Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 9 months ended
30 September 2019

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Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 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 9 months from 1 January to 30 September 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 – 30 September 2019	1 January – 30 September 2018	30 September 2019	31 December 2018
Euro	4.3086	4.2535	4.3736	4.3000
British pound	4.8805	4.8111	4.9313	4.7895
Ukrainian hryvnia	0.1472	0.1323	0.1655	0.1357

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 9-month period ended 30 September 2019, the PZU Group companies did not discontinue any significant type of activity.

Seasonal or cyclical business

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

CDM – Centralny Dom Maklerski Pekao SA.

EMC – EMC Instytut Medyczny SA.

Falck CM – Falck Centra Medyczne sp. z o.o.

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

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

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.

Tomma – Tomma Diagnostyka Obrazowa SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

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

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

PZU standalone financial statements for 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 30 September 2019.

NBP – National Bank of Poland;

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.

CJEU – Court of Justice of the European Union.

IIF – Insurance Indemnity Fund.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office for Competition and Consumer Protection.

BFG Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated version: Journal of Laws of 2019, item 795, as amended).

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

OSM PZU – Ordinary Shareholder Meeting of PZU.

(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 – 30 September 2019	m PLN 1 January – 30 September 2018	m EUR 1 January – 30 September 2019	m EUR 1 January – 30 September 2018
Gross written premiums	17,501	17,258	4,062	4,057
Net earned premiums	17,227	16,721	3,998	3,931
Revenue from commissions and fees	3,051	3,070	708	722
Net investment result	8,401	7,424	1,950	1,745
Net insurance claims and benefits paid	(11,920)	(10,984)	(2,767)	(2,582)
Profit before tax	5,056	5,121	1,173	1,204
Profit attributable to equity holders of the Parent Company	2,360	2,427	548	571
Profit attributable to holders of non-controlling interests	1,324	1,450	307	341
Basic and diluted weighted average number of common shares	863,280,102	863,382,147	863,280,102	863,382,147
Basic and diluted earnings per common share (in PLN/EUR)	2.73	2.81	0.63	0.66

Data from the consolidated statement of financial position	m PLN 30 September 2019	m PLN 31 December 2018	m EUR 30 September 2019	m EUR 31 December 2018
Assets	337,169	328,554	77,092	76,408
Share capital	86	86	20	20
Equity attributable to equity holders of the parent	15,350	14,925	3,510	3,471
Non-controlling interest	22,642	22,482	5,177	5,228
Total equity	37,992	37,407	8,687	8,699
Basic and diluted number of common shares	863,292,684	863,248,013	863,292,684	863,248,013
Carrying amount per common share (in PLN/EUR)	17.78	17.29	4.07	4.02

(in millions of PLN)

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2019	m PLN 1 January – 30 September 2018	m EUR 1 January – 30 September 2019	m EUR 1 January – 30 September 2018
Net cash flows from operating activities	(1,051)	(5,890)	(244)	(1,385)
Net cash flows from investing activities	(357)	6,027	(83)	1,417
Net cash flows from financing activities	(6,947)	303	(1,612)	71
Total net cash flows	(8,355)	440	(1,939)	103

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 30 September 2019	m PLN 31 December 2018	m EUR 30 September 2019	m EUR 31 December 2018
Assets	40,429	43,567	9,244	10,132
Share capital	86	86	20	20
Total equity	14,244	13,925	3,257	3,238
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Carrying amount per common share (in PLN/EUR)	16.50	16.13	3.77	3.75

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 30 September 2019	m PLN 1 January – 30 September 2018	m EUR 1 January – 30 September 2019	m EUR 1 January – 30 September 2018
Gross written premiums	9,396	9,572	2,181	2,250
Technical result of non-life insurance	978	1,260	227	296
Net investment result [1)]	2,153	1,914	500	450
Net profit	2,459	2,427	571	571
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)	2.85	2.81	0.66	0.66

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

3. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2019 was PLN 3,684 million and was 5.0% lower than the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 2,360 million, compared to PLN 2,427 million in 2018 (down 2.8%).

The net result declined 7.8% compared to last year, net of non-recurring events.[1]

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2019 was 20.8%, down 2.2 percentage points from the corresponding period of the previous year.

The following factors also affected the PZU Group's activity in the 9 months ended 30 September 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;
- increase in gross written premium, including growth in sales generated by foreign companies, rapidly increasing level of premium in protection products offered in own channels and in the bancassurance channel, growth in the portfolio of group health products;
- 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 MOD insurance;
- lower profitability in the mass insurance segment – the effect of an increase in the loss ratio in insurance against fire and other damage to property as a result of an above-average number of losses caused by atmospheric phenomena;
- higher result on individual insurance due to the expanding portfolio of high-margin protection insurance, in both own channels and bancassurance channels;
- lower profitability in group and individually continued insurance with a growing health insurance portfolio as a result of an increase in the loss ratio of certain risks in the group protection portfolio and an increase in operating expenses;
- squeezed results in the banking segment due to, among others, higher contributions to the Bank Guarantee Fund and the unfavorable impact of the CJEU judgment on consumer loans.

[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance and the result on the sale of PZU Lithuania, non-recurring effect of remeasurement of provisions in non-life insurance for claims for general damages due to vegetative state (in a comparable period).

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated) 1)	1 January – 30 September 2018 (restated) 1)
Gross written premiums	8.1	5,662	17,501	5,377	17,258
Reinsurers' share in gross written premium		(99)	(338)	(52)	(388)
Net written premiums		**5,563**	**17,163**	**5,325**	**16,870**
Movement in net provision for unearned premiums		330	64	342	(149)
Net earned premiums		**5,893**	**17,227**	**5,667**	**16,721**
Revenue from commissions and fees	8.2	1,058	3,051	1,040	3,070
Net investment income	8.3	3,365	9,599	2,914	8,067
Net result on realization of financial instruments and investments	8.4	104	211	(33)	38
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.5	(501)	(1,544)	(471)	(1,283)
Net movement in fair value of assets and liabilities measured at fair value	8.6	(212)	135	201	602
Other operating income	8.7	360	1,117	421	1,216
Claims, benefits and movement in technical provisions		(4,095)	(12,219)	(3,757)	(11,261)
Reinsurers' share in claims, benefits and movement in technical provisions		104	299	118	277
Net insurance claims and benefits paid	8.8	**(3,991)**	**(11,920)**	**(3,639)**	**(10,984)**
Fee and commission expenses	8.9	(229)	(620)	(197)	(550)
Interest expenses	8.10	(541)	(1,606)	(516)	(1,508)
Acquisition expenses	8.11	(864)	(2,480)	(781)	(2,300)
Administrative expenses	8.11	(1,624)	(4,900)	(1,593)	(4,935)
Other operating expenses	8.12	(863)	(3,212)	(947)	(3,033)
Operating profit		**1,955**	**5,058**	**2,066**	**5,121**
Share of the net financial results of entities measured by the equity method		1	(2)	(1)	-
Profit before tax		**1,956**	**5,056**	**2,065**	**5,121**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated) [1]	1 January – 30 September 2018 (restated) [1]
Income tax	8.14	(470)	(1,372)	(473)	(1,244)
Net profit, including:		**1,486**	**3,684**	**1,592**	**3,877**
- profit attributable to the equity holders of the Parent Company		879	2,360	1,017	2,427
- profit attributable to holders of non-controlling interests		607	1,324	575	1,450
Weighted average basic and diluted number of common shares	8.13	863,302,480	863,280,102	863,265,576	863,382,147
Basic and diluted earnings per common share (in PLN)	8.13	1.02	2.73	1.18	2.81

[1] Information on restatement of data for the period from 1 January to 30 September 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 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated) [1]	1 January – 30 September 2018 (restated) [1]
Net profit		1,486	3,684	1,592	3,877
Other comprehensive income	8.14	234	700	(145)	(185)
Subject to subsequent transfer to profit or loss		292	668	(105)	87
Valuation of debt instruments measured at fair value through other comprehensive income		198	484	(49)	85
Foreign exchange translation differences		44	32	(27)	29
Cash flow hedging		50	152	(29)	(27)
Not to be transferred to profit or loss in the future		(58)	32	(40)	(272)
Valuation of equity instruments measured at fair value through other comprehensive income		(58)	30	(41)	(275)
Reclassification of real property from property, plant and equipment to investment property		-	2	1	3
Total net comprehensive income		**1,720**	**4,384**	**1,447**	**3,692**
- comprehensive income attributable to equity holders of the Parent Company		1,040	2,839	901	2,210
- comprehensive income attributable to holders of non-controlling interest		680	1,545	546	1,482

[1] Information on restatement of data for the period from 1 January to 30 September 2018 is presented in section 4.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	30 September 2019	31 December 2018
Goodwill	8.15	3,934	3,871
Intangible assets	8.16	3,013	3,180
Other assets	8.17	547	562
Deferred acquisition expenses		1,538	1,546
Reinsurers' share in technical provisions	8.26	1,361	1,512
Property, plant and equipment	8.18	4,139	3,184
Investment property		1,822	1,697
Entities measured by the equity method		12	17
Loan receivables from clients	8.19	193,620	182,054
Financial derivatives	8.20	3,490	2,487
Investment financial assets	8.21	105,294	101,665
Measured at amortized cost		48,374	45,234
Measured at fair value through other comprehensive income		46,356	38,737
Measured at fair value through profit or loss		10,564	17,694
Deferred tax assets		2,343	2,234
Receivables	8.23	6,185	6,343
Cash and cash equivalents		8,797	17,055
Assets held for sale	8.24	1,074	1,147
Total assets		**337,169**	**328,554**

Equity and liabilities	Note	30 September 2019	31 December 2018
Equity			
Equity attributable to equity holders of the parent		15,350	14,925
Share capital	8.25	86	86
Other capital		13,149	12,566
Retained earnings		2,115	2,273
Retained earnings		(245)	(940)
Net profit		2,360	3,213
Non-controlling interest		22,642	22,482
Total equity		**37,992**	**37,407**
Liabilities			
Technical provisions	8.26	46,533	45,839
Provisions for employee benefits		527	531
Other provisions	8.27	698	519
Deferred tax liability		699	486
Financial liabilities	8.28	242,786	236,316
Other liabilities	8.29	7,887	7,407
Liabilities related directly to assets classified as held for sale	8.24	47	49
Total liabilities		**299,177**	**291,147**
Total equity and liabilities		**337,169**	**328,554**

(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	-	-	-	21	-	-	-	-	-	21	9	30
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	396	-	-	-	-	-	396	88	484
Cash flow hedging	-	-	-	28	-	-	-	-	-	28	124	152
Foreign exchange translation differences	-	-	-	-	-	-	32	-	-	32	-	32
Reclassification of real property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**447**	**-**	**-**	**32**	**-**	**-**	**479**	**221**	**700**
Net profit (loss)	-	-	-	-	-	-	-	-	2,360	2,360	1,324	3,684
Total comprehensive income	**-**	**-**	**-**	**447**	**-**	**-**	**32**	**-**	**2,360**	**2,839**	**1,545**	**4,384**
Other changes, including:	**-**	**2**	**447**	**(5)**	**(340)**	**-**	**-**	**(2,518)**	**-**	**(2,414)**	**(1,385)**	**(3,799)**
Distribution of financial result	-	-	440	-	(340)	-	-	(2,518)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	2	1	-	-	-	-	-	-	3	-	3
Transactions with holders of non-controlling interests	-	-	1	-	-	-	-	-	-	1	-	1
Other	-	-	5	(5)	-	-	-	-	-	-	-	-
As at 30 September 2019	**86**	**(9)**	**13,107**	**377**	**(322)**	**-**	**(4)**	**(245)**	**2,360**	**15,350**	**22,642**	**37,992**

(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	Supplemen-tary 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 property 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-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 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	-	-	-	(258)	-	-	-	-	-	(258)	(17)	(275)
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	13	-	-	-	-	-	13	72	85
Cash flow hedging	-	-	-	(4)	-	-	-	-	-	(4)	(23)	(27)
Foreign exchange translation differences	-	-	-	-	-	-	29	-	-	29	-	29
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(246)**	**-**	**-**	**29**	**-**	**-**	**(217)**	**32**	**(185)**
Net profit (loss)	-	-	-	-	-	-	-	-	2,427	2,427	1,450	3,877
Total comprehensive income	**-**	**-**	**-**	**(246)**	**-**	**-**	**29**	**-**	**2,427**	**2,210**	**1,482**	**3,692**
Other changes, including:	**-**	**(11)**	**791**	**(6)**	**14**	**-**	**-**	**(2,979)**	**-**	**(2,191)**	**(1,578)**	**(3,769)**
Distribution of financial result	-	-	806	-	14	-	-	(2,979)	-	(2,159)	(1,659)	(3,818)
Transactions on treasury shares	-	(11)	-	-	-	-	-	-	-	(11)	-	(11)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	81	62
Sale of revalued property and other	-	-	4	(6)	-	-	-	-	-	(2)	-	(2)
As at 30 September 2018	**86**	**(11)**	**12,615**	**(88)**	**19**	**4**	**(44)**	**(902)**	**2,427**	**14,106**	**21,719**	**35,825**

[1)] Information on restatement of data for the period from 1 January to 30 September 2018 is presented in section 4.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 30 September 2019	1 January – 30 September 2018 (restated) [1)]
Profit before tax	5,056	5,121
Adjustments	(6,107)	(11,011)
Movement in loan receivables from clients	(13,149)	(11,909)
Movement in liabilities under deposits	6,952	165
Movement in the valuation of assets measured at fair value	(135)	(602)
Interest income and expenses	(1,918)	(1,716)
Realized gains/losses from investing activities and impairment losses	1,287	1,211
Net foreign exchange differences	(209)	421
Movement in deferred acquisition expenses	8	(10)
Amortization of intangible assets and depreciation of property, plant and equipment	955	815
Movement in the reinsurers' share in technical provisions	151	13
Movement in technical provisions	694	704
Movement in receivables	(5)	(253)
Movement in liabilities	843	(355)
Cash flow on investment contracts	(14)	(16)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	189	(150)
Income tax paid	(1,569)	(1,369)
Other adjustments	(187)	2,040
Net cash flows from operating activities	**(1,051)**	**(5,890)**
Cash flow from investing activities		
Proceeds	626,979	687,775
- sale of investment property	66	20
- proceeds from investment property	236	225
- sale of intangible assets and property, plant and equipment	75	33
- sale of ownership interests and shares	2,317	2,500
- realization of debt securities	140,507	153,258
- closing of buy-sell-back transactions	220,114	343,503
- closing of term deposits with credit institutions	242,180	163,193
- realization of other investments	20,118	23,688
- interest received	1,290	1,260
- dividends received	49	61
- increase in cash due to purchase of entities and change in the scope of consolidation	-	4
- other investment proceeds	27	30

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 30 September 2019	1 January – 30 September 2018 (restated) [1]
Expenditures	(627,336)	(681,748)
- purchase of investment properties	(136)	(102)
- expenditures for the maintenance of investment property	(102)	(73)
- purchase of intangible assets and property, plant and equipment	(585)	(429)
- purchase of ownership interests and shares	(1,997)	(2,464)
- purchase of ownership interests and shares in subsidiaries	(63)	(14)
- decrease in cash due to the sale of entities and change in the scope of consolidation	(32)	-
- purchase of debt securities	(142,716)	(140,703)
- opening of buy-sell-back transactions	(221,260)	(346,376)
- purchase of term deposits with credit institutions	(240,682)	(167,208)
- purchase of other investments	(19,749)	(24,357)
- other expenditures for investments	(14)	(22)
Net cash flows from investing activities	**(357)**	**6,027**
Cash flows from financing activities		
Proceeds	83,971	157,594
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)	-	12
- proceeds from loans and borrowings	2,624	1,832
- proceeds on the issue of own debt securities	5,717	4,346
- opening of repurchase transactions	75,630	151,404
Expenditures	(90,918)	(157,291)
- dividends paid to equity holders of the parent	(2,418)	-
- dividends to owners of non-controlling interests	(1,385)	(1,659)
- repayment of loans and borrowings	(3,562)	(1,892)
- redemption of own debt securities	(8,179)	(2,118)
- closing of repurchase transactions	(74,910)	(151,388)
- interest on loans and borrowings	(53)	(92)
- interest on outstanding debt securities	(204)	(142)
- expenditures on leases	(207)	-
Net cash flows from financing activities	**(6,947)**	**303**
Total net cash flows	**(8,355)**	**440**
Cash and cash equivalents at the beginning of the period	17,055	8,239
Movement in cash due to foreign exchange differences	97	40
Cash and cash equivalents at the end of the period, including:	8,797	8,719
- restricted cash	43	51

[1] Information on restatement of data for the period from 1 January to 30 September 2018 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
				30 September 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	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.03%	Leasing services. http://www.pekaoleasing.com.pl/
13	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. http://pekaoib.pl/
14	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.03%	Factoring services. https://www.pekaofaktoring.pl/
15	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Management of pension funds.
16	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
17	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.03%	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.82% [1)]	46.82% [1)]	Transfer agent. http://www.pekao-fs.com.pl/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
				30 September 2019	31 December 2018	
Consolidated companies – Pekao Group – continued						
19	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	07.06.2017	20.02%	20.03%	Call-center services. http://www.cbb.pl/
20	Pekao Property SA in liquidation [2)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
21	FPB – Media sp. z o.o. in liquidation [3)]	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
22	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Business consulting
23	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.03%	Asset management. https://pekaotfi.pl/tfi/arts.ppim
24	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						
25	Alior Bank SA	Warsaw	18.12.2015	31.94%	31.93%	Banking services. https://www.aliorbank.pl/
26	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.94%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
27	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.94%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
28	Meritum Services ICB SA	Gdańsk	18.12.2015	31.94%	31.93%	IT services.
29	Alior TFI SA	Warsaw	18.12.2015	31.94%	31.93%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
30	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.94%	31.93%	The company does not conduct any activity
31	Absource sp. z o.o.	Krakow	04.05.2016	31.94%	31.93%	Service activity in the area of IT.
32	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.94%	31.93%	Brokerage activity.
33	Corsham sp. z o.o. [4)]	Warsaw	04.02.2019	31.94%	n/a	Business consulting
Consolidated companies – PZU Zdrowie Group						
34	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
35	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
36	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
37	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/
38	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/
39	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
40	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.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
				30 September 2019	31 December 2018	
Consolidated companies – PZU Zdrowie Group – continued						
41	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
42	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
43	Revimed sp. z o.o. 4)	Gdańsk	31.05.2017	100.00%	100.00%	Medical services. https://gdanskabrahama.pzuzdrowie.pl/
44	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. http://www.cmlukasza.pl/
45	Specjalistyczny Zakład Opieki Zdrowotnej Multimed sp. z o.o.	Oświęcim	31.12.2018	100.00%	100.00%	Medical services. https://multimed.oswiecim.pl/
46	Alergo-Med Tarnów sp. z o.o. 5)	Tarnów	31.01.2019	100.00%	n/a	Medical services. http://alergomed.tarnow.pl/
47	Falck Centra Medyczne sp. z o.o. 5)	Warsaw	03.06.2019	100.00%	n/a	Medical services. https://www.falck.pl/centra-medyczne/
48	Starówka sp. z o.o. 5)	Warsaw	03.06.2019	100.00%	n/a	Medical services. https://www.starowkanzoz.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.
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.

