes to the comparative data have been made in Bank Pekao and Alior Bank to the financial statements resulting from the recalculation of the measurement of financial instruments according to IFRS 9 stemming from the method of valuation ultimately embraced as of 31 December 2018. Moreover, as a result of the final settlement of the acquisition of the organized part of the business of Bank BPH SA by Alior Bank, and also of the making of the pertinent adjustments to Alior Bank's financial data to make them consistent with the accounting standards applied by PZU, the value of Alior Bank was adjusted. The effect of the impact exerted by these changes on the comparative data in the quarterly standalone financial information has been presented below.

Interim balance sheet	**31 March 2018** *(historical)*	**Adjustment**	**31 March 2018** *(restated)*
Assets II.2. Investments in subordinated entities measured by the equity method	16,028,865	(100,253)	15,928,612
Equity and liabilities I. 3 Revaluation reserve	5,873,192	(107,448)	5,765,744
Equity and liabilities I. 5 Retained earnings (losses)	2,414,192	19,682	2,433,874
Equity and liabilities I. 6 Net profit (loss)	258,084	(12,487)	245,597

Interim general profit and loss account	**1 January – 31 March 2018** *(historical)*	**Adjustment**	**1 January – 31 March 2018** *(restated)*
XIII. Share of the net profit (loss) of related parties measured by the equity method	5,481	(12,487)	(7,006)
XVII. Net profit (loss)	258,084	(12,487)	245,597

Signatures of the PZU Management Board Members:

Name	Position	
Paweł Surówka	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Marcin Eckert	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 consolidated financial statements:

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

Warsaw, 14 May 2019