(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
				30 September 2019	31 December 2018	
Consolidated companies – other companies – continued						
60	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
61	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
62	Sigma BIS SA [6]	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
63	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
64	Battersby Investments SA	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
65	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
66	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
67	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
68	Aquaform Badprodukte GmbH in liquidation [7]	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
69	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
70	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
71	Morehome.pl sp. z o.o. in liquidation [8]	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
72	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
73	PZU FIZ Dynamiczny in liquidation	Warsaw	27.01.2010	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości [9]	Warsaw	01.07.2008	n/a	n/a	as above
75	PZU FIZ Sektora Nieruchomości 2 [9]	Warsaw	21.11.2011	n/a	n/a	as above
76	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
77	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
78	PZU FIZ Surowcowy in liquidation	Warsaw	03.09.2015	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
				30 September 2019	31 December 2018	
Consolidated companies – mutual funds – continued						
79	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
80	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
81	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
82	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
83	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
84	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
85	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
86	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
Associates						
87	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
88	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [10)]	28.31% [10)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
89	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [11)]	8.01% [11)]	Consulting and business activity – no business conducted.
90	PayPo sp. z o.o.	Warsaw	15.11.2018	6.39% [12)]	6.39% [12)]	Financial services. https://paypo.pl/

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) On 31 October 2019 the business combination between Revimed sp. z o.o. and PZU Zdrowie SA took place. The transaction will not affect the PZU Group's consolidated financial statements.

5) Additional information is presented in item 1.4.

6) On 3 October 2019 PZU sold 6,600 shares in Sigma BIS SA representing 66% of the company's share capital and carrying the right to 66% of votes at its shareholder meeting. As a result, on 3 October 2019 Sigma BIS SA became an associate. The transaction will not affect the PZU Group's consolidated financial statements to any significant extent.

7) On 15 January 2019, the company's liquidation process was opened.

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

9) As at 30 September 2019, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiaries 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).

10) The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 30 September 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.

11) 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.

12) 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)

During 2019, the following companies were deleted from the register of commercial undertakings of the National Court Register:

- Syta Development sp. z o.o. in liquidation – 10 June 2019 (control over the company was exercised by a liquidator independent of the PZU Group and for this reason the company was not consolidated);
- Ardea Alba SA in liquidation – 14 May 2019;
- Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation – 17 July 2019;
- CDM – 30 August 2019. This is the result of the split of CDM pursuant to Article 529 §1(1) of the Commercial Company Code, namely by:
  - transfer to Pekao of certain property (assets and liabilities) as well as rights and obligations in the form of an organized part of CDM's enterprise related to the provision of brokerage services ("Brokerage Activity"), and
  - transfer to Centrum Bankowości Bezpośredniej sp. z o.o of certain property (assets and liabilities) as well as rights and obligations in the form of an organized part of CDM's enterprise related to the provision of call center services ("Call Center Activity").

In compliance with Article 530 § 1 of the Commercial Company Code, CDM was dissolved without the conduct of a liquidation procedure. On the date of deletion from the National Court Register and in compliance with Article 531 § 1 of the Commercial Company Code, the split of CDM became legally effective.

The deletion of the companies from the register did not affect the condensed interim consolidated financial statements.

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	30 September 2019	31 December 2018
Pekao [1)]	79.98%	79.97%
Alior Bank [2)]	68.06%	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	30 September 2019	31 December 2018
Pekao Group	18,221	18,251
Alior Bank Group	4,415	4,225
Other	6	6
Total	**22,642**	**22,482**

(in millions of PLN)

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	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Goodwill	692	692	-	-
Intangible assets	1,638	1,777	647	658
Other assets	65	45	38	35
Property, plant and equipment	2,068	1,682	788	461
Investment property	13	13	-	-
Loan receivables from clients	137,663	128,242	55,935	53,811
Financial derivatives	2,762	1,765	693	579
Entities measured by the equity method	-	-	5	4
Investment financial assets	43,935	40,356	14,947	13,636
Measured at amortized cost	16,230	12,262	7,868	6,307
Measured at fair value through other comprehensive income	25,649	27,266	6,955	7,280
Measured at fair value through profit or loss	2,056	828	124	49
Deferred tax assets	1,160	1,112	1,134	1,076
Receivables	2,196	2,235	972	815
Cash and cash equivalents	6,558	13,219	1,571	2,069
Assets held for sale	44	4	-	-
Total assets	**198,794**	**191,142**	**76,730**	**73,144**

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Equity				
Equity attributable to equity holders of the parent	22,784	22,824	6,489	6,207
Share capital	262	262	1,306	1,306
Other capital	20,622	20,721	5,638	5,609
Retained earnings	1,900	1,841	(455)	(708)
Non-controlling interest	12	11	-	-
Total equity	**22,796**	**22,835**	**6,489**	**6,207**
Liabilities				
Provisions for employee benefits	397	407	33	32
Other provisions	420	297	169	119
Deferred tax liability	31	33	-	-
Financial liabilities	171,462	164,636	68,590	65,373
Other liabilities	3,688	2,934	1,449	1,413
Total liabilities	**175,998**	**168,307**	**70,241**	**66,937**
Total equity and liabilities	**198,794**	**191,142**	**76,730**	**73,144**

(in millions of PLN)

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 30 September 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	17,501	-	-	7	17,508
Reinsurers' share in gross written premium	(338)	-	-	-	(338)
Net written premiums	**17,163**	**-**	**-**	**7**	**17,170**
Movement in net provision for unearned premiums	64	-	-	5	69
Net earned premiums	**17,227**	**-**	**-**	**12**	**17,239**
Revenue from commissions and fees	3,051	(2,101)	(847)	70	173
Net investment income	9,599	(5,119)	(3,259)	26	1,247
Net result on realization of financial instruments and investments	211	(103)	(54)	-	54
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,544)	454	1,135	-	45
Net movement in fair value of assets and liabilities measured at fair value	135	(61)	149	3	226
Other operating income	1,117	(262)	(218)	30	667
Claims, benefits and movement in technical provisions	(12,219)	-	-	-	(12,219)
Reinsurers' share in claims, benefits and movement in technical provisions	299	-	-	-	299
Net insurance claims and benefits paid	**(11,920)**	**-**	**-**	**-**	**(11,920)**
Fee and commission expenses	(620)	282	338	-	-
Interest expenses	(1,606)	913	588	(14)	(119)
Acquisition expenses	(2,480)	-	-	(45)	(2,525)
Administrative expenses	(4,900)	2,532	1,130	(26)	(1,264)
Other operating expenses	(3,212)	1,450	575	(56)	(1,243)
Operating profit (loss)	**5,058**	**(2,015)**	**(463)**	**-**	**2,580**
Share of the net financial results of entities measured by the equity method	(2)	-	(1)	-	(3)
Profit (loss) before tax	**5,056**	**(2,015)**	**(464)**	**-**	**2,577**
Income tax	(1,372)	578	205	-	(589)
Net profit (loss)	**3,684**	**(1,437)**	**(259)**	**-**	**1,988**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 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	17,258	-	-	6	17,264
Reinsurers' share in gross written premium	(388)	-	-	-	(388)
Net written premiums	**16,870**	**-**	**-**	**6**	**16,876**
Movement in net provision for unearned premiums	(149)	-	-	-	(149)
Net earned premium	**16,721**	**-**	**-**	**6**	**16,727**
Revenue from commissions and fees	3,070	(2,098)	(824)	25	173
Net investment income	8,067	(4,516)	(2,538)	8	1,021
Net result on realization of financial instruments and investments	38	(92)	(73)	-	(127)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,283)	440	785	-	(58)
Net movement in fair value of assets and liabilities measured at fair value	602	(34)	(440)	4	132
Other operating income	1,216	(333)	(301)	20	602
Claims, benefits and movement in technical provisions	(11,261)	-	-	-	(11,261)
Reinsurers' share in claims, benefits and movement in technical provisions	277	-	-	-	277
Net insurance claims and benefits paid	**(10,984)**	**-**	**-**	**-**	**(10,984)**
Fee and commission expenses	(550)	281	267	-	(2)
Interest expenses	(1,508)	831	561	(12)	(128)
Acquisition expenses	(2,300)	-	-	(37)	(2,337)
Administrative expenses	(4,935)	2,557	1,186	(9)	(1,201)
Other operating expenses	(3,033)	1,148	606	(5)	(1,284)
Operating profit (loss)	**5,121**	**(1,816)**	**(771)**	**-**	**2,534**
Share of the net financial results of entities measured by the equity method	-	-	-	-	-
Profit (loss) before tax	**5,121**	**(1,816)**	**(771)**	**-**	**2,534**
Income tax	(1,244)	475	216	-	(553)
Net profit (loss)	**3,877**	**(1,341)**	**(555)**	**-**	**1,981**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 September 2019	1 January – 30 September 2018 (restated)	1 January – 30 September 2019	1 January – 30 September 2018 (restated)
Net profit	1,437	1,341	259	555
Other comprehensive income	257	21	23	22
Valuation of debt instruments measured at fair value through other comprehensive income	8	82	(10)	9
Valuation of equity instruments measured at fair value through other comprehensive income	118	(21)	3	-
Net cash flow hedges	131	(40)	30	13
Foreign exchange differences	-	-	-	-
Total net comprehensive income	**1,694**	**1,362**	**282**	**577**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 September 2019	1 January – 30 September 2018	1 January – 30 September 2019	1 January – 30 September 2018
Net cash flows from operating activities	(3,396)	(8,064)	1,370	331
Net cash flows from investing activities	(2,110)	7,984	(1,188)	333
Net cash flows from financing activities	(1,191)	(99)	24	125
Total net cash flows	**(6,697)**	**(179)**	**206**	**789**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2019	1 January – 30 September 2018	1 January – 30 September 2019	1 January – 30 September 2018
Date of ratifying the dividend	26 June 2019	21 June 2018	-	-
Record date	10 July 2019	6 July 2018	-	-
Dividend payout date	30 July 2019	20 July 2018	-	-
Dividend per share (PLN)	6.60	7.90	-	-
Dividend due to the PZU Group	347	415	-	-
Dividend due to non-controlling shareholders	1,385	1,659	-	-

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

1.4.1. Medical companies

Falck CM

On 13 March 2019 PZU Zdrowie SA entered into a preliminary agreement and on 3 June 2019 a final agreement with Falck Danmark A/S to acquire 403,551 shares in Falck CM, which constituted 100% of the share capital and offering 100% of votes at the shareholder meeting, with par value of PLN 50 each. At the same time, PZU Zdrowie SA, and thereby also PZU, became the indirect owner of Starówka sp. z o.o. in which Falck CM has a 100% equity stake.

Since the date of obtaining control, i.e. 3 June 2019, both companies have been consolidated.

(in millions of PLN)

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.

Provisional purchase price allocation

The purchase price allocation process for Falck CM and Starówka Sp. z o.o. shares was carried out based on the accounting data of these companies as at 31 May 2019, under the assumption that no material differences in accounting data transpired between 31 May 2019 and 3 June 2019, which was the date of obtaining control.

By the date of signing the condensed interim consolidated financial statements the purchase price allocation process of Falck CM and Starówka Sp. z o.o has not been completed. A credible and reliable calculation of the fair value of acquired assets and liabilities requires a large amount of data to be collected and processed in order to make correct calculations. Consequently, this process could not be completed between the date of obtaining control and the date of signing of the condensed interim consolidated financial statements.

At the end of the purchase price allocation process, IFRS 3 requires one year from the transaction date and that final purchase price allocation will be included in the consolidated financial statements of the PZU Group for the year ended 31 December 2019.

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

Value of acquired net assets	Preliminary settlement
Assets	**31**
Property, plant and equipment	17
Receivables	7
Cash and cash equivalents	7
Liabilities	**18**
Financial liabilities	10
Other liabilities	8
Value of acquired net assets	**13**

Calculated goodwill	Preliminary settlement
Consideration transferred	67
Net value of identifiable assets	(13)
Goodwill	**54**

Goodwill will not reduce taxable income.

1.4.2. 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.

1.4.3. Consolidated mutual funds

On account of losing control, the following mutual funds are no longer subject to consolidation: PZU Akcji Spółek Dywidendowych sub-fund, PZU FIZ Akcji Focus, PZU FIZ Forte since 31 March 2019 and PZU Dłużny Aktywny sub-fund since 1 June 2019.

On 27 September 2019, the liquidation of PZU FIO Innowacyjnych Technologii was completed.

(in millions of PLN)

1.4.4. 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, which was acquired by Alior Bank as of 1 April 2019.

The acquisition of SKOK Jaworzno was accounted for using IFRS 3. The process was carried out with the assumption that the Bank Guarantee Fund would provide aid to Alior Bank pursuant to Article 264 of the Bank Guarantee Fund Act and it would not require payment by Alior Bank. The aid from BFG will involve provision of a subsidy and extension of a guarantee to cover losses (applicable agreements are being finalized) resulting from the risk associated with the SKOK Jaworzno's property rights being acquired. The BFG subsidy will be granted to cover the difference between the value of the acquired property rights and the liabilities arising from guaranteed funds of SKOK's depositors. As at 30 September 2019, the value of the subsidy was estimated at PLN 110 million. In accordance with IFRS 3, the final acquisition purchase price allocation must be completed within 12 months of the acquisition date, that is until the end of March 2020.

Provisional purchase price allocation in the SKOK Jaworzno acquisition

Pursuant to the provisions of IFRS 3, the PZU Group recognized the acquired assets and liabilities at fair value.

The fair value of the SKOK Jaworzno's loan portfolio was calculated for loans with no recognized impairment (performing portfolio). For these loans, the calculation was based on contractual cash flows adjusted for credit risk and prepayments. The fair value of the SKOK's performing loan portfolio was determined by using a discounted cash flow model by using the observed market values of interest rates adjusted for liquidity margins and cost of capital, broken down into homogeneous sub-portfolios. The fair value of the non-performing loan portfolio was assumed to be equal to the carrying amount due to the expected insignificant recovery levels.

The fair value of client and bank deposits and other financial liabilities maturing within 1 year is more or less equal to their carrying amount. When calculating the fair value of financial liabilities with residual maturity above 1 year, the present value of expected payments is calculated based on the current interest rate curves. No difference was observed between this measurement and the carrying amount, as a result of which the fair value was not adjusted.

Also, deferred tax assets of PLN 20 million were recognized in connection with the acquired assets and liabilities accepted as a result of the merger.

Provisional purchase price allocation	Carrying amount	Adjustment to fair value	Fair value
Assets	**208**	**26**	**234**
Property, plant and equipment	7	-	7
Loan receivables from clients	137	6	143
Receivables	40	-	40
Cash and cash equivalents	21	-	21
Other assets	3	20	23
Liabilities	**336**	**-**	**336**
Other provisions	13	-	13
Financial liabilities	320	-	320
Other liabilities	3	-	3
Fair value of acquired net assets	**(128)**	**26**	**(102)**
Subsidy from the Bank Guarantee Fund			110
Gain from a bargain purchase			**8**

Gain from a bargain purchase is recognized in other operating income.

(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	34.1875%
2	Other shareholders	568,305,700	65.8125%
Total		**863,523,000**	**100.00%**

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

On 24 July 2019, PZU received a notification pertaining to movement in the equity stake held in PZU by Nationale Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny. The notification specified that as a result of the sale of shares in PZU, as settled on 18 July 2019, Nationale Nederlanden Otwarty Fundusz Emerytalny decreased its equity stake held in PZU from 43,995,060 shares to 41,985,060 shares, that is below 5% of PZU's share capital. Accordingly, the funds Nationale Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA reduced their equity stake held in PZU from 44,010,060 shares, which represented 5.10% of PZU's share capital and carried the right to 44,010,060 votes at the Shareholder Meeting, to 42,000,060 shares, representing 4.86% of PZU's share capital and carrying the right to 42,000,060 votes at the Shareholder Meeting.

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

Both as at the date of conveying this periodic report and as at the date of conveying the report for the 6 months ended 30 June 2019 (i.e. 29 August 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 conveying the report for the 6 months ended 30 June 2019 (i.e. 29 August 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 was 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 were 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.

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

On 23 October 2019, the PZU Supervisory Board adopted a resolution to appoint Aleksandra Agatowska to the PZU Management Board and entrust her with discharging the function of a PZU SA Management Board Member starting 24 October 2019 for a joint term of office encompassing three full financial years 2020-2022.

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

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.

On 24 May 2019, the Ordinary Shareholder Meeting of PZU set the number of PZU Supervisory Board members at 11 and appointed the following to the PZU Supervisory Board of the new term of office: Maciej Łopiński, Robert Jastrzębski, Alojzy Nowak, Marcin Chludziński, Agata Górnicka, Robert Śnitko, Elżbieta Mączyńska-Ziemacka, Tomasz Kuczur, Krzysztof Opolski, Maciej Zaborowski. This appointment was for the joint term of office that encompasses three consecutive full financial years 2020-2022.

Moreover, on 24 May 2019, the Prime Minister, acting on behalf of the State Treasury of the Republic of Poland, pursuant to § 20 sec. 7 of the PZU's Articles of Association, appointed Mr. Paweł Górecki to be a PZU SA Supervisory Board Member.

From 24 May 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;
- Tomasz Kuczur – Supervisory Board Member;
- Elżbieta Mączyńska-Ziemacka – Supervisory Board Member;
- Krzysztof Opolski – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

3.3 PZU Group Directors

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

From 1 January 2019, the following persons were PZU Group Directors:

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

On 30 April 2019, Tomasz Karusewicz was dismissed from serving in his capacity of a PZU Group Director. From 1 to 24 May 2019 Roger Hodgkiss served as a PZU Życie Group Director. As of 25 May 2019, Adam Brzozowski was appointed as a Group Director at PZU Życie. Due to her appointment to the PZU Management Board, on 23 October 2019, Aleksandra Agatowska was dismissed from the position of PZU Group Director. As at the date of conveying this periodic report the following persons were PZU Group Directors:

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

4. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2018.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2018, except for the changes described below.

(in millions of PLN)

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 – prepayment features 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.
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.

(in millions of PLN)

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 and adopted the following practical approaches permitted by the standard:

- as at 1 January 2019 a simplified approach has been applied in accordance with section C5(b) of IFRS 16. 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;
- a single discount rate was used for the portfolio of lease contracts with features that are generally similar;
- the rules concerning short-term leases were applied for operating leases whose lease term ends within 12 months of the day of first application of IFRS 16;
- if a contract contained a lease extension or termination option then knowledge obtained after the fact was used in order to determine the term of the lease.

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.

The effect of the application of IFRS 16 on the statement of financial position is presented in the table.

Items of the statement of financial position	31 December 2018 (under IAS 17)	Recognition of lease contracts	1 January 2019 (under IFRS 16)
Property, plant and equipment	3,184	1,246	4,430
Investment property	1,697	50	1,747
Financial liabilities	236,316	1,296	237,612

On the date when the leased asset is available for use, the PZU Group recognizes the right-of-use asset and the lease liability.

In accordance with section 5 of IFRS 16, 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 4 of IFRS 16, the PZU Group does not apply this standard to intangible assets.

On initial recognition:

- the lease liability is measured at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available;
- right-of-use assets are measured at cost, which includes the initial lease liability amount, any lease payments paid on or before the commencement date, less any lease incentives received, all initial costs incurred by the lessee, and an estimate

of the costs to be incurred in disassembling and removing the asset, renovating the site where it was located, if the lease contract so requires.

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

Lease payments are discounted using the interest rate implicit in the lease, if it can be easily determined, or the lessee's marginal interest rate.

The lessee's marginal rate is 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 subsequent periods:

- the right-of-use asset is measures using the cost less depreciation and impairment model;
- the liability is measured at amortized cost.

Right-of-use assets are recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities 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. As at the date of conveying these condensed interim consolidated financial statements, the European Commission has not endorsed the standard and the IASB is continuing its efforts aimed at giving the standard its final shape. The PZU Group is carrying out project work related to the implementation of the standard. At the present stage of the IFRS 17 implementation project, it is impossible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to 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.
Amendments to IFRS 9 and IFRS 7 – reform of the interest rate benchmarks	26 September 2019	1 January 2020	This amendment requires the preparation of qualitative and quantitative disclosures to enable users of financial statements to understand how the entity's hedging relationships are affected by uncertainty arising from the benchmark interest rate reform. The change will not exert 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

The changes that have been introduced as compared to the condensed interim consolidated financial statements for the 9 months ended 30 September 2018 are described in the items below.

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

To reflect better the economic nature of the transaction, the result on the sale and the result on material modification of accounts receivable has been transferred.

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

To reflect better the economic nature of the transaction, the presentation of recoveries from credit receivables transferred off-balance sheet was modified. Since such allowances are made regularly and are an element of ordinary activity in managing irregular accounts receivable, the value of recoveries was transferred from “Other operating income” to “Movement in allowances for expected credit losses and impairment losses on financial instruments”.

4.2.3. 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”.

4.2.4. 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 the first 9 months of 2018 were restated in accordance with the methodology applied in the PZU Group’s consolidated financial statements for 2018 and in the condensed interim consolidated financial statements for the first 9 months of 2019.

(in millions of PLN)

4.2.5. 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 – 30 September 2018 *(historical)*	item 4.2.1	item 4.2.2	item 4.2.3	item 4.2.4	1 January – 30 September 2018 *(restated)*
Revenue from commissions and fees	2,526	2	-	542	-	3,070
Net investment income	8,620	2	-	(542)	(13)	8,067
Net result on realization of financial instruments and investments	42	(4)	-	-	-	38
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,270)		5	-	(18)	(1,283)
Other operating income	1,221	-	(5)	-	-	1,216
Profit before tax	5,152	-	-	-	(31)	5,121
Income tax	(1,250)	-	-	-	6	(1,244)
Net profit	**3,902**	**-**	**-**	**-**	**(25)**	**3,877**
- profit attributable to the equity holders of the Parent Company	2,432	-	-	-	(5)	2,427
- profit attributable to holders of non-controlling interests	1,470	-	-	-	(20)	1,450

Consolidated statement of comprehensive income	1 January – 30 September 2018 *(historical)*	Correction – item 4.2.4	1 January – 30 September 2018 *(restated)*
Net profit	3,902	(25)	3,877
Other comprehensive income	(185)	-	(185)
Total net comprehensive income	**3,717**	**(25)**	**3,692**
- comprehensive income attributable to equity holders of the Parent Company	2,215	(5)	2,210
- comprehensive income attributable to holders of non-controlling interest	1,502	(20)	1,482

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Historical data			
Effect of the application of IFRS 9 and other changes	(454)	(1,042)	(1,496)
Net profit (loss)	2,432	1,470	3,902
Equity as at 30 September 2018	14,169	21,843	36,012
Correction – item 4.2.4			
Effect of the application of IFRS 9 and other changes	(58)	(104)	(162)
Net profit (loss)	(5)	(20)	(25)
Equity as at 30 September 2018	(63)	(124)	(187)
Restated data			
Effect of the application of IFRS 9 and other changes	(512)	(1,146)	(1,658)
Net profit (loss)	2,427	1,450	3,877
Equity as at 30 September 2018	14,106	21,719	35,825

(in millions of PLN)

Consolidated cash flow statement	1 January – 30 September 2018 *(historical)*	Adjustment	1 January – 30 September 2018 *(restated)*
Profit before tax	5,152	(31)	5,121
Adjustments	(11,042)	31	(11,011)
Movement in loan receivables from clients	(11,380)	(529) [2) 3)]	(11,909)
Realized gains/losses from investing activities and impairment losses	1,198	13 [1) 3)]	1,211
Net foreign exchange differences	(121)	542 [2)]	421
Income tax paid	(1,363)	(6) [3)]	(1,369)
Other adjustments	2,029	11 [3)]	2,040
Net cash flows from operating activities	**(5,890)**	**-**	**(5,890)**

1) Change described in item 4.2.2.
2) Change described in section 4.2.3.
3) Change described in section 4.2.4.

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

On 24 May 2019 the PZU Ordinary Shareholder Meeting adopted a resolution to distribute net profit for 2018. This matter is described in item 22.

On 26 June 2019, Pekao's Ordinary Shareholder Meeting adopted a resolution on the distribution of 2018 net profit, earmarking PLN 1,732 million, i.e. PLN 6.60 per share to be paid in dividends. The record date fell on 10 July 2019 and the dividend payout date on 30 July 2019. PZU received a dividend of PLN 347 million.

On 3 July 2019, PZU Finance AB (publ.), a subsidiary company of PZU, repaid the entire indebtedness with the due interest on bonds with the par value of EUR 850 million.

6. Corrections of errors from previous years

During the 9-month period from 1 January to 30 September 2019, no corrections of errors from previous years were made.

7. 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.

7.1 Acquisition of shares in Tomma

On 29 October 2019, THC SICAV-RAIF SA and PZU Zdrowie entered into a preliminary agreement on the purchase of 150,000 shares in Tomma, representing 100% of the company's share capital and carrying the right to 100% votes at its shareholder meeting. As a result of the transaction, PZU Zdrowie will also acquire Tomma's subsidiaries, namely Bonus-Diagnosta sp. z o.o. and Asklepios Diagnostyka sp. z o.o., in which Tomma holds a 100% stake in the share capital and 100% of votes at the shareholder meeting.

The title to the shares in Tomma will be transferred to PZU Zdrowie after the fulfillment of the conditions precedent set forth in the preliminary share purchase agreement, which is anticipated to occur by 30 December 2019.

(in millions of PLN)

7.2 Subordinated bond issue by Pekao

On 6 November 2019, the Pekao Management Board adopted a resolution giving consent to the issue of subordinated bonds by Pekao. The total par value of the bonds will be determined in the book-building process and will depend on the situation on the bond market. After obtaining the consent of KNF, the bonds will be classified as Tier II instruments. The par value per bond will be PLN 0.5 million. The detailed terms of the bond issue, i.e. the date of redemption, the date of early redemption, the interest rate and the issue price, will be the same as those for the series D bonds issued by Pekao on 4 June 2019. Pekao will take steps to assimilate the newly issued bonds with the series D bonds. The new bonds will be issued in one series. The geographic coverage of the offering will be limited exclusively to Poland. Bond purchase proposals will be targeted at no more than 149 individually specified recipients. The contemplated date of commencement of the bond issue is November 2019, although it may change depending on the situation prevailing on the bond market.

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premiums in non-life insurance	3,458	11,065	3,309	11,001
In direct insurance	3,461	11,068	3,315	11,018
In indirect insurance	(3)	(3)	(6)	(17)
Gross written premiums in life insurance	2,204	6,436	2,068	6,257
Individual insurance premiums	462	1,222	349	1,094
Individually continued insurance premiums	506	1,517	501	1,502
Group insurance premiums	1,236	3,697	1,218	3,661
Total gross written premiums	**5,662**	**17,501**	**5,377**	**17,258**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Accident and sickness insurance (group 1 and 2)	207	564	177	487
Motor third party liability insurance (group 10)	1,394	4,297	1,450	4,451
Other motor insurance (group 3)	911	2,893	907	2,849
Marine, aviation and transport insurance (classes 4, 5, 6, 7)	12	57	10	55
Insurance against fire and other property damage (groups 8 and 9)	572	2,083	457	2,095
TPL insurance (groups 11, 12, 13)	151	588	140	560
Credit and suretyship (classes 14, 15)	23	66	21	68
Assistance (group 18)	142	401	121	356
Legal protection (group 17)	2	8	2	7
Other (group 16)	47	111	30	90
Total	**3,461**	**11,068**	**3,315**	**11,018**

(in millions of PLN)

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Banking activity	889	2,553	872	2,543
Margin on foreign exchange transactions with clients	207	595	186	542
Brokerage fees	18	70	37	124
Fiduciary activity	15	45	18	52
Payment card and credit card services	249	688	218	618
Fees on account of insurance intermediacy activities	18	54	31	91
Credits and loans	105	295	116	331
Bank account-related services	102	306	107	320
Transfers	79	232	79	232
Cash operations	26	73	27	77
Receivables purchased	12	35	10	29
Suretyship, letters of credit, collections, promises	19	57	22	58
Commissions on leasing activity	16	41	7	20
Other commission	23	62	14	49
Revenue and payments received from funds and mutual fund companies	132	384	137	410
Pension insurance	34	103	30	114
Other	3	11	1	3
Total revenue from commissions and fees	**1,058**	**3,051**	**1,040**	**3,070**

(in millions of PLN)

8.3 Net investment income

Net investment income	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Interest income, including:	3,118	9,224	2,874	8,297
Loan receivables from clients	2,288	6,847 [1)]	2,154	6,194
Debt securities measured at fair value through other comprehensive income	260	755	190	627
Debt securities measured at amortized cost	336	952	295	910
Buy-sell-back transactions	22	57	17	54
Term deposits with credit institutions	24	77	36	99
Loans	68	194	79	163
Receivables purchased	30	92	25	80
Hedge derivatives	78	215	66	136
Receivables	-	1	1	2
Cash and cash equivalents	12	34	11	32
Dividend income, including:	24	53	19	65
Investment financial assets measured at fair value through profit or loss	24	31	19	45
Investment financial assets measured at fair value through other comprehensive income	-	22	-	20
Foreign exchange differences	185	209	(21)	(421)
Income on investment property	65	198	64	192
Investment activity expenses	(6)	(18)	(6)	(17)
Investment property maintenance expenses	(26)	(84)	(25)	(74)
Other	5	17	9	25
Total net investment income	**3,365**	**9,599**	**2,914**	**8,067**

[1)] including 45 million in reduced income from reimbursement of loan costs due to the CJEU judgment.

8.4 Net result on realization of financial instruments and investments

Net result on realization of financial instruments and investments	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Investment financial assets	121	268	(49)	69
Debt instruments measured at fair value through other comprehensive income	39	95	16	109
Financial instruments measured at fair value through profit or loss	79	157	(52)	(31)
Equity instruments	(8)	(5)	(61)	(55)
Participation units and investment certificates	46	90	(9)	(13)
Debt instruments	41	72	18	37
Instruments measured at amortized cost	3	16	(13)	(9)
Loan receivables from clients measured at amortized cost	9	28	32	33
Derivatives	(7)	(8)	(13)	(31)
Short sale	4	4	2	5
Receivables	(26)	(84)	(12)	(39)
Investment property	3	3	6	-
Other	-	-	1	1
Net result on realization of financial instruments and investments	**104**	**211**	**(33)**	**38**

(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 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Investment financial assets	2	28	(6)	(3)
Debt instruments measured at fair value through other comprehensive income	2	6	3	1
Instruments measured at amortized cost	-	22	(9)	(4)
- debt instruments	-	(9)	1	9
- term deposits with credit institutions	1	-	1	-
- loans	(1)	31	(11)	(13)
Loan receivables from clients	(517)	(1,583)	(457)	(1,226)
Measured at amortized cost	(518)	(1,566)	(458)	(1,231)
Measured at fair value through other comprehensive income	1	(17)	1	5
Receivables	14	14	(10)	(51)
Associates	-	(3)	2	(3)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(501)**	**(1,544)**	**(471)**	**(1,283)**

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 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Investment financial instruments measured at fair value through profit or loss	192	501	100	91
Equity instruments	(31)	53	75	(136)
Debt securities	209	241	54	300
Participation units and investment certificates	14	207	(29)	(73)
Derivatives	(387)	(266)	121	396
Measurement of liabilities to members of consolidated mutual funds	(1)	(5)	3	18
Investment contracts for the client’s account and risk (unit-linked)	(1)	(7)	6	16
Investment property	(16)	(88)	(31)	79
Loan receivables from clients	1	-	2	2
Net movement in fair value of assets and liabilities measured at fair value, total	**(212)**	**135**	**201**	**602**

(in millions of PLN)

8.7 Other operating income

Other operating income	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	153	446	130	427
Revenues from direct claims handling on behalf of other insurance undertakings	53	162	45	145
Reversal of provisions [1)]	52	240	170	409
Reimbursement of the costs of pursuit of claims	12	33	13	27
Reinsurance commissions and profit participation	15	44	11	33
Reversal of impairment losses for non-financial assets	7	13	9	17
Indemnity received	4	17	2	11
Interest for late payment of amounts due under direct insurance and outward reinsurance	8	24	5	19
Gain from sale of property, plant and equipment	1	2	7	17
Other	55	136	29	111
Other operating income, total	**360**	**1,117**	**421**	**1,216**

[1)] including a reversal of PLN 233 million by the banks of a provision for guarantees and sureties given (1 January - 30 September 2018: PLN 356 million).

8.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Claims, benefits and movement in technical provisions	**4,095**	**12,219**	**3,757**	**11,261**
In non-life insurance	2,472	7,181	2,291	6,706
- claims and benefits	2,025	5,985	1,898	5,463
- movement in technical provisions	250	585	201	663
- claims handling expenses	197	611	192	580
In life insurance	1,623	5,038	1,466	4,555
- claims and benefits	1,517	4,628	1,450	4,527
- movement in technical provisions	72	310	(15)	(69)
- claims handling expenses	34	100	31	97
Reinsurers' share in claims, benefits and movement in technical provisions	**(104)**	**(299)**	**(118)**	**(277)**
In non-life insurance	(104)	(299)	(118)	(277)
Total net insurance claims and benefits	**3,991**	**11,920**	**3,639**	**10,984**

(in millions of PLN)

8.9 Fee and commission expenses

Fee and commission expenses	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Costs of card and ATM transactions, including card issue costs	149	388	121	323
Commissions on acquisition of banking clients	25	66	20	55
Fees for the provision of ATMs	12	33	13	34
Costs of awards to banking clients	4	12	4	11
Costs of bank transfers and remittances	5	26	7	26
Additional services attached to banking products	6	19	7	21
Brokerage fees	3	11	4	12
Costs of administration of bank accounts	1	3	1	3
Costs of banknote operations	6	13	4	11
Fiduciary activity expenses	5	14	5	14
Other commission	13	35	11	40
Total fee and commission expenses	**229**	**620**	**197**	**550**

8.10 Interest expenses

Interest expenses	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Term deposits	240	744	264	805
Current deposits	135	403	115	316
Own debt securities issued	102	322	97	287
Hedge derivatives	4	7	1	4
Loans	15	20	13	18
Repurchase transactions	22	43	15	45
Bank loans contracted by PZU Group companies	7	23	2	7
Leases	8	22	-	-
Other	8	22	9	26
Total interest expenses	**541**	**1,606**	**516**	**1,508**

(in millions of PLN)

8.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Consumption of materials and energy	46	159	70	214
Third party services	398	1,160	420	1,248
Taxes and charges	30	86	32	81
Employee expenses	1,154	3,536	1,126	3,551
Depreciation of property, plant and equipment	161	467	97	286
Amortization of intangible assets	94	282	89	259
Other, including:	784	2,393	722	2,280
- commissions in insurance activities	610	1,861	558	1,757
- advertising	71	200	48	178
- remuneration of group insurance administrators in work establishments	52	155	51	154
- other	51	177	65	191
Movement in deferred acquisition expenses	52	8	41	(7)
Administrative, acquisition and claims handling expenses, total	**2,719**	**8,091**	**2,597**	**7,912**

8.12 Other operating expenses

Other operating expenses	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Levy on financial institutions	283	852	274	816
Expenses of the core business of non-insurance and non-banking companies	185	543	170	526
Direct claims handling expenses on behalf of other insurance undertakings	55	168	47	150
Compulsory payments to insurance market institutions and banking market institutions	25	107	33	86
Bank Guarantee Fund	32	579	47	324
Insurance Indemnity Fund	16	50	17	52
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	3	22	3	24
Expenditures for prevention activity	9	28	22	53
Establishment of provisions [1)]	147	480	181	430
Amortization of intangible assets purchased in company acquisition transactions	57	173	83	250
Recognition of impairment losses for non-financial assets	1	5	-	10
Donations	2	25	1	25
Costs of pursuit of claims	26	64	18	56
Other	22	116	51	231
Other operating expenses, total	**863**	**3,212**	**947**	**3,033**

[1)] including the establishment of a provision of PLN 266 million by the banks for guarantees and sureties given (1 January - 30 September 2018: PLN 362 million). Moreover, in the period from 1 January to 30 September 2019, a provision of PLN 86 million was established for the expected reimbursement of loan costs due to the 11 September 2019 CJEU judgment. Additional information on this issue is presented in item 8.27.

(in millions of PLN)

8.13 Earnings per share

Earnings per share	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Net profit attributable to the equity holders of the parent company	879	2,360	1,017	2,427
Weighted average basic and diluted number of common shares	863,302,480	863,280,102	863,265,576	863,382,147
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(220,520)	(242,898)	(257,424)	(140,853)
Basic and diluted earnings (losses) per common share (PLN)	1.02	2.73	1.18	2.81

In the 9 month period ended 30 September 2019, there were no transactions or events resulting in the dilution of earnings per share.

8.14 Income tax

Total amount of current and deferred tax	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Recognized through profit or loss	(470)	(1,372)	(473)	(1,244)
- current tax	(562)	(1,398)	(667)	(1,582)
- deferred tax	92	26	194	338
Recognized in other comprehensive income (deferred tax)	(45)	(157)	30	53
Total amount of current and deferred tax	**(515)**	**(1,529)**	**(443)**	**(1,191)**

Income tax on other comprehensive income items	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross other comprehensive income	279	857	(175)	(238)
Income tax	(45)	(157)	30	53
Investment financial instruments measured at fair value through other comprehensive income	(32)	(116)	24	55
Measurement of loan receivables from clients	(1)	(5)	1	(8)
Cash flow hedging transactions	(12)	(36)	5	6
Net other comprehensive income	**234**	**700**	**(145)**	**(185)**

8.15 Goodwill

Goodwill	30 September 2019	31 December 2018
Pekao [1)]	2,269	2,269
Alior Bank	746	746
Lietuvos Draudimas AB [2)]	485	476
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	39	39
Medical companies	169	115
Other	5	5
Total goodwill	**3,934**	**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.

(in millions of PLN)

The increased goodwill of medical companies resulted from the acquisition of new entities: Falck CM, Starówka sp. z o.o. and Alergo-Med Tarnów sp. z o.o. More information on these transactions is presented in section 1.4.1.

8.16 Intangible assets

Intangible assets by type groups	30 September 2019	31 December 2018
Software, licenses and similar assets	1,220	1,250
Trademarks	614	611
Client relations	780	953
Intangible assets under development	388	354
Other intangible assets	11	12
Total intangible assets	**3,013**	**3,180**

8.17 Other assets

Other assets	30 September 2019	31 December 2018
Reinsurance settlements	69	105
Estimated salvage and subrogation	163	183
Deferred IT expenses	75	72
Accrued direct claims handling receivables	56	56
Inventories	45	51
Payments for taxes on property, means of transport and land	6	3
Payments for the costs of the allowance to the Company Social Benefit Fund	13	-
Accrued commissions	11	6
Other assets	109	86
Total other assets	**547**	**562**

8.18 Property, plant and equipment

Property, plant and equipment by groups by type	30 September 2019	31 December 2018
Plant and machinery	577	529
Means of transport	181	138
Property, plant and equipment under construction	110	198
Real property	3,009	2,078
Other property, plant and equipment	262	241
Total property, plant and equipment	**4,139**	**3,184**

8.19 Loan receivables from clients

Loan receivables from clients	30 September 2019	31 December 2018
Measured at amortized cost	191,747	180,240
Measured at fair value through other comprehensive income	1,617	1,511
Measured at fair value through profit or loss	256	303
Total loan receivables from clients	**193,620**	**182,054**

(in millions of PLN)

Loan receivables from clients – measured at amortized cost	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount	169,397	17,639	9,809	6,471	203,316	159,612	16,069	7,855	7,165	190,701
Expected credit losses	(886)	(1,257)	(4,832)	(4,594)	(11,569)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Net carrying amount	**168,511**	**16,382**	**4,977**	**1,877**	**191,747**	**158,742**	**14,880**	**4,254**	**2,364**	**180,240**

Loan receivables from clients – measured at fair value through other comprehensive income	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Carrying amount	998	619	-	-	1,617	1,511	-	-	-	1,511
Expected credit losses	(6)	(26)	-	-	(32)	(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	30 September 2019	31 December 2018
Retail segment	**103,952**	**97,567**
Operating loans	236	251
Consumer finance	29,259	27,380
Consumer finance loans	2,340	2,563
Loan to purchase securities	65	69
Overdrafts in credit card accounts	1,092	1,124
Loans for residential real estate	69,904	65,092
Other mortgage loans	816	830
Other receivables	240	258
Business segment	**89,668**	**84,487**
Operating loans	34,538	34,371
Car financing loans	21	35
Investment loans	27,277	26,166
Receivables purchased (factoring)	5,542	9,225
Overdrafts in credit card accounts	122	131
Loans for residential real estate	162	128
Other mortgage loans	9,184	8,560
Financial leases	10,633	5,327
Other receivables	2,189	544
Total loan receivables from clients	**193,620**	**182,054**

(in millions of PLN)

8.20 Financial derivatives

Derivatives	30 September 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**2,738**	**3,321**	**1,971**	**2,933**
Fair value hedging instruments – SWAP transactions	-	190	21	144
Cash flow hedging instruments – SWAP transactions	483	595	374	770
Instruments held for trading, including:	2,255	2,536	1,576	2,019
- FRA transactions	-	-	2	2
- SWAP transactions	2,240	2,529	1,564	2,012
- call options (purchase)	5	1	6	2
- put options (sale)	10	6	4	3
Foreign exchange derivatives	**598**	**487**	**302**	**250**
Cash flow hedging instruments – SWAP transactions	111	72	31	1
Instruments held for trading, including:	487	415	271	249
- forward contracts	200	189	92	131
- SWAP transactions	189	133	115	54
- call options (purchase)	72	37	46	22
- put options (sale)	26	56	18	42
Equity derivatives – held for trading	**91**	**52**	**78**	**49**
- forward contracts	-	-	10	13
- call options (purchase)	91	2	66	2
- put options (sale)	-	50	2	34
Commodity derivatives – held for trading	**63**	**59**	**136**	**133**
- forward contracts	9	8	35	34
- SWAP transactions	18	18	46	45
- call options (purchase)	26	3	21	5
- put options (sale)	10	30	34	49
Total derivatives	**3,490**	**3,919**	**2,487**	**3,365**

(in millions of PLN)

8.21 Investment financial assets

Investment financial assets	30 September 2019				31 December 2018			
	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss	Total
Equity instruments	n/a	556	880	1,436	n/a	522	1,220	1,742
Participation units and investment certificates	n/a	n/a	4,597	4,597	n/a	n/a	4,298	4,298
Debt securities	37,848	45,800	5,087	88,735	34,652	38,215	12,176	85,043
Government securities	30,797	33,487	4,937	69,221	27,501	26,167	11,986	65,654
Domestic	30,590	31,398	4,794	66,782	27,349	23,419	10,793	61,561
Fixed rate	27,393	20,656	3,085	51,134	24,074	10,745	8,893	43,712
Floating rate	3,197	10,742	1,709	15,648	3,275	12,674	1,900	17,849
Foreign	207	2,089	143	2,439	152	2,748	1,193	4,093
Fixed rate	207	2,089	143	2,439	152	2,748	1,193	4,093
Other	7,051	12,313	150	19,514	7,151	12,048	190	19,389
Fixed rate	904	4,425	41	5,370	1,323	4,501	39	5,863
Floating rate	6,147	7,888	109	14,144	5,828	7,547	151	13,526
Other, including:	10,526	-	-	10,526	10,582	-	-	10,582
Buy-sell-back transactions	4,788	-	-	4,788	3,278	-	-	3,278
Term deposits with credit institutions	1,246	-	-	1,246	2,769	-	-	2,769
Loans	4,492	-	-	4,492	4,535	-	-	4,535
Investment financial assets, total	**48,374**	**46,356**	**10,564**	**105,294**	**45,234**	**38,737**	**17,694**	**101,665**

Equity instruments measured at fair value through other comprehensive income	30 September 2019	31 December 2018
Grupa Azoty SA	279	257
Biuro Informacji Kredytowej SA	191	173
Polimex-Mostostal SA	30	38
PSP sp. z o.o.	25	22
Krajowa Izba Rozliczeniowa SA	14	13
Other	17	19
Equity instruments measured at fair value through other comprehensive income, total	**556**	**522**

Debt securities – measured at amortized cost	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount	37,564	338	34	-	37,936	34,657	35	33	2	34,727
Expected credit losses	(35)	(19)	(34)	-	(88)	(35)	(7)	(33)	-	(75)
Net carrying amount	**37,529**	**319**	**-**	**-**	**37,848**	**34,622**	**28**	**-**	**2**	**34,652**

Debt securities – measured at fair value through other comprehensive income	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount	45,628	172	-	-	45,800	38,142	73	-	-	38,215
Expected credit losses	(28)	(1)	-	-	(29)	(37)	(3)	-	-	(40)

(in millions of PLN)

Term deposits with credit institutions	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount	1,245	1	-	-	1,246	2,770	1	9	-	2,780
Expected credit losses	-	-	-	-	-	(2)	-	(9)	-	(11)
Net carrying amount	**1,245**	**1**	**-**	**-**	**1,246**	**2,768**	**1**	**-**	**-**	**2,769**

Loans	30 September 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	POCI	Total	Basket 1	Basket 2	Basket 3	POCI	Total
Gross carrying amount	4,521	-	-	-	4,521	4,595	-	-	-	4,595
Expected credit losses	(29)	-	-	-	(29)	(60)	-	-	-	(60)
Net carrying amount	**4,492**	**-**	**-**	**-**	**4,492**	**4,535**	**-**	**-**	**-**	**4,535**

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.

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	30 September 2019	31 December 2018
Lithuania	730	638
Latvia	135	90
Ukraine	135	90
Romania	128	157
Croatia	127	152
Indonesia	90	71
Columbia	88	42
Brazil	83	57
Panama	77	36
Bulgaria	74	75
Russia	72	69
Philippines	64	42
Hungary	60	117
Dominican Republic	57	42
Oman	55	41
South Africa	53	35
Uruguay	52	42
Other	359 [1)]	2,297 [2)]
Total	**2,439**	**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: Australia, Azerbaijan, Bahrain, Belarus, Belgium, Bolivia, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, France, Germany, Ghana, Guatemala, Holland, Honduras, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Mexico, Mongolia, Morocco, Namibia, Nigeria, Paraguay, Peru, Qatar, Saudi Arabia, Senegal, Serbia, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, Uzbekistan, United Kingdom, United States, Vietnam.

[2)] The Other line item states Albania, Argentina, Armenia, Australia, Azerbaijan, Belarus, Belgium, Bolivia, Cameroon, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, Ethiopia, France, Germany, Ghana, Greece, Guatemala, Holland, Honduras, India, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Morocco, Mexico, Mongolia, Namibia, Nigeria, Paraguay, Peru, Portugal, Senegal, Serbia, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, United Kingdom, United States, Vietnam.

(in millions of PLN)

Exposure to debt securities issued by corporations and local government units

Issuer	30 September 2019	31 December 2018
National Bank of Poland	261	2,999
Domestic local governments	6,407	5,710
Foreign banks	4,595	3,495
Companies from the WIG-Energy Index	2,110	1,183
Manufacturing	1,196	978
Financial and insurance services	810	725
Public utility services	401	759
Companies from the WIG-Banks Index	565	452
Transportation and storage	659	1,232
Energy and fuel sector companies (including: WIG-Fuels index companies)	666	1,173
Mining and quarrying (including companies included in the WIG-Mining index)	423	130
Construction and real estate market service	409	158
Other professional, scientific and technical activity	402	136
Arts, entertainment and recreation activity (including WIG - hotels and restaurants index companies)	294	188
Information and communication (including: WIG - Telecommunications index companies)	205	4
Other	111	67
Total	**19,514**	**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 9 month period ended 30 September 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.

8.22.1.3. Participation units and investment certificates of mutual funds

Fair values of participation units and investment certificates of mutual funds are measured using the value of the participation units and investment certificates published by the mutual fund companies. In the event that participation units and investment certificates are quoted on an active market, their fair value is determined on the basis of quotations publicly available on an active market.

8.22.1.4. Derivatives

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

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

The fair value of options 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.

8.22.1.5. 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.

8.22.1.6. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

8.22.1.7. 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;
  - liabilities on borrowed securities 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.
Investment property and property designated for sale	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
Investment property and property designated for sale	Monthly rental rate per 1 m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Equity instruments not quoted on an active market		Quotations of financial services	

8.22.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 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	28,806	10,302	7,248	46,356	22,200	9,329	7,208	38,737
Equity instruments	320	1	235	556	309	1	212	522
Debt securities	28,486	10,301	7,013	45,800	21,891	9,328	6,996	38,215
Investment financial assets measured at fair value through profit or loss	5,621	4,714	229	10,564	12,758	4,684	252	17,694
Equity instruments	704	-	176	880	1,105	-	115	1,220
Participation units and investment certificates	108	4,472	17	4,597	102	4,182	14	4,298
Debt securities	4,809	242	36	5,087	11,551	502	123	12,176
Loan receivables from clients	-	-	1,873	1,873	-	-	1,814	1,814
Measured at fair value through other comprehensive income	-	-	1,617	1,617	-	-	1,511	1,511
Measured at fair value through profit or loss	-	-	256	256	-	-	303	303
Financial derivatives	3	3,388	99	3,490	35	2,384	68	2,487
Investment property	-	145	1,677	1,822	-	141	1,556	1,697
Liabilities								
Derivatives	7	3,854	58	3,919	34	3,295	36	3,365
Liabilities to members of consolidated mutual funds	-	70	-	70	-	266	-	266
Investment contracts for the client's account and risk *(unit-linked)*	-	259	-	259	-	266	-	266
Liabilities on borrowed securities (short sale)	803	-	-	803	120	-	-	120

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 September 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	-	900	-	-	503	16	13	224	-	130
Reclassification from Level II [1]	-	561	-	-	-	2	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	-	-	-	2
Profit or loss recognized in the profit and loss account as:	-	128	56	3	4	42	33	10	(3)	(52)
- net investment income	-	124	-	-	1	(1)	-	10	(3)	-
- net result on realization of financial instruments and properties	-	4	-	-	1	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	56	3	2	43	33	-	-	(52)
Profits or losses recognized in other comprehensive income	23	29	-	-	-	-	-	12	-	-
Sale and settlements	-	(1,289)	-	-	(594)	(29)	(24)	(140)	(44)	(3)
Reclassification to Level II [1]	-	(312)	-	-	-	-	-	-	-	-
Foreign exchange differences	-	-	5	-	-	-	-	-	-	1
Balance at the end of the period	**235**	**7,013**	**176**	**17**	**36**	**99**	**58**	**1,617**	**256**	**1,677**

[1] Information on the restatements is presented in item 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 [1)]	-	190	-	-	-	-	-	-	-	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 [1)]	-	(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 the restatements is presented in item 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	30 September 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	-	-	6	6	-	-	14	14
Loan receivables from clients measured at amortized cost	-	-	191,680	191,680	-	-	181,635	181,635
Investment financial assets measured at amortized cost	28,026	3,955	20,587	52,568	24,251	2,301	21,541	48,093
Debt securities	28,026	980	12,951	41,957	24,251	1,239	11,900	37,390
Buy-sell-back transactions	-	2,796	1,992	4,788	-	126	3,153	3,279
Term deposits with credit institutions	-	179	1,070	1,249	-	936	1,830	2,766
Loans	-	-	4,574	4,574	-	-	4,658	4,658
Liabilities								
Liabilities to banks	-	593	5,592	6,185	-	781	5,280	6,061
Liabilities to clients under deposits	-	-	214,370	214,370	-	-	207,668	207,668
Liabilities on the issue of own debt securities [1)]	-	6,345	2,949	9,294	-	5,295	6,800	12,095
Subordinated liabilities [1)]	-	2,386	4,089	6,475	-	2,013	4,043	6,056
Liabilities on account of repurchase transactions	-	1,273	-	1,273	-	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 9-month period ended 30 September 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 9-month period ended 30 September 2019, the following reclassifications of assets between fair value levels were 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, municipal and corporate bonds for which the estimated credit parameters had no significant impact on their measurement and capital market derivatives 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	30 September 2019	31 December 2018
Receivables on direct insurance, including:	2,441	2,574
- receivables from policyholders	2,292	2,438
- receivables from insurance intermediaries	109	112
- other receivables	40	24
Reinsurance receivables	58	115
Other receivables	3,686	3,654
- receivables from disposal of securities and security deposits [1)]	1,547	1,632
- receivables on account of payment card settlements	1,014	992
- trade receivables	297	340
- receivables from the state budget, other than corporate income tax receivables	138	237
- receivables by virtue of commissions concerning off-balance sheet products	158	178
- prevention settlements	45	46
- receivables from direct claims handling on behalf of other insurance undertakings	25	27
- receivables for acting as an emergency adjuster	14	14
- receivables on account of Corporate Income Tax	18	6
- receivables from security and bid deposits	39	34
- interbank and interbranch receivables	149	7
- receivables on account of a subsidy from the Bank Guarantee Fund	110	-
- other	132	141
Total receivables	**6,185**	**6,343**

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

As at 30 September 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 30 September 2019 was PLN 1,036 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	30 September 2019	31 December 2018
Groups held for sale	**782**	**1,021**
Assets	829	1,070
Investment property	770	973
Receivables	10	12
Deferred tax assets	4	5
Cash and cash equivalents	42	76
Other assets	3	4
Liabilities related directly to assets classified as held for sale	47	49
Deferred tax liability	24	27
Other liabilities	19	22
Financial liabilities	4	-
Other assets held for sale	**245**	**77**
Property, plant and equipment	69	34
Investment property	176	43
Assets and groups of assets held for sale	**1,074**	**1,147**
Liabilities related directly to assets classified as held for sale	**47**	**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 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 30 September 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)

8.26 Technical provisions

Technical provisions	30 September 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**23,868**	**(1,361)**	**22,507**	**23,508**	**(1,512)**	**21,996**
Provision for unearned premiums	8,175	(392)	7,783	8,416	(594)	7,822
Provision for unexpired risk	10	-	10	10	-	10
Provisions for outstanding claims and benefits	9,648	(768)	8,880	9,098	(724)	8,374
- for reported claims	3,511	(665)	2,846	3,280	(603)	2,677
- for claims not reported (IBNR)	4,121	(79)	4,042	3,939	(103)	3,836
- for claims handling expenses	2,016	(24)	1,992	1,879	(18)	1,861
Provision for the capitalized value of annuities	6,032	(201)	5,831	5,981	(194)	5,787
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Technical provisions in life insurance	**22,665**	**-**	**22,665**	**22,331**	**-**	**22,331**
Provision for unearned premiums	100	-	100	99	-	99
Life insurance provision	16,332	-	16,332	16,204	-	16,204
Provisions for outstanding claims and benefits	589	-	589	592	-	592
- for reported claims	149	-	149	152	-	152
- for claims not reported (IBNR)	434	-	434	434	-	434
- for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	5	-	5	4	-	4
Other technical provisions	235	-	235	256	-	256
Unit-linked provision	5,404	-	5,404	5,176	-	5,176
Total technical provisions	**46,533**	**(1,361)**	**45,172**	**45,839**	**(1,512)**	**44,327**

8.27 Other provisions

Movement in other provisions in the period ended 30 September 2019	Balance at the beginning of the period	Increase	Utilization	Termination	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	316	266	-	(233)	1	350
Provision for disputed claims and potential liabilities	67	108 [1)]	(9)	(5)	3	164
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	-	-	-	-	85
Provision for restructuring expenses	20	92	(48)	(1)	-	63
Other	31	14	(8)	(1)	-	36
Total other provisions	**519**	**480**	**(65)**	**(240)**	**4**	**698**

[1)] including 86 million provision for reimbursement of loan costs due to the CJEU judgment.

(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**

Provision for disputed claims and potential liabilities

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

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

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

In connection with the CJEU judgment, the PZU Group estimated the amount of expected refunds of credit costs at PLN 86 million, for which it established a provision on 30 September 2019. The amount of this provision corresponds to the best possible estimate based on historical data on early repayments of consumer loans and on the observed historical number of received complaints regarding the pro rata refund of commissions, including in the period following the CJEU ruling, as well as taking into account the expectation of trends in the number of future complaints. However, this estimate is burdened with a significant level of uncertainty resulting from the volatility in the observed trends in the number of complaints that is difficult to estimate.

The PZU Group keeps monitoring the level of complaints regarding the pro rata refund of commissions. If, in the future, the trend significantly deviates from the current assumptions, the amount of the provision may be changed.

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 PLN 57 million pertains to the penalty imposed on PZU in the proceedings of the President of the Office of Competition and Consumer Protection. Additional information on this matter is presented in section 23.2.

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

(in millions of PLN)

Provision for restructuring expenses

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.

In the period from 26 April 2019 to 31 October 2019, the Management Board of Pekao intends to terminate employment contracts with a maximum of 900 employees and modify employment conditions to a maximum of 620 employees.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs has been estimated at PLN 85 million and the restructuring provision in this amount has been established for this purpose. As at 30 September 2019, the value of this provision was PLN 47 million.

8.28 Financial liabilities

Financial liabilities	30 September 2019	31 December 2018
Financial liabilities measured at fair value	**5,051**	**4,017**
Derivatives held for trading	3,062	2,450
Cash flow hedge derivatives	667	771
Fair value hedge derivatives	190	144
Liabilities on borrowed securities (short sale)	803	120
Investment contracts for the client's account and risk (unit-linked)	259	266
Liabilities to members of consolidated mutual funds	70	266
Financial liabilities measured at amortized cost	**237,735**	**232,299**
Liabilities to banks	6,164	6,044
Current deposits	2,237	1,058
One-day deposits	2	207
Term deposits	164	7
Loans received	3,470	4,386
Other liabilities	291	386
Liabilities to clients under deposits	213,489	207,635
Current deposits	143,594	137,559
Term deposits	69,136	69,350
Other liabilities	759	726
Liabilities on the issue of own debt securities	9,215	12,009
Subordinated liabilities	6,433	6,061
Liabilities on account of repurchase transactions	1,273	540
Lease liabilities	1,161	10
Total financial liabilities	**242,786**	**236,316**

8.28.1. Subordinated liabilities

	Par value (in millions)	Curren-cy	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 September 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	2,259	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	559	548
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	203	196
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	354	-
Liabilities classified as Alior Bank's equity						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	44	43
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	222	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	193	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	149	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	612	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68
Meritum Bank series C bonds [1)]	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	44	44
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	153	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	152	150
Subordinated liabilities					**6,433**	**6,061**

[1)] On 21 October 2019, Alior Bank effected an early redemption of the bonds.

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 Alior Bank.

8.28.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 September 2019	31 December 2018
Bonds of PZU Finance AB (publ.)	-	3,676
Alior Bank bonds	611	268
Pekao bonds	2,637	1,978
Certificates of deposit	4,596	4,542
Covered bonds	1,371	1,545
Liabilities on the issue of own debt securities	**9,215**	**12,009**

(in millions of PLN)

Bonds classified as measured at amortized cost

The liabilities of PZU Finance AB (publ.) under the bonds have been repaid in accordance with the maturity date as at 3 July 2019.

8.29 Other liabilities

Other liabilities	30 September 2019	31 December 2018
Accrued expenses	**1,365**	**1,578**
Accrued expenses of agency commissions	349	361
Accrued sales commission expenses in group insurance	2	2
Accrued payroll expenses	202	192
Accrued reinsurance expenses	182	373
Accrued employee bonuses	356	345
Other	274	305
Deferred revenue	**336**	**282**
Other liabilities	**6,186**	**5,547**
Liabilities due under transactions on financial instruments	859	909
Liabilities to banks for payment documents cleared in interbank clearing systems	1,673	934
Liabilities on direct insurance	933	835
Liabilities on account of payment card settlements	463	419
Regulatory settlements	227	165
Liabilities for contributions to the Bank Guarantee Fund	346	182
Reinsurance liabilities	182	269
Estimated non-insurance liabilities	78	157
Liabilities to employees	100	141
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	77	98
Trade liabilities	240	367
Current income tax liabilities	411	570
Liabilities to the state budget other than for income tax	117	111
Liabilities on account of donations	23	25
Banks' liabilities for insurance of bank products offered to their clients	10	20
Insurance Indemnity Fund	14	15
Liabilities for direct claims handling	29	30
Liabilities for reimbursement of loan costs due to the CJEU judgment	45	-
Other	359	300
Other liabilities, total	**7,887**	**7,407**

9. Financial assets securing receivables, liabilities and contingent liabilities

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

(in millions of PLN)

Carrying amount of financial assets pledged as collateral for liabilities and contingent liabilities	30 September 2019	31 December 2018
Carrying amount of financial assets pledged as collateral for liabilities	9,515	8,254
Repurchase transactions	1,272	543
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,014	1,043
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	117	95
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	301	133
Lombard and technical credit	3,804	3,700
Other loans	710	569
Debt securities issued	1,751	1,462
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	39	54
Derivative transactions	507	655
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**9,515**	**8,254**

10. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2019	31 December 2018
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	61,112	57,667
- for renewable limits in settlement accounts and credit cards	11,666	13,211
- for loans in tranches	31,393	28,523
- guarantees and sureties given	8,817	7,682
- disputed insurance claims	655	576
- other disputed claims	209	231
- other, including:	8,372	7,444
- guaranteeing securities issues	3,941	4,470
- factoring	3,177	1,275
- intra-day limit	362	755
- letters of credit and commitment letters	702	822
- other	190	122

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

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB (publ.) applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019, PZU Finance AB (publ.) received a ruling under which the FX differences arising on repayment of the loan should be subject to taxation, while the FX differences arising on repayment of the bonds are not subject to taxation. On 3 April 2019, PZU Finance AB (publ.) appealed to the Supreme Court of Administration (Högsta förvaltningsdomstolen). The Board's interpretation, if it is upheld by the Swedish Supreme Court of Administration (Högsta förvaltningsdomstolen) would mean that a different approach is applied in Sweden to companies reporting in the Euro than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of the Act. The PZU Group believes that such an approach would stand in contradiction with Article 63 of the Treaty on the Functioning of the European Union (TFEU) concerning the necessity to ensure unrestricted movement of capital in the EU, or Articles 49 and 54 of TFEU concerning the freedom of business activity.

Accordingly, the PZU Group recognized a contingent liability of PLN 79 million (equivalent to SEK 193 million).

11. Commentary to the condensed interim consolidated financial statements

In the period of 9 months ended 30 September 2019, gross written premium was PLN 17,501 million compared to PLN 17,258 million in the corresponding period of the previous year (+1.4%). The increase in sales applied above all to the following:

- growth of sales in foreign companies (+PLN 170 million), mainly motor insurance and health insurance in the Baltic states segment;
- protection products in endowments and term insurance offered in own channels and the portfolio of protection products in the bancassurance channel;
- growth of the group health product portfolio;
- active upsales of insurance riders in individually continued products.

The increases were partially offset by the lower premium in the mass insurance segment caused by a decline in written premium in motor TPL insurance (a decrease in the number of policies coupled with a slight decrease in the average premium). Moreover, a lower premium was generated in insurance against fire and other damage to property in the corporate client segment – a single high-value long-term agreement was signed in the corresponding period of 2018.

Investment income including interest expenses in the first 3 quarters of 2019 and in the first 3 quarters of 2018 was PLN 6,795 million and PLN 5,916 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 fell slightly by 0.6% after Q3 2019 versus a decrease of 7.5% 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 11,920 million and were 8.5% 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 higher investment result on most unit-linked product portfolios compared to the results generated last year;
- in insurance against fire and other damage to property – above-average number of losses caused by atmospheric phenomena.

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 the first 3 quarters of 2019, acquisition expenses went up PLN 180 million compared to the corresponding period of the previous year. The increase was driven mainly by a change in the structure of sales channels in PZU and growth of sales in foreign operations.

PZU Group's administrative expenses in the first 3 quarters of 2019 were PLN 4,900 million compared to PLN 4,935 million in the corresponding period of 2018, i.e. went down by PLN 35 million compared to the previous year.

Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) dropped by PLN 104 million thanks to maintaining cost discipline. At the same time, the administrative expenses of the insurance segments in Poland were PLN 47 million higher compared to the previous year. This change largely resulted from higher personnel costs in connection with the wage pressure on the market.

At the end of Q3 2019, the balance of other operating income and expenses was negative and stood at PLN 2,095 million, compared to the balance in 2018, which was also negative at a level of PLN 1,817 million.

The following contributed to this result:

- increase in the BFG charges from PLN 324 million in the first 3 quarters of 2018 to PLN 579 million in 2019 as a result of a higher charge towards compulsory restructuring;

- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in the first 3 quarters of 2019 was PLN 852 million compared to PLN 816 million in the previous year.

In the first 3 quarters of 2019, operating profit hit PLN 5,058 million, down by PLN 63 million (-1.2%) 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;
- lower profitability in the mass insurance segment – the effect of an increase in the loss ratio in insurance against fire and other damage to property as a result of an above-average number of losses caused by atmospheric phenomena;
- decline in the result in the corporate insurance segment (PLN -91 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 MOD insurance;
- higher result on individual insurance due to the expanding portfolio of high-margin protection insurance, in both own channels and bancassurance channels;
- lower profitability in group and individually continued insurance (PLN -33 million) with a growing health insurance portfolio as a result of an increase in the loss ratio of certain risks in the group protection portfolio and an increase in operating expenses;
- lower result generated by the banking segment (PLN -297 million), driven down mainly by additional burdens, including the higher y/y BFG charge for the bank restructuring fund, and the unfavorable impact of the CJEU judgment regarding consumer loans.

Net profit declined in comparison to the first Q3 quarters of 2018 by PLN 193 million (-5.0%) to PLN 3,684 million. Net profit attributable to the parent company's shareholders was PLN 2,360 million compared to PLN 2,427 million in the corresponding period of 2018 (down 2.8%).

As at 30 September 2019, consolidated equity according to IFRS was PLN 37,992 million compared to PLN 35,825 as at 30 September 2018. Growth pertained to the equity attributable to the parent company's shareholders and non-controlling interests. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2019 to 30 September 2019 was 20.8%, down 2.2 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2018, equity increased by PLN 585 million. The value of non-controlling interests increased compared to the previous year by PLN 160 million to reach PLN 22,642 million, its movement driven by the result attributable to non-controlling shareholders of PLN 1,324 million (generated by Alior Bank and Pekao), an increase in the valuation of debt and hedging derivatives measured at fair value through other comprehensive income and the Pekao dividend attributable to non-controlling shareholders of PLN 1,385 million. Equity attributable to the parent company's shareholders rose by PLN 425 million compared to the end of the previous year, driven predominantly by the net result attributable to the parent company generated in the first 3 quarters of 2019 totaling PLN 2,360 million, an increase in the valuation of debt instruments measured at fair value through other comprehensive income and the distribution of PZU's profit for 2018, including the allocation of PLN 2,418 million for dividend disbursement.

Total equity and liabilities as at 30 September 2019 increased compared to 31 December 2018 by PLN 8,615 million to PLN 337,169 million. The increase pertained mainly to financial liabilities (+PLN 6,470 million) and technical provisions (+PLN 694 million).

The investment portfolio[3] as at 30 September 2019 and 31 December 2018, excluding the impact of the banking business, was PLN 48,777 million and PLN 50,270 million, respectively. The decrease in the value of the investment portfolio was associated with the repayment of EUR-denominated own bonds and the disbursement of a dividend by PZU. Loan receivables as at 30 September 2019 were PLN 193,620 million, compared to PLN 182,054 million as at 31 December 2018.

[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 largest component of equity and liabilities at the end of Q3 2019 were financial liabilities accounting for 72.0%. 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. At the same time, a decrease was recorded in liabilities on the issue of own debt securities in connection with the repayment of own bonds in the amount of EUR 850 million in July 2019.

The value of technical provisions as at the end of Q3 2019 was PLN 46,533 million and accounted for 13.8% of total equity and liabilities. Compared to 31 December 2018, provisions rose by PLN 694 million. This change resulted primarily from the following:

- 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.

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

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- 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.

(in millions of PLN)

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 2018 report published on 27 May 2019 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. 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 2018 published in the PZU Group's 2018 solvency and financial condition report was 233%. The solvency ratio (standalone and consolidated alike) reported to KNF not audited by an audit firm as at the end of H1 2019 stayed above the level of 200%.

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

Segment	Accounting standards	Segment description	Aggregation criteria
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by 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 contracts. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 on the classification of products as insurance contracts (subject to IFRS 4) or investment contracts (measured according to IAS 9). In the case of the latter the written premium is not recognized.

13.5 Simplifications in the segmental note

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

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

(in millions of PLN)

- not allocating other revenues and costs to the segment called „investments" besides realized and unrealized revenues and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation.

13.6 Quantitative data

Corporate insurance (non-life insurance)	**1 July – 30 September 2019**	**1 January – 30 September 2019**	**1 July – 30 September 2018**	**1 January – 30 September 2018**
Gross written premium – external	590	1,995	532	2,052
Gross written premium – cross-segment	(1)	5	1	2
Gross written premiums	**589**	**2,000**	**533**	**2,054**
Movement in provision for unearned premiums and gross provision for unexpired risks	168	240	169	3
Gross earned premium	**757**	**2,240**	**702**	**2,057**
Reinsurers' share in gross written premium	(76)	(234)	(34)	(324)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(61)	(169)	(82)	12
Net earned premiums	**620**	**1,837**	**586**	**1,745**
Investment income, including:	32	81	23	86
external operations	32	81	23	86
intersegment operations	-	-	-	-
Other net technical income	7	31	17	46
Income	**659**	**1,949**	**626**	**1,877**
Net insurance claims and benefits	(457)	(1,231)	(370)	(1,091)
Acquisition expenses	(128)	(382)	(119)	(352)
Administrative expenses	(30)	(91)	(29)	(93)
Reinsurance commissions and profit participation	9	28	9	26
Other	(5)	(39)	(9)	(42)
Insurance result	**48**	**234**	**108**	**325**

(in millions of PLN)

Mass insurance (non-life insurance)	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium – external	2,385	7,649	2,349	7,676
Gross written premium – cross-segment	7	16	3	26
Gross written premiums	**2,392**	**7,665**	**2,352**	**7,702**
Movement in provision for unearned premiums and gross provision for unexpired risks	266	143	309	5
Gross earned premium	**2,658**	**7,808**	**2,661**	**7,707**
Reinsurers' share in gross written premium	-	(47)	(1)	(27)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(28)	(42)	(34)	(70)
Net earned premiums	**2,630**	**7,719**	**2,626**	**7,610**
Investment income, including:	147	385	110	393
external operations	147	385	110	393
intersegment operations	-	-	-	-
Other net technical income	38	110	17	77
Income	**2,815**	**8,214**	**2,753**	**8,080**
Net insurance claims and benefits	(1,672)	(4,959)	(1,563)	(4,698)
Acquisition expenses	(504)	(1,470)	(474)	(1,379)
Administrative expenses	(150)	(455)	(141)	(429)
Reinsurance commissions and profit participation	-	-	(1)	(2)
Other	(66)	(261)	(83)	(263)
Insurance result	**423**	**1,069**	**491**	**1,309**

Group and individually continued insurance (life insurance)	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium – external	1,741	5,212	1,719	5,163
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,741**	**5,212**	**1,719**	**5,163**
Movement in the provision for unearned premiums	-	-	-	(1)
Gross earned premium	**1,741**	**5,212**	**1,719**	**5,162**
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 premiums	**1,741**	**5,212**	**1,719**	**5,162**
Investment income, including:	154	504	165	426
external operations	154	504	165	426
intersegment operations	-	-	-	-
Other net technical income	-	3	-	1
Income	**1,895**	**5,719**	**1,884**	**5,589**
Net insurance claims and benefits and movement in other net technical provisions	(1,212)	(3,806)	(1,198)	(3,708)
Acquisition expenses	(98)	(285)	(84)	(256)
Administrative expenses	(152)	(462)	(141)	(438)
Other	(14)	(44)	(10)	(32)
Insurance result	**419**	**1,122**	**451**	**1,155**

(in millions of PLN)

Individual insurance (life insurance)	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium – external	421	1,115	318	1,007
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**421**	**1,115**	**318**	**1,007**
Movement in the provision for unearned premiums	1	3	1	3
Gross earned premium	**422**	**1,118**	**319**	**1,010**
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 premiums	**422**	**1,118**	**319**	**1,010**
Investment income, including:	96	412	42	125
external operations	96	412	42	125
intersegment operations	-	-	-	-
Other net technical income	1	1	-	-
Income	**519**	**1,531**	**361**	**1,135**
Net insurance claims and benefits and movement in other net technical provisions	(398)	(1,192)	(257)	(828)
Acquisition expenses	(34)	(98)	(30)	(95)
Administrative expenses	(17)	(50)	(14)	(51)
Other	(2)	(4)	2	(1)
Insurance result	**68**	**187**	**62**	**160**

Investments	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Investment income, including:	43	266	(322)	(615)
- external operations	26	128	(324)	(664)
- intersegment operations	17	138	2	49
Operating result	**43**	**266**	**(322)**	**(615)**

Banking activity	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)	1 January – 30 September 2018 (restated)
Revenue from commissions and fees	1,026	2,948	984	2,873
- external operations	1,000	2,878	971	2,848
- intersegment operations	26	70	13	25
Investment income, including:	2,281	6,717	2,206	6,542
- external operations	2,281	6,717	2,206	6,542
- intersegment operations	-	-	-	-
Income	**3,307**	**9,665**	**3,190**	**9,415**
Fee and commission expenses	(229)	(620)	(197)	(548)
Interest expenses	(512)	(1,509)	(473)	(1,400)
Administrative expenses	(1,213)	(3,652)	(1,216)	(3,756)
Other	(294)	(1,374)	(265)	(904)
Operating result	**1,059**	**2,510**	**1,039**	**2,807**

(in millions of PLN)

Pension insurance	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Investment income, including:	1	4	1	4
external operations	1	4	1	4
intersegment operations	-	-	-	-
Other income	35	104	31	108
Income	**36**	**108**	**32**	**112**
Administrative expenses	(10)	(32)	(12)	(29)
Other	(1)	(3)	-	(3)
Operating result	**25**	**73**	**20**	**80**

Insurance - Baltic States	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium – external	427	1,283	390	1,177
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**427**	**1,283**	**390**	**1,177**
Movement in provision for unearned premiums and gross provision for unexpired risks	2	(45)	4	(50)
Gross earned premium	**429**	**1,238**	**394**	**1,127**
Reinsurers' share in gross written premium	(10)	(49)	(8)	(37)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(6)	5	(5)	1
Net earned premiums	**413**	**1,194**	**381**	**1,091**
Investment income, including:	6	28	3	8
external operations	6	28	3	8
intersegment operations	-	-	-	-
Income	**419**	**1,222**	**384**	**1,099**
Net insurance claims and benefits paid	(262)	(744)	(230)	(664)
Acquisition expenses	(86)	(251)	(81)	(234)
Administrative expenses	(34)	(97)	(33)	(93)
Other	1	3	(1)	1
Insurance result	**38**	**133**	**39**	**109**

(in millions of PLN)

Insurance – Ukraine	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium – external	98	247	69	183
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**98**	**247**	**69**	**183**
Movement in provision for unearned premiums and gross provision for unexpired risks	(1)	(11)	2	(2)
Gross earned premium	**97**	**236**	**71**	**181**
Reinsurers' share in gross written premium	(31)	(77)	(25)	(67)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(2)	(3)	(5)	(4)
Net earned premiums	**64**	**156**	**41**	**110**
Investment income, including:	8	22	7	13
external operations	8	22	7	13
intersegment operations	-	-	-	-
Income	**72**	**178**	**48**	**123**
Net insurance claims and benefits paid	(22)	(55)	(17)	(42)
Acquisition expenses	(33)	(84)	(20)	(60)
Administrative expenses	(8)	(22)	(7)	(18)
Other	7	19	7	17
Insurance result	**16**	**36**	**11**	**20**

Investment contracts	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Gross written premium	6	23	7	27
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**6**	**23**	**7**	**27**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premiums	**6**	**23**	**7**	**27**
Investment income, including:	3	14	(4)	(11)
external operations	3	14	(4)	(11)
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**9**	**37**	**3**	**16**
Net insurance claims and benefits and movement in other net technical provisions	(6)	(30)	(1)	(8)
Acquisition expenses	-	-	(1)	(1)
Administrative expenses	(1)	(3)	(1)	(4)
Operating result	**2**	**4**	**-**	**3**

(in millions of PLN)

Other segments	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
Investment income, including:	(4)	5	-	12
- external operations	(4)	5	-	12
- intersegment operations	-	-	-	-
Other income	281	820	255	747
Income	**277**	**825**	**255**	**759**
Costs	(291)	(858)	(260)	(799)
Other	12	29	7	20
Operating result	**(2)**	**(4)**	**2**	**(20)**

Reconciliations 1 January 2019 – 30 September 2019	Net earned premiums	Investment income [2]	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,837	81	(1,231)	(382)	(91)	234
Mass insurance	7,719	385	(4,959)	(1,470)	(455)	1,069
Group and individually continued insurance	5,212	504	(3,806)	(285)	(462)	1,122
Individual insurance	1,118	412	(1,192)	(98)	(50)	187
Investments	-	266	-	-	-	266
Banking activity	-	6,717	-	-	(3,652)	2,510
Pension insurance	-	4	-	(3)	(32)	73
Insurance - Baltic States	1,194	28	(744)	(251)	(97)	133
Insurance – Ukraine	156	22	(55)	(84)	(22)	36
Investment contracts	23	14	(30)	-	(3)	4
Other segments	-	5	-	-	-	(4)
Total segments	**17,259**	**8,438**	**(12,017)**	**(2,573)**	**(4,864)**	**5,630**
Presentation of investment contracts	(23)	(7)	30	-	-	-
Estimated salvage and subrogation	-	-	(10)	-	-	(10)
Valuation of equity instruments	-	(31)	-	-	-	(31)
Valuation of properties	-	(3)	-	-	(2)	(7)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(4)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(9)	4	77	93	(24)	(510)
Consolidated data	**17,227**	**8,401**	**(11,920)**	**(2,480)**	**(4,900)**	**5,058**

(in millions of PLN)

Reconciliations 1 January 2018 – 30 September 2018 (restated data)	**Net earned premiums**	**Investment income** [2]	**Net insurance claims and benefits paid**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	1,745	86	(1,091)	(352)	(93)	325
Mass insurance	7,610	393	(4,698)	(1,379)	(429)	1,309
Group and individually continued insurance	5,162	426	(3,708)	(256)	(438)	1,155
Individual insurance	1,010	125	(828)	(95)	(51)	160
Investments	-	(615)	-	-	-	(615)
Banking activity	-	6,542	-	-	(3,756)	2,807
Pension insurance	-	4	-	(3)	(29)	80
Insurance - Baltic States	1,091	8	(664)	(234)	(93)	109
Insurance – Ukraine	110	13	(42)	(60)	(18)	20
Investment contracts	27	(11)	(8)	(1)	(4)	3
Other segments	-	12	-	-	-	(20)
Total segments	**16,755**	**6,983**	**(11,039)**	**(2,380)**	**(4,911)**	**5,333**
Presentation of investment contracts	(27)	16	8	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	11	-	-	-	11
Valuation of properties	-	(25)	-	-	(1)	(30)
Elimination of the equalization provision and prevention fund	-	-		-	-	(18)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(7)	439	51	80	(13)	(161)
Consolidated data	**16,721**	**7,424**	**(10,984)**	**(2,300)**	**(4,935)**	**5,121**

[1] Consolidation adjustments ensue chiefly from 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".

Geographic breakdown

	1 January – 30 September 2019					**1 January – 30 September 2018** (restated)				
	Poland	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**
Gross written premium – external	15,971	1,283	247	-	17,501	15,898	1,177	183	-	17,258
Gross written premium – cross-segment	9	-	-	(9)	-	21	-	-	(21)	-
Revenue from commissions and fees	3,051	-	-	-	3,051	3,070	-	-	-	3,070
Investment income [1]	8,351	28	22	-	8,401	7,404	8	12	-	7,424

[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".

(in millions of PLN)

	30 September 2019					31 December 2018				
	Poland	Baltic States	Ukraine	Unallocated	Consolidated value	Poland	Baltic States	Ukraine	Unallocated	Consolidated value
Non-current assets, other than financial assets [1]	6,891	256	5	-	7,152	6,122	238	4	-	6,364
Deferred tax assets	2,340	-	3	-	2,343	2,231	-	3	-	2,234
Assets	335,099	2,862	580	(1,372)	337,169	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

During the first 3 quarters of 2019, in the corporate insurance segment, gross written premium decreased by PLN 54 million (-2.6% y/y) as compared to the first 3 quarters of 2018. The following factors were recorded concerning premiums:

- lower premium from insurance against fire and other damage to property (-22.3% y/y) – in the corresponding period of 2018 a high-value long-term contract was executed;
- decrease in sales of MOD insurance (-2.1% y/y) as a result of a decrease in the average premium and a lower number of policies (in insurance offered to leasing companies). This effect was offset by an increase in written premium on motor TPL insurance, mainly in fleet insurance;
- further development of the insurance portfolio containing various financial risks, in particular GAP financial loss insurance,
- increase in sales in the general third party liability insurance portfolio (+5.9% y/y) as a result of signing several high value contracts and the development of the insurance portfolio for medical entities and strategic partnerships in TUW PZUW.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	2,000	2,054	(2.6%)
Net earned premiums	1,837	1,745	5.3%
Investment income	81	86	(5.8%)
Net insurance claims and benefits paid	(1,231)	(1,091)	12.8%
Acquisition expenses	(382)	(352)	8.5%
Administrative expenses	(91)	(93)	(2.2%)
Reinsurance commissions and profit-sharing	28	26	7.7%
Other	(8)	4	(300.0%)
Insurance result	**234**	**325**	**(28.0%)**
acquisition expenses ratio (including reinsurance commission)[1]	19.3%	18.7%	0.6 p.p.
administrative expense ratio [1]	5.0%	5.3%	(0.3) p.p.
loss ratio [1]	67.0%	62.5%	4.5 p.p.
combined ratio (COR) [1]	91.2%	86.5%	4.7 p.p.

[1] ratios calculated using net earned premium

Net insurance claims and benefits surged 12.8% while net earned premium edged up by 5.3%, translating into deterioration in the loss ratio by 4.5 percentage points. A higher loss ratio in the segment was driven by the following factors:

(in millions of PLN)

- higher loss ratio in the portfolio of insurance against fire and other damage to property, which resulted from damage caused by torrential rain and gusty wind (particularly noticeable in construction and assembly insurance) and the occurrence of several high-value claims;
- increase in the average disbursement in motor own damage insurance;
- decrease in the loss ratio in the motor TPL group – in the corresponding period of 2018 the provision for claims for general damages for pain caused by the vegetative state of a relative injured in an accident increased;
- lower loss ratio in general TPL insurance and assistance.

The 5.8% 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 (net of reinsurance commissions) in the corporate insurance segment increased by PLN 30 million, or 8.5% as compared to the first 3 quarters of 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 decreased 2.2% (PLN -2 million) y/y, which, given the higher net earned premium, translated into an improvement in the administrative expense ratio by 0.3 percentage points. The decline in the expense ratio was due to, among other things, lower costs of service by consistently maintaining cost discipline.

After Q3 2019, the corporate insurance segment generated an underwriting result of PLN 234 million, signifying a 28.0% 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 MOD insurance.

14.2 Mass insurance – non-life insurance

During the first 3 quarters of 2019, gross written premium in the mass insurance segment fell PLN 37 million (-0.5% y/y) compared to the corresponding period of 2018. This growth resulted primarily from:

- lower gross written premium in motor insurance (3.1% y/y) as the outcome of the 5.8% y/y decline in motor TPL sales (lower number of insurance contracts coupled with a slight decline in the average premium) and increase in gross written premium in motor own damage (+1.8%);
- growth in the premium for insurance against fire and other damage to property (+3.5% y/y), chiefly in residential insurance and small and medium-sized enterprise insurance coupled with a lower level of sales of farm buildings insurance;
- higher sales of financial risk and assistance insurance.

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	7,665	7,702	(0.5%)
Net earned premiums	7,719	7,610	1.4%
Investment income	385	393	(2.0%)
Net insurance claims and benefits paid	(4,959)	(4,698)	5.6%
Acquisition expenses	(1,470)	(1,379)	6.6%
Administrative expenses	(455)	(429)	6.1%
Reinsurance commissions and profit-sharing	-	(2)	(100.0%)
Other	(151)	(186)	(18.8%)
Insurance result	**1,069**	**1,309**	**(18.3%)**
acquisition expenses ratio (including reinsurance commission) [1]	19.0%	18.1%	0.9 p.p.
administrative expense ratio [1]	5.9%	5.6%	0.3 p.p.
loss ratio [1]	64.2%	61.7%	2.5 p.p.
combined ratio (COR) [1]	89.2%	85.5%	3.7 p.p.

[1] ratios calculated using net earned premium

Net insurance claims and benefits increased 5.6%, which, with net earned premium being 1.4% higher, translates into the loss ratio trending down by 2.5 percentage points.

This change resulted mainly from the following:

- increase in the loss ratio in insurance against fire and other damage to property as a result of above-average number of losses caused by atmospheric phenomena;
- deterioration in the loss ratio in motor insurance, driven by the combined effect of an increase in the loss ratio in the motor own damage portfolio and a decrease in the loss ratio in TPL insurance – in the corresponding period of last year the remeasurement of the provision for claims for general damages due to being in a vegetative state;

The 2.0% 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.

After the first 9 months of 2019, acquisition expenses in the mass insurance segment were PLN 1,470 million, up PLN 91 million (+6.6%) from the corresponding period last year, which considering the increase in net earned premium by 1.4%, represented a 0.9 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 (a high share of the multiagency and dealer channels and, at the same time, a lower rate of growth in sales of motor TPL insurance characterized by lower commission rates).

Administrative expenses in this segment totaled PLN 455 million, up PLN 26 million (+6.1%) since the year before, driven primarily by the outcome of higher personnel costs as a response to the salary pressure on the market and maintaining cost discipline in other, non-staff business areas.

The decrease in the underwriting result in the mass insurance segment by PLN 240 million (-18.3%) compared to the first 3 quarters of 2018 was chiefly attributable to the decrease in profitability in non-motor insurance (a higher level of large damages and events caused by atmospheric phenomena) partially offset by improved profitability in the motor TPL insurance group (in the corresponding period of 2018, there was an impact of remeasurement of the provision for claims for general damages).

14.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 49 million (0.9%) 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 September 2019, PZU Życie had more than 2 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. 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 increase of sums insured during the terms of the agreements. In addition to the aforementioned rider, in Q4 2018 PZU Życie introduced another product – Myocardial Infarction or Stroke Rider – providing for financial support in the event of the occurrence of such events. In Q3 2019, another insurance product was introduced, this time protecting the policyholder against permanent bodily injury or bone fractures in the form of cash benefits and access to medical services;

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

(in millions of PLN)

Data from the profit and loss account – group and individually continued insurance	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	5,212	5,163	0.9%
Group insurance (periodic premium)	3,695	3,661	0.9%
Individually continued insurance (periodic premium)	1,517	1,502	1.0%
Net earned premiums	5,212	5,162	1.0%
Investment income	504	426	18.3%
Net insurance claims and benefits and movement in other net technical provisions	(3,806)	(3,708)	2.6%
Acquisition expenses	(285)	(256)	11.3%
Administrative expenses	(462)	(438)	5.5%
Other	(41)	(31)	32.3%
Insurance result	**1,122**	**1,155**	**(2.9)%**
Insurance result net of the conversion effect	**1,110**	**1,142**	**(2.8)%**
acquisition expense ratio [1)]	5.5%	5.0%	0.5 p.p.
administrative expense ratio [1)]	8.9%	8.5%	0.4 p.p.
insurance margin net of the conversion effect [1)]	21.3%	22.1%	(0.8) 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 group and individually continued insurance segment, investment income rose PLN 78 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 Polish debt and equity markets. 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 3,806 million, which signifies a y/y increase of PLN 98 million, or 2.6%. 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 a higher level of withdrawals from unit-linked insurance accounts;
- the rising level of medical benefits under health products pro rata to the dynamic growth of this contract portfolio;
- higher nominal level of benefit payments due to critical illnesses and hospitalization.

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; moreover, the level of portfolio losses lower than in the previous year;
- lower death-related benefits, in particular those payable for co-insureds, 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, due to the shrinking of the portfolio containing high individual benefits;
- the lower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, in 2019, provisions were released for PLN 12 million, PLN 1 million less than in the corresponding period of 2018.

Acquisition expenses in the group and individually continued insurance segment in the first 9 months of 2019 were PLN 285 million, up by PLN 29 million (11.3%) compared to last year. The factor driving the movement in this line item was the increasing remuneration for insurance intermediaries, especially for selling health and protection products, modification made to the remuneration system in the agent network, and increasing sales levels.

(in millions of PLN)

In the first 3 quarters of 2019, administrative expenses totaled PLN 462 million. The PLN 24 million year-on-year increase (by 5.5%) was caused by organizational changes in sales divisions and higher personnel costs incurred as a result of salary pressures on the market.

Operating profit in the group and individually continued insurance segment after Q3 2019 declined compared to the corresponding period of 2018 by PLN 33 million (2.9%) to PLN 1,122 million. The operating profit, net of the conversion effect on long-term contracts into renewable contracts in type P group insurance fell y/y by PLN 32 million (2.8%). The results were unfavorably affected chiefly by operating expenses growing at a rate greater than the rate of increase in revenues, followed by an increase in the loss ratio of a portion of risks in the group protection portfolio.

14.4 Individual insurance - life insurance

The growth in gross written premium by PLN 108 million (10.7%) to PLN 1,115 million compared to the first 3 quarters of 2018 was the result of the following favorable drivers:

- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales and premium indexation under the agreements in the portfolio exceeds the value of lapses;
- growth of the insured portfolio in protection products in the bancassurance channel, including particularly the introduction of new products together with Alior Bank and Bank Pekao in H2 2018.

Data from the profit and loss account – individual insurance	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	1,115	1,007	10.7%
Net earned premiums	1,118	1,010	10.7%
Investment income	412	125	229.6%
Net insurance claims and benefits and movement in other net technical provisions	(1,192)	(828)	44.0%
Acquisition expenses	(98)	(95)	3.2%
Administrative expenses	(50)	(51)	(2.0)%
Other	(3)	(1)	200.0%
Insurance result	**187**	**160**	**16.9%**
acquisition expense ratio [1)]	8.8%	9.4%	(0.6) p.p.
administrative expense ratio [1)]	4.5%	5.1%	(0.6) p.p.
insurance margin [1)]	16.8%	15.9%	0.9 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 287 million mainly due to the improvement in the investment result on investment products as a result of better conditions on the Polish debt and equity markets. At the same time, the segment's income from the refund of the TFI management fee charged on assets accumulated in unit-linked products fell PLN 5 million year-on-year due to the lower level of these assets as a result of net payouts and negative investment results 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.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 1,192 million, reflecting an increase in this item by PLN 364 million compared to the corresponding period of 2018. The change in the result generated on funds in investment products made a major contribution to this increase. From the operational point of view, this factor was rather insignificant as it was offset by other relevant items of the profit and loss account. Also worth mentioning are positive changes in the annuity portfolio where in the reporting period there was both a greater reversal of technical provisions and a lower level of benefit disbursement costs – this is the old insurance portfolio approaching the annuitization period.

In the first 3 quarters of 2019, acquisition expenses in the individual insurance segment increased 3.2% to PLN 98 million. Lower commissions on the sale of unit-linked products in the bancassurance channel were offset by the increasing remuneration paid to intermediaries for selling protection products, chiefly in the bancassurance channel, while additionally there were additional costs of sales support in the proprietary network.

(in millions of PLN)

In the first 9 months of 2019, administrative expenses totaled PLN 50 million. The year-on-year decline by PLN 1 million (-2.0%) was affected mainly by the higher involvement of own sales network in the service of group and individually continued products.

The segment's operating result rose in comparison to last year by PLN 27 million to PLN 187 million. This was mainly attributable to the increasing portfolio of high-margin protection insurance from both own and bancassurance channels, changes in the annuity product, lower administrative expenses for unit-linked products and lower administrative expenses in the entire segment, coupled with a growing portfolio of contracts. The improvement of the segment's margin was also driven by a change in the revenue mix towards a higher share of protection products characterized by much higher margins than investment products.

14.5 Bank segment

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

After the first 3 quarters of 2019, the banking activity segment generated PLN 2,510 million in operating profit (without amortization of intangible assets acquired as part of the transactions to take over the banks), which signifies a decrease by PLN 297 million compared to the first 3 quarters of 2018. The lower result was driven down mainly by additional burdens, including the higher y/y BFG charge for the bank restructuring fund, and the unfavorable impact of the CJEU judgment regarding consumer loans.

Banking activity (m PLN)	1 January – 30 September 2019	1 January – 30 September 2018	% change
Revenues and expenses on account of fees and commissions	2,328	2,325	0.1%
Investment income	6,717	6,542	2.7%
Interest expenses	(1,509)	(1,400)	7.8%
Administrative expenses	(3,652)	(3,756)	(2.8)%
Other	(1,374)	(904)	52.0%
Total	**2,510**	**2,807**	**(10.6)%**

In 2019, Pekao contributed PLN 2,070 million to operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 440 million.

Investment income, which increased to PLN 6,717 million in the first 3 quarters of 2019 (or 2.7% 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 Q3 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 Q3 2019, the customer loan portfolio in both banks increased by 6.2% compared to the end of 2018.

The profitability of the banks in the PZU Group after the first 3 quarters of 2019 measured by the net interest margin was 2.9% in Pekao and 4.6% 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 2,328 million and remained unchanged y/y. Administrative expenses in the segment totaled PLN 3,652 million, with Pekao's costs accounting for PLN 2,521 million and Alior Bank's costs accounting for PLN 1,131 million. The 2.8% y/y decrease in costs was driven, among other factors, by the preserved cost discipline in both banks and by the reversal of a portion of the provision for deferred remuneration components at Alior Bank.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 579 million) and the levy on other financial institutions (PLN 612 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 37% for Alior Bank.

14.6 Investments

Net investment result and interest expenses

After the first 3 quarters of 2019, the net investment result[5], including interest expenses, was PLN 6,795 million, compared to PLN 5,916 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 1,438 million and was PLN 598 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 down slightly by 0.6% in Q3 2019 compared to the 7.5% 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;
- stable performance generated by the investment grade high yield foreign corporate bonds portfolio after the settlement of transaction costs incurred during the portfolio building period.

The foregoing growth was partially offset by the lower result on the Polish treasury bonds portfolio due to the lower level of assets in this portfolio.

Operating income of the investment segment (based exclusively on external transactions) was up PLN 792 million above the corresponding period of 2018, primarily due to the better conditions on the Warsaw Stock Exchange and more severe declines in profitability.

At the end of September 2019 the value of the PZU Group's investment portfolio[7], net of the impact exerted by banking activity was PLN 48,777 million versus PLN 50,270 million at the end of 2018.

The decrease in the value of the investment portfolio was associated with the repayment of EUR-denominated own bonds and the disbursement of a dividend by the Group. These factors were offset by the growth of the investment portfolio 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.

[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)

Structure of the investment portfolio

Investment portfolio	30 September 2019	31 December 2018
Equity instruments, including:	5,608	5,684
Equity instruments - quoted	1,101	1,474
Equity instruments - unquoted	4,507	4,210
Debt instruments, including:	40,801	41,989
Debt market instruments - treasury	29,419	31,108
Debt market instruments - non-treasury	4,324	1,433
Reverse repo transactions and term deposits with credit institutions	2,566	4,913
Loans	4,492	4,535
Investment property	2,755	2,700
Derivatives (net value)	(107)	22
Liabilities on account of repurchase transactions	(280)	(125)
Total investment portfolio	**48,777**	**50,270**

14.7 Pension insurance

Pension insurance	1 January – 30 September 2019	1 January – 30 September 2018	% change
Investment income	4	4	0.00%
Other income	104	108	-3.70%
Income	**108**	**112**	**-3.57%**
Administrative expenses	(32)	(29)	10.34%
Other	(3)	(3)	0.00%
Operating result	**73**	**80**	**-8.75%**

Revenues on core business in the pension insurance segment after Q3 2019 and after Q3 2018 were PLN 73 million and PLN 80 million, respectively. The change of PLN -7 million (-8.8%) 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 remained at a stable level of PLN 87 million year-on-year.

PTE PZU's administrative expenses climbed PLN 3 million y/y (+10.3%). 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 Q3 2019, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 154.3 billion, down 6.0% from the end of September 2018. In the same period, OFE PZU's assets fell by 7.6% to PLN 21.5 billion. In the period from January to September 2019, OFE PZU's rate of return was +0.3%.

(in millions of PLN)

14.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	1,283	1,177	9.0%
Net earned premiums	1,194	1,091	9.4%
Investment income	28	8	250.0%
Net insurance claims and benefits paid	(744)	(664)	12.0%
Acquisition expenses	(251)	(234)	7.3%
Administrative expenses	(97)	(93)	4.3%
Other	3	1	200.0%
Insurance result	**133**	**109**	**22.0%**
EUR exchange rate in PLN	4.3086	4.2535	1.3%
acquisition expense ratio [1)]	21.0%	21.4%	(0.4 p.p.)
administrative expense ratio [1)]	8.1%	8.5%	(0.4 p.p.)

[1)] Ratios calculated using net earned premium

As part of the Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is provided by: 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 August 2019 was 29.0%; the life insurance market share was 6.5%. At the end of Q3, the market share in the Estonian market was 15.8%. As at the end of June 2019, the share in the Latvian market was 28.8%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q3 2019 an insurance result of PLN 133 million compared with PLN 109 million in the corresponding period last year.

This result was driven by the following factors:

- an increase in gross written premium. It amounted to PLN 1,283 million, up PLN 106 million compared to the corresponding period of the previous year. Non-life insurance posted an increase of PLN 100 million, in particular in non-life and health insurance driven by the execution of new large contracts and in motor insurance as a result of maintaining high insurance rates in the first half of the year. In life insurance gross written premium rose PLN 6 million (or 12.8%). The rate of growth in gross written premium in the Baltic states segment stood at 9.0%;
- higher investment income. After Q3 2019, the investment result was PLN 28 million, up PLN 20 million versus the corresponding period of the past year;
- increase the value of net claims and benefits. It totaled PLN 744 million, up 12.0% versus the corresponding period of the previous year. The loss ratio in non-life insurance stood at 60.9%, up 0.3 p.p. from the corresponding period of the previous year: this resulted chiefly from an increase in the average damage value in motor insurance. In life insurance, the value of benefits was PLN 49 million, up PLN 18 million compared to the end of Q3 2018, in particular due to incremental growth of provisions for client risk;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 251 million, up 7.3% from the corresponding period of the previous year. In turn, the acquisition expense ratio calculated based on net earned premium declined 0.4 p.p. compared to the end of Q3 of the previous year;
- increase in administrative expenses. They were PLN 97 million, up 4.3% from the comparable period last year. At the same time, a decrease in the administrative expense ratio was recorded; it was 8.1%, down 0.4 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 – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	247	183	35.0%
Net earned premiums	156	110	41.8%
Investment income	22	13	69.2%
Net insurance claims and benefits paid	(55)	(42)	31.0%
Acquisition expenses	(84)	(60)	40.0%
Administrative expenses	(22)	(18)	22.2%
Other	19	17	11.8%
Insurance result	**36**	**20**	**80.0%**
exchange rate UAH/PLN	0.1472	0.1323	11.3%
acquisition expense ratio [1)]	53.8%	54.5%	(0.7 p.p.)
administrative expense ratio [1)]	14.1%	16.4%	(2.3 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 June 2019 was 3.3%, while the life insurance market share was 10.7%.

The Ukraine Segment closed Q3 2019 with an operating profit of PLN 36 million, compared to PLN 20 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 247 million, up PLN 64 million (or 35.0%) compared to the corresponding period of the previous year. The gross written premium in non-life insurance climbed PLN 49 million; in turn, life insurance posted growth of PLN 15 million. Gross written premium in the functional currency expanded 21.5% y/y (i.e. UAH 297 million hryvnia);
- higher investment income. It was PLN 22 million, up 9% from the corresponding period of the previous year;
- increase in net costs of claims and benefits. It was PLN 55 million, up 31.0% from the corresponding period of the previous year. Claims paid in non-life insurance increased PLN 8 million as a consequence of the occurrence of large losses. In life insurance benefits rose PLN 5 million;
- higher acquisition expenses. They stood at PLN 84 million compared to PLN 60 million after Q3 2018. The growth in non-life insurance was equal to PLN 16 million, while in life insurance it was PLN 8 million.
- increase in administrative expenses. They stood at PLN 22 million. For comparison: they were PLN 18 million in the corresponding period of the previous year. The segment's administrative expense ratio went down 2.3 p.p. to 14.1%.

14.10 Investment contracts

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

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

Gross written premium generated on investment contracts after Q3 2019 decreased by PLN 4 million (-14.8%) to PLN 23 million, compared to the corresponding period in 2018. These changes resulted primarily from the decrease in the level of payments made to IRSA accounts, after the product was withdrawn from the offering.

(in millions of PLN)

Data from the profit and loss account – investment contracts	1 January – 30 September 2019	1 January – 30 September 2018	% change
Gross written premiums	23	27	(14.8)%
Group insurance	1	1	-
Individual insurance	22	26	(15.4)%
Net earned premiums	23	27	(14.8)%
Investment income	14	(11)	x
Net insurance claims and benefits and movement in other net technical provisions	(30)	(8)	275.0%
Acquisition expenses	-	(1)	x
Administrative expenses	(3)	(4)	(25.0)%
Other	-	-	x
Operating result	**4**	**3**	**33.3%**
operating profit margin	17.4%	11.1%	6.3 p.p.

Result on investing activity in the investment contracts segment improved by PLN 25 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 22 million y/y to PLN 30 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 3 million, down from the previous year as a consequence of the decreasing portfolio of contracts in this segment.

The segment's operating result stood at PLN 4 million, its movement having resulted from a decrease in costs as a consequence of the shrinking size of business in this segment.

15. Impact of non-recurring events on operating results

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance was treated as a non-recurring event was PLN 1 million lower in the first 3 quarters of 2019 than in the corresponding period of the previous year. In the first 3 quarters of 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

Gross domestic product

GDP growth in Poland, as measured in constant prices, delicately decelerated in Q2 2019 to 4.5% y/y compared to 4.7% y/y in Q1 of this year. Household consumption was the greatest contributor to GDP growth (it added 2.5 p.p. to the pace of GDP growth), followed by an increase in gross fixed capital formation (+1.5 p.p.). The impact of the movement in inventory (-0.1 p.p.) was close to neutral, while the impact of net exports was zero.

The negative trends prevailing in the Polish economy's environment, especially the downturn in the euro area's processing industry, began to affect domestic economic growth in Q3. According to estimates, the GDP growth rate in Q3 went down, approaching approx. 4% y/y in real terms. In contrast to Germany, the annual rate of growth in sold industrial production remains clearly positive. However, in Q3 its growth rate declined to 3.3% y/y, following an increase by 4.2% y/y in the previous quarter. The deceleration of growth in industrial production was accompanied by a decline in the sector's business climate indicators. In Q3 of this year, the average monthly rate of growth in construction and assembly production also dwindled compared to the previous quarter. A slight decrease was also observed in the rate of growth in the volume of retail sales. After the very high increase in retail sales in Q2 of this year (8.1% y/y in real terms), driven to a certain extent by the calendar effect due to Easter falling later than in the previous year, its real growth rate in Q3 of this year decreased to 5.2% y/y. Accordingly, its rate of growth was slightly below that observed in the corresponding quarter of 2018 (5.6% y/y).

Labor market and consumption

In Q3, due to the deteriorating overall economic situation, demand for labor weakened somewhat. At the same time, given the limited supply of labor, the decrease in the average rate of growth in employment in the business sector continued. The year-to-date growth in jobs from January to September of this year was the lowest in five years. In Q3, employment growth in the business sector stood at 2.6% y/y (compared to 2.7% y/y a quarter earlier and 3.5% y/y in Q3 of 2018). The registered unemployment rate in September 2019 was 5.1%, down from 5.3% at the end of Q2, also well below the level recorded a year before (5.7% in September 2018).

The pace at which average monthly wages are rising in companies dipped slightly in Q3 (to 6.8% y/y in nominal terms and 4.0% y/y in real terms); however, it continues to be relatively high. The National Bank of Poland's research indicates that some further minor deceleration in wage inflation is possible in the corporate sector.

Nevertheless, the conditions underpinning retail sales and consumption growth are favorable. Although the real growth rate of the payroll fund in the corporate sector has fallen off recently, the indicators of consumer conditions are still coming in at nearly record-breaking levels. Household income was additionally driven by the extended 500+ program. In Q2 2019, household consumption climbed 4.4% y/y in real terms. Data on retail sales in Q3 indicate that the rate of growth in household consumption was perhaps slightly lower in this period.

Inflation, monetary policy, interest rates

Inflation measured by the consumer price index (CPI) was on the rise in the subsequent quarters of this year. In Q3 it was 2.8% y/y (compared to 2.4% y/y in the previous quarter). This was driven to a certain extent by an increase in net inflation (CPI excluding food and energy prices) in response to the relatively high rate of growth in wages in an environment of strong domestic demand. Above all, the prices of services, whose providers are under less pressure from foreign competitors, increased significantly.

In the period from January to September 2019 the National Bank of Poland's interest rates did not budge. The reference interest rate remained steady at the 1.5% level set in March 2015. According to the Monetary Policy Council's members, the current level of interest rates fosters persistent sustainable growth in Poland and makes it possible to preserve macroeconomic equilibrium.

Public finance

According to Eurostat, the seasonally adjusted public finance deficit in Poland in Q2 2019 stood at 0.2% of GDP, while in Q1 a GDP surplus of 0.2% was generated. In turn, the debt of Poland's public finance sector after Q2 2019 stood at 48.1% of the country's GDP. The Central Statistical Office (GUS) updated its calculation of the deficit of the general government sector for 2018. It stood at PLN 5.0 billion, or 0.2% of GDP, while this sector's debt totaled PLN 1035.3 billion, or 48.9% of GDP. The draft stage budget for 2020 adopted in Q3 assumes the balancing of revenues and expenditures for the following year.

The state budget deficit in September of this year totaled PLN 1.8 billion. This result is worse than one year ago when in the corresponding period the budget had a surplus of PLN 3.2 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 lower growth rates among the sources of income. The higher rate of spending was driven by, among other factors, the implementation of state social policy programs, such as the 13 pension or 500+ for the first child. According to the State Budget Act, the borrowing needs after the first 3 quarters of this year was satisfied to the tune of approximately 87%. However, according to the projections of the Ministry of Finance, the state's borrowing needs for 2019 have already been fully financed.

Situation on the financial markets

In Q3 2019, we observed a decrease in the yields of 10-year treasury bonds in the US and Germany. In the US, yields slid from 2.00% at the end of June to 1.67% at the end of the quarter. In Germany, they declined from -0.33% at the end of June to -0.57% at the end of the quarter, having set their historical minimum in the meantime at -0.72%. In both these countries, the yield curve flattened. Throughout Q3, 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. During Q3, trade tensions between the US and China intensified, resulting, among others, in the imposition of new tariffs and the weakening of the Chinese currency. These phenomena were accompanied by a rather chaotic process of negotiating the conditions for the UK's exit from the European Union. In response to the risk of an economic slowdown and falling prices on the financial markets, the American Central Bank (the Fed) effected two interest rate cuts by 25 basis points in Q3. The ECB also adopted a broad package of monetary policy easing measures (including, among others, a 10-basis-point cut in the deposit rate to -0.5% and the resumption of the asset purchase program), aimed at counteracting further deterioration of the economic growth outlook, falling inflation expectations and delay in the achievement of the desired inflation rate.

In Q3 2019, we observed a decrease in the yields of Polish 10-year treasury bonds. They slid from 2.39% at the end of June to 2.00% at the end of the quarter. In mid-August, the yield on 10-year bonds sank to its historically lowest level (1.72%). The spread versus 10-year German bonds that at the beginning of the previous quarter was 272 basis points, declined to 257 basis points at the end of the quarter. At the same time, the yield curve flattened. In the same period, the yield on one-year treasury bonds slid from 1.40% to 1.24%.

At the end of September 2019, the euro exchange rate denominated in the US dollar fell to 1.09 from 1.14 at the end the previous quarter. During Q3, the Polish zloty weakened against other major currencies in the context of the risk associated with the judgment of the Court of Justice of the European Union on foreign currency mortgage loans amid concerns about its potential unfavorable consequences for the banking sector. The euro exchange rate denominated in the Polish zloty at the end of Q3 was 4.37 vis-à-vis 4.25 at the end of the previous quarter. In turn, the US dollar to PLN exchange rate at the end of September 2019 was 4.00, while at the end of the previous quarter it was 3.73. In the same period, the Swiss franc exchange rate increased from 3.83 to 4.03.

The situation on the global equity markets varied only slightly in Q3 2019. In this period, the American S&P500 stock index improved 1.2% while the German DAX index climbed 0.2%. In Q3, stock exchange indices of Polish companies, especially those of large and medium-sized ones, dwindled. The WIG index dropped 4.8%, the WIG20 index fell 6.6%, the mWIG40 plunged 9.3% and the sWIG80 declined 2.9%. Among the sectoral indices, the oil refining sector performed the best, while the chemical and raw materials sector performed the worst.

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

PZU did not publish any standalone or consolidated result forecasts.

18. Risk factors which may affect the 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 include the following:

- 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 stronger than expected increase in wages across the economy in response to an increase in the minimum wage in a low unemployment environment;
- 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 PZU, 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);
- coming into force of further regulations or financial burdens on insurance undertakings;
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and rivalry to attract clients (with an impact exerted on the mass and corporate insurance segments);
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and the quality of the product offering as well as fostering entry and exit obstacles for clients to overcome with independent intermediaries (with an impact being exerted in particular on the group and individually continued insurance segment);
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- availability of medical personnel in public health care centers (affecting health products);
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies; preparation of pension fund companies for potential organizational and legal changes arising from the transformation of open-end pension funds into mutual funds and of pension fund companies into mutual fund companies (impact on the pension segment);
- introduction of a new pension security system (Employee Capital Schemes) and its impact on the third pension pillar products functioning thus far (the level of clients' contributions to the EPS programs and IRA contracts currently held in the PZU Group's portfolio and on the level of results generated in these lines of business for the PZU Group).

A factor of key significance for the banks is the fiscal and regulatory environment, including, in particular, the tax on certain financial institutions, the high own capital requirements, the growing BFG charges, the costs of further adjustments to a plethora of regulatory solutions (including MIFID II, GDPR, PSD2, MREL) and the introduction of the maximum amount of fixed compensation for the management of mutual funds in Poland.

Moreover, one of the most important factors in the context of the institutional environment is the case-law set by CJEU judgments on consumer loans and foreign currency mortgage loans.

(in millions of PLN)

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

On 4 June 2019, Pekao issued series D subordinated bonds. The most important parameters of the instruments issued are presented below:

	Nominal value per unit (PLN)	Total nominal value (in PLN m)	Currency	Interest rate	Issue date	Maturity date
Series D	500,000	350	PLN	WIBOR 6M + 1.70% margin	4 June 2019	4 June 2031 with an early redemption option within 7 years from issue date or if KNF does not consent to classify it as a Tier II instrument, or if there is a regulatory change to the classification of the bond or a change in bond taxation

On 8 July 2019 Pekao received KNF's decision consenting to the classification of the series D bonds as Tier II capital instruments.

On 3 July 2019, PZU Finance AB (publ.), a subsidiary company of PZU, repaid the entire indebtedness on bonds with the par value of EUR 850 million.

20. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2019, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no 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 9-month period ended 30 September 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 24 May 2019, PZU's Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2018 totaling PLN 2,712 million by earmarking:

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

The record date was set at 14 August 2019 and the dividend payout date was set for 5 September 2019.

Moreover, the PZU Ordinary Shareholder Meeting made a decision on a transfer to supplementary capital of retained earnings resulting from the allocation of the purchase price for an organized part of Bank BPH SA by Alior Bank in the amount of PLN 20 million.

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.

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. The insurance company takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 30 September 2019, the value of the subject matter of the litigation in all the 273 107 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,493 million. PLN 4 351 million of that amount pertains to liabilities and PLN 4 142 million to the accounts receivable of PZU Group companies.

During the 9-month period ended 30 September 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.

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 30 September 2019, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

On 13 November 2018 the Regional Court in Warsaw served a copy of the statement of claim lodged by Wspólna Reprezentacja SA in restructuring, which pertained to a claim against PZU for payment of PLN 34 million with statutory interest from 1 October 2015 to the payment date with court expenses. The claim comprises a claim for payment of damages for depriving the shareholders of their share of profits for the 2006 financial year. The plaintiff claims that the claims for damages were transferred by the shareholders to the plaintiff based on mandate agreements together with a fiduciary transfer of receivables and the claim pursued by the statement of claim is the total damage caused to the shareholders. PZU does not accept the claims as unjustified and submitted its statement of defense, requesting the claim to be dismissed it in its entirety. PZU did not consent to mediation. The date of the next session was set at 8 April 2020.

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 has filed a cassation appeal with the Supreme Court against the final judgment, to which PZU has given its reply. The Supreme Court accepted the cassation appeal filed by the President of UOKiK for examination.

PZU had a provision for this penalty, which amounted to PLN 57 million as at 30 September 2019 and 31 December 2018 alike.

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 Regional 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. On 24 October 2019, the Supreme Court issued a judgment dismissing the cassation appeal filed by PZU Życie.

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 30 September 2019 was PLN 1 million (PLN 2 million as at 31 December 2018). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 30 September 2019 and 31 December 2018.

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. On 25 September 2019, the court adjourned the hearing until 20 November 2019. 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 a material loss on this account is at a level below average; accordingly, as at 30 September 2019, no provision was established in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

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 credit rating. It also includes outlook, which is an assessment of the future position of the Company in the event of specific circumstances.

(in millions of PLN)

Current rating

PZU and PZU Życie hold an S&PGR rating of A- with a positive outlook. This rating was affirmed on 11 October 2019. The agency's analysts drew attention to PZU's strong leading position on the insurance market, strengthened by the Group's competences in the fields of asset management and banking, and emphasized the exceptionally strong solvency and capital adequacy of the PZU Group. According to analysts, the positive rating outlook suggests that PZU's credit rating may be increased if the company succeeds in maintaining its capacity to generate strong results, upholding its stable risk profile and solvency at a level of AA or higher while preserving the stability of its management board and corporate governance principles.

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- /positive/	14 June 2019	A /Stable/	27 October 2017
Credit rating	A- /positive/	14 June 2019	A /Stable/	27 October 2017
PZU Życie				
Financial strength rating	A- /positive/	14 June 2019	A /Stable/	27 October 2017
Credit rating	A- /positive/	14 June 2019	A /Stable/	27 October 2017

Poland's credit rating

On 11 October 2019, S&PGR announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

24.2 Related party transactions

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

In the 9-month period ended 30 September 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 an arm's length principle.

(in millions of PLN)

24.2.2. Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 September 2019 and as at 30 September 2019		1 January – 31 December 2018 and as at 31 December 2018		1 January – 30 September 2018 and as at 30 September 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	-	3	-	4	-	4
in non-life insurance	-	3	-	4	-	4
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Costs	-	-	-	-	-	-
Receivables	-	-		-		-
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

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, 12 July and 17 October 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. On 12 July 2019, PZU Życie informed the regulatory authority that it has carried out the recommendation, for which the implementation date has expired on 30 June 2019. By letter of 15 October 2019, at the request of PZU Życie, KNF agreed to postpone the time limit for the implementation of its two recommendations, from 31 December 2019 and 31 January 2020 to 30 April 2020 and 21 May 2020, respectively.

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. On 16 May, 19 June and 5 July 2019, PZU Życie conveyed to KNF its position and information regarding the actions taken to ensure that the insurance undertaking's business is conducted in accordance with the law. On 25 July 2019, KNF provided recommendations to be implemented by 30 September and 30 November 2019 and 31 March 2020. On 7 October 2019, PZU Życie informed the regulatory authority of its implementation of the recommendation for which the execution date expired on 30 September 2019.

On 1 October 2019, KNF initiated an inspection of PZU Życie's asset standing in the context of the company's investment policy. The inspection is scheduled for completion by 30 November 2019.

Also, by a letter of 28 December 2018, KNF provided a post-inspection protocol for the inspection carried out in PZU Życie in 2016 regarding the use of insurance agent services. On 19 January 2019, PZU Życie passed on its objections to the protocol, to which the KNF responded on 28 May 2019. On 12 June 2019, PZU Życie provided additional explanations to the regulatory authority.

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

24.4 Opening of a long-term bond issue program by Alior Bank

On 5 August 2019, the Supervisory Board of Alior Bank, in accordance with a motion submitted by Alior Bank's Management Board, gave its consent for the launch of Alior Bank's Long-Term Bond Issue Program and authorized the Management Board to repeatedly contract financial liabilities under this Program by issuing unsecured bonds. The total par value of the Program will not exceed PLN 5,000 million.

Additionally, the Alior Bank's Supervisory Board, in accordance with a motion submitted by Alior Bank's Management Board, agreed to close Alior Bank's bond issue program established by a resolution adopted by the Alior Bank Management Board on 29 July 2015 and approved by a resolution adopted by the Alior Bank Supervisory Board on 10 August 2015.

24.5 Launch of Alior Bank's Second Program to Issue Banking Securities

On 30 August 2019, the Supervisory Board of Alior Bank, in accordance with a motion submitted by Alior Bank's Management Board, gave its consent for the launch of Alior Bank's Second Program to Issue Banking Securities and authorized the Management Board to repeatedly contract financial liabilities under this Program by issuing banking securities with a par value of at least PLN 100 or the equivalent of this amount in other currencies. The total par value of the Program will not exceed PLN 5,000 million.

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

On 6 August 2019, KNF issued a decision pursuant to Article 167(2)(1) in conjunction with Article 167(1)(1) of the Financial Instruments Trading Act imposing a fine of PLN 10 million on Alior Bank. The proceedings concerned the operation of Alior Bank and the Bank's Brokerage House in terms of the distribution of investment certificates of funds previously managed by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna), Poland Branch. Alior Bank has filed a petition for re-examination of the case.

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

Since the beginning of 2019, Alior Leasing sp. z o.o. has received several letters from dismissed members of the company's management board containing a proposal for Alior Leasing sp. z o.o. to reach an amicable settlement of the dispute over the reasons for an early termination of the management contracts and payment of a portion of the benefits under the management option plan. The management option plan covered the dismissed members of the management board of Alior Leasing sp. z o.o. and certain employees of the company. In the opinion of the PZU Group, the likelihood that the court awards the dismissed members of the management board of Alior Leasing sp. z o.o. the contested benefits under the management option plan is low. Accordingly, no relevant provision was recognized in the condensed consolidated financial statements.

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

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

24.8 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.

On 29 May 2019, Alior Bank received information that the District Court for the Capital City of Warsaw in Warsaw, 10th Economic Division on bankruptcy and restructuring, did not approve the compositions adopted by the meetings of creditors in the accelerated composition proceedings for RUCH, for procedural reasons, in connection with formal shortcomings. Accordingly, RUCH filed complaints against these decisions, which were transferred to the second instance court.

The Alior Bank's Management Board upholds the opinion that the restructuring scenario is the most advantageous.

On 30 August 2019, Alior Bank obtained information about the approval by the Regional Court in Warsaw, Commercial Court, 23rd Commercial Appellate Division, of partial settlements providing for the forgiveness of:

- 85% of claims under the accelerated settlement proceedings of Ruch, involving publishers that are creditors of Ruch in respect of which Ruch's debt was at least PLN 1 million as at the date of opening the proceedings, and
- 50% of claims under the accelerated settlement proceedings of Ruch, involving publishers that are creditors of Ruch in respect of which Ruch's debt was greater than PLN 100 thousand as at the date of opening the proceedings.

24.9 Act on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations for Damage Suffered before 1 January 2006

On 14 August 2019, the President signed the Act of 19 July 2019 on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations for Damage Suffered before 1 January 2006. The Act defines the special rights granted to injured persons in the event of damage arising in the territory of the Republic of Poland in situations where the indemnity has been exhausted. The injured person will be entitled to a claim for the payment of an annuity from the IIF, limited to the indemnity amount set as at the date of submission of the claim in a situation where the insurance undertaking was not required to pay an annuity on the basis of a court ruling setting a different amount of indemnity than that specified in the insurance contract. The claim for the payment of an annuity will apply to periods following the date of the Act's entry into force.

After the establishment, between the insurance companies and the IIF, of the terms and conditions for the transfer of annuities covered by the Act to the IIF and the development of pertinent internal procedures for this process, it will be possible to determine what changes need to be made, if any, in the method of calculation of technical provisions.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	30 September 2019	30 June 2019	31 December 2018	30 September 2018 (restated)[1)]
I. Intangible assets, including:	308,312	315,530	334,945	321,998
- goodwill	-	-	-	-
II. Investments	35,787,382	35,686,021	37,570,748	38,040,720
1. Real property	334,103	336,259	347,027	370,099
2. Investments in related parties, of which:	16,042,848	15,728,590	16,056,769	15,479,894
- investments in related parties measured by the equity method	15,566,611	15,249,911	15,671,129	15,134,429
3. Other financial investments	19,410,431	19,621,172	21,166,952	22,190,727
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-	-
IV. Receivables	2,145,603	3,545,868	2,343,246	3,533,822
1. Receivables on direct insurance	1,710,022	1,820,864	1,775,294	1,641,061
1.1. From related parties	1,270	2,046	1,777	1,234
1.2. From other entities	1,708,752	1,818,818	1,773,517	1,639,827
2. Reinsurance receivables	158,897	183,206	264,170	290,266
2.1. From related parties	131,003	119,502	176,656	221,193
2.2. From other entities	27,894	63,704	87,514	69,073
3. Other receivables	276,684	1,541,798	303,782	1,602,495
3.1. Receivables from the state budget	1,988	1,980	3,274	3,766
3.2. Other receivables	274,696	1,539,818	300,508	1,598,729
a) from related parties	72,946	1,367,450	46,943	1,317,036
b) from other entities	201,750	172,368	253,565	281,693
V. Other assets	213,437	353,256	1,344,267	684,344
1. Property, plant and equipment	123,263	111,998	122,732	106,367
2. Cash	90,174	241,258	1,221,535	577,977
3. Other assets	-	-	-	-
VI. Prepayments and accruals	1,973,934	2,275,701	1,973,322	1,984,815
1. Deferred tax assets	-	-	-	-
2. Deferred acquisition costs	1,332,446	1,421,600	1,326,590	1,324,590
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	641,488	854,101	646,732	660,225
VII. Unpaid share capital	-	-	-	-
VIII. Treasury stock	-	-	-	-
Total assets	**40,428,668**	**42,176,376**	**43,566,528**	**44,565,699**

[1)] Information on restatement of data as at 30 September 2018 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2019	30 June 2019	31 December 2018	30 September 2018 (restated)[1)]
I. Equity	14,243,976	13,182,672	13,924,661	13,152,049
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	5,814,241	5,814,241	5,507,572	5,507,513
3. Revaluation reserve	5,884,651	5,455,179	5,599,176	5,111,541
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	19,682	19,682
6. Net profit (loss)	2,458,732	1,826,900	2,711,879	2,426,961
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	2,258,633	2,277,095	2,278,509	2,257,639
III. Technical provisions	22,629,338	23,058,376	22,443,470	21,901,952
IV. Reinsurers' share in technical provisions (negative figure)	(1,110,984)	(1,186,054)	(1,339,666)	(1,121,060)
V. Estimated salvage and subrogation (negative figure)	(93,213)	(93,030)	(105,532)	(106,612)
1. Gross estimated salvage and subrogation	(96,184)	(95,538)	(107,466)	(107,851)
2. Reinsurers' share in estimated salvage and subrogation	2,971	2,508	1,934	1,239
VI. Other provisions	566,041	613,104	443,726	476,879
1. Provisions for pension benefits and other compulsory employee benefits	43,339	54,894	42,039	43,067
2. Deferred tax liability	440,338	475,798	319,333	351,581
3. Other provisions	82,364	82,412	82,354	82,231
VII. Liabilities for reinsurers' deposits	-	-	-	-
VIII. Other liabilities and special-purpose funds	1,175,425	3,487,198	4,963,058	7,222,209
1. Liabilities on direct insurance	439,754	401,410	382,261	343,727
1.1. To related parties	9,751	4,465	3,808	2,832
1.2. To other entities	430,003	396,945	378,453	340,895
2. Reinsurance liabilities	130,440	213,110	248,600	187,323
2.1. To related parties	22,098	17,615	25,837	21,864
2.2. To other entities	108,342	195,495	222,763	165,459
3. Liabilities on the issue of own debt securities and drawn loans	-	-	3,677,344	3,637,650
4. Liabilities to credit institutions	78,494	12	125,349	-
5. Other liabilities	417,607	2,756,220	421,064	2,931,792
5.1. Liabilities to the state budget	141,440	85,269	85,770	168,174
5.2. Other liabilities	276,167	2,670,951	335,294	2,763,618
a) to related parties	26,180	19,935	35,265	31,628
b) to other entities	249,987	2,651,016	300,029	2,731,990
6. Special-purpose funds	109,130	116,446	108,440	121,717
IX. Prepayments and accruals	759,452	837,015	958,302	782,643
1. Accrued expenses	707,585	781,408	909,084	730,174
2. Negative goodwill	-	-	-	-
3. Deferred income	51,867	55,607	49,218	52,469
Total equity and liabilities	**40,428,668**	**42,176,376**	**43,566,528**	**44,565,699**

[1)] Information on restatement of data as at 30 September 2018 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2019	30 June 2019	31 December 2018	30 September 2018 (restated)[1)]
Book value	14,243,976	13,182,672	13,924,661	13,152,049
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	16.50	15.27	16.13	15.23
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	16.50	15.27	16.13	15.23

[1)] Information on restatement of data as at 30 September 2018 is presented in section 10.

2. Interim statement of off-balance sheet line items

Off-balance sheet items	30 September 2019	30 June 2019	31 December 2018	30 September 2018
1. Contingent receivables, including:	4,408,886	4,374,686	4,489,902	4,160,998
1.1. Guarantees and sureties received	2,957	2,984	3,042	2,809
1.2. Other [1)]	4,405,929	4,371,702	4,486,860	4,158,189
2. Contingent liabilities, including:	946,980	4,624,520	4,620,124	4,513,477
2.1. Guarantees and sureties given	85,850	3,747,185	3,685,634	3,648,059
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	119,907	109,341	109,782	113,161
6. Other off-balance sheet line items	-	-	-	-
Total off-balance sheet line items	**5,475,773**	**9,108,547**	**9,219,808**	**8,787,636**

[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 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018	1 January – 30 September 2018
I. Premium income (1-2-3+4)	3,142,504	9,219,622	3,114,277	9,028,268
1. Gross written premium	2,684,647	9,396,302	2,617,152	9,572,253
2. Reinsurers' share in gross written premium	56,864	206,467	33,426	324,304
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	(596,974)	(243,312)	(639,526)	161,995
4. Reinsurers' share in the movement in provision for unearned premiums	(82,253)	(213,525)	(108,975)	(57,686)
II. Net investment income (including costs) transferred from the general profit and loss account	65,637	195,537	62,871	186,187
III. Other net technical income	43,571	138,707	34,672	121,627
IV. Claims and benefits (1+2)	2,056,579	5,995,388	1,885,581	5,611,947
1. Net claims and benefits paid	1,896,246	5,538,613	1,761,053	5,126,052
1.1. Gross claims and benefits paid	1,931,811	5,756,246	1,862,539	5,331,272
1.2. Reinsurers' share in claims and benefits paid	35,565	217,633	101,486	205,220
2. Movement in provision for outstanding claims and benefits, net of reinsurance	160,333	456,775	124,528	485,895
2.1. Movement in provision for outstanding claims and benefits, gross	166,910	440,438	126,292	507,011
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	6,577	(16,337)	1,764	21,116
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	291	446	190	499
VII. Insurance activity expenses	783,490	2,304,781	740,327	2,189,367
1. Acquisition expenses, including:	631,216	1,841,058	594,896	1,738,608
- movement in deferred acquisition costs	89,155	(5,856)	93,546	(38,753)
2. Administrative expenses	161,309	491,927	153,376	474,624
3. Reinsurance commissions and profit participation	9,035	28,204	7,945	23,865
VIII. Other net technical charges	62,369	275,202	80,221	274,462
IX. Movement in loss ratio (risk) equalization provisions	-	-	-	-
X. Technical result of non-life insurance	**348,983**	**978,049**	**505,501**	**1,259,807**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)[1)]	1 January – 30 September 2018 (restated)[1)]
I. Technical result of non-life insurance or life insurance	348,983	978,049	505,501	1,259,807
II. Investment income	500,224	2,334,051	547,600	2,460,388
1. Investment income on real estate	1,419	4,289	1,442	4,149
2. Investment income from related parties	350,807	1,769,043	416,669	1,731,974
2.1. On ownership interests or shares	346,460	1,759,274	414,702	1,725,346
2.2. On borrowings and debt securities	3,874	8,715	1,945	6,570
2.3. On other investments	473	1,054	22	58
3. Other financial investment income	134,338	346,794	12,667	418,111
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	3,170	8,585	2,533	7,537
3.2. On debt securities and other fixed income securities	105,578	308,675	19,823	374,570
3.3. On term deposits with credit institutions	1,275	(14,422)	(6,500)	(8,211)
3.4. On other investments	24,315	43,956	(3,189)	44,215
4. Gain on revaluation of investments	2,307	2,307	3,474	14,516
5. Gain on realization of investments	11,353	211,618	113,348	291,638
III. Unrealized investment gains	40,816	121,413	(42,718)	62,999
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V. Investment activity expenses	49,660	255,786	108,466	343,150
1. Real estate maintenance expenses	821	2,662	786	2,387
2. Other investment activity expenses	8,331	31,769	10,601	30,134
3. Loss on revaluation of investments	14	14	4,633	7,350
4. Loss on realization of investments	40,494	221,341	92,446	303,279
VI. Unrealized investment losses	13,662	94,668	(83,432)	174,522
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	65,637	195,537	62,871	186,187
VIII. Other operating income	57,093	213,105	48,987	168,106
IX. Other operating expenses	133,410	454,284	84,616	496,380
X. Operating profit (loss)	684,747	2,646,343	886,849	2,751,061
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	29,016	48,073	(43,833)	(91,345)
XIV. Profit (loss) before tax	713,763	2,694,416	843,016	2,659,716
XV. Income tax	81,931	235,684	94,717	232,755
a) current part	153,487	217,937	157,824	237,825
b) deferred part	(71,556)	17,747	(63,107)	(5,070)
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**631,832**	**2,458,732**	**748,299**	**2,426,961**

(in thousands of PLN)

	1 July – 30 September 2019	1 January – 30 September 2019	1 July – 30 September 2018 (restated)[1)]	1 January – 30 September 2018 (restated)[1)]
Net profit (loss) (annualized) [2)]	2,506,725	3,287,316	2,968,795	3,244,838
Weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Earnings (loss) per common share (PLN)	0.73	2.85	0.87	2.81
Weighted average diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN)	0.73	2.85	0.87	2.81

[1)] Information on restatement of data for the period from 1 January to 30 September 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 – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018 (restated)[1)]
I. Equity at the beginning of the period (Opening Balance)	13,924,661	13,583,288	13,583,172
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	13,560,245
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	306,669	249,123	249,064
a) additions (by virtue of):	306,669	249,123	249,064
- distribution of profit (above the statutorily required amount)	306,374	248,671	248,671
- from revaluation reserve – by sale and liquidation of fixed assets	295	452	393
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	5,814,241	5,507,572	5,507,513
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 – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018 (restated)[1)]
3.1. Change in the revaluation reserve	285,475	(182,510)	(670,145)
a) additions (by virtue of):	717,781	397,654	253,240
- valuation of financial investments	717,781	392,436	248,723
- transfer of the impairment losses on investments available for sale	-	4,517	4,517
- other increases, including reversals of impairment losses for real estate	-	701	-
b) reductions (by virtue of)	432,306	580,164	923,385
- valuation of financial investments	432,011	578,474	922,992
- disposal of available for sale instruments	-	1,238	-
- sale of fixed assets	295	452	393
- other reductions, including recognition of impairment losses for real estate	-	-	-
3.2. Revaluation reserve at the end of the period	5,884,651	5,599,176	5,111,541
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	2,731,561	2,433,874	2,433,874
- transfers to supplementary capital	306,374	248,671	248,671
- disbursement of dividends	2,417,864	2,158,807	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	19,682
- transfers/charges to the Company Social Benefit Fund	7,323	6,714	6,714
5.3. Retained earnings at the end of the period	-	25,155	25,155
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	19,682
5.6. Retained losses at the end of the period	-	5,473	5,473
5.7. Retained earnings (losses) at the end of the period	-	19,682	19,682

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018 (restated)[1)]
6. Net result	2,458,732	2,711,879	2,426,961
a) net profit	2,458,732	2,711,879	2,426,961
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	14,243,976	13,924,661	13,152,049

[1)] Information on restatement of data for the period from 1 January to 30 September 2018 is presented in section 10.

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018
A. Cash flows from operating activities			
I. Proceeds	10,750,706	14,614,281	10,886,596
1. Proceeds on direct activity and inward reinsurance	9,882,592	13,375,604	9,969,446
1.1. Proceeds on gross premiums	9,760,704	13,217,838	9,855,574
1.2. Proceeds on subrogation, salvage and claim refunds	101,778	133,370	96,396
1.3. Other proceeds on direct activity	20,110	24,396	17,476
2. Proceeds from outward reinsurance	305,098	373,382	294,876
2.1. Payments received from reinsurers for their share of claims paid	238,559	267,134	226,174
2.2. Proceeds on reinsurance commissions and profit participation	64,023	102,197	68,702
2.3. Other proceeds from outward reinsurance	2,516	4,051	-
3. Proceeds from other operating activity	563,016	865,295	622,274
3.1. Proceeds for acting as an emergency adjuster	253,834	287,012	216,540
3.2. Disposal of intangible assets and property, plant and equipment other than investments	4,374	1,971	1,178
3.3. Other proceeds	304,808	576,312	404,556
II. Expenditures	9,965,377	12,703,438	9,478,925
1. Expenditures on direct activity and inward reinsurance	8,459,124	10,511,228	7,918,305
1.1. Gross premium refunds	205,179	319,061	239,367
1.2. Gross claims and benefits paid	5,296,122	6,398,673	4,820,900
1.3. Acquisition expenditures	1,286,930	1,632,359	1,229,958
1.4. Administrative expenditures	1,092,942	1,394,992	1,048,598
1.5. Expenditures for claims handling and pursuit of subrogation	240,490	317,272	229,564
1.6. Commissions paid and profit-sharing on inward reinsurance	218,518	303,887	238,097
1.7. Other expenditures on direct activity and inward reinsurance	118,943	144,984	111,821
2. Expenditures on outward reinsurance	479,118	510,675	402,474
2.1. Premiums paid for reinsurance	478,902	510,405	402,247
2.2. Other expenditures on outward reinsurance	216	270	227
3. Expenditures on other operating activity	1,027,135	1,681,535	1,158,146
3.1. Expenditures for acting as an emergency adjuster	120,540	209,452	158,967
3.2. Purchase of intangible assets and property, plant and equipment other than investments	82,283	101,232	68,650
3.3. Other operating expenditures	824,312	1,370,851	930,529
III. Net cash flows from operating activities (I-II)	**785,329**	**1,910,843**	**1,407,671**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018
B. Cash flow on investing activity			
I. Proceeds	194,284,706	148,405,819	108,788,168
1. Sale of real estate	13,924	22,531	20,971
2. Sale of ownership interests and shares in related parties	7,695	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	239,093	33,714	25,798
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	10,000	-	-
5. Realization of debt securities issued by other entities	8,459,486	11,602,126	9,607,035
6. Liquidation of term deposits with credit institutions	135,356,380	47,212,285	33,193,512
7. Realization of other investments	48,027,014	87,246,107	65,097,299
8. Proceeds from real estate	5,343	7,280	5,517
9. Interest received	396,464	538,995	357,810
10. Dividends received	1,759,995	1,725,346	467,863
11. Other investment proceeds	9,312	17,435	12,363
II. Expenditures	189,968,633	147,944,100	110,498,248
1. Purchase of real estate	1,739	3,922	2,979
2. Purchase of ownership interests and shares in related parties	26	5,368	3,101
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	105,818	493,714	478,217
4. Purchase of debt securities issued by related parties and extension of loans to these parties	77,414	23,385	-
5. Purchase of debt securities issued by other entities	8,004,020	12,511,549	10,200,245
6. Purchase of term deposits with credit institutions	134,630,634	47,453,136	33,663,783
7. Purchase of other investments	47,085,935	87,374,494	66,089,749
8. Expenditures to maintain real estate	40,165	51,308	38,708
9. Other expenditures for investments	22,882	27,224	21,466
III. Net cash flows from investing activities (I-II)	**4,316,073**	**461,719**	**(1,710,080)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2019	1 January – 31 December 2018	1 January – 30 September 2018
C. Cash flows from financing activities			
I. Proceeds	24,706,275	58,419,387	45,065,106
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	24,706,275	58,419,387	45,065,106
3. Other financial proceeds	-	-	-
II. Expenditures	30,924,096	60,596,260	45,207,039
1. Dividends	2,417,864	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	28,373,735	58,297,524	45,067,110
5. Interest on loans and borrowings and issued debt securities	132,497	139,929	139,929
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(6,217,821)**	**(2,176,873)**	**(141,933)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**(1,116,419)**	**195,689**	**(444,342)**
E. Balance sheet change in cash, including:	(1,131,361)	239,383	(404,175)
- movement in cash due to foreign exchange differences	(14,942)	43,694	40,167
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:	90,174	1,221,535	577,977
- restricted cash	47,886	43,155	58,948

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 9-month period ended 30 September 2019, no changes were made to the accounting principles (policy).

(in thousands of PLN)

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 9-month period from 1 January to 30 September 2019 in comparison to the financial information for the period of the first 9 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	30 September 2018 *(historical)*	Adjustment	30 September 2018 *(restated)*
Assets II.2. Investments in subordinated entities measured by the equity method	15,539,074	(59,180)	15,479,894
Equity and liabilities I. 3 Revaluation reserve	5,145,518	(33,977)	5,111,541
Equity and liabilities I. 5 Retained earnings (losses)	(5,473)	25,155	19,682
Equity and liabilities I. 6 Net profit (loss)	2,477,319	(50,358)	2,426,961

Interim general profit and loss account	1 January – 30 September 2018 *(historical)*	Adjustment	1 January – 30 September 2018 *(restated)*
XIII. Share of the net profit (loss) of related parties measured by the equity method	(40,987)	(50,358)	(91,345)
XVII. Net profit (loss)	2,477,319	(50,358)	2,426,961

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)
Aleksandra Agatowska	Member of the PZU Management Board	.... (signature)
Adam Brzozowski	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Elżbieta Häuser-Schöneich	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 13 November 2